

ANNUAL REPORT 2013

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

[For the year ended March 31, 2013]

SHISEIDO



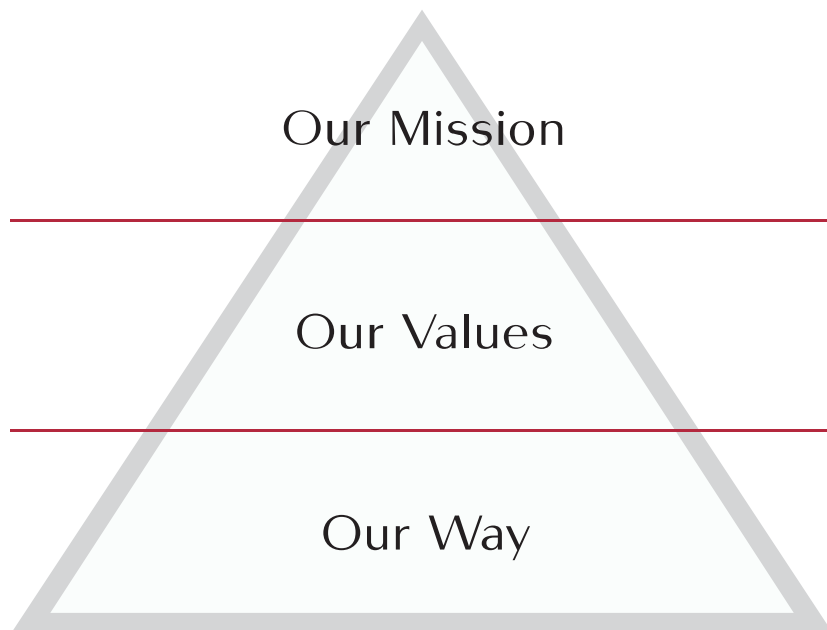
Shiseido commenced operations as Japan's first Western-style pharmacy in Tokyo's Ginza district 141 years ago in 1872. The name Shiseido derives from a Chinese expression meaning "praise the virtues of the great Earth, which nurtures new life and brings forth new values." In line with this expression, 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. We continue to evolve as a company that creates beauty.

Shiseido aims to become a global player representing Asia with its origins in Japan, and will push to enable growth during the year ending March 2014. We want to make each moment and each life beautiful for society, for our customers and for all people.


Our Mission, Values and Way



Our Mission, Values and Way





THIS MOMENT.
THIS LIFE.
BEAUTIFULLY. 

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

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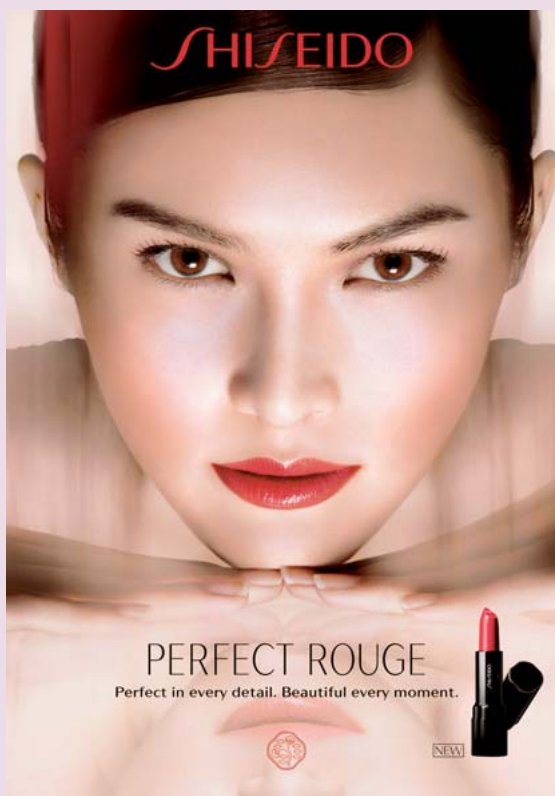
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On the Cover



The camellia blooms crimson in early spring. The cover expresses the unfolding beauty of the camellia. Shiseido continues to evolve for the sake of feminine beauty.

(The photo was taken at Camellia Garden, Kodomonokuni (Children's Land), Yokohama. Shiseido celebrated its 100th anniversary in 1972 by donating camellias to Association of Kodomonokuni, a social welfare corporation.)

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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.

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Beauty, Taking on Challenges and Overcoming Difficulties 27

Three Episodes in Our Ongoing Progress



Shiseido is aggressively leveraging its strengths to grow in the future. This feature highlights the present by discussing current initiatives in three markets.

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Shiseido's Three Strengths for Achieving Beauty



Shiseido's founding spirit is to serve customers and contribute to the world through beauty. Guided by this spirit, we have continuously built relationships with customers to achieve beauty that starts with the skin and ends with the heart. Shiseido's beauty consultants are one of its strengths in this process. With a spirit of *omotenashi* (Japanese for hospitality), they recommend beauty regimens customized for each customer's skin and tastes, communicating the exceptional safety, performance and value of our products. Their commitment to delighting customers by communicating beauty has supported Shiseido's development.

The Ability to Communicate Beauty

— Communicate Value to Delight Customers —

美の伝達力



Shiseido Beauty Consultant Omotenashi Credo



A code of conduct distributed to beauty consultants worldwide. Translated into 26 languages, it summarizes *omotenashi*, the wellspring of beauty consultant activities.

Web BC Counseling



The Shiseido site *watashi+*, which opened in April 2012, offers online counseling services called Web BC counseling. This approach provides customers with beauty advice in a way that matches their lifestyles.



The Ability to Create Beauty

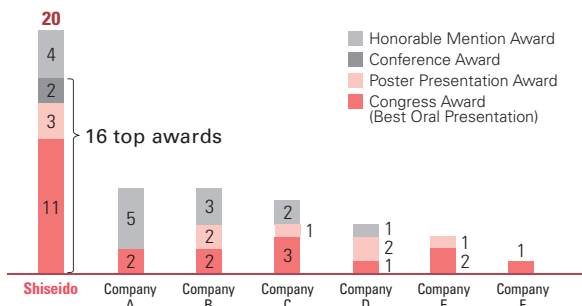
— Continuously Enhance Exceptional Product
Performance, Quality and Safety —

美の創造力

Focused on exceptional performance, quality and safety, Shiseido continues to create cosmetics with new concepts and leading-edge beauty regimens. Our success comes from the strength of our advanced technologies and R&D platform, which give us especially intimate knowledge of the skin of Asian women and an advantage in the area of skincare. We have received more International Federation of Societies of Cosmetic Chemists (IFSCC) top awards than any of our competitors by a large margin. This attests to our capabilities, as does the industry-leading number of active skin-brightening ingredients we have developed. Shiseido has 10 R&D bases around the world, which are staffed by approximately 1,000 employees. Our global network promotes worldwide product development to meet the diverse needs of customers.



Number of Awards Received from IFSCC
(As of March 31, 2013)



Shiseido's basic research capabilities are globally recognized for excellence, exemplified by the 16 top awards Shiseido has received from the IFSCC, the world's leading authority for cosmetic science and technology.

Global R&D Bases

| | |
|---|---|
| <p>Japan</p> <ul style="list-style-type: none"> • Shiseido Research Center (Shin-Yokohama, Kanazawa Hakkei) • Shiseido Beauty Creation Research Center | <p>United States</p> <ul style="list-style-type: none"> • Shiseido America Research Center • Zotos International, Inc. Research Center |
| <p>France</p> <ul style="list-style-type: none"> • Shiseido Europe Research Center • Shiseido International France • Laboratoires Decléor Research Center | <p>Thailand</p> <ul style="list-style-type: none"> • Shiseido Southeast Asia Research Center |
| | <p>China</p> <ul style="list-style-type: none"> • Shiseido China Research Center Co., Ltd. |

R&D bases in regions worldwide explore customer skin and makeup habits, and collect information on topics including overseas laws and regulations, leading-edge technologies, and natural resources.



The Ability to Deliver Beauty

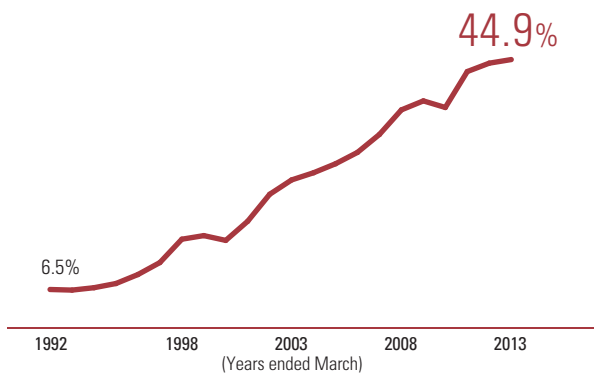
— Create Beauty for the Women of the World —

美の展開力

Shiseido first ventured overseas 56 years ago in 1957. Overseas sales for the year ended March 2013 accounted for approximately 45 percent of net sales, while the number of countries and regions where the global brand *SHISEIDO* is available increased to 89. We have achieved this growth with the support of our customers, which has been gained by flexibly accommodating changing markets and constantly pursuing beauty for women worldwide. We will expand our global mega-brands and our regionally based brands and lines worldwide to deliver even greater beauty.

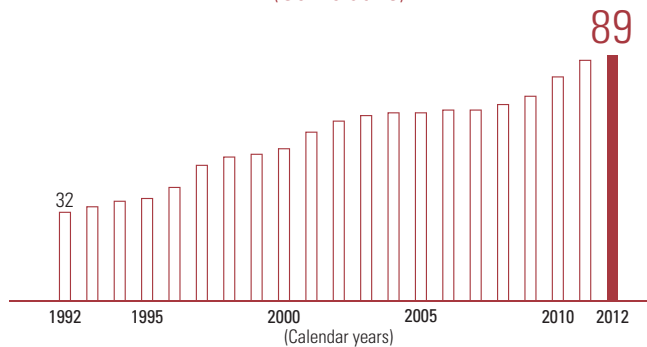


Overseas Sales Ratio



The overseas sales ratio for the year ended March 2013 was 44.9 percent. The overseas sales ratio has steadily grown.

The Countries and Regions Shiseido Serves (Cumulative)



The global brand **SHISEIDO** is available in 89 countries and regions. We are also expanding coverage in emerging countries.

A Message from the Chairman of the Board, President & CEO



Shiseido has an unwavering commitment to helping people live beautifully. Based on this commitment, we will push forward with reforms to remain an outstanding company that customers trust.

Our Mission calls on us to continue creating new value, to help people live beautifully. To inspire our efforts to grow, in 2008 we complemented Our Mission with our vision of becoming a global player representing Asia with its origins in Japan.

However, results for the year ended March 2013 were wholly unsatisfactory. Net sales and operating income decreased year on year, and structural reform expenses and impairment loss on intangible assets associated with the 2010 acquisition of Bare Escentuals, Inc. resulted in a net loss for the fiscal year. I believe

that the primary reason for these disappointing results was that we dispersed our resources with an omnidirectional approach to marketing. During the year ending March 2014, we will therefore push forward with management reforms that rigorously promote distinction and concentration, and meticulously enhance our strengths to regain the trust of our customers and increase competitiveness. Specifically, we will concentrate on Japan, China and Bare Escentuals, clearly specifying priority brands and lines, geographic areas and other issues for each to focus on where we are strong. We will also continue our existing cost and business structure reforms while removing obstacles to lay the groundwork for growth. Among others, we will conscientiously deal with the longstanding issues of reducing store inventory and businesses that generate little or no profit.

Shiseido has dedicated itself to helping people be beautiful throughout a history of constant innovation and challenges spanning more than 140 years. We aim to remain an outstanding company in the future by earning the trust of customers worldwide through ceaseless progress backed by our unwavering strengths in communicating, creating and propagating beauty.

I ask shareholders and investors to share my faith in our reforms for growth. We are counting on your continued support.

July 2013

Shinzo Maeda

Representative Director, Chairman, President & CEO

A handwritten signature in black ink, appearing to read 'S. Maeda', written in a cursive style.

Brands and Lines at a Glance

Domestic Cosmetics Business

Domestic Cosmetics Business Division

▶ Counseling



ELIXIR SUPERIEUR



MAQuillage



BENEFIQUE

▶ Self-selection



AQUALABEL



INTEGRATE

▶ Toiletries



SEA BREEZE

Healthcare Business Division



The Collagen

Non-Shiseido



ĪPSA



ettusais

Global Mega-

Prestige



Global brand
SHISEIDO



clé de peau BEAUTÉ



bareMinerals

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

Brands

Masstige



Za



SENKA



TSUBAKI

Global Business

Overseas Cosmetics Division

▶ China



AUPRES



urara



PURE&MILD

▶ Non-Shiseido



NARS



ISSEY MIYAKE



ELIE SAAB

Overseas and Domestic Professional Divisions



THE HAIR CARE



CARITA

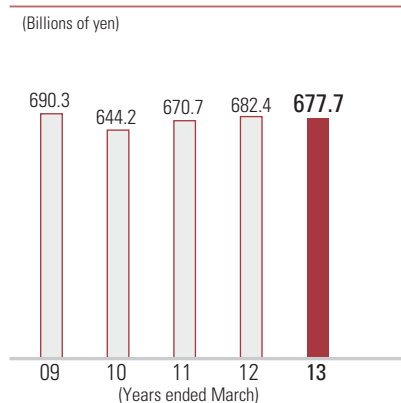
Overview of Results

Shiseido Company, Limited, and Subsidiaries
For the years ended March 31, 2009 to 2013

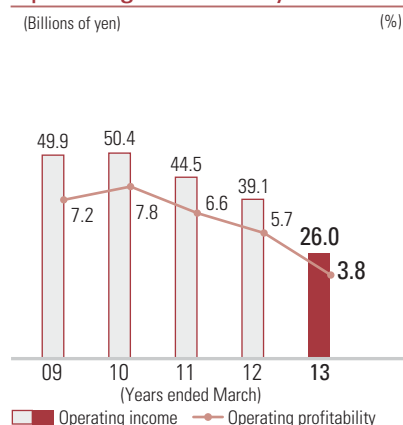
► Financial Highlights for the Year Ended March 2013

| | |
|---|---|
| <p>Net Sales ¥677.7 billion</p> | <p>Domestic Cosmetics Business segment sales decreased 2.2 percent compared with the previous fiscal year partly due to the effect of the strong yen. Global Business segment sales increased 0.8 percent on a yen basis and 2.5 percent on a local currency basis. Overall, net sales decreased 0.7 percent to ¥677.7 billion.</p> |
| <p>Overseas Sales Ratio 44.9%</p> | <p>Sales increased on a local currency basis in all regions from the Americas and Europe to Asia and Oceania despite the challenging external environment in Europe and China. The overseas sales ratio increased 0.6 percentage points year on year to 44.9 percent.</p> |
| <p>Operating Income ¥26.0 billion</p> | <p>Shiseido invested in marketing, primarily in China and the Americas, and lower sales in Japan reduced marginal income. These and other factors resulted in a 33.4 percent decrease in operating income to ¥26.0 billion.</p> |

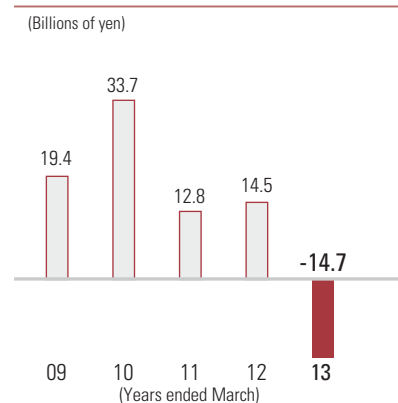
Net Sales



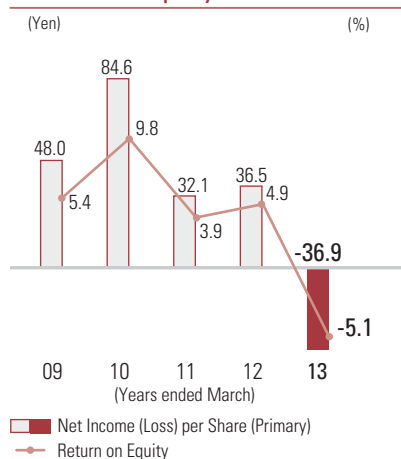
Operating Income / Operating Profitability



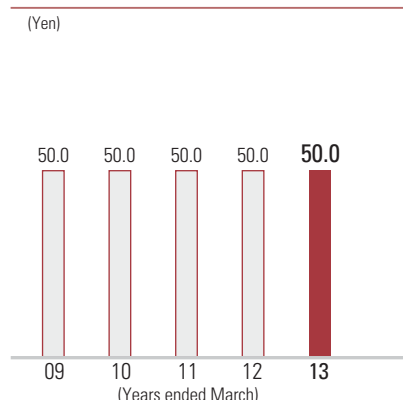
Net Income (Loss)



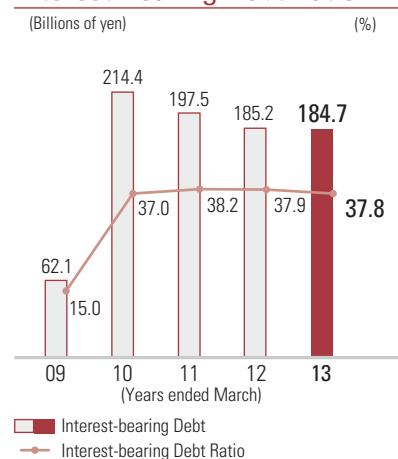
Net Income (Loss) per Share¹ / Return on Equity²



Cash Dividends per Share



Interest-Bearing Debt / Interest-Bearing Debt Ratio^{2,3}



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

2. 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 84 to 85 for an in-depth 11-year summary of selected financial data.

Net Loss
¥14.7 billion

Other expenses included structural reform expenses resulting from the reorganization of production and R&D facilities and impairment loss on intangible assets related to Bare Escentuals, Inc. Consequently, net loss was ¥14.7 billion.

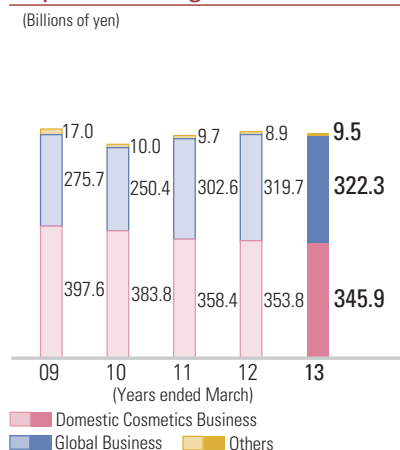
Interest-Bearing Debt Ratio
37.8%

The interest-bearing debt ratio decreased 0.1 percentage points year on year to 37.8 percent because interest-bearing debt decreased ¥0.5 billion to ¥184.7 billion.

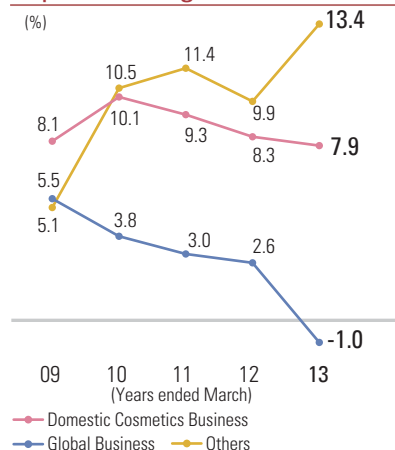
Cash Dividends per Share
¥50.0

Cash dividends per share were unchanged year on year at ¥50.0 despite the net loss because Shiseido emphasized stable dividends.

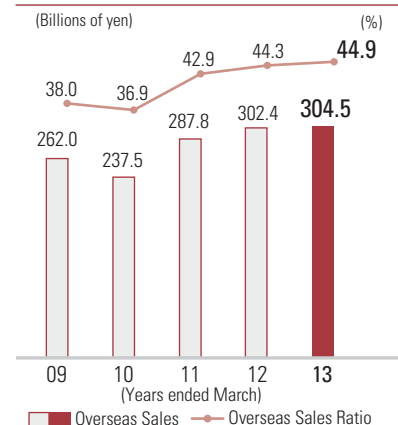
Net Sales by Reportable Segment⁴



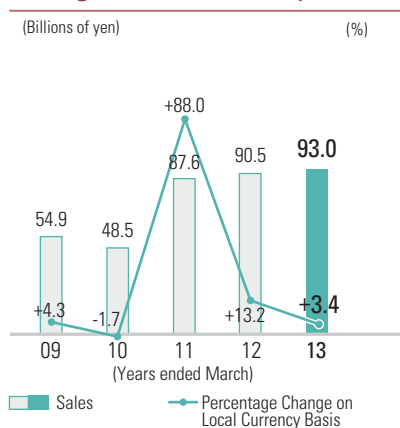
Operating Profitability by Reportable Segment⁵



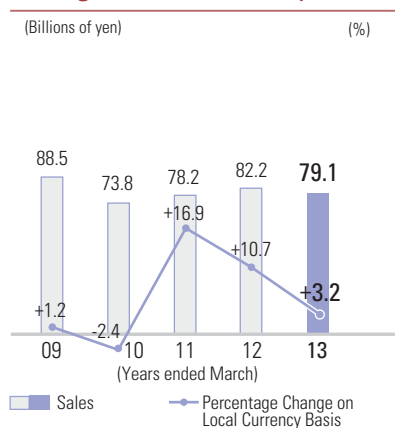
Overseas Sales / Overseas Sales Ratio



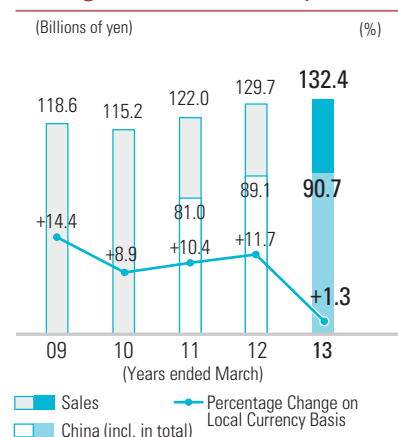
Americas: Sales and YoY Change (Local Currency Basis)



Europe: Sales and YoY Change (Local Currency Basis)



Asia and Oceania:⁶ Sales and YoY Change (Local Currency Basis)



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

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

5. Operating profitability by reportable segment does not include eliminations/corporate.

6. Sales in China are disclosed from the year ended March 2011.

An Interview with the Chairman of the Board, President & CEO



In the year ending March 2014, Shiseido will lay the groundwork for growth through rigorous distinction and concentration that refine its strengths as a company that adds value in creating beauty.

Shinzo Maeda
Representative Director,
Chairman of the Board, President & CEO

Question

01

Please begin by discussing why you reassumed the position of President & CEO and your current mindset.



No part of our operations will be off limits as we implement reforms to quickly lay the groundwork for growth.

My immediate predecessor, Hisayuki Suekawa, asked to resign in February 2013 because of health concerns. The Nomination Advisory Committee immediately convened, and among other ideas under consideration asked me if I would consider replacing Mr. Suekawa. At first, I firmly refused, but the outside directors unanimously agreed that the best way for me to fulfill my management responsibilities would be to concurrently serve as president and CEO until a successor is appointed. I agreed after considerable thought.

My primary mission is to enable Shiseido to eliminate our current sense of stagnation and quickly get back into a growth trajectory. I am determined to do this with reforms that remove obstacles to growth, even if I need to overturn decisions I made in the past. And no part of our operations will be off limits.

Question

02

What is your opinion of the poor results for the year ended March 2013?

Results were wholly unsatisfactory for the year ended March 2013. Net sales decreased 0.7 percent year on year, and operating income decreased 33.4 percent. In Japan, we reduced the number of new product launches and nurtured existing core products. While sales were essentially unchanged year on year during the second half with help from economic recovery, they did not compensate for the decrease in sales in the first half due to factors including intensified competition. Consequently, net sales in Japan decreased 1.8 percent year on year. Overseas, the anti-Japanese demonstrations in China in September 2012 had a significant negative impact. Sales increased 2.4 percent year on year on a local currency basis, and only 0.7 percent on a yen basis.

In addition, factors including structural reform expenses resulting from the reorganization of production and R&D facilities and impairment loss on intangible assets (goodwill) related to the March 2010 acquisition of Bare Escentuals totaling ¥28.6 billion contributed to a net loss of ¥14.7 billion for the fiscal year.

Although Bare Escentuals' North American retail business had double-digit profitability before amortization of goodwill, sales have not increased, so we revised our long-term plan, including our marketing strategy. We therefore recognized impairment in the year ended March 2013.

I would like to point out that for the year ended March 2013 Shiseido directors not directly engaged in the execution of Company business will not receive bonuses and corporate officers will receive substantially reduced bonuses because of the net loss. We will also scale back director compensation for the year ending March 2014 because we will reduce dividends for the year and expect to fall short of the targets of the current Three-Year Plan.



Results were wholly unsatisfactory. Operating income decreased because of factors including the weak Japanese market and the impact of the anti-Japanese demonstrations in China. Shiseido had a net loss for the fiscal year, largely because of the impairment loss related to Bare Escentuals.

Question

03

What does Shiseido need to do now?

The reason we are struggling is that we have lost customer support because we have failed to respond adequately to changes in our markets. In the past, Shiseido provided numerous brands and lines worldwide to every type of customer through multiple channels. However, this kind of omnidirectional marketing has dispersed Shiseido's crucial human, material and capital resources, and sapped our ability to act and respond to change.

Our number one priority for quickly getting back on a growth trajectory is building customer support so that we can prevail as competition intensifies.



We need to address the loss of customer support that happened because we dispersed our resources, and we must strengthen the Company to restore our competitive position.

What are Shiseido's strategies for meeting its current challenges?

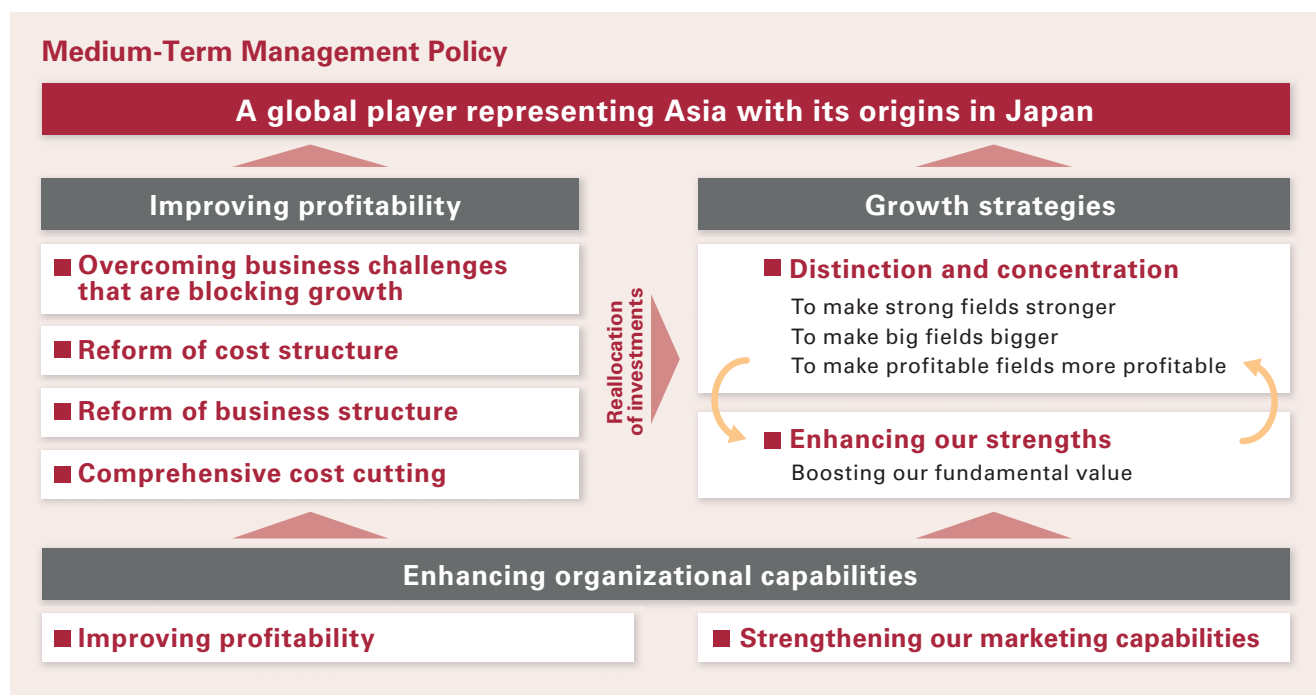


We intend to refine Shiseido's unique strengths through meticulous distinction and concentration in everything including geographical areas, brands and sales counter activities.

In the management reforms we are implementing from the year ending March 2014, our medium- to long-term goal of becoming a global player representing Asia with its origins in Japan has not changed. However, we are making major changes to lay the groundwork for growth and will focus on refining our strengths to steadily enhance competitiveness. We believe that increasing and providing the unique fundamental value that we have nurtured over the years – in other words, further developing and improving Shiseido's distinctive strengths – will ultimately help increase our competitiveness.

Meticulous distinction and concentration, with an unprecedented level of concentration on a narrower range of fields, are essential. Our common approach in reviewing all fields, including businesses, business models, brands, geographical areas and sales counter activities, is to make strong fields stronger, big fields bigger and profitable fields more profitable. Concurrently, we will enable steady growth by courageously identifying fields we can de-emphasize for the time being and those from which we should withdraw.

These strategies will be the basis for enhancing our focus on three areas: Japan, where retail sales are beginning to recover; China, where extremely challenging conditions have ended; and Bare Escentuals, for which we have revised our long-term plan and will increase investment to quickly restart growth.



Question

05

What does Shiseido need to do to quickly restore performance in Japan?

The first step toward recovery in Japan involves meticulously strengthening our prestige business, which is Shiseido's greatest strength and source of fundamental value. We will narrow our focus to the *clé de peau BEAUTÉ* brand, the global brand *SHISEIDO*, and the *BENEFIQUE* line. We will also enhance the customer service of beauty consultants, another core Shiseido strength, while reinforcing ties with customers through high-value-added counseling.

We will explicitly reduce the number of focus lines in the mid-priced category, where consumption is gaining momentum as efforts to end deflation progress. We have also established a joint venture with Dentsu Retail Marketing Inc. that will specialize in retail support to dramatically strengthen merchandising and shelf space proposals, which were formerly subordinate competitive factors.

Additionally, we will leverage our strengths in the seniors market, which is expanding substantially. We intend to offer products and store services to the discerning customers in this demographic. We will also reintroduce customers and society to the Graceful Aging concept we first proposed in 1989.

The new web-based marketing model we introduced in 2012 will also become an increasingly important platform for supporting recovery in the Domestic Cosmetics Business. Both of the websites we established, Beauty & Co. and *watashi+*, have registered more than one million members in their first year, while total website and existing store members had risen to 6.87 million as of March 31, 2013. We will enhance this platform for sales growth by implementing joint programs with general merchandise stores, drugstores and other retail companies to raise total members to 10 million. (Please refer to "Progress in Web-Based Marketing" on page 42 for additional details about our web-based marketing model.)



In the prestige business in Japan, our greatest strength, we will determine focus brands and lines and enhance customer service to refine our unique capabilities.

Question

06

The Chinese market entails numerous risks.
What are Shiseido's plans in China?

China is certainly a challenging market that involves political and other risks. However, the number of people using cosmetics in China is projected to increase to 330 million by 2020, which is a primary reason why China will remain an extremely attractive market.

Shiseido has been refining the cachet of its brands in China for more than 30 years. This cachet is an advantage that we need to refine even more to further strengthen customer trust in China. We will therefore promote distinction and concentration by narrowing the brands and geographical areas in which we will invest.

During the year ending March 2014, we will meticulously strengthen investment in two brands that are not significantly exposed to anti-Japanese sentiment because they are



China is a large and attractive market. We will strengthen our efforts there by clarifying focus brands and geographical areas to grow faster than the market.



not marketed under the Shiseido name: *AUPRES*, a national brand in the department store channel that Chinese women have supported strongly; and *urara*, another very profitable brand that is marketed exclusively through cosmetics specialty stores.

Our geographic area strategy involves a shift from our current emphasis on operating in all provinces and autonomous regions to a focus on enhancing sales and marketing in provinces where the sales and cost benefits will be significant. We expect these initiatives to enable us to grow faster in China than the market.

At the same time, we need to develop other overseas markets that will support growth in the future. We have already achieved success in Russia and Thailand. We also plan to build powerful operating fundamentals in countries such as Brazil, India and Indonesia where we expect strong growth.

Question
07

Shiseido has revised its long-term plan for Bare Escentuals. Please discuss specific initiatives.



We will enhance the unique business model of Bare Escentuals to nurture its brands and enhance their glow.

Initiatives during the three years since Shiseido acquired Bare Escentuals have included integrating production and logistics systems and conducting joint product development. As a result, we have created the business infrastructure for synergy within the Shiseido Group as planned, and we are already seeing the benefits. We also projected growth in the retail business from aggressive marketing investment in media such as television commercials, but sales have not increased as expected. We therefore aim to enhance the unique Bare Escentuals business model and support the retail business by building the synergies between the direct marketing and retail businesses that are its defining strength. This will involve reinvigorating television shopping and other aspects of the direct marketing business, and shifting investment from media to sales counter marketing to support sales at existing stores in the retail business. These initiatives will nurture the brands of Bare Escentuals and enhance their glow. (Please refer to “Bare Escentuals Initiatives” on page 47 for additional details about Bare Escentuals.)

Question
08

How will you improve Shiseido’s profitability, which is below that of its global competitors?

While Shiseido has been concentrating on reducing cost of sales, the ongoing increase in the ratio of personnel and other expenses to net sales has been a fundamental problem, particularly in Japan. Shiseido therefore began focusing on cost and business structure reforms in the year ended March 2013 in order to solve this problem and steadily increase profitability despite limited sales growth. Cost structure reforms involve reducing costs by ¥11.5 billion during the year ending March 2014 and by a cumulative total of more than ¥20.0 billion by March 2015, both compared with the

year ended March 2012. We will deploy the savings to reinvest in our businesses and improve profitability. Business structure reforms involve reorganizing production and R&D bases, strengthening human resource and personnel expense management, and integrating functions globally. We will also implement reforms from the year ending March 2014 to address the longstanding issues of store inventory and businesses that generate little or no profit. We will build a system for reducing store inventory with substantive solutions that eliminate overstocking, while considering the sale or closure of businesses that generate little or no profit to concentrate resources in areas of strength.

Many investors have asked about our plan for beauty consultants in Japan as we reduce personnel expenses. Fully using their consulting capabilities to build our strength in the prestige category is essential for sustainable growth, so we are not planning to reduce the number of beauty consultants.



We will complement our focus on cost structure and business structure reforms with improvements in store inventory management and businesses that generate little or no profit to strengthen fundamental profitability.

Summary of Structural Reforms

Cost Structure Reforms

Shiseido is working to thoroughly reduce operating expenses through seven teams under the corporate officers in charge of the relevant areas. These teams have created a menu of cost reductions and are energetically implementing reforms.

During the two years ending March 2015, we are targeting cumulative cost reductions of more than ¥20.0 billion compared with the year ended March 2012. We originally targeted ¥7.0 billion in cost reductions for the year ending March 2014, but now expect this figure to be ¥11.5 billion because we have moved up the schedule for certain cost reductions. We will deploy the additional profits obtained from cost reductions both to invest in growth and to improve profitability.

Cost Structure Reforms

■ Seven teams

- | | |
|---------------------------|--------------------------------|
| 1. Raw materials | 5. Advertising creation |
| 2. Indirect purchasing | 6. Domestic cosmetics business |
| 3. Logistics | 7. China business |
| 4. Information technology | |

■ Cost reduction targets

- Year ending March 2014: ¥11.5 billion (compared with the year ended March 2012)
- Year ending March 2015: More than ¥20.0 billion (cumulative two-year total compared with the year ended March 2012)

Allocate additional profits to invest in growth and to improve profitability

Business Structure Reforms

The reorganization of production and R&D bases is intended to strengthen competitiveness on a global level and accommodate future expansion in Asian markets. It involves reorganizing domestic production and increasing production capacity at the Vietnam Factory. For R&D facilities in Japan, it will involve the closure of the Shiseido Research Center (Kanazawa Hakkei) in the first half of the year ending March 2014 and the integration and consolidation of its functions at the Shiseido Research Center (Shin-Yokohama). Our aim is to unite basic and product commercialization research.

Human resource and personnel expense management will involve initiatives to reduce personnel expenses, including systemic revisions such as certain amendments to the early retirement system. Excluding the effect of these revisions, we forecast that the number of employees in Japan will decrease by approximately 1,000 by the year ending March 2016 as a result of attrition and restrained hiring.

Global integration of functions, already under way in the Americas, will be extended to Europe in areas such as information systems and logistics infrastructure.

Business Structure Reforms

- Reorganize production and R&D bases
- Strengthen human resource and personnel expense management
- Integrate functions globally

Future Priority Initiatives

- Build a system for reducing store inventory
- Consider sale or closure of businesses that generate little or no profit

What is the forecast for the year ending March 2014?



We will steadily implement management reforms that increase growth potential and profitability during the year ending March 2014. Our plan is to increase sales and earnings in Japan and overseas.

The cosmetics market is expected to recover moderately in Japan during the year ending March 2014, but the environment will remain challenging in Europe. We also expect stable growth in the Americas and solid growth in Asia to continue. In this environment, we forecast that steadily implementing the initiatives I have explained will result in 4.8 percent year-on-year growth in net sales to ¥710 billion. This forecast assumes 0.7 percent growth in Japan, and 9.7 percent growth overseas on a yen basis and 0.4 percent on a local currency basis. We also forecast operating income of ¥38 billion, an increase of 45.9 percent, and net income of ¥20 billion because we expect factors such as increased marginal income from higher sales and the benefit of cost structure reforms to offset investment in areas required for growth from the year ending March 2015.

Historical Results and Forecast for the Year Ending March 2014

(Billions of yen)

| Years ended/ending March 31 | 2011 | 2012 | 2013 | 2014 (Forecast) | Year-on-year change | Year-on-year change (Local currency basis) |
|-----------------------------------|--------|--------|--------|--------------------|------------------------|---|
| Net sales | 670.7 | 682.4 | 677.7 | 710.0 | +4.8% | +0.6% |
| Domestic | 382.9 | 380.0 | 373.3 | 376.0 | +0.7% | +0.7% |
| Overseas | 287.8 | 302.4 | 304.5 | 334.0 | +9.7% | +0.4% |
| Operating income | 44.5 | 39.1 | 26 | 38.0 | +45.9% | — |
| Net income (loss) | 12.8 | 14.5 | (14.7) | 20.0 | — | — |
| Cash dividends per share (Yen) | 50.0 | 50.0 | 50.0 | 20.0 | — | — |
| Consolidated payout ratio | 155.5% | 137.1% | — | 39.8% | — | — |

Exchange rates for major currencies

Year ended March 2013: ¥79.8 per U.S. dollar, ¥102.6 per euro, ¥12.7 per Chinese yuan

Year ending March 2014 (forecast): ¥85 per U.S. dollar, ¥115 per euro, ¥14 per Chinese yuan

Shiseido has announced that it will reduce cash dividends per share to ¥20.00 for the year ending March 2014. Please discuss the basis for this decision and Shiseido's shareholder return policy.



While we plan to reduce dividends for the year ending March 2014 in line with our mid-term target of a 40-percent consolidated dividend payout ratio, we will restore strong shareholder returns by quickly increasing earnings.

Shiseido's dividend policy centers on a target consolidated payout ratio of 40 percent over the medium term, and stable dividends. Dividends exceeded net income for the three consecutive fiscal years ended March 2013 because we emphasized stability. In particular, Shiseido had a net loss for the year ended March 2013 but paid a year-end dividend of ¥25.00 per share as per its initial forecast, for annual cash dividends of ¥50.00 per share. We did not reduce the dividend because we did not confirm the net loss and other issues until after the March 31 record date.

However, maintaining stable dividends depleted the capital to fund investments in growth and repay debt. It also reduced retained earnings, which represent our future

ability to pay dividends. After various discussions covering Shiseido's current state of affairs and future strategies, we decided to prioritize a stronger operating foundation that can meet our demands for capital for future growth and therefore reduced dividends for the year ending March 2014.

Specifically, we plan to pay dividends of ¥20.00 for the fiscal year in line with our mid-term target of a 40 percent consolidated payout ratio. While structural reforms may alter net income, we will work to meet the forecast of ¥20.00 we have announced.

Please understand that Shiseido intends to restore strong shareholder returns by quickly getting back on a growth trajectory to increase earnings.

Question

11

Shiseido's initiatives for sustainable growth are wide-ranging. Please discuss Shiseido's CSR policies.

In our corporate operating environment, rapid change in the competitive landscape driven by globalization has resulted in a multitude of social issues that transcend national borders, including worsening environmental problems and changes in labor practices. The expectations of customers and society for Shiseido have become more diverse. More than ever, we will be called upon to conduct good-faith corporate activities that directly address social issues and changes, thus fulfilling our social responsibilities by meeting the expectations of society through our businesses to make people happy and society affluent.

This worldview is behind our desire to help achieve a sustainable society. We are therefore promoting CSR activities based on Our Mission, Values and Way, the Shiseido Group corporate philosophy shared by all employees. We formulated the Our Way component of our corporate philosophy, which prescribes our code of conduct toward stakeholders, by drawing on numerous global standards. These include the United Nations Global Compact, which we have participated in since 2004, and the ISO26000 standards for social responsibility and its core subjects. We are further inculcating Our Way, as a sort of CSR charter that forms the basis for the CSR activities of all employees as we work to further enhance the importance each and every employee attaches to dialogue and cooperation with stakeholders.

During the year ended March 2013, we celebrated the pivotal 140th anniversary of Shiseido's founding by implementing the Mirai Tsubaki Project to express our gratitude to customers and society for their support. Encompassing initiatives in the three core areas where Shiseido can contribute significantly to society – women and cosmetics, the environment, and culture – and the involvement of all Shiseido employees, this social contribution project included environmental conservation activities and beauty seminars at facilities for seniors and the developmentally



We want to help achieve a sustainable society through energetic initiatives that deepen ties with stakeholders.



challenged. The project gave many employees a sense of connection with customers and energized our organizational culture.

The value of the Shiseido corporate brand is the sum of Shiseido's CSR activities. Shiseido's longevity is solely the result of progressing together with stakeholders and earning their trust. We will continue doing everything we can to earn the trust of our stakeholders.

Question

12

Please close by sharing your enthusiasm and resolve with stakeholders.



We will put our hearts and souls into various reforms to enable growth so that Shiseido can add even greater value in creating beauty.

All Shiseido officers have exhaustively debated the initiatives to restore Shiseido's glow that I have discussed here. We will devise a full range of possible countermeasures and implement them rapidly. All Shiseido officers share my resolve to eliminate longstanding problems by implementing reforms thoroughly and without fail in the year ending March 2014 to lay the groundwork for growth.

I am also charged with another responsibility: quickly grooming a successor to take the helm. I will devote myself to both reforms and grooming my successor during the year ending March 2014.

Shiseido creates beauty. Based on our founding spirit of serving customers and contributing to the world through beauty, we will continue to faithfully satisfy the desire of people worldwide to be beautiful. We also realize that much is expected of us as we strive to fulfill the desire of women to be beautiful because 90 percent of our customers and 80 percent of our employees are women. Shiseido has a responsibility to continue creating and providing new value by researching female skin and hair as well as women's latent needs and lifestyles.

Shiseido was founded over 140 years ago. We have grown with the support of our customers, and the strengths we have nurtured and created as a cosmetics company are the proof that we have created beauty for our customers. Shiseido will refine these strengths to add even greater value in creating beauty. We ask you to share our enthusiasm as we dedicate ourselves to positive change.

Beauty, Taking on Challenges and Overcoming Difficulties

Three Episodes in Our Ongoing Progress

Shiseido grows by continuing to achieve beauty.

This feature section explores the markets of Japan, China and emerging countries in three episodes, with managers in these three markets presenting their initiatives for pursuing beauty to keep Shiseido moving forward.



Episode 1
The Evolution of Our Domestic Brand Strategy

Episode 2
China Business: Getting Back on a Growth Trajectory

Episode 3
Making Major Progress in Thailand and Accelerating Business in Emerging Countries

Episode 1 The Evolution of Our Domestic Brand Strategy

“We will continue to create new value by leveraging our unique strengths.”

Fusako Znaiden General Manager, Brand Strategy Planning Division

2012

Creating Hit Products through Careful Selection

Selectively introducing new products and making our products perennial bestsellers is a crucial theme for Shiseido's Domestic Cosmetics Business segment during the Three-Year Plan. Based on our policy of not putting products on the market that customers will not appreciate, we took a customer-first perspective and concentrated on creating strong concepts that are the starting point for value creation by focusing on accurately identifying insights into ever-changing latent customer needs. This search for insights segued into the Value Chain Project, which unified the efforts of marketing, advertising, production and other departments in product development. From product development and communication to sales counters, we combined consistently strong value creation with intense selectivity to enable the debut of delightfully well-rounded products.

These initiatives led to successes even though the market environment was challenging during the year. Shiseido shipped over 1.2 million units of the day-use beauty emulsion *Day Care Revolution* in the *ELIXIR* line in the seven months following its February 2012 launch. We then launched a succession of hit products including *Special Gel Cream* launched in August 2012 in the *AQUALABEL* line and *True Powdery UV* foundation launched in February 2013 in the *MAQUILLAGE* line.



General Manager Znaiden (center) consulting with team members

141
Years

New Value Creation

As expressed in Our Mission, Shiseido has consistently delivered genuine, meaningful value since its founding. New products that we concentrated on making uniquely Shiseido performed well during the year ended March 2013. The above *Day Care Revolution* in the *ELIXIR* line is representative because it integrates convenience with effectiveness as it keeps skin in top condition until evening. *Special Gel Cream* in the *AQUALABEL* line is another example of convenience married with effectiveness because it combines five functions (beauty lotion, beauty essence, emulsion, mask, cream) in a single product. Both products propose new value that meets the needs of busy modern women.

FullMake Washable Base (FWB), a makeup base that enables makeup removal with warm water, was a new lifestyle proposal. The catalyst for the development of this product was a manager's random insight:

“I am so tired I just want to switch myself off when I get home, but I have to remove my makeup...”

This insight set the project in motion. Our preparations and verifications in each area were meticulous because we were creating a new market category. The biggest hurdle we faced was developing a key material: an ingredient that would prevent makeup removal with cold water but enable removal with warm water. The research and technology team conducted over 2,000 trials to finally discover Veil Action Polymer technology, a sebum agent ideal for *FWB*. Thus we achieved a makeup base that stays on and does its job, but also comes right off with warm water and no cleanser.

Ms. Znaiden, General Manager of the Brand Strategy Planning Division, said, “*FWB* represents uniquely Shiseido value creation because it delivers totally new value with a fresh makeup lifestyle proposal.”

2012 Hit Products



ELIXIR Day Care Revolution

This day-use beauty emulsion is effective because applying it after lotion in the morning keeps skin resilient and in top condition until evening. It is also convenient because it incorporates several functions in one product. *Day Care Revolution* therefore meets the needs of modern women.

MAQUILLAGE True Powdery UV

This powdery foundation puts down a 0.01 mm thin film to deliver all of the functions required of it: softening pore edges and evening skin tone, bringing out superior skin color and translucency, providing smoothness and moisture, and delivering long-lasting effect.



AQUALABEL Special Gel Cream

Combining five functions in a single product, including lotion and emulsion, this high-elasticity gel cream is formulated with a high concentration of collagen GL.*

*Moisturizing, water-soluble collagen, hydrolytic collagen and glycerin

FullMake Washable Base

This next-generation makeup base enables removal of overlying makeup with warm water. Its features have created a new approach that enhances the joy of cosmetics by freeing women from the drudgery of removing makeup so they can easily restore their skin to its natural state. Advance sales using web marketing were also successful.



1.28
Million Units

Effective New Marketing

In addition to its sales performance, *FWB* is also interesting because its launch included new web-based marketing.

Shiseido responded to changing customer purchasing behavior by initiating a web-based marketing model in April 2012. This model involves marketing innovation and value communication through Beauty & Co., a collaborative website shared by beauty- and health-related companies and specialists, and watashi+, a Shiseido corporate site. *FWB* is a completely new product, so we employed a web-based marketing strategy to fully leverage its novelty.

Specific tactics involved effectively communicating use and features by sending samples to opinion leaders so they could experience the product and by holding events. We also employed banner ads and video ads for smartphones complemented by extensive e-mailing to watashi+ members, which resulted in customer-initiated communication that further spread word-of-mouth awareness via channels such as social networking sites. December 2012 finally arrived. Advance sales on watashi+ reached the planned amount in one week. Numerous customers who tried the product commented enthusiastically about *FWB*'s convenience and how their makeup really rinsed right off.

FWB already had a high level of awareness by the time we launched it at sales counters in February 2013. The result: record-setting shipments of 1.28 million units in the first month after launch.



2013 Taking on New Challenges

The year ending March 2014. The evolution of Shiseido's brand strategy begins.

We have already begun using the web-based marketing approach for other brands and lines. We aim to strengthen ties with customers by combining a traditional media-based blanket approach including television commercials with social networking sites and other timely and direct approaches to communicating value and information.

We are now implementing a strategy that clarifies the mission for each brand or line. For example, the image for *clé de peau BEAUTÉ* is world-leading quality, and for *BENEFIQUE*, specialized beauty products and services. These images have a positive impact on Shiseido's overall image in the prestige category.

Seniors are a market we will increase our focus on in the future. Under the Successful Aging concept, we will communicate with them at various points of contact and step up promotions while enhancing the product lineup.

Commenting on Shiseido's future brand strategy, Ms. Znaiden said, "The convictions of Shiseido's first president, Shinzo Fukuhara, were the source of the value creation concepts that we carry on today. Three expressions sum up these concepts: Let the product speak for itself. Richness in all. Brands must be valid globally.

"These value creation concepts are a unique Shiseido strength and represent the Company's fundamental value.

"We will meticulously enhance our prestige business because that category allows us to make the most of our fundamental value and strengths and is essential to our growth as a corporation. Our mission is to remain true to the philosophy of our predecessors by drawing on the above three concepts to create value and nurturing our brands and lines over the long term."

“Steady, rigorous management reforms will generate resurgent growth.”

Masahi Kamata Chief Area Managing Officer of China

2012

Performance Declines Year on Year For the First Time



Shiseido has been generating double-digit annual growth in its China business since launching export sales of cosmetics to China in 1981. We introduced the locally manufactured brand *AUPRES* in 1994 and established a top-end prestige brand image. We also began serving the cosmetics specialty store channel in 2004, launching the dedicated specialty cosmetics store brand *urara*. These brands symbolize our growth in China, where sales now account for over 10 percent of consolidated net sales.

However, the anti-Japanese demonstrations incited by the dispute over the Senkaku Islands in autumn 2012 brought unwelcome change to our remarkable progress. We postponed scheduled promotions and events, and our products were kept from store shelves in some cases. With business conditions taking on a different dimension than in the past, Mr. Kamata, the Chief Area Managing Officer of China, continued to assure business partners and employees that Shiseido's commitment to the China business was unshakeable.

Challenging conditions persisted until the end of the year. Unable to conduct our normal sales and marketing activities, we experienced our first year-on-year decline in sales and income on a local currency basis in the China business in 32 years despite efforts to raise cost efficiency and reduce expenses.

At the same time, the profound trust of our business partners supported Shiseido during these challenging times. Mr. Kamata commented, “Our business partners gave us truly meaningful emotional support. We received many encouraging and heart-warming messages from the very business partners we should have been supporting as a manufacturer.”

January
2013

Management Reforms Begin

The unusual circumstances did not change the importance of China to Shiseido. The Chinese cosmetics market is valued at approximately ¥2.0 trillion. While growth may have moderated, the number of people who use cosmetics is expected to increase from about 130 million at present to 330 million in 2020 backed by rising income levels (all figures are Shiseido estimates). Our three decades of involvement in the Chinese market are also a major asset for Shiseido. Two employees from China won Grand Prix awards at the in-house 2012 Shiseido Global Beauty Consultant Contest, which had 20,300 participants. This validated China as a model for beauty consultant activities in other countries.

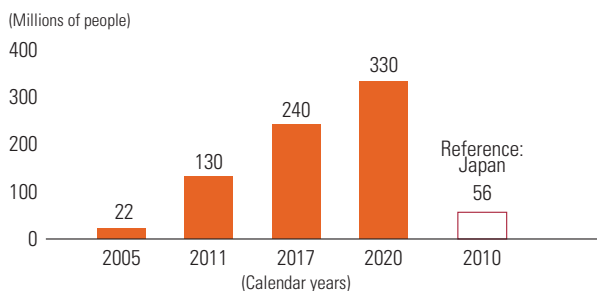
We absolutely must revitalize the China business. This strong sense of purpose is the motive for the dramatic management reforms Shiseido initiated in China in January 2013.

We will completely overhaul costs, reform our organization and personnel system, and reduce personnel expenses. The reforms are wide ranging. However, constraints on investment in the Chinese market have made Shiseido acutely aware that it has been dependent on new products and promotions. We need to determine where we will concentrate investment of our limited resources. We need to come up with ways to improve our day-to-day activities to satisfy customers. We need to decide what changes we have to make so that each and every employee can be proactive. In China, all of our employees are in crisis mode as they put reforms to work in their respective roles.



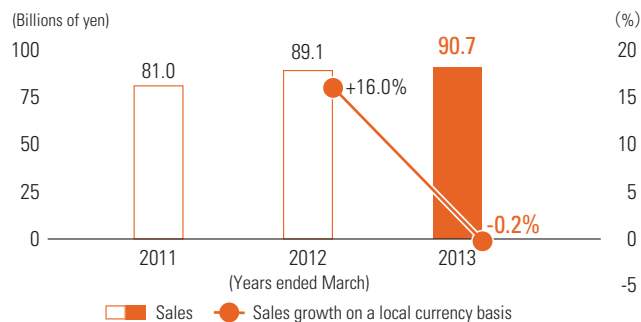
Chief Area Managing Officer Kamata (center) at a marketing meeting

Cosmetics Users* in China (Shiseido Estimates)



*Defined as urban women age 20 and older who spend at least 30 thousand yuan annually on cosmetics.

Sales in China and Sales Growth on a Local Currency Basis



2013

Targeting Higher Sales and Profit



Given market circumstances after the outbreak of anti-Japanese sentiment, Shiseido is devoted to satisfying each and every customer by enhancing regular activities including the customer care that beauty consultants provide at sales counters.

Signs of recovery are gradually emerging. At the start of 2013,

over-the-counter sales of some brands were on par with the same quarter a year earlier. Of note, sales of locally manufactured brands including *AUPRES* and *urara* have steadily recovered. Mr. Kamata commented, "I truly believe – and I'm extremely grateful – that we have nurtured these brands that Chinese women consider indispensable."

At the same time, we need to invest in the Chinese market because our competitors are growing at a faster pace. Shiseido has therefore initiated rigorous distinction and concentration. We will concentrate sales and marketing investment in the above two locally manufactured brands and a more narrowly focused geographic area.

We estimate that we can generate higher sales than in the previous fiscal year. Our China business is steadily evolving into a strongly profitable operation. Mr. Kamata feels these pioneering, full-scale management reforms are getting results.

We are targeting higher sales and profit in 2013.

2014

Getting Back on a Growth Trajectory

Rigorous distinction and selection in 2013 will establish the model for success as we work for a full-fledged recovery in 2014 and beyond and a return to a growth trajectory.

What is the key to restoring strong growth in China? We believe it is ensuring the evolution of Shiseido's value, which originates in Asia, into global value. Chinese society is predicted to place even greater emphasis on emotional satisfaction, so demand for Shiseido's spirit of *omotenashi* will increase. We must also fully exercise our sophisticated R&D strengths as the cosmetics company that best understands Asian women and their skin.

Mr. Kamata wants Shiseido to be a role model in the Chinese market. He said, "We will continue to evolve in a manner that individually and collectively encourages customers to have positive expectations of Shiseido, business partners to do business with Shiseido, and employees to find meaning in their work at Shiseido."

Comments from Shiseido Global Beauty Consultant Contest Grand Prix Award Winners

"I am a messenger and creator of beauty. I want to satisfy my customers even more by continuing to provide beauty."

Xie Xu Li (left)

"Sincere customer commitment is my motto. I see difficulties as learning experiences and do everything I can to earn the trust of my customers."

Zhu Jing (right)



Episode 3 Making Major Progress in Thailand and Accelerating Business in Emerging Countries

“We will establish a strategic model and share case studies in success throughout Southeast Asia.”

Masato Yamada Managing Director, Shiseido Thailand Co., Ltd.

No. 1 Global Brand SHISEIDO Market Share



In Asia excluding Japan, the promising Thai cosmetics market follows China in terms of remarkable growth.

The global brand SHISEIDO has a dominant position in the vibrant Thai market with a firm number one share.

We began selling cosmetics in Thailand in 1962, entering the nascent Thai cosmetics market well ahead of other companies. Essentially, we created the market and continued to drive it. We have concentrated resources on the global brand SHISEIDO, providing sales counter customer care ranging from cosmetics selection methods to beauty technique proposals in order to create an attractive image. The global brand SHISEIDO has a broadly based top-end prestige image in Thailand because of marketing and R&D that draws on Shiseido's unique insights into the skin of Asian women. The brand image is personified by beauty consultants for whom Shiseido's investment in education and cultivation includes daily learning and monthly training seminars. Senior Training Manager Darin said, “We are proud of Shiseido's product quality and unique spirit of *omotenashi*.”

2011 Full-Scale Entry into the Masstige Business

A major change has emerged in Thailand's cosmetics market, which has long been centered on the prestige category: the dramatic expansion of the middle-income demographic.

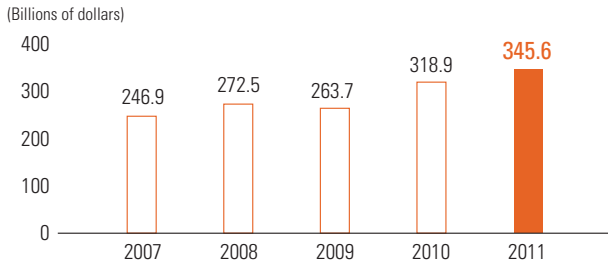
Shiseido introduced *Za* and *MAJOLICA MAJORCA* in the Thai market in 2008, and *TSUBAKI* and *AQUALABEL* in 2010. These brands and lines have formed the foundation for our Asian masstige strategy. We are putting particular emphasis on nurturing *Za* with enhanced marketing. This brand is geared to intelligent, energetic women, and advertising for it uses Thai celebrities as models. We have been meticulous about communication so that people see *Za* as their own brand.

We began shipping *Za* products exclusively from the newly built Vietnam Factory in November 2011 to strengthen cost competitiveness. We decided to move our Asian masstige strategy into high gear by adding the hypermarket channel to our existing drugstore channel.

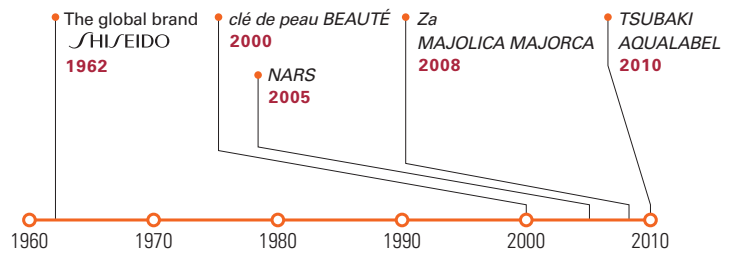
Looking back at 2011, Shiseido Thailand Co., Ltd. Managing Director Yamada commented, “We were prepared for tough negotiations with hypermarkets, but they welcomed us, showing deep understanding of our product concepts and marketing.” Given Shiseido's reputation for product quality, our entry into the hypermarket channel as a cosmetics company representing Asia is significantly energizing the masstige market.



Thailand: Nominal GDP



Thailand: Brand/Line Introduction Timeline



Za

A Masstige Business Success Story

Shiseido is going to stay on the offensive. Recognition of the *Za* brand name has increased dramatically as a result of its presence in drugstores and hypermarkets and aggressive advertising. Complementing this success, Shiseido then moved *Za* into the convenience store channel, which encompassed some 7,000 stores at the time. In the masstige business, the volume of communication expands as a function of the number of stores handling a brand. Consequently, *Za* sales increased substantially in 2012.

Shiseido plans to continue strengthening investment in the Thai masstige business. For *Za*, we will complement television and other mass communications by using media such as social networking sites. We will also enhance storefront promotions to enhance the perception of *Za* as a dynamic brand. Our intention is to expand these initiatives outward from the cities where we primarily market *Za* at present.

Another focus in the future will be *TSUBAKI*. We plan to leverage the knowledge base we have built with *Za* to nurture *TSUBAKI* as a potent brand.



2013

Taking on the Challenge of Constructing a Strategic Model



Ms. Darin (left), Ms. Parichart (center) and Managing Director Yamada (right) at a meeting

Shiseido leads the Thai prestige category with the global brand SHISEIDO and has achieved success in the masstige category. This is no time to relax, however, because European and U.S. competitors have intensified their offensives.

Shiseido's mission in Thailand is not limited to maintaining and strengthening the presence it has established to achieve further growth.

Thailand could be called the core cosmetics market among the emerging countries in Southeast Asia. Many wealthy people from other countries in Southeast Asia visit Bangkok because of the wide selection of products available there, making Thailand a wellspring of information. Shiseido's Thailand business is a strategic model and case study in success that we will share throughout Southeast Asia.

Ms. Parichart, who is head of the Masstige Group, remarked, "National markets throughout Southeast Asia look at trends in Thailand because their skin characteristics and product needs are very similar. The mission of Shiseido's Thailand business is therefore significant because it serves as a strategic model."

Shiseido must grow in economically vibrant Southeast Asia because it will become one of Shiseido's next major sources of earnings after China. We will continue to take on challenges in Thailand while accelerating initiatives in Vietnam, Indonesia and elsewhere. This will further speed progress for Shiseido as Asia's representative cosmetics company.

Review of Operations

Shiseido is developing six global mega-brands on a priority basis to extend beyond regional boundaries with the goal of becoming a Global Multiple-Brand Company possessing multiple brands with annual sales of between ¥50 billion and ¥100 billion each.



The Global Brand SHISEIDO

A prestige brand available in 89 countries and regions, including Japan. Shiseido continued to nurture this brand during the year ended March 2013 in ways such as launching a new serum in the premium skincare line SHISEIDO FUTURE SOLUTION LX.



clé de peau BEAUTÉ

A top-end prestige brand that accounts for the largest share of sales in the Domestic Cosmetics Business. Sold in 12 countries and regions, including Japan, this brand celebrated its 30th anniversary in the year ended March 2013.



Za

A full-line skincare and makeup brand available in nine countries and regions, including China, Thailand and Vietnam. In September 2012, Shiseido launched Za in the Japanese market as a brand developed in Asia.



SENKA

A skincare brand that serves the low-priced market in Japan and the masstige market in Asia. In the year ended March 2013, Shiseido responded to strong customer demand by adding an emulsion to the skin-brightening series, which further strengthened this brand.



bareMinerals

Centered on mineral foundation, *bareMinerals* is the undisputed leader of the U.S. mineral cosmetics market and Bare Escentuals' core brand. A new skincare line created through synergy with Shiseido launched in Asian markets in March 2012.



TSUBAKI

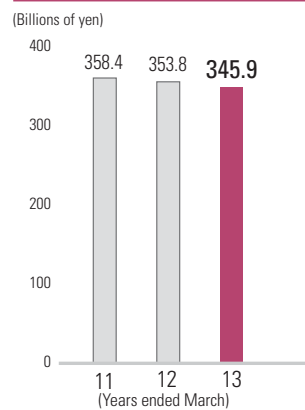
A leading line in the Japanese haircare market, with a total of more than 270 million units shipped since its launch in March 2006. Local production began in China in 2011. *TSUBAKI* is available in 11 countries and regions including Japan.

Domestic Cosmetics Business

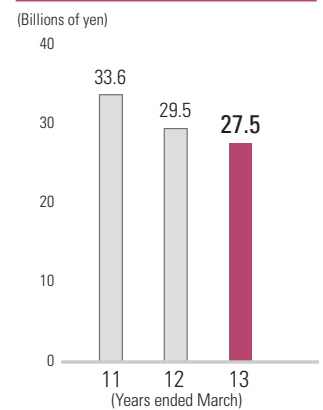
A presentation of strategies such as strengthening the prestige business, focusing on the seniors market and advancing web-based marketing.

▶ P38

Net Sales



Segment Income

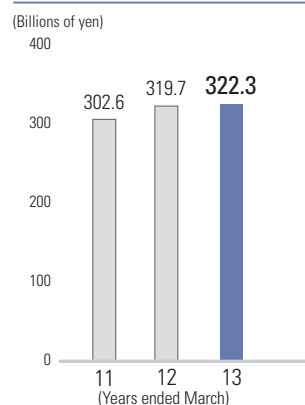


Global Business

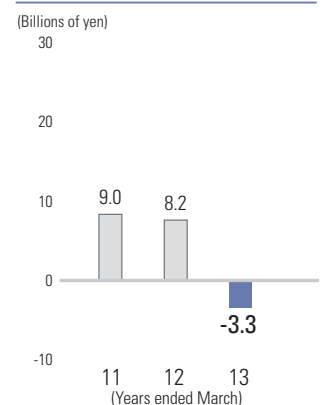
An introduction to two initiatives: refining our strengths in China and the value of Bare Escentuals, and strengthening our ability to serve emerging countries, which will be our next growth engine.

▶ P43

Net Sales



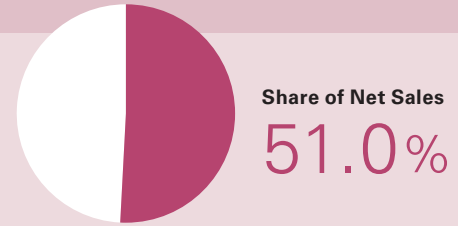
Segment Income (Loss)



Business Overview (Year ended March 2013)

▶ Domestic Cosmetics Business

The Domestic Cosmetics Business primarily produces and sells cosmetics, cosmetics accessories, and toiletries. It also includes the Healthcare Business Division, which produces and sells health and beauty foods and over-the-counter drugs.



■ Domestic Cosmetics Business Division

Counseling



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

Self-Selection



Mid- and low-priced cosmetics that customers select by themselves at the point of sale

Toiletries



Shampoo and other haircare products as well as body care products

■ Healthcare Business Division, Non-Shiseido and Others

Healthcare



Non-Shiseido



Original brands of beauty foods and over-the-counter drugs as well as cosmetics brands that originated 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 web-based marketing model in April 2012. (Please refer to “Progress in Web-Based Marketing” on page 42 for additional details about our web-based marketing model.)

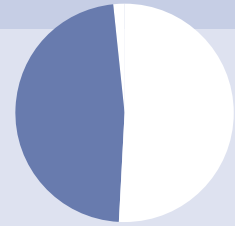


▶ Global Business

The Global Business segment covers the cosmetics business, including production and sale of cosmetics, cosmetics accessories and toiletries. It also handles the domestic and overseas professional business, including production and sale of beauty salon products.

Share of Net Sales

47.6%



■ Overseas Cosmetics Division

Prestige



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

Masstige



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

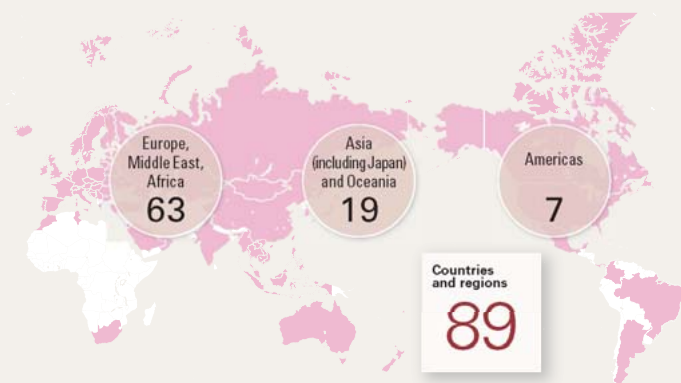
Share of Net Sales

1.4%

▶ Shiseido's Global Operations

The global brand *SHISEIDO* was available in 89 countries and regions as of December 31, 2012, and overseas sales accounted for 44.9 percent of net sales for the year ended March 2013.

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 to develop products that reflect regional characteristics.



Main production bases



Shiseido International France S.A.S. Val de Loire Factory



Shiseido Vietnam Factory

Main R&D bases



Shiseido China Research Center Co., Ltd.



Shiseido America Research Center

Domestic Cosmetics Business

(Billions of yen)

| Sales by Division Years ended March 31 | | 2011 | 2012 | 2013 | Year-on-year change |
|---|--|-------|-------|-------|------------------------|
| Counseling cosmetics | | 182.6 | 181.4 | 176.2 | -2.9% |
| Self-selection cosmetics | | 82.0 | 77.9 | 80.7 | +3.6% |
| Toiletries | | 41.9 | 45.2 | 39.2 | -13.3% |
| Domestic Cosmetics Business Division | | 306.5 | 304.5 | 296.1 | -2.8% |
| Healthcare Business Division | | 14.5 | 14.9 | 14.9 | -0.5% |
| Others | | 37.4 | 34.4 | 34.9 | +1.6% |
| Total | | 358.4 | 353.8 | 345.9 | -2.2% |

Domestic Cosmetics Business: Business Model and Features

A leading company in Japan's cosmetics market, Shiseido operates a cosmetics business; a healthcare business that manufactures and markets beauty foods and other products; and other cosmetics-related businesses under non-Shiseido brands.

The cosmetics business operates in the counseling, self-selection and toiletries categories. Counseling is Shiseido's most representative category, in which employees who are beauty experts diagnose customers' skin to propose the most suitable cosmetics. We call these experts "beauty consultants." They personify *omotenashi*, the Japanese word for hospitality, and are central to increasing the value of Shiseido's brands. Shiseido has approximately 10,000 beauty consultants in Japan who complement their expertise

in customer service techniques with broadly based specialized knowledge including an understanding of skincare and makeup products and the study of and psychology behind cosmetics. In particular, customer satisfaction is incorporated in the benchmarks for evaluating beauty consultants and their hospitality toward customers, which is a strength that differentiates Shiseido from other companies.

Shiseido launched the Hanatsubaki Club membership organization in 1937 to deepen relationships with its customers. It provides regular news and updates about products, beauty and other subjects, and had approximately 4.65 million members as of March 2013.

Shiseido's primary marketing channels for cosmetics include voluntary chain stores, department stores, general merchandise stores and drugstores. Among these channels, Shiseido demonstrates its advantages at voluntary chain



ELIXIR



MAQuillAGE



BENEFIQUE

stores and department stores that can provide the quality services and counseling the Company aims for. Voluntary chain stores are cosmetics stores operated as sole proprietorships that share Shiseido's operating principles and policies. Shiseido has organized them into a chain store network that is strong because of collaborative retailing and product campaigns. This network had approximately 12,000 member stores as of March 2013.

Shiseido also launched web-based marketing in April 2012 that links the Internet with brick-and-mortar retail stores to create opportunities to discover new customers. (Please refer to "Progress in Web-Based Marketing" on page 42 for additional details about our web-based marketing model.)

■ Market Environment

The domestic cosmetics market has been contracting due to weak consumer sentiment and deteriorating economic conditions. However, signs of recovery have emerged since the new government took office in December 2012, with positive expectations for its economic policies that have weakened the yen and raised stock prices. Consequently, market size was essentially unchanged year on year.

While uncertainties remain, economic recovery should support moderate recovery in the cosmetics market. Slight year-on-year growth is forecast for the year ending March 2014.

Over the past several years, the market has polarized between high- and low-priced products, with the low-priced market continuing to expand. We expect that the recovery of

market and consumer sentiment will mainly energize the high-priced product category and benefit the mid-priced product category as well.

■ Overview of Performance in the Year Ended March 2013

Sales of each division in the Domestic Cosmetics Business segment decreased year on year because of intensified competition in the cosmetics business and the impact of shrinking markets for core products in the healthcare business. Total sales of the Domestic Cosmetics Business segment decreased 2.2 percent year on year to ¥345.9 billion. Segment income (operating income) decreased 6.6 percent year on year to ¥27.5 billion because marginal income decreased as a result of lower sales.

Domestic Cosmetics Business Categories

| Category | Products | Primary Channels | Main Brands/Lines |
|----------------|----------------------------|---|---|
| Counseling | High-priced cosmetics | Voluntary chain stores, department stores, general merchandise stores | The global brand <i>SHISEIDO</i> , <i>clé de peau BEAUTÉ</i> , <i>BENEFIQUE</i> |
| | Mid-priced cosmetics | Voluntary chain stores, department stores, drugstores, general merchandise stores | <i>ELIXIR</i> , <i>MAQuILLAGE</i> |
| Self-selection | Low-priced cosmetics | Drugstores, general merchandise stores, convenience stores | <i>INTEGRATE</i> , <i>AQUALABEL</i> |
| Toiletries | Low-priced fine toiletries | Drugstores, general merchandise stores, convenience stores | <i>SENKA</i> , <i>TSUBAKI</i> , <i>SEA BREEZE</i> , <i>FullMake Washable Base</i> |



HAKU



INTEGRATE



AQUALABEL

Domestic Cosmetics Business Division

During the year ended March 2013, as in the previous fiscal year we continued to reduce the number of new product launches by carefully selecting products we expected customers to strongly support. We also concentrated on cultivating existing products.

In the counseling category, we focused intensely on such basic sales counter activities as direct contact with customers' skin and the use of beauty equipment in the voluntary chain store and department store channels. As a result, sales of the top-end prestige brand *clé de peau BEAUTÉ* increased year on year. The day-use beauty emulsion *Day Care Revolution* launched within the core *ELIXIR* skincare line also performed well, with manufacturer shipments exceeding 1.2 million units for the seven months following its market debut. On the other hand, core lines *MAQuillage* and *HAKU* struggled.

In the self-selection category, *Special Gel Cream* in the *AQUALABEL* skincare line was a hit because it meets customer needs by combining five functions (beauty lotion, beauty essence, emulsion, mask, cream) in a single product, and sales of the *INTEGRATE* line also increased. Sales of summer product lines *ANESSA* and *Ag+* were also solid.

In the toiletries category, the low-priced skincare brand *SENKA* sold well, while *FullMake Washable Base (FWB)*, a totally new makeup base that enables makeup removal with warm water, was a major hit. Shiseido successfully applied a new marketing approach for *FWB* by conducting advance

sales on its *watashi+* website from December 2012 and store sales from February 2013. However, overall results in the toiletries category were unfavorable as intensified competition in the haircare market adversely affected the core *TSUBAKI* line.

As a result, sales in the Domestic Cosmetics Business Division decreased 2.8 percent overall compared with the previous fiscal year to ¥296.1 billion. Sales in the counseling category decreased 2.9 percent, sales in the self-selection category increased 3.6 percent, and sales in the toiletries category decreased 13.3 percent. Favorable signs of market recovery began to emerge in the self-selection category, while the decrease in toiletries category sales was partially the result of comparison with robust sales in the previous fiscal year.

Healthcare Business Division and Other Businesses

Results were unfavorable for the Healthcare Business Division, which manufactures and markets beauty foods and other products. *CHOU-MEI-SOU*, a beauty food containing *Peucedanum japonicum* grown under contract at farms on Yonaguni Island in Okinawa Prefecture, continued to perform well. However, a sharp contraction of Japan's overall collagen food market affected sales of core line and market share leader *The Collagen*. Consequently, Healthcare Business Division sales decreased 0.5 percent year on year.

In other cosmetics-related businesses, subsidiaries



ANESSA



SEA BREEZE



FullMake Washable Base

selling non-Shiseido brands continued to perform well. These included Ettusais Co., Ltd., which introduced the *Za* skincare and makeup brand we sell in Asia to Japan, as well as D'icila Co., Ltd. and Ipsa Co., Ltd. Benefiting from a recovery in sales at airport duty-free shops, The Ginza Co., Ltd. also contributed. As a result, sales of Other Businesses increased 1.6 percent.

■ Initiatives for the Year Ending March 2014

Shiseido is targeting sales growth for the year ending March 2014 by concentrating on building its businesses in areas of strength.

In the counseling category, Shiseido best demonstrates its strengths in the prestige market, in which we will concentrate resources on the global brand *SHISEIDO*, *clé de peau BEAUTÉ* and *BENEFIQUE* to generate sales growth. Specifically, in the department store channel, where we market the global brand *SHISEIDO* and *clé de peau BEAUTÉ*, we will fully leverage the double counters we have established and further enhance the counseling capabilities of beauty consultants. We will also further enhance the cachet of the global brand *SHISEIDO* with a new television commercial that began airing in May 2013. In the voluntary chain store channel, we will develop *BENEFIQUE* into a comprehensive beauty solutions line that centers on skincare and encompasses makeup, healthcare, haircare and esthetic. Moreover, we will execute promotions for this line linked with our *watashi+* website while using the customer service

capabilities unique to voluntary chain stores.

Regarding brands and lines outside the prestige category, with emerging signs that Japan's protracted deflation is ending, we also plan to meticulously enhance the core mid-priced lines *ELIXIR* and *MAQUILLAGE* to benefit from resurgent consumption. At the same time, we will steadily nurture uniquely functional Shiseido products including *FullMake Washable Base* to expand sales. We have also established Japan Retail Innovation Co., Ltd. to specialize in providing support to major retail chains such as general merchandise stores and drugstores. This will create a framework for dramatically strengthening merchandising and shelf space proposals for major retail chains to enhance product presentation.

The rapid aging of society has created an expanding seniors market. We will therefore enhance our ability to serve this key market in which we can fully leverage our strengths. Specific initiatives include creating a dedicated section within the *watashi+* website, holding events at stores, and developing new product configurations and symbolic new lines. We also intend to increase the number of seniors who regularly use Shiseido products and grow sales through counseling and other activities.

As a result of the above, for the year ending March 2014, we forecast that sales in the Domestic Cosmetics Business segment will increase 0.9 percent year on year to ¥349 billion, and that operating income will also increase.



Ag+



The Collagen



CHOU-MEI-SOU

Insight Progress in Web-Based Marketing

• Web-Based Marketing Objectives

Shiseido launched web-based marketing in April 2012 to respond to changes in customer purchasing behavior resulting in part from dramatic advances in information technology.

Our web-based marketing model is creating opportunities to discover new customers and deepening relationships with existing customers by leveraging the respective strengths of the Internet and brick-and-mortar retail stores.

• Web-Based Marketing Framework

Our web-based marketing model encompasses two websites and our store network. Beauty & Co. is a platform site operated by Shiseido with the participation of companies from six beauty-related fields including healthcare and fashion. It provides broadly based content and product information. As of April 30, 2013, the site had a total of 33 participating companies. Shiseido's watashi+ corporate website has an online shop where customers can purchase cosmetics. It also offers online counseling services (Web BC counseling) and a store navigator that

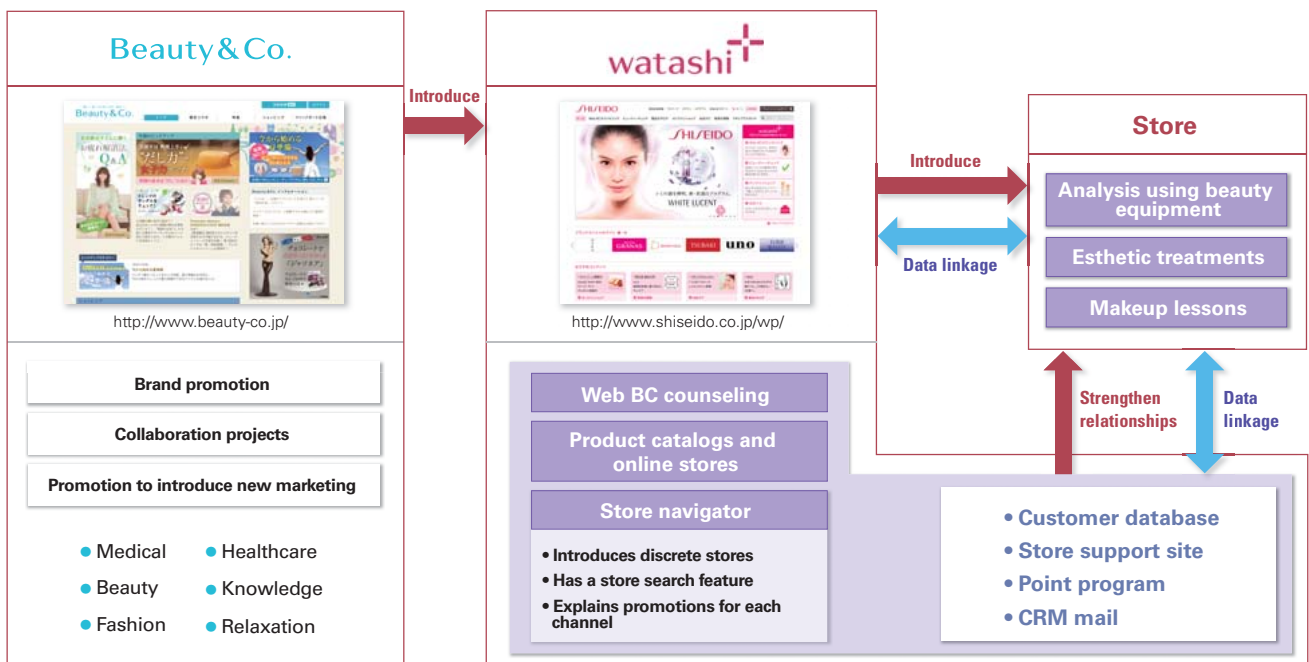
lets customers search for cosmetics stores and introduces discrete stores.

• First-Year Results and Future Initiatives

Shiseido also made steady progress in discovering new customers. Our web-based marketing model got off to a good start in its first year, with more than one million registered members at each of Shiseido's websites as of March 31, 2013. Newly registered members other than Hanatsubaki Club members accounted for more than half of sales at watashi+.

During the year ending March 2014, we will execute collaborative projects with other Beauty & Co. participants and increase membership while enhancing content to help expand the number of visitors to the websites of participating companies. We will also make watashi+ more convenient and enhance content such as seasonal campaigns and Web BC counseling to increase site membership and store visitors. At the same time, we will quickly reflect customer purchasing and beauty data through innovations in product development, marketing, R&D and other areas.

Web-Based Marketing Flow Chart



Global Business

(Billions of yen)

| Sales by Division Years ended March 31 | 2011 | 2012 | 2013 | Year-on-year change | Year-on-year change (Local currency basis) |
|---|--------------|--------------|--------------|------------------------|--|
| Overseas Cosmetics Division | 261.7 | 278.2 | 280.2 | +0.8% | +2.4% |
| Overseas and Domestic Professional Divisions | 40.9 | 41.5 | 42.1 | +1.4% | +2.9% |
| Total | 302.6 | 319.7 | 322.3 | +0.8% | +2.5% |

Note: Exchange rates for major currencies for the year ended March 2013: ¥79.8 per U.S. dollar, ¥102.6 per euro, and ¥12.7 per Chinese yuan

■ Global Business: Business Model and Features

The Overseas Cosmetics Division operates in a wide array of countries and regions. As of December 31, 2012, the global brand *SHISEIDO* was available in 89 countries and regions including Japan. Manufacturing and research are also conducted internationally based on regional characteristics, at 15 production facilities, including four in Japan, and 10 research facilities, including three in Japan.

In North America, Shiseido is concentrating on the department store channel with a focus on expanding the market share of the global brand *SHISEIDO*. In addition, the makeup brand *NARS* has strong customer support, and *bareMinerals* has the leading share of the U.S. mineral foundation market.

In Europe, Shiseido markets potent brands and lines including prestige cosmetics and the designer fragrances of Beauté Prestige International S.A. Marketing channels

include department stores, perfumeries and travel retail.¹

In Asia, Shiseido markets prestige cosmetics as well as masstige brands including *Za* and *SENKA* that are geared to middle-income earners. In China, we are refining value by brand using brand-oriented marketing that strengthens customer relationships. The *AUPRES* brand manufactured in China and the global brand *SHISEIDO* are our core focus at department stores. At cosmetics specialty stores, *urara* brand products are core items. We are also marketing *Za*, *PURE&MILD*, *TSUBAKI* and other brands at drug-stores, hypermarkets and other retail outlets in the masstige channel.

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

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



AUPRES



urara



PURE&MILD

■ Market Environment

Overseas cosmetics markets were closely linked to economic conditions in their respective regions. During the year ended March 2013, the debt crisis and high unemployment restrained growth in the European market. However, markets in the Americas and Asia, including China, expanded moderately.

Our outlook for the year ending March 2014 follows below. We forecast that the financial crisis will keep conditions challenging in the European market and cause it to contract slightly. On the other hand, we forecast moderate mid-single-digit growth in markets in the Americas, and mid-single-digit growth in Asian markets led by China.

Trends in Overseas Cosmetics Markets (Shiseido Estimates)

| | Year ended March 2013 | Year ending March 2014 |
|------------------|-------------------------|--|
| Europe | Slight contraction | Slight contraction as challenging market environment persists |
| Americas | Mid-single-digit growth | Mid-single-digit growth because of sustained moderate recovery |
| Asia and Oceania | Mid-single-digit growth | Mid-single-digit growth, led by growth in China |

■ Overview of Performance in the Year Ended March 2013

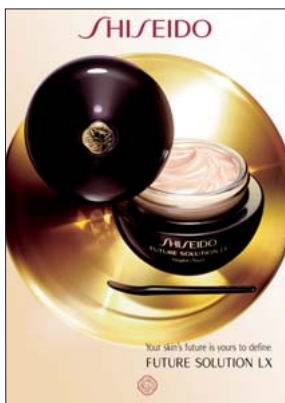
Sales in the Global Business segment increased 0.8 percent on a yen basis to ¥322.3 billion, and 2.5 percent year on year on a local currency basis. Sales increased in both the Overseas Cosmetics Division and the Overseas and Domestic Professional Divisions. By region on a local currency basis, sales increased 3.4 percent in the Americas, 3.2 percent in Europe, and 1.3 percent in Asia and Oceania (with a 0.2 percent decrease in China).

Segment loss (operating loss) was ¥3.3 billion, compared with segment income (operating income) of ¥8.2 billion for the previous fiscal year. Factors included aggressive marketing investments mainly for operations in China and other growing markets and for Bare Escentuals, and sales in China were significantly below expectations due to anti-Japanese demonstrations.

Overseas Cosmetics Division

Americas and Europe

In the Americas, prestige market sales of the global brand *SHISEIDO* grew significantly, centered on the *FUTURE SOLUTION LX* premium skincare line, the *WHITE LUCENT* skin-brightening line and the sunscreen line. Sales of the makeup brand *NARS* also increased substantially. Sales of core North American subsidiary Bare Escentuals were flat year on year because sales decreased in the direct marketing business and investment in media such as



Global Brand *SHISEIDO*
FUTURE SOLUTION LX



Global Brand *SHISEIDO*
WHITE LUCENT



Global Brand *SHISEIDO*
BIO-PERFORMANCE

television advertising did not generate the expected growth in the retail business.

Challenging market conditions continued in Europe. However, *ISSEY MIYAKE* and other new products in the strong-selling lineup of Beauté Prestige International S.A. designer fragrances achieved solid growth. The travel retail business remained robust.

China and Other Countries in Asia

The protracted impact of anti-Japanese sentiment in the core market of China kept Shiseido from implementing aggressive promotional campaigns at the end of the year, which typically accounts for a high percentage of annual sales. Consequently, sales in China were essentially unchanged on a local-currency basis and limited to a slight increase in yen terms.

In the Asian masstige category, the comprehensive skin-care and makeup brand *Za* continued to sell well, mainly in Thailand. We implemented several initiatives to steadily build the presence of the highly functional, low-priced brand *SENKA*, including launches in Thailand, Singapore and Malaysia.

Emerging Countries

Shiseido is strengthening its initiatives in emerging countries because they offer outstanding potential for cosmetics market growth. In Brazil, a future growth engine, we introduced *bareMinerals* and *NARS*. In India, we opened a representative office to establish a foundation for full-scale

market entry. Moreover, we moved to expand our operations into new markets with continued sales growth in Russia and sales launches in Tunisia and Argentina.

As a result of these initiatives, Overseas Cosmetics Division sales increased 2.4 percent year on year on a local currency basis and 0.8 percent on a yen basis to ¥280.2 billion.

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 2.9 percent year on year on a local currency basis and 1.4 percent on a yen basis to ¥42.1 billion. In Japan, sales of *THE HAIR CARE ADENOVITAL*, a hair-growth treatment incorporating the active medicinal ingredient adenosine, increased. Zotos International, Inc., which primarily sells cosmetics for hair and beauty salons in North America, also performed well. However, sales decreased at Laboratoires Decléor S.A.S., which primarily sells products for esthetic salons and spas, due to the effect of the deteriorating business environment in Europe.



ISSEY MIYAKE



narciso rodriguez



ELIE SAAB

■ Initiatives for the Year Ending March 2014

During the year ending March 2014, Shiseido will execute initiatives in each region that leverage its strengths, with priority on concentrating resources on enhancing operations in China and the Bare Escentuals business.

In North America, we will continue to nurture the global brands *SHISEIDO* and *NARS*. Concurrent initiatives will include strengthening QVC² and infomercials in Bare Escentuals' direct marketing business as we concentrate on enhancing brand cachet. (Please refer to "Bare Escentuals Initiatives" on page 47 for additional details about Bare Escentuals.)

In Europe, where the economic environment is forecast to continue deteriorating, we will concentrate on cultivating the highly functional skincare products of the global brand *SHISEIDO* while studying the launch of new brands in the fragrance business and strengthening new lines for existing brands.

In the Chinese market, we will concentrate meticulously on distinction and concentration of brands and areas. For brands, we will focus on *AUPRES*, a local brand manufactured in China; *urara*, which is sold only in cosmetics specialty stores; and *PURE&MILD*. For areas, we will enhance sales and marketing in core coastal provinces that are large markets. Moreover, Shiseido plans to deploy the capital made available by the start of cost structure reforms with a sound balance between focusing investment in these brands and areas and improving profitability. Through these initia-

tives, we are aiming to grow faster than the market, with a target of increased sales and income for the year ending March 2014.

We will further expand our masstige business in Asia with a focus on global mega-brands including *Za*, *SENKA* and *TSUBAKI*, and plan to share case studies of successful self-marketing that has generated strong results in Thailand and throughout Southeast Asia.

As a result, for the year ending March 2014 we expect sales in the Global Business segment to increase 8.9 percent year on year to ¥351 billion. We also expect operating profitability.

2. A 24-hour television shopping channel. QVC is an abbreviation for quality, value and convenience.



NARS



CARITA



THE HAIR CARE

Insight Bare Escentuals Initiatives

• The Bare Escentuals Story

Bare Escentuals, Inc. was established in 1976. In 1995, it debuted the *bareMinerals* brand of loose mineral makeup with no preservatives or artificial fragrances. The company then grew rapidly as the mineral foundation pioneer, becoming a leader in the U.S. foundation market. Bare Escentuals benefits from a unique mixed-channel business model that employs direct marketing channels such as the QVC television shopping channel and infomercials as well as a robust retail channel that operates in department stores and other doors including large wholesale partners such as Sephora and Ulta perfumeries and company-owned brand boutiques. Bare Escentuals expands its community enabled brand through a multi-channel approach that effectively captures customer attention through different channels.

Bare Escentuals joined the Shiseido Group in March 2010 and the *bareMinerals* brand is being cultivated as one of Shiseido's global mega-brands.

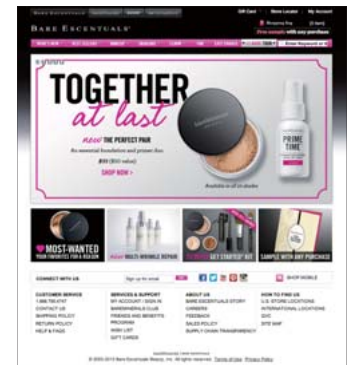
• Growth Initiatives for Each Business

Brand and product information that Bare Escentuals delivers via direct marketing channels such as television shopping is leveraged to support the retail channel business and further grow the customer base. Targeting further growth, the brand will refine this unique and defining business model with the following activities to make *bareMinerals* shine even brighter.

The North American retail business has grown brand awareness through media such as television commercials and infomercials. We intend to translate this awareness into sales by creating relationships with new customers and increasing sales at existing retail locations. We will therefore expand our sales force and enhance training for



Website of U.S. company
Bare Escentuals
<http://www.bareescentuals.com/>



store employees, while communicating intimately with customers through broad-based sampling at venues including stores, social networks, and the GO BARE TOUR, which will take pop-up stores to six U.S. cities.

The North American direct marketing business will launch limited-edition products and renew program content to reinvigorate television shopping. These initiatives will enhance the appeal of the direct marketing channel while maximizing synergies between the retail and direct marketing businesses.

The overseas business will intensify its focus on the United Kingdom and Japan, which are large markets with established retail and direct marketing channels. As in North America, we plan to execute a business model that leverages our strengths.

The GO BARE TOUR in action



Initiatives for Sustainable Growth Based on Our Way



Our Mission, Values and Way

Our Mission

Our Values

Our Way

Shiseido believes that CSR is all corporate activities that put its corporate philosophy Our Mission, Values and Way (MVW) 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. Starting from page 50, this section covers specific Shiseido CSR activities by stakeholder.



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.

* The Global Reporting Initiative is a non-governmental organization that has formulated international guidelines for corporate sustainability reporting.

Insight Shiseido's Support for Women

Shiseido has always had a close relationship with women that involves a commitment to their health and beauty. Our proactive initiatives to empower women and support their independence include helping our customers achieve the beauty they desire and enhancing quality of life through support in the fields of cosmetics and beauty.

Enriching the Heart with Cosmetics

Shiseido has conducted a range of seminars for the elderly and developmentally challenged, students and adults since first holding the Cosmetics Treatment Course seminar in 1949 to teach students about to graduate from high school how to use cosmetics properly for an adult appearance. Shiseido is also providing face and hand massages along with makeup and other services in the areas stricken by the Great East Japan Earthquake and at evacuation centers. Comments from earthquake victims include "It feels like things have returned to normal" and "I'm more cheerful." In addition, we have developed Braille beauty care booklets and other materials for visually impaired people and hold seminars using these materials in Japan, Taiwan and elsewhere overseas. We will continue to conduct activities that help women smile based on the Shiseido philosophy of contributing to society through beauty and health.



Beauty support activities in areas stricken by the Great East Japan Earthquake



Four Braille beauty care booklets

Empowering Women in Society

Shiseido is a corporation that empowers women in the sciences to help resolve social issues. One example of Shiseido's broadly based support to empower female researchers is the Shiseido Female Researcher Science Grant¹ for female researchers who will lead the next generation. Recipients can use a portion of the grant to hire a research assistant, which helps female researchers continue their work unaffected by their life stage. We are also proactively nurturing women in science fields by inviting female researchers as career development instructors who share their experiences with junior high school and high school girls to support them in selecting science courses and nurturing their careers.

As part of our support for women, we have also signed the Women's Empowerment Principles (WEP),² a set of international guidelines for gender equality and the economic empowerment of women. We seek to address international social issues such as improving the status of women and their economic empowerment.



A class for supporting junior high school and high school girls in selecting science courses

1. Financial support for science research
2. A set of international guidelines to support gender equality and the economic empowerment of women collaboratively developed by the United Nations Global Compact and the United Nations Development Fund for Women (UNIFEM), part of UN Women.

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.

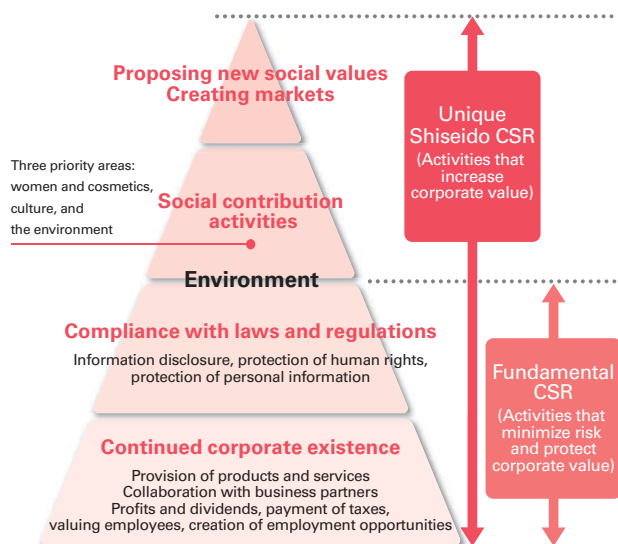
Specific Approaches

Our Way, which is our code of conduct for putting our corporate philosophy into practice, is the backbone of our activities. It draws on various global standards, including the United Nations Global Compact, in which we have participated since 2004, and ISO26000. As pledges to society, Shiseido's CEO has also endorsed the United Nations declarations and guidelines for human rights, the environment and the empowerment of women.



Moreover, we categorize activities as Fundamental CSR or Unique Shiseido CSR. The former involves legal compliance and business continuity to minimize risk and protect

Shiseido CSR Domains



corporate value, while the latter involves increasing corporate value and enabling 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 World's Most Ethical Companies¹ for the second consecutive year in March 2013.

1. 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.

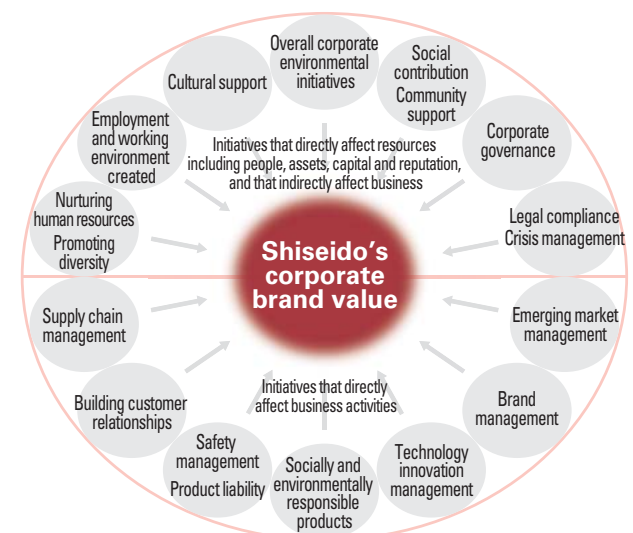
CSR Activities for Sustainable Development

All of Shiseido's CSR activities form Shiseido's corporate brand value. To earn the trust of stakeholders and achieve sustainable growth, we believe it is essential to increase our corporate brand value.

We therefore use a Plan-Do-Check-Act (PDCA) cycle (CSR Action²) to determine latent risks and opportunities so that we can identify opportunities for continuous growth and implement initiatives to deal with risk. We determine these initiatives by meeting with CSR-related parties in Japan and overseas to determine social demands and risks.

2. For in-depth coverage of CSR Action, please refer to "Risk Management (CSR Management and Business Continuity Plan)" on page 77.

Shiseido CSR Activities That Form Corporate Brand Value



Toward Consumers



Basic Policy

Shiseido consistently strives to research, develop, manufacture and sell safe, excellent products and services that deliver true satisfaction from the standpoint of consumers. As a matter of policy, we sincerely strive to enhance satisfaction and trust at all points of contact with consumers to enhance the value of all of the Group's brands.

Customer-Oriented R&D and Manufacturing

■ Shiseido's R&D Strengths

Shiseido has 10 research bases in Japan, France, the United States, China and Thailand, where approximately 1,000 employees 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 Congress Award we received at the October 2012 International Federation of Societies of Cosmetic Chemists (IFSCC) Congress, which recognizes the world's best research in areas including cosmetics and skin. This was our 16th award from the IFSCC; no other cosmetics manufacturer in the world has received as many.

We incorporate these research findings in product development. For example, we succeeded in combining the formerly incompatible properties of luster/moisture and lasting color and have begun commercializing this technology in *MAQuillage* products, with some hits emerging.

Shiseido's Strength in Skin-Brightening Research



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

Shiseido initiated skincare research approximately 100 years ago, and skin-brightening is our area of greatest proficiency. Our technology is particularly advanced in research into active skin-brightening ingredients, which can take as many as 10 years to develop. The global leader in skin-brightening, Shiseido has developed four of the 20 or so active skin-brightening ingredients approved by Japan's Ministry of Health, Labour and Welfare. Recently, we developed potassium 4-methoxy salicylic acid (4MSK) and obtained patents for it in Japan, Taiwan, South Korea, the United States and Europe. Our skin-brightening R&D capabilities are a powerful advantage in Asian markets, where demand is strong for sunblock and skin-brightening products.

■ Focused on World-Class Safety

The goal of an international accord adopted by Shiseido and other participants of the World Summit on Sustainable Development in 2002 is to use and produce chemicals by 2020 in ways that lead to the minimization of significant adverse effects on human health and the environment. With this 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, we strictly comply with the laws and regulations of the regions we serve, including Europe's REACH Regulation for controlling chemical substances and the nano-material regulations required for cosmetics in Europe. As shown by our unilateral decision to stop using triclosan and other substances, we also discontinue use of substances legally approved for ingredients and switch to alternative substances in the event that scientifically valid information of concern is reported. Moreover, we do not use cosmetics raw materials scientifically judged to be derived from genetically modified organisms because a global consensus about their safety has not emerged. We only use raw materials we are convinced are safe, and perform patch tests and actual usage tests supervised by dermatologists.

Regarding chemical substances, Shiseido reports to the

Japanese government as mandated by the Pollutant Release and Transfer Register Law (PRTR Law), while voluntarily conducting vigorous management of the use and disposal of chemical substances including raw materials and reagents. We also ensure 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.

■ Quality and Safety Management in Manufacturing

Shiseido places top priority on quality and safety to deliver products that customers can use with peace of mind. Going beyond adherence to the quality standards set by global guidelines, we have established Shiseido Good Manufacturing Practice (Shiseido GMP) as an even more rigorous self-imposed standard for maintaining and controlling quality in manufacturing.

We also comply with all items of the ISO22716 (Cosmetics GMP) international standards. Our rigorous quality control allows us to manufacture safe, reliable, high-quality cosmetics products. We only use carefully selected raw materials for which safety has been meticulously confirmed in categories including source, manufacturing method and purity/contamination. Similarly, we provide customers with food and health-care products they can use regularly with peace of mind by employing standards such as HACCP¹ and ISO22000 to rigorously control quality at every stage, from ingredient selection to commercialization, production and distribution.

In April 2013, Shiseido established a plant cultivation test facility within the Kakegawa Factory to grow plants for use as raw materials for active ingredients for cosmetics, and began operation of a test farm. These initiatives target even greater quality consistency and plant raw material procurement that is reliable, safe and traceable to the producer.

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



Rigorous quality control in action

Brands That Are Good for Society and the Earth

Customers are embracing diverse values and purchasing products that help protect the environment and create bonds with society. The Shiseido Group has responded to these sentiments with new marketing for several brands.

Soka-Mocka

Sold online, *Soka-Mocka* brand products emphasize natural ingredients that provide the power of traditional Japanese plants to the skin and spirit of modern women. With *Soka-Mocka*, we focus on quality, region of manufacture and cultivation method, formulating cosmetics with raw materials such as organic citron and natural hot spring water that has an ideal balance of minerals. As a brand that focuses on Japan's elemental forces, *Soka-*



Mocka delivers even greater product value to customers through activities such as showing gratitude to Japan's aging organic citron growers by providing harvest support.

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. As more than 25 percent of *DECLÉOR* products use natural ingredients supplied by small producers in Madagascar, initiatives to protect Madagascar's environment help nurture brand identity. Therefore, we conduct a



range of environmental activities such as supporting the planting of trees that produce essential oils through donations to the non-governmental organization ASMADA.

■ Policy toward Abolishing Animal Testing for Cosmetics

Shiseido does not test its cosmetic products or ingredients on animals except when absolutely mandated by law,² or in the rare case where there are absolutely no alternative methods for guaranteeing product safety.³

Shiseido's mission is to provide safe and effective products to customers, and to comply with the cosmetics regulations in force, while understanding and respecting the principles behind animal protection.

We will, through collaboration with domestic and international industry groups and institutions working to verify alternative methods, continue to exert our utmost efforts on developing alternative methods that would enable us to eliminate animal testing at the earliest possible opportunity as well as to approach authorities of each country more proactively to advocate for the acceptance of alternative testing methods as part of official regulation standards under each country's law.

2. Mandated by law: In China, in order to guarantee the safety of imported cosmetics, safety studies including animal testing may be required.
3. Guaranteeing product safety: When new ingredients or ingredients that have already been used are suspected to be potentially harmful based on the latest scientific knowledge, safety studies including animal testing may be required.

Customer Satisfaction and Trust

■ Hospitality toward Customers

Beauty Consultant Initiatives

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. This certification system was approved by the Ministry of Health, Labour and Welfare. In 2005, we began evaluating beauty consultant activities based on customer satisfaction with service. This policy has been central to achieving the aims of the Customer-First Strategy under our Three-Year Plan. 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.

A Spirit of *Omotenashi* Shared Worldwide

Beauty consultants emphasize reaching out to customers with a spirit of *omotenashi* (hospitality) originating in Japan to maximize customer satisfaction and help increase regular users.

In 2011 we formulated the *Shiseido Beauty Consultant Omotenashi Credo*, a code of conduct shared by beauty consultants worldwide that serves to embody the spirit of *omotenashi* in day-to-day activities at sales counters.

We also hold the Shiseido Global Beauty Consultant Contest every four years to encourage beauty consultants to review their beauty techniques and customer care every day and refine and enhance their professional skills. The third Shiseido Global Beauty Consultant Contest took place in July 2012. These activities motivate beauty consultants to regularly accumulate knowledge that encourages repeat store visits by truly satisfying customers.



A competition in the skincare category at the Shiseido Global Beauty Consultant Contest held in 2012

■ Initiatives to Incorporate Customer Feedback

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

In Japan, our Consumer Information Center receives approximately 110,000 inquiries and comments annually via toll-free calls, e-mail, letters and other means, and beauty consultants submit another 90,000 comments received at sales counters. We analyze this data and organize it for shared internal use with feedback from our own information system (Mirror System) and social networking sites such as Twitter. Consumer Information Centers in China and Taiwan also respond uniformly to inquiries and comments while collecting and leveraging customer feedback. We have introduced the Mirror System in 19 countries, including Japan, and are enhancing risk management with a particular focus on integrated collection and management of complaints and expressions of dissatisfaction. We also communicate with customers via the *watashi+* support center.

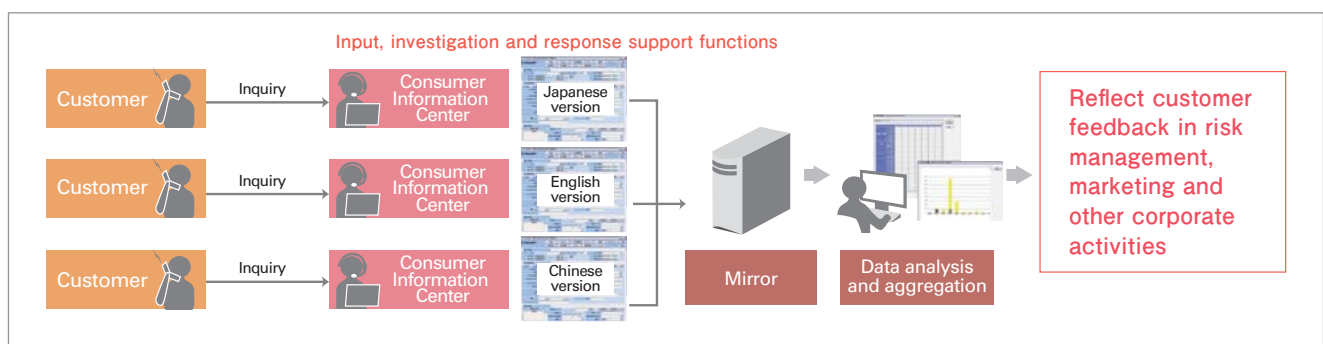
These initiatives are designed to help us create value that engenders even greater satisfaction by deepening our knowledge of how customers feel about cosmetics and why they feel that way.

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

Shiseido Group corporate website: A Structure That Reflects Customer Feedback

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

The Mirror System for Collecting and Using Global Customer Feedback



Toward Business Partners



Basic Policy

Shiseido views all of its suppliers as partners in the creation of new value under a policy of working to achieve sustained, mutual development. We place the highest importance on mutual understanding in collaborating with suppliers in procurement activities, including those associated with researching, developing, manufacturing and selling safe, excellent products and services.

Partners in the Creation of New Value

■ The Shiseido Group Supplier Code of Conduct in Action

Shiseido took the opportunity as a member of the United Nations Global Compact to formulate the Shiseido Group Supplier Code of Conduct in 2006 (revised December 2011). To share our approach to CSR activities with our business partners, 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 conclude

purchasing contracts and memorandums of understanding (MoUs) to ensure compliance. As of March 2013, 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 covering systems for managing quality and order fulfillment, CSR initiatives and other items. In the event that we discover noncompliance with the code, we 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 2013, but one company in the past required rigorous corrective action.

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, beauty consultant activity tools, promotional event tools |

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.

Toward Employees



Basic Policy

Shiseido's policy for workplace behavior calls for a spirit of mutual growth based on the Our Way commitment to respect the character and individuality of everyone in the workplace, in all their diversity, and strive to develop and grow together.

Diversity and Globalization

Promotion of Diversity

As of March 31, 2013, a total of 47,100 employees worked 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 harnessing consciousness and acceptance of diversity to promote diversity and inclusion while focusing on achieving gender equality. 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.

Empowering Global Human Resources

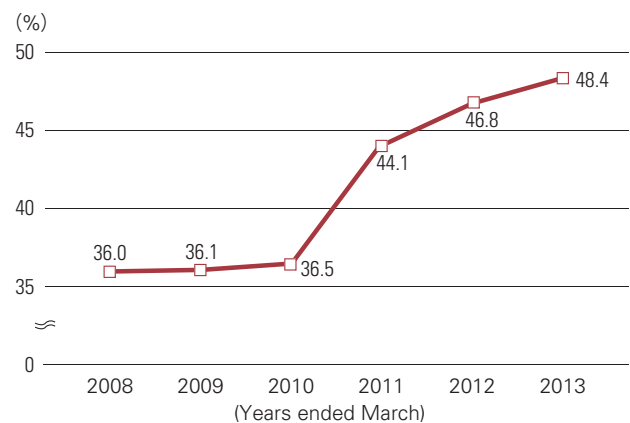
People who can accommodate various cultures and environments in providing business leadership from a global perspective are essential for Shiseido to become a global player representing Asia with its origins in Japan. We are therefore implementing a number of initiatives to nurture such talent.

We have initiated a full-fledged global personnel strategy since formulating the Global Human Resources Policy in 2008. Our current three objectives are:

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

Specific initiatives include the introduction of the globally shared Core Traits behavioral model that conforms to Our Mission, Values and Way, determination of job grades on a global level, and the introduction of a talent management framework. We are also working to further enhance career opportunities by building a human resource development program and a core human resources information system.

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 growth of workers with that of the Company.

Shiseido seeks to globalize Japanese employees by consistently providing them with an array of training to improve their capacity to accommodate different cultures and understand global business. In 2009, Shiseido also 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. In addition, the Shiseido Regional Leadership Program began in each region in 2011 to promote the development of future business leaders at a regional level.



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



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

female managers are continuously developed. Under this theme, we executed a specific action plan with two core initiatives: strengthening the appointment and promotion of female managers and human resources development; and reviewing how employees work to raise productivity.

As a result, we built career awareness among women and increased the percentage of female managers in Japan* by approximately 5 points compared with 2009. Reviewing how employees work to raise productivity succeeded in reducing the number of people who put in long hours and halving average overtime hours compared to 2009, as workplaces turned lights out at set times each day and implemented “no overtime” days.

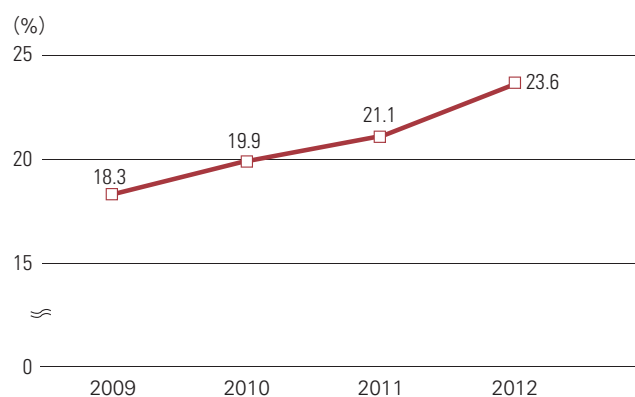
In 2013 and beyond, we will continue implementing the remaining components of our action plan as we work toward firmly establishing a corporate culture in which female managers are continuously developed.

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 employees, must therefore play a central role in management and business activities. Accordingly, since 1990 Shiseido has introduced a variety of support programs that balance work with childcare and nursing care.

The theme for activities under Phase III of the Gender Equality Action Plan, which ran from April 2010 to March 2013 in Japan, was firmly establishing a corporate culture in which

Percentage of Female Managers (Shiseido Group in Japan)*



* Data as of October each year

Toward Society and the Earth



Basic Policy

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.

Society is confronting many issues. In undertaking social contribution activities, Shiseido has determined three core areas in which it can contribute using its unique strengths: women and cosmetics, culture, and the environment.

Women and Cosmetics

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. Therefore, we actively promote the SHISEIDO LIFE QUALITY BEAUTY PROGRAM to enhance the quality of life (QOL) of its customers by enriching their hearts.

SHISEIDO LIFE QUALITY MAKEUP

We help enhance customer QOL by providing original products and beauty techniques particularly to people with serious skin concerns such as birthmarks, dark spots, vitiligo* and skin irregularities. We energetically conduct these

activities in Japan, China and Taiwan. Moreover, in October 2013 we will move the SHISEIDO LIFE QUALITY BEAUTY CENTER to Ginza, Tokyo to serve as a base for creating and developing new cosmetics capabilities. We will continue to take on new challenges including collaboration with medical institutions to provide beauty care during cancer therapy and the development of cosmetics techniques that address deep concerns that are difficult to resolve medically.

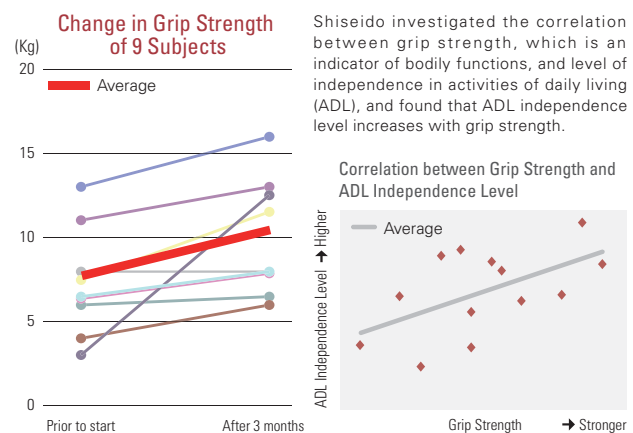
* Vitiligo is an acquired skin condition characterized by pigment loss causing white patches on the face, neck, hands, feet and other areas. Its cause is unknown.

SHISEIDO LIFE QUALITY BEAUTY SEMINARS

In 2011, we launched the Shiseido Cosmetic Therapy Program for the Elderly based on research that found continued use of cosmetics has the potential to improve the physical functions of elderly people and ameliorate the peripheral symptoms of dementia. As of December 31, 2012, the program had served approximately 120 care facilities, primarily in the Greater Tokyo area.

At the same time, we will act on our philosophy of contributing to society through beauty and health by integrating the Shiseido Cosmetic Therapy Program for the Elderly with various beauty seminars for groups including the elderly and developmentally challenged, students and adults to establish the SHISEIDO LIFE QUALITY BEAUTY SEMINAR business in July 2013. This sustainable activity will contribute to resolving issues associated with an aging society.

Improving Physical Functions through Continued Use of Cosmetics



Culture

Aiming to contribute to a spiritually affluent society through support for the arts, Shiseido cultivates and disseminates its corporate culture.

Founded in 1919, the Shiseido Gallery in Ginza, Tokyo supports the creation of new beauty by holding exhibitions with a focus on contemporary art, including “Tsubaki-kai” (Camellia Club) and “shiseido art egg.” Shiseido adds some of the works displayed at these exhibitions to its own collection, which it houses and exhibits at Shiseido Art House in Kakegawa, Shizuoka Prefecture. The Shiseido Corporate Museum (Kakegawa, Shizuoka Prefecture) collects and exhibits corporate materials such as products and advertisements spanning 141 years.

Shiseido also supports artistic expression in a variety of forms, including the Hanatsubaki Award for Contemporary Poetry, which was presented for the thirtieth time in 2012.

In addition, Shiseido holds in-house exhibitions so that its employees can enjoy art and improve their aesthetic sense.



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.

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. Shiseido reaffirmed its pledge with a new commitment in May 2012. 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.

■ Reducing Environmental Impact

During the three years that began April 2011, Shiseido is undertaking initiatives to reduce environmental impact, 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

Environmental Initiative Case Studies

Standing Pouch-Type Refills for the ELIXIR Line

Offering easy-to-use standing pouch-type refills for ELIXIR SUPERIEUR and ELIXIR WHITE skin lotion and emulsions enables an approximately 85 percent decrease in the volume of plastic used compared to the original containers. The refill pouches use sugar cane-derived polyethylene. We also created a replacement refill for skin-brightening gel cream ELIXIR WHITE Reset Brightenist that uses approximately 90 percent less plastic than the original container because we reduced package components. In addition, we are promoting environmental consciousness throughout the ELIXIR brand with initiatives such as the use of bagasse paper for the boxes that hold skin lotion and emulsion containers.



Environmentally Conscious Beauty Drink Packaging

KIREI NO SUSUME and CHOU-MEI-SOU beauty drinks come in a fully recyclable paper cartocan that helps prevent global warming. This packaging helps nurture healthy forests that absorb CO₂ because it makes extensive use of domestic wood such as forest thinnings and mill ends. Shiseido also donates a portion of sales to fund green projects and support volunteer forestry organizations. In addition, in 2012 we responded to consumer feedback by switching to easily removable labels for beauty drinks in glass bottles including The Collagen and Pure White W. These labels express appreciation for consumers with the words "Thank you for removing me!" on the reverse side.



CHOU-MEI-SOU

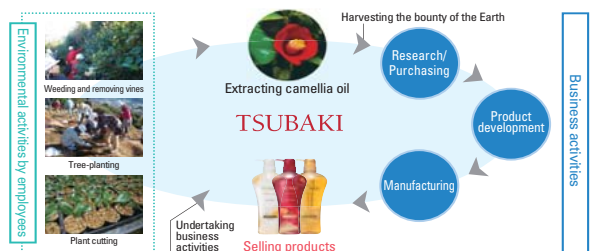


Easily removable label (reverse side)

Programs United with Business Activities

Shiseido employee volunteers conduct camellia tree-planting and forestry activities to conserve and nurture the camellia in the Goto Islands of Nagasaki Prefecture, where the camellia oil used in the TSUBAKI haircare brand is produced. These activities aim for sustainable resource use by enabling the extraction of high-quality camellia oil from seeds for use in Shiseido products. Applauded as an environmental activity united with business activities, this program received the Japan Business Federation Chairman's Award in April 2012 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



Representative environmental initiatives carried out by Shiseido are introduced in the Shiseido Earth Care Project section of the Shiseido Group corporate website.

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

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 produce approximately 5 million kWh of electricity annually, making the Geneva Factory the leader among U.S. manufacturers in self-produced power. The operation of the wind power generators can cover about 50 percent of the Geneva Factory's annual electricity needs. Zotos has begun carbon offset initiatives, so the Geneva Factory operates as a zero CO₂ emissions facility as a result of wind power generation. The Environmental Protection Agency (EPA) of the United States recognized this program with a 2012 Green Power Leadership award. These annual awards are given to companies and other organizations that have contributed to the development of green power in the United States. Zotos received its award in the On-site Generation category.



The Geneva Factory

water required to manufacture and use our products.

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 have been promoting the switch to bagasse paper in new products and renewed products that use paper in the Domestic Cosmetics Business since April 2012. |

CO₂ Emission Reduction Targets

| Scope | | Base Year | Target Year | | Criteria |
|------------------------------------|---------------------------|-----------------------|------------------------|------------------------|--------------------------------|
| | | | Year ending March 2014 | Year ending March 2021 | |
| CO ₂ Emission Reduction | Domestic | Year ended March 2010 | 15% | 20% | Absolute amount |
| | Non-production facilities | | 5% | 14% | |
| Overseas | Production facilities | — | 20% | 23% | Compared with BAU ¹ |
| | Non-production facilities | Year ended March 2010 | 4% | 11% | Absolute amount |

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

■ Initiatives to Preserve Biodiversity

Shiseido bases its environmental activities on preserving the bounty of the Earth (biodiversity), the source of the value we create, for the future. We are aware that all our products benefit from this limited bounty, and we work to preserve it throughout the product lifecycle.

Palm Oil Initiatives

The demand for palm oil, which is a raw material for foods and cosmetics, has increased dramatically in recent years. Illegal logging is carried out in tropical rainforests to create large-scale plantations of the African oil palm (*elaeis guineensis*), a raw material of palm oil, and the resulting threat to wildlife and impact of deforestation on global warming have become issues. Since



2010, Shiseido has been participating in the Roundtable on Sustainable Palm Oil (RSPO), which was established to promote and manage a sustainable palm oil industry. Pursuant to a resolution of the RSPO General Assembly in March, 2012, Shiseido declared it would switch to the exclusive use of RSPO-certified palm oil and palm kernel oil by 2013. Certification requires employing the Book & Claim system² as determined by the RSPO. Shiseido's declaration has been posted on the RSPO website.

2. A system for trading the output of palm oil and palm kernel oil produced at RSPO-certified plantations as certified credits. The system has the same structure as green electricity, which means that the purchase of certificates is recognized as the purchase of RSPO-certified oil.

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 2012, Shiseido's 140th year of business, we implemented numerous initiatives to support the reconstruction of the Tohoku region. Conducted as part of the Mirai Tsubaki Project encompassing social contribution activities to thank customers and society for supporting our progress, these initiatives included support through cosmetics and beauty and donations.

We as individuals will constantly consider activities that 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 (inputs) and environmental impact (outputs) determined through environmental accounting for the year ended March 2013.

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 possible extent and raise the environmental awareness of employees as it works to further promote environmental activities.

Environmental Performance Data

| Indicator | | Scope | Year ended March 2012 | Year ended March 2013 | |
|---------------------|--------------------------------------|---|---------------------------|-----------------------|--------|
| Japan | Inputs | Electric power (ten thousand kWh) | Production facilities | 3,425 | 3,104 |
| | | | Non-production facilities | 3,467 | 3,420 |
| | | City gas (ten thousand m ³) | Production facilities | 567 | 523 |
| | | | Non-production facilities | 103 | 85 |
| | | LPG (t) | Production facilities | 42 | 35 |
| | | | Non-production facilities | 0 | 0 |
| | Fuel (kl) | Production facilities | 1 | 1 | |
| | | Non-production facilities | 2,254 | 2,108 | |
| | Steam (GJ) | Non-production facilities | 10,489 | 9,794 | |
| | Water (ten thousand m ³) | Production facilities | 84 | 76 | |
| | | | | | |
| | Outputs | CO ₂ (t) ² | Production facilities | 24,815 | 26,099 |
| | | | Non-production facilities | 20,999 | 22,910 |
| | | SO _x (t) | Production facilities | 0 | 0 |
| | | NO _x (t) | Production facilities | 4 | 14 |
| | | Wastewater (ten thousand m ³) | Production facilities | 79 | 70 |
| | | | | | |
| BOD (t) | | Production facilities | 17 | 15 | |
| | | | | | |
| COD (t) | Production facilities | 29 | 28 | | |
| | | | | | |
| Waste (t) | Production facilities | 4,189 | 3,374 | | |
| | Non-production facilities | 1,247 | 1,333 | | |
| Recycling ratio (%) | Production facilities | 100 | 100 | | |
| Overseas | Inputs | Electric power (ten thousand kWh) | Production facilities | 4,110 | 4,063 |
| | | | Non-production facilities | 691 | 720 |
| | | City gas (ten thousand m ³) | Production facilities | 354 | 365 |
| | | | Non-production facilities | 24 | 19 |
| | | LPG (t) | Production facilities | 75 | 97 |
| | | | Non-production facilities | 0 | 0 |
| | Fuel (kl) | Production facilities | 60 | 77 | |
| | | Non-production facilities | 1,075 | 1,147 | |
| | Steam (t) | Production facilities | 4,006 | 4,248 | |
| | Water (ten thousand m ³) | Production facilities | 46 | 50 | |
| | | | | | |
| | Outputs | CO ₂ (t) ² | Production facilities | 25,158 | 21,782 |
| | | | Non-production facilities | 4,819 | 5,005 |
| Waste (t) | | Production facilities | 4,071 | 4,510 | |
| | | Non-production facilities | 671 | 799 | |
| Recycling ratio (%) | Production facilities | 80 | 83 | | |

Notes 1. Data for overseas non-production facilities includes major facilities only

2. The CO₂ equivalent of the total emissions of the six greenhouse gases (water vapor, CO₂, methane, nitrous oxide, ozone and chlorofluorocarbons)

Environmental Accounting

1. Environmental Conservation Costs

(Millions of yen)

| Category | Main initiatives | Investment | Expenses |
|--|--|------------|----------|
| (1) Cost breakdown by operation | | 360 | 281 |
| (1) - 1. Pollution prevention costs | Water contamination, atmospheric pollution, etc. | 21 | 68 |
| (1) - 2. Global environmental conservation costs | Promotion of energy conservation, measures to protect the ozone layer, etc. | 336 | 29 |
| (1) - 3. Resource recycling costs | Waste processing, recycling, wastewater re-use, material usage reduction, etc. | 3 | 184 |
| (2) Upstream and downstream costs | Costs associated with Recycling of Containers and Packaging Recycling Law, green procurement, product recycling, etc. | 0 | 289 |
| (3) Administrative costs | Personnel expenses (excluding R&D) for environmental management | 0 | 561 |
| (4) Research and development costs | R&D for environmentally friendly products, etc. (including personnel expenses) | 0 | 71 |
| (5) Social contribution costs | Environmental conservation activities of employees, including camellia tree-planting and conservation; support of environmental groups; disclosure of environmental information; environmental advertising, etc. | 0 | 45 |
| (6) Environmental remediation costs | Environmental remediation costs, etc. | 0 | 0 |
| (7) Other costs | | 0 | 0 |
| Total | | 360 | 1,247 |

2. Environmental Conservation Outcomes

(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. | 25 |
| Cost savings | From energy conservation | 87 |
| | Waste-related | 2 |
| | From resource conservation | 27 |
| | Other | 0 |
| Total | | 141 |

Environmental accounting period: April 1, 2012 - March 31, 2013
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 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.com/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 2012 | Year ended March 2013 | Scope | |
|----------------------------------|--|---|--|---------------------------------|-----------------------|---------|--------------------|
| Women and Cosmetics | SHISEIDO LIFE QUALITY BEAUTY PROGRAM | LIFE QUALITY BEAUTY CENTERS | Number of countries and regions (number of centers) (Note 1) | Countries and regions (centers) | 3 (5) | 3 (5) | Japan and overseas |
| | | | Number of users | Persons | 1,660 | 1,690 | Japan and overseas |
| | | LIFE QUALITY BEAUTY SEMINARS | Number of seminars held | Times | 2,864 | 2,206 | Japan and overseas |
| | | | Number of participants | Persons | 43,946 | 38,525 | Japan and overseas |
| | Number of Beauty Volunteers ¹ participating | | Persons | 2,697 | 1,533 | Japan | |
| | Activities for children | Shiseido Children's Seminar ² | Number of attendees (Note 2) | Persons | 1,432 | 1,241 | Japan |
| | | Parent and child skincare classes | Number of participants | Number of parent/child pairs | — | 90 (45) | Japan |
| | | Support for junior high school and high school girls in selecting science courses | Number of attendees | Persons | 1,562 | 1,369 | Japan |
| | | Shiseido Female Researcher Science Grant | Number of grant recipients | Persons | 10 | 10 | Japan |
| | | Shiseido Running Club | Number of running classes held | Times | 2 | 2 | Japan |
| | Number of lectures held outside the Company | | Times | 5 | 2 | Japan | |
| Culture | Shiseido Corporate Museum | Number of exhibits | Exhibits | 3 | 3 | Japan | |
| | Shiseido Gallery | | Exhibits | 5 | 5 | Japan | |
| | Shiseido Art House | | Exhibits | 4 | 4 | Japan | |
| Social Contribution by Employees | Shiseido Hanatsubaki Fund ³ | Monthly number of pledges (Note 3) | Pledges | 15,527 | 15,743 | Japan | |

1. Retired beauty consultants who provide activity support

2. Seminars that provide information to pre-adolescents on skin and hygiene and how to care for their changing skin correctly

3. 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.

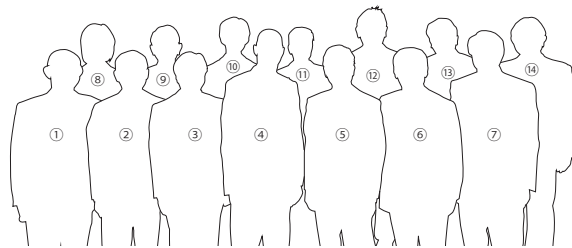
Personnel Data

| Indicator | Unit | Year ended March 2012 | Year ended March 2013 | Scope | Reference |
|--|---------|-----------------------|-----------------------|--|---|
| Number of employees | Persons | 46,267 | 47,099 | Group employees in Japan and overseas (including fixed-term contract employees) ⁴ | Number of fixed-term contract employees is average for the year. |
| Average age | Years | 39.0 | 39.6 | Group employees in Japan (excluding fixed-term contract employees) | |
| Average years of service | Years | 15.3 | 15.8 | Group employees in Japan (excluding fixed-term contract employees) | |
| Hours worked (total hours worked annually per employee) | Hours | 1,813.5 | 1,813.4 | Group employees in Japan (excluding managers and fixed-term contract employees) | Scheduled working hours Year ended March 2012: 1,852.5 hours Year ended March 2013: 1,844.5 hours |
| Ratio of female employees | % | 82.9 | 83.0 | Group employees in Japan (including fixed-term contract employees) | |
| Ratio of female managers | % | 22.9 | 25.6 | Group employees in Japan | Managers with subordinates |
| Employees rehired after retirement | Persons | 181 | 255 | Group employees in Japan | |
| Ratio of physically and developmentally challenged employees | % | 1.90 | 1.90 | Group employees in Japan | |
| Employees taking nursing care leave | Persons | 24 | 27 | Group employees in Japan (including fixed-term contract employees) | |
| Employees taking time off for nursing care | Persons | 18 | 14 | Group employees in Japan (including fixed-term contract employees) | |
| Employees taking childcare leave | Persons | 1,321 | 1,375 | Group employees in Japan (including fixed-term contract employees) | Including data for short-term childcare leave program |
| Employees taking time off for childcare | Persons | 1,681 | 1,720 | Group employees in Japan (including fixed-term contract employees) | |
| Kangaroo Staff ⁵ | Persons | 1,534 | 1,596 | Group employees in Japan | A system of Shiseido Sales Co., Ltd. |

4. Data for Group employees in Japan as of April 1, 2013

5. Staff who 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



⑧ **Eiko Tsujiyama**
External Audit & Supervisory Board Member

⑨ **Akio Harada**
External Audit & Supervisory Board Member

⑩ **Yasuko Takayama**
Audit & Supervisory Board Member

⑪ **Taeko Nagai**
External Director

⑫ **Shoichiro Iwata**
External Director

⑬ **Tatsuo Uemura**
External Director

⑭ **Toshio Yoneyama**
Audit & Supervisory Board Member

① **Nobuo Otsuka**
External Audit & Supervisory Board Member

② **Yoshinori Nishimura**
Director, Corporate Officer

③ **Tooru Sakai**
Director, Corporate Executive Officer

④ **Carsten Fischer**
Representative Director, Corporate Senior Executive Officer

⑤ **Shinzo Maeda**
Representative Director, Chairman of the Board, President & CEO

⑥ **Yu Okazawa**
Director, Corporate Executive Officer

⑦ **Tatsuomi Takamori**
Director, Corporate Executive Officer

Board of Directors, Audit & Supervisory Board Members and Corporate Officers (As of June 25, 2013)

Directors



Shinzo Maeda

(Date of birth: February 25, 1947)

Representative Director, Chairman of the Board, President & CEO

Chairman of CSR Committee

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]

2013 President & CEO [incumbent], Chairman of CSR Committee [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], Chairman & CEO of Shiseido America, Inc. [incumbent], Chairman of Zotos International, Inc. [incumbent], Responsible for Americas [incumbent]

2012 Representative Director [incumbent]



Yu Okazawa¹

(Date of birth: May 18, 1957)

Director, Corporate Executive Officer

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

1981 Joined Shiseido

2001 President of Shiseido Deutschland GmbH

2006 General Manager of European Department, International Business Division, and General Manager of Russia Strategic Planning Group

2007 General Manager of European Department, International Business Division
General Manager of Global Sales Department, International Business Division

2009 General Manager of International Sales Department, International Business Division

2010 Corporate Officer

2012 Corporate Executive Officer [incumbent], Responsible for Asian Breakthrough Strategy [incumbent], Chief Officer of China Business Division [incumbent], General Manager of Asia Pacific Sales Department [incumbent], Chairman of Shiseido China Co., Ltd. [incumbent], Chairman of Shiseido Liyuan Cosmetics Co., Ltd. [incumbent], Chairman of Shanghai Zotos Citic Cosmetics Co., Ltd. [incumbent]

2013 Director [incumbent]



Tooru Sakai¹

(Date of birth: October 16, 1956)

Director, Corporate Executive Officer

Responsible for Domestic Cosmetics Business, Business Strategies

1982 Joined Shiseido

2008 General Manager of Purchasing Department

2010 Corporate Officer, Responsible for Production, Purchasing and Logistics

2012 General Manager of Corporate Planning Department

2013 Corporate Executive Officer [incumbent], Responsible for Domestic Cosmetics Business, Business Strategies [incumbent], Director [incumbent]



Tatsuomi Takamori

(Date of birth: July 7, 1952)

Director, Corporate Executive Officer

Responsible for Domestic Cosmetics Business
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 [incumbent], Responsible for clé de peau BEAUTÉ Marketing Unit [incumbent] and Chief Officer of Domestic Cosmetics Business Division [incumbent]

2012 Responsible for Domestic Cosmetics Business, Business Strategies

2013 Responsible for Domestic Cosmetics Business, Business Strategies



Yoshinori Nishimura

(Date of birth: June 28, 1955)

Director, Corporate Officer

Chief Financial Officer
Responsible for Finance, Investor Relations and 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

Chairman of Remuneration Advisory Committee

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 [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

2010 Outside Director of Mitsui Chemicals, Inc. [incumbent]

2011 External Director of Shiseido [incumbent]

2013 President of Setagaya Arts Foundation [incumbent]



Tatsuo Uemura²

(Date of birth: April 19, 1948)

External Director

Chairman of Nomination Advisory Committee

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

2004 External Director, Jasdaq Securities Exchange, Inc.

2006 External Director of Shiseido [incumbent],
Chairman of Nomination Advisory Committee [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, clé de peau BEAUTÉ Global Unit, Healthcare Business and Domestic Non-Shiseido Brand Businesses

Takahiro Hayashi¹

Responsible for General Affairs, Legal Affairs, Executive Affairs and Public Relations
President of Shiseido ParLOUR, Co., Ltd.

Kiyoshi Ishimoto

Responsible for Supply Chain
(Production, Purchasing and Logistics)

Tsunehiko Iwai

Responsible for Technical Planning, Quality Management, Pharmaceuticals Affairs, CSR, Environmental Affairs and Frontier Science Business

Hiroshi Maruyama¹

Responsible for International Business
(International Business Strategy and Marketing)
General Manager of International Business Planning Department

Shigeto Ohtsuki

Responsible for Personnel and Corporate Culture Reforms
General Manager of Personnel Department

Director retired as of March 31, 2013: Representative Director, President & CEO Hisayuki Suekawa

Corporate officers retired as of March 31, 2013: Michiko Achilles, Kozo Hanada, Asa Kimura and Mitsuo Takashige

Audit & Supervisory Board Members



Yasuko Takayama

(Date of birth: March 8, 1958)

Audit & Supervisory Board Member

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 Audit & Supervisory Board Member [incumbent]



Toshio Yoneyama

(Date of birth: September 26, 1951)

Audit & Supervisory Board Member

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 Audit & Supervisory Board Member [incumbent]



Akio Harada²

(Date of birth: November 3, 1939)

External Audit & Supervisory Board Member

2001 Prosecutor General
 2005 External Audit & Supervisory Board Member of Shiseido [incumbent]
 External Corporate Auditor of Sumitomo Corporation
 External Director of Seiko Holdings Corporation [incumbent]
 2009 External Director of Japan Post Holdings Co., Ltd.
 2010 External Director of Turnaround Initiative Corporation of Japan
 2013 Outsider Director of Sumitomo Corporation [incumbent]



Nobuo Otsuka²

(Date of birth: January 10, 1942)

External Audit & Supervisory Board Member

1988 President and Director of Keiseikai Hospital
 2007 External Audit & Supervisory Board Member of Shiseido [incumbent]
 2010 Chairman of Keiseikai Hospital [incumbent]



Eiko Tsujiyama²

(Date of birth: December 11, 1947)

External Audit & Supervisory Board Member

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
 2011 Outside Corporate Auditor of LAWSON, INC. [incumbent]
 Outside Corporate Auditor of NTT DOCOMO, INC. [incumbent]
 2012 External Audit & Supervisory Board Member of Shiseido [incumbent]

Chikako Sekine

Responsible for Beauty Creation and Consumer Information
 General Manager of Beauty Consultation Planning Department

Youichi Shimatani

Responsible for Research & Development (Cosmetics and Innovative Science)

Shigekazu Sugiyama

Responsible for Advertising Creation and Corporate Culture

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/Audit & Supervisory Board Member 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

Reason for Choosing a Hybrid Audit & Supervisory Board Structure

Shiseido has selected the framework of a company with an Audit & Supervisory Board structure with double check functions for business execution: supervision by the Board of Directors and audits of legality and adequacy by the Audit & Supervisory Board.

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.

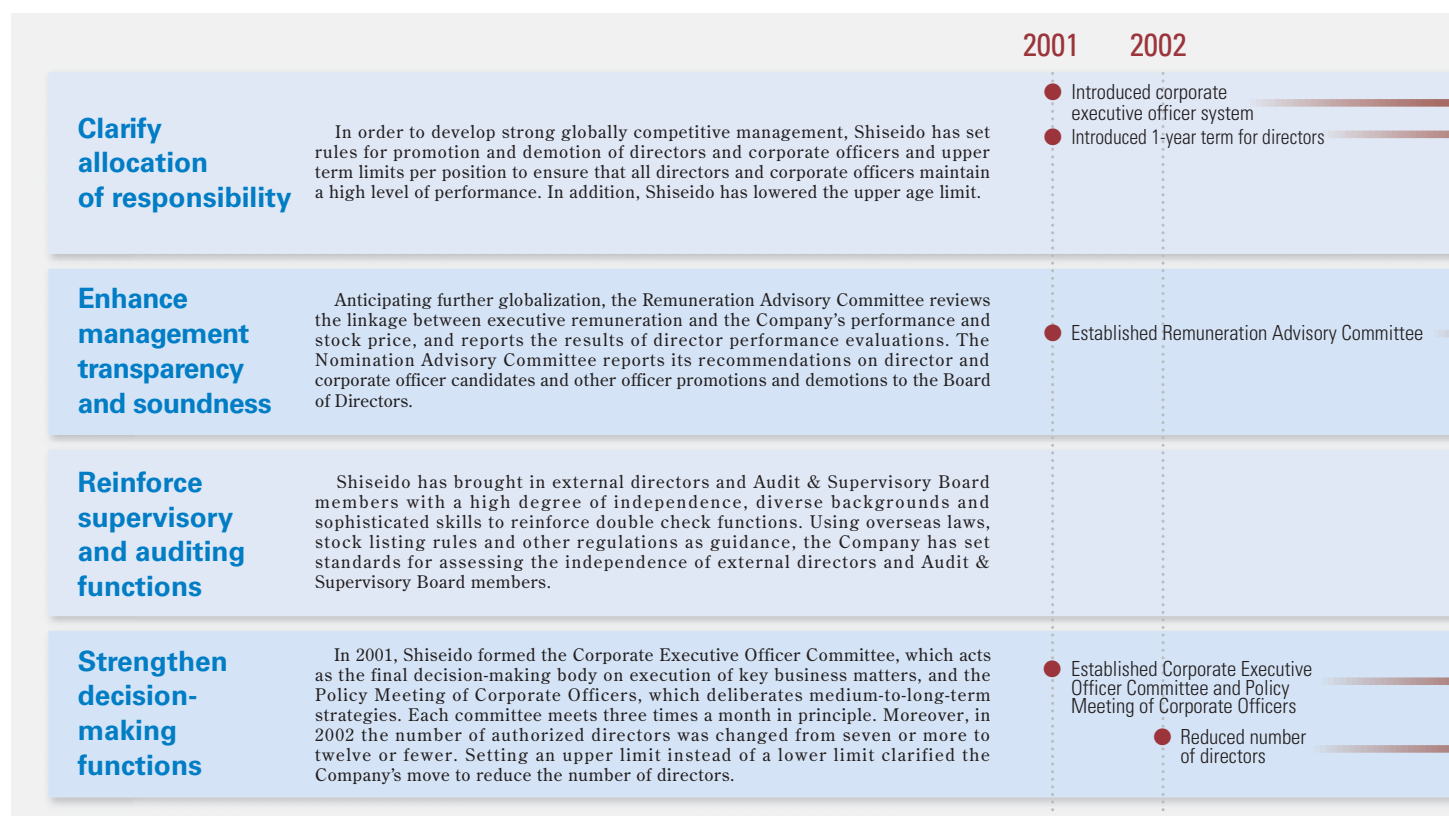
Shiseido has strengthened these functions by establishing committees and a corporate executive officer system to create a hybrid structure that integrates these outstanding features of a company with committees based on the Audit & Supervisory Board structure.

Board of Directors

The Board of Directors is composed of nine members, including three external directors. The small number of members facilitates rapid decision making. The Board of Directors meets at least once a month to discuss all significant matters. Fifteen Board of Directors' meetings were held in the year ended March 2013.

Board of Directors meetings are attended by the five Audit & Supervisory Board members, including three from outside the Company, in addition to the nine directors. The external directors

Progress of Shiseido's Corporate Governance Policy



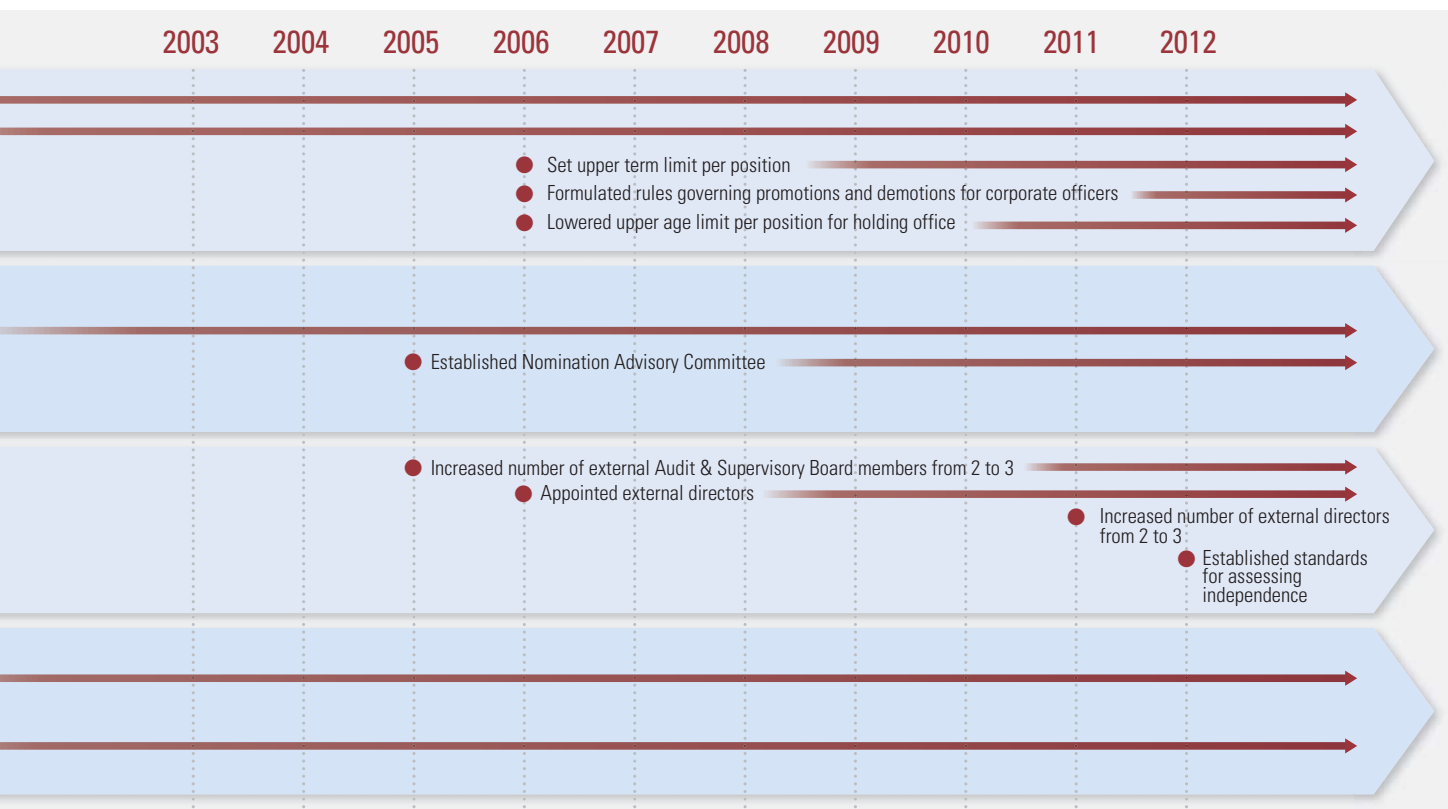
and Audit & Supervisory Board members check the decisions made at Board of Directors' meetings to ensure that all necessary information has been heard, issues have been discussed thoroughly, and the decisions made are objective and rational.

■ Philosophy behind the Selection of Members of the Board of Directors

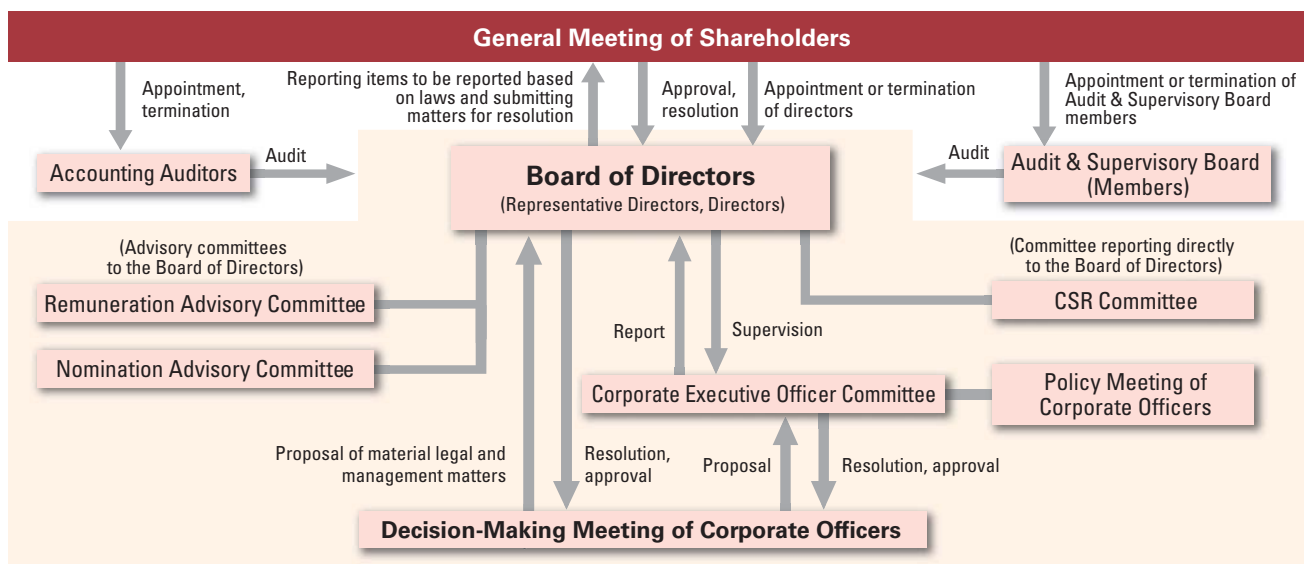
Shiseido believes that its Board of Directors should comprise members with various viewpoints and backgrounds, on top of diverse and sophisticated skills, for effective supervision of business execution as well as decision-making on critical matters. The Company expects members of the Board of Directors and Audit & Supervisory Board to perform double check functions: supervision by the Board of Directors and audits by the Audit & Supervisory Board. To enable them to perform these functions more effectively, Shiseido believes that having external members is important not only on the Audit & Supervisory Board, which is legally required to include external members, but also among directors with voting rights, and that a high degree of independence is a critical requirement in both capacities. 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 its own Standards for Assessing the Independence of External Directors and Audit & Supervisory Board Members* to objectively judge the independence of external directors and Audit & Supervisory Board members. Based on these standards, Shiseido has designated three external directors as independent directors and three external Audit & Supervisory Board members as independent members pursuant to the Tokyo Stock Exchange's Securities Listing Regulations. Furthermore, diversity of the members of the Board of Directors is essential in decision-making on critical matters. In this respect, women's values and ideas are of particular importance to Shiseido as a cosmetics manufacturer, and female representation on the Board of Directors is considered vital. As of June 30, 2013, seven, or 50 percent of the 14 members of the Board of Directors and the Audit & Supervisory Board have built careers outside of Shiseido; three, or 21 percent, are women; and one, or 7 percent, is a foreign national.

* See page 71 for the detailed Standards for Assessing the Independence of External Directors and Audit & Supervisory Board Members.



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



Execution Structure

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 several times each year to discuss the medium-to-long-term strategy of Shiseido and its consolidated subsidiaries (the "Shiseido Group") and determine its direction.

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

Audit Structure

Shiseido's Audit & Supervisory Board consists of two full-time members and three external members. Audit & Supervisory Board members 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. In conducting audits, full-time Audit & Supervisory Board members use their advantage as auditors who were originally employees of the Company and are well

acquainted with its internal operations.

Representative directors and Audit & Supervisory Board members meet regularly to exchange opinions and resolve corporate governance issues. Shiseido maintains a framework to ensure that Audit & Supervisory Board members 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. Audit & Supervisory Board member attendance for the 13 Audit & Supervisory Board meetings held in the year ended March 2013 was 100 percent. Attendance at Board of Directors meetings was 100 percent for three members, and 91.6 percent and 86.6 percent for the other two members, respectively.

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 Audit & Supervisory Board.

Shiseido employs three types of audits: internal audits, audits by the Audit & Supervisory Board members, 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.

Standards for Assessing the Independence of External Directors and Audit & Supervisory Board Members

Shiseido Company, Limited ("the Company") judges external directors and external Audit & Supervisory Board members (collectively, "external board members") or external board member 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 board member, or external board member 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 Audit & Supervisory Board member, 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 percent 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 board member 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 Audit & Supervisory Board member.
 - 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 board member or board member candidate of the Company is currently serving as an executive, external director, Audit & Supervisory Board member, or in a position equivalent thereto, of another domestic or overseas company, an executive, external director or Audit & Supervisory Board member (excluding the external board member or external board member 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, Audit & Supervisory Board member (including external member), executive officer, or in a position equivalent thereto, at the same company.
 - 2) If an external board member or external board member candidate of the Company currently executes business for or is a board member, or in a position equivalent to board member, of a corporate entity (excluding companies) or other organization outside the Company, a person who executes business for or who is an external director, Audit & Supervisory Board member (excluding the external board member or external board member candidate himself/herself), or in a position thereto, of the Shiseido Group is also serving as director or Audit & Supervisory Board member, 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 board member.
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 standards are provided in detail in the notes, which are available under Notice of Convocation: the 113th Ordinary General Meeting of Shareholders in the IR section of the Shiseido Group corporate website (<http://group.shiseido.com/ir/shareholder/e1306shm/html/index.html>).

Committees

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

Remuneration to Directors, Corporate Officers and Audit & Supervisory Board Members

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.

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 final year targets of the Three-Year Plan that commenced in the year ended March 2012, and stock options as a 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 the Company's performance 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, 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 to the right. The Chairman of the Board, who does not concurrently serve as a corporate officer, does not receive a bonus. Furthermore, a separate remuneration system more closely linked to performance is applied to Representative 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.

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

Committees and Their Members

► Advisory Committees to the Board of Directors

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

Convened three times in the year ended March 2013. Activities included analyzing trends in executive compensation for companies in general in the year ended March 2012, and reviewing bonuses for Shiseido directors.

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

Convened twice in the year ended March 2013. Developed a proposed executive framework comprising directors, Audit & Supervisory Board members and corporate officers. With respect to the appointment of the President, a special working group established by the committee chair deliberated the matter and reported to the Nomination Advisory Committee.

► Committee Reporting Directly to the Board of Directors

| CSR Committee | |
|---------------|--|
| [Chair] | Shinzo Maeda, Representative Director, Chairman of the Board, 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, Chief Officer of Domestic Cosmetics Business Division |
| | Yoshinori Nishimura, Director, Corporate Officer, Chief Financial Officer, Responsible for Finance, Investor Relations and Information System Planning, Responsible for Internal Control |
| | Taeko Nagai, External Director |
| | Tsunehiko Iwai, Corporate Officer, Responsible for Technical Planning, Quality Management, Pharmaceuticals Affairs, CSR, Environmental Affairs and Frontier Science Business |
| | Shigeto Ohtsuki, Corporate Officer, Responsible for Personnel and Corporate Culture Reforms, General Manager of Personnel Department and Member of CSR Committee |
| | Norio Tadakawa, General Manager of Corporate Planning Department |
| | Hajime Akatsuka, Chairman of the Central Executive Committee, Shiseido Labor Union |
| | Mariko Kawaguchi, External Member, Senior Researcher, Daiwa Institute of Research |
| [Observer] | Yasuko Takayama, Full-time Audit & Supervisory Board Member |

Convened three times in the year ended March 2013. Deliberated matters such as future environmental activities and risk management.

nature of auditing, Audit & Supervisory Board members receive basic fixed remuneration only, to eliminate linkage with performance.

Basic fixed remuneration for directors and Audit & Supervisory Board members is within the monthly remuneration limits decided by the General Meeting of Shareholders; performance-linked remuneration, including the short-term

incentive bonus, 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.

The Company sets appropriate remuneration levels by making comparisons with companies in the same industry or of the same scale taking the Company's performance into consideration.

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 Audit & Supervisory Board Members for the Year Ended March 2013

(Millions of yen)

| | Basic | Short-Term Incentive Bonus | Medium-Term Incentive Remuneration | Long-Term Incentive Stock Options | Total |
|---|-------|----------------------------|------------------------------------|-----------------------------------|-------|
| Directors (9 people) | 233 | — | — | 142 | 376 |
| External directors (3 of the 9) | 39 | — | — | — | 39 |
| Audit & Supervisory Board members (6 people) | 96 | — | — | — | 96 |
| External Audit & Supervisory Board members (4 of the 6) | 36 | — | — | — | 36 |
| Total | 329 | — | — | 142 | 472 |

Notes:

- Basic fixed 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 fixed remuneration for Audit & Supervisory Board members 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.
- In part because the Company recorded a net loss for the year ended March 2013, no bonus is payable to directors for the year. (Please refer to "Partial Change in Remuneration for Directors for the Year Ended March 2013" and "Partial Change in Remuneration for Directors for the Year Ending March 2014" on page 74.)
- The medium-term incentive remuneration for the three years of the Three-Year Plan will be paid in a lump-sum payment after the end of the final year of the plan according to the extent to which the performance targets were achieved. No payment was made in the year ended March 2013 as it was the second year of the Three-Year Plan.

4. Long-term incentive remuneration (stock options) represents the total amount recorded in the year ended March 2013 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.
5. The above payment includes the amounts of the following remuneration paid to directors and Audit & Supervisory Board members.
 - 1) Remuneration to one retired director
The Company paid ¥6 million in basic fixed remuneration for the months April through June 2012 to one director who retired at the conclusion of the 112th Ordinary General Meeting of Shareholders held on June 26, 2012 and recorded ¥8 million for the year ended March 2013 as expenses associated with stock options granted to said director.
 - 2) Remuneration to one retired external Audit & Supervisory Board member
The Company paid ¥3 million in basic fixed remuneration for the months April through June 2012 to one external Audit & Supervisory Board member who retired at the conclusion of the 112th Ordinary General Meeting of Shareholders held on June 26, 2012.
6. The following remuneration will be paid in addition to the above payments.
 - 1) ¥2 million was recorded for the year ended March 2013 as expenses associated with stock options granted to one director of the Company, at the time the director served as corporate officer not holding the office of director.
 - 2) Four subsidiaries of the Company paid ¥31 million as basic fixed remuneration for the year ended March 2013 to one director of said subsidiaries who also served concurrently as a director of the Company.
7. In the year ended March 2013, ¥107 million was paid as bonuses for the year ended March 2012 to four directors, excluding external directors, as well as the Chairman of the Board, who was not serving concurrently as corporate officer, and thus was not directly engaged in the execution of business. (This payment was based on the resolution at the 112th Ordinary General Meeting of Shareholders held on June 26, 2012).
8. None of the directors or the Audit & Supervisory Board members will be paid remuneration other than the executive remuneration described above in notes 1 through 7.

Remuneration by Type to Representative Directors and Directors Whose Total Remuneration Exceeded ¥100 Million for the Year Ended March 2013

(Millions of yen)

| | Basic | Short-Term Incentive Bonus | Medium-Term Incentive Remuneration | Long-Term Incentive Stock Options | Total |
|---|-------|----------------------------|------------------------------------|-----------------------------------|-------|
| Shinzo Maeda Representative Director | 49 | — | — | 32 | 81 |
| Hisayuki Suekawa Representative Director | 46 | — | — | 70 | 117 |
| Carsten Fischer Representative Director | 51 | — | — | 19 | 71 |

Notes:

1. Under the remuneration system for directors and Audit & Supervisory Board members of the Company, bonuses for directors linked to annual business results are not payable to directors who do not directly engage in execution of Company business. Consequently, no bonus for the year ended March 2013 is payable to Representative Director Shinzo Maeda, who served as Chairman of the Board not serving as corporate officer, and thus did not directly engage in execution of company business. Meanwhile, bonuses for directors are not payable to Representative Directors Hisayuki Suekawa and Carsten Fischer for the year ended March 2013 because the Company recorded a consolidated net loss for the year.
2. Medium-term incentive remuneration and long-term incentive remuneration (stock options) are as stated in notes 3 and 4 under "Remuneration to Directors and Audit & Supervisory Board members for the Year Ended March 2013" above.
3. In addition to the above payments, four subsidiaries of the Company paid a total of ¥31 million as basic fixed remuneration for the year ended March 2013 to Representative Director Carsten Fischer, who served concurrently as a director of said subsidiaries.
4. In the year ended March 2013, ¥31 million was paid to Representative Director Hisayuki Suekawa and ¥47 million was paid to Representative Director Carsten Fischer as the aforementioned bonuses for directors for their services in the fiscal year ended March 2012. (This payment was based on the resolution at the 112th Ordinary General Meeting of Shareholders held on June 26, 2012).
5. None of the three directors above will be paid remuneration other than the remuneration described above in notes 1 through 4.

■ Partial Change in Remuneration for Directors for the Year Ended March 2013

Under the Company's director remuneration system, in the event of consolidated net loss, the portion of the bonuses for directors linked to consolidated results (degree of achievement of net sales, operating margin and net income targets) as well as the operating results of the business segment under the control of each director for the period shall, in principle, be reduced to nil. As the Company recorded a consolidated net loss for the year ended March 2013, the portion of bonuses linked to the consolidated results and operating results of the business segment under the control of each director was reduced to nil accordingly. Furthermore, three directors vol-

untarily declined the payment of the portion of bonus calculated based on personal performance evaluation, despite their entitlement thereto, which was accepted by the Company. As a result, such performance-linked portion will not be paid, and thus no bonus will be paid to these directors for their services in the year ended March 2013.

■ Partial Change in Remuneration for Directors for the Year Ending March 2014

Under the Company's remuneration system for directors and Audit & Supervisory Board members, remuneration is set at an amount commensurate with the level of net sales, profit and financial indicators of the Company by making comparisons

with Japanese peers in the same or similar sector with a significant percentage of overseas sales. For the year ending March 2014, Shiseido has lowered the business performance targets in the current Three-Year Plan from the initial level, and took the serious step of deciding to reduce the dividend. Shiseido has therefore decided to reduce bonuses as well as long-term incentive remuneration for eligible directors.

The method of calculating bonuses will be redesigned so that the amount payable at a target achievement level of 100 percent shall be equal to 60 percent of the amount payable to representative directors and 80 percent of the amount payable to other directors under the original method.

In long-term incentive remuneration, the amount of remuneration offered in the form of stock acquisition rights allotted as stock options shall be changed to 60 percent of the amount offered to representative directors and 80 percent of the amount offered to other directors under the previous method.

In addition, bonuses and long-term incentive remuneration for corporate officers not serving as directors shall be reduced in the same way as those for directors other than representative directors.

The basic fixed remuneration of Representative Director, Chairman of the Board, President & CEO Shinzo Maeda will be reduced by ¥6 million.

Compliance

Shiseido has 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.

The CSR Committee, which reports directly to the Board of Directors, 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



Shiseido regularly holds business ethics training.

report the 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.

Dialogue with Shareholders and Investors

Shiseido is committed to timely and appropriate disclosure. The Company emphasizes dialogue with shareholders and investors to maintain accountability and work to increase corporate value by incorporating their opinions in management.

Shiseido views the General Meeting of Shareholders as an opportunity to fulfill its accountability to shareholders and discuss its position as a company with employees, business partners, society and customers. At the general meeting, the Company sincerely listens to the opinions of shareholders and strives to give considerate explanations and responses. In addition, the Company provides proactive disclosure in the Notice of Convocation, and exchanges opinions on governance with shareholders throughout the year.

The President & Chief Executive Officer leads meetings for institutional investors twice a year to present first-half and full year results, while members of the Investor Relations Department hold teleconferences to discuss first and third-quarter results, as well as business briefings. 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 2013, 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 (or the Chief Financial Officer) participates in meetings held by securities companies 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 collects the valued opinions and comments of shareholders from telephone and e-mail inquiries. The Company uses the results for purposes such as improving the General Meeting of Shareholders and disclosure materials. Furthermore, the Company holds Investors' 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 (or the Chief Financial Officer) 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 • Responses to shareholder inquiries by telephone and email |
| 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 domestic and overseas institutional investors, exchange of views on ESG, ESG evaluation organizations and asset owners • Business briefings |
| 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/Audit & Supervisory Board Member • 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"> • Gathering of internal feedback on <i>IR Report</i>, which analyzes investor opinions concerning management and reports on management issues • Internal communication meetings to convey investor evaluations of Shiseido to employees |

Risk Management (CSR Management and Business Continuity Plan)

Basic Policy

Aiming to earn and maintain the trust of stakeholders, Shiseido has developed the unique CSR Action management tool for defining tasks and risks. We look at risk from three perspectives: social requirements, risks Shiseido cannot or will not address, and risks Shiseido should address. This helps ensure that we do not overlook important issues.

Promoting CSR Action

In accordance with Our Way, Global Reporting Initiative (GRI) guidelines and ISO26000, Shiseido uses CSR Action as a CSR management tool to classify issues and risks based on survey results and other information obtained from institutions involved in socially responsible investing into categories such as Organizational Governance, Human Rights, Labor Practices, Environment, Fair Business Practices, Consumer Issues, and Community Participation and Development. We break these down into more detailed categories and scrutinize each one in terms of the Plan-Do-Check-Act cycle. 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 evaluated based on dialogue with multiple stakeholders.

During the year ended March 2013, the CSR Committee discussed matters including CSR Action results and items for

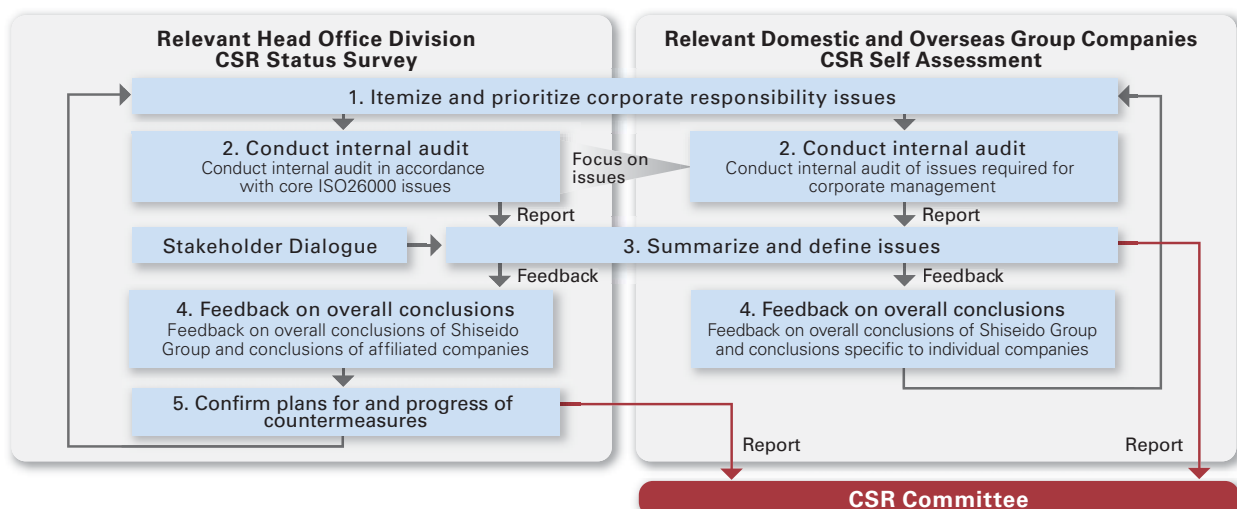
review, the framework for dealing with risk, and future environmental activities. These matters were subsequently reported to the Board of Directors. Shiseido will constantly ascertain society's perspective and operational exposure in working to respond to risks quickly and appropriately.

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 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 classifies disasters and risks into two distinct categories and has formulated representative BCPs for them: the Earthquake Response BCP for those that cause sudden damage, and the Infectious Disease Response BCP for those that cause incremental damage over the long term. Shiseido will take risk characteristics into account and apply one of these BCP categories if business continuity risk other than that associated with earthquakes and infectious diseases materializes.





















When the Great East Japan Earthquake struck in March 2011, we established the Headquarters for Emergency Disaster Response at the head office based on our Earthquake Response BCP to respond rapidly in coordination with the Area Headquarters for Disaster Response overseeing the disaster area.

CSR Action



Brand/Line Overview

Brands and Lines by Category

| | | Brand/Line | Main Product Category | |
|--|------------------------------|---|--|---------------------|
| Global Mega-Brands | Prestige |  SHISEIDO | Global SHISEIDO | |
| | |  clé de peau BEAUTÉ | Skincare and makeup | |
| | | bareMinerals | bareMinerals | Skincare and makeup |
| | Masstige |  Za | Za | Skincare and makeup |
| | |  専科 あなたとつくる スキンケア | SENKA | Skincare |
| | |  TSUBAKI | TSUBAKI | Haircare |
| Domestic Cosmetics Business | Counseling cosmetics |  ELIXIR SUPERIEUR | ELIXIR SUPERIEUR | |
| | |  MAQUILLAGE | MAQUILLAGE | |
| | |  BENEFIQUE | BENEFIQUE | |
| | Self-selection cosmetics |  AQUALABEL | AQUALABEL | |
| | |  INTEGRATE | INTEGRATE | |
| | Toiletries |  SEA BREEZE | SEA BREEZE | |
| | Healthcare Business Division |  SHISEIDO The Collagen | The Collagen | |
| | Non-Shiseido |  IPSA | IPSA | |
|  ettusais | | ettusais | | |
| Global Business | China | AUPRES | AUPRES | |
| | |  urara 悠莱 | urara | |
| | |  PURE&MILD 泊美 | PURE&MILD | |
| | Non-Shiseido |  NARS | NARS | |
| | |  BEAUTE PRESTIGE INTERNATIONAL | ISSEY MIYAKE Jean Paul Gaultier narciso rodriguez ELIE SAAB | |
| | Professional |  CARITA | CARITA | |
| | |  SHISEIDO PROFESSIONAL THE HAIR CARE | THE HAIR CARE | |

1. Japan and China only 2. Japan only 3. Hong Kong only 4. Stores selling a variety of products including cosmetics and beauty goods

Main Regions of Availability: Japan: **J** China: **C** Other Asian countries: **A** Americas: **U** Europe: **E**

| | Main Sales Channels | | | | | Main Regions of Availability | Price Point | | |
|--|------------------------|--------------------|-------------------------|---|--|------------------------------|-------------|---------------|---------|
| | Voluntary Chain Stores | Department Stores | Drugstores ² | General Merchandise Stores ² | Other | | ≤¥2,000 | ¥2,001–¥5,000 | ≥¥5,001 |
| | | ● | | | Travel retail | J C A U E | | | |
| | ● | ● | | ● | Travel retail | J C A U E | | | |
| | | ● | | | Direct marketing (Overseas) Perfumeries, directly managed stores | J C³ A U E | | | |
| | | ● Only overseas | | | Variety stores, ⁴ drugstores, hypermarkets ⁵ | J C A | | | |
| | | | ● | ● | (Overseas) Drugstores, hypermarkets (Japan) Convenience stores | J C³ A | | | |
| | | | ● | ● | (Overseas) Perfumeries, drugstores, hypermarkets | J C A E | | | |
| | ● | ● | ● | ● | | J C A U | | | |
| | ● | ● | ● | ● | | J C A | | | |
| | ● | | | | | J A | | | |
| | | | ● | ● | | J C A | | | |
| | | | ● | ● | (Japan) Convenience stores | J A | | | |
| | | | ● | ● | (Japan) Convenience stores | J A | | | |
| | | | ● | ● | | J | | | |
| | | ● | | | | J C A | | | |
| | | | | | Variety stores | J C³ A | | | |
| | | ● | | | | C | | | |
| | ● | | | | | C | | | |
| | ● | ● | | | Drugstores, hypermarkets | C | | | |
| | | ● | | | (Overseas) Perfumeries, specialty stores | J C³ A U E | | | |
| | | ● | | | Perfumeries, travel retail | J C A U E | | | |
| | | ● | | | Perfumeries, spas, esthetic salons, hair salons | J A U E | | | |
| | | | | | Hair salons | J C A | | | |

5. Large-scale suburban supermarkets

An Introduction to Shiseido's Brands and Lines

Global Mega-Brands

The Global Brand *SHISEIDO*

Shiseido's full-line flagship brand. Available primarily in the prestige market in 89 countries and regions, this brand encompasses the three core values of richness, human science and *omotenashi* (hospitality). The global brand *SHISEIDO* includes the premium skincare line *SHISEIDO FUTURE SOLUTION LX* and the high-performance skincare line *SHISEIDO BIO-PERFORMANCE*.



clé de peau BEAUTÉ

Launched as the Shiseido Group's top-end skincare and makeup brand. French for "key to the skin," the brand name suggests that it unlocks the door to a new world of beauty. Available in 12 countries and regions including Japan, the brand generates the largest share of Domestic Cosmetics Division sales under the concept of radiant joy.



bareMinerals

The core Bare Escentuals brand launched in 1995. The pioneer mineral foundation that contains no preservatives or fragrances, it is the undisputed leader of the U.S. mineral foundation market. Strong in the direct marketing channel, it is also sold in the over-the-counter retail channel and is available in about 30 countries worldwide.



Za

Launched in 1997 as a reasonably priced full-line skincare and makeup brand with high-quality, multifunctional products for women in their 20s in evolving Asia. Now available in nine countries and regions including China and Hong Kong, Taiwan, Thailand, Vietnam and Japan, it is a masstige brand primarily sold in drugstores and hypermarkets.



SENKA

A skincare brand sold as single high-performance items in the low-priced market in Japan and the masstige market in Asia. Headlined as "The skincare made with you," the *SENKA* lineup has expanded since the brand's launch in 2010 to include cleansing, moisturizing, skin-brightening and UV care series. Currently available in six countries and regions in Asia, including Japan.



TSUBAKI

A brand for beautiful haircare with a total of more than 270 million units shipped as of January 2013 since its launch in March 2006. Substantially innovated in 2013, the brand encompasses three lines: Shining, Damage Care and Head Spa. Now sold in 11 countries and regions around the world, including Japan and China.



Domestic Cosmetics Business

ELIXIR SUPERIEUR

A skincare line that emphasizes total defense against damage factors for women who wish to feel resilience every day without aging stress. This line celebrated its 30th anniversary in 2013, reaching cumulative sales of 540 million units as of March 2013.



MAQuillage

Launched in 2005 as a total makeup line dedicated to women in their late 20s and early 30s. Reflecting the changing values, lifestyles and aesthetics of modern women, in 2012, Shiseido repositioned *MAQuillage* as a makeup line that brings out the essence of each woman's beauty. A top line in the fiercely competitive Japanese mid-price market, it is sold in nine countries and regions in Asia, including Japan.



BENEFIQUE

Launched in 1996 as a voluntary chain store line. An aging care line for all women who feel their skin has issues and needs rejuvenation, *BENEFIQUE* offers a broad lineup that includes skincare, esthetic, makeup, haircare, body care and supplement care products.



AQUALABEL

A "high-density moisture" line launched in 2006 for women in their 30s and beyond with busy professional and personal lives. Offers the Aging Care Skin-Brightening and Moisturizing series. Now available in seven countries and regions in Asia, including Japan.



INTEGRATE

A self-selection makeup line for highlighting adult beauty with a playfulness targeting women in their 20s and 30s. Launched in 2006, the line was renewed in 2010. *Killer Wink Gel Liner*, which launched in 2011, joined mineral foundation as a core item by capturing the top share of the self-selection eyeliner product market in the year ended March 2013.



SEA BREEZE

Shiseido acquired the *SEA BREEZE* line in 2000 and began selling it in 2001. Currently widely popular among younger customers. This total body care line comprises sunscreens, deodorants, lotions, haircare products and body shampoos. It uses blends of naturally active ingredients such as mint oil, eucalyptus oil and camphor.



The Collagen

A patented beauty food for women who seek total beauty from inside the body (beauty formulation ingredient patent number 3308433). A unique formulation of low-molecular-weight collagen, eucommia leaf extract, ginseng, pearl barley and other ingredients. Since 2009, sold as drinks, tablets and other formulations in three lines: *The Collagen*, *The Collagen EX* and *The Collagen Enriched*.



IPSA

Not marketed under the Shiseido name, *IPSA* was launched in 1987. This brand seeks to bring out each customer's beauty with personalized "recipes," or beauty regimens created in collaboration with customers through counseling. Now sold in four countries and regions, including Japan.



ettusais

A non-Shiseido brand launched in 1992, *ettusais* is a cosmetics brand for women in their late teens and 20s. With a name that is French for "Hey, do you know?", the brand has a unique perspective that makes users want to tell others about it. Now sold in five countries and regions, including Japan.



Global Business

AUPRES

Launched exclusively for department stores in China in 1994, this brand incorporates Shiseido's many years of research on topics such as climate and the skin of Chinese women. *AUPRES* is widely favored as a national brand in China, with designations such as top-end national brand in 2006.



urara

Launched exclusively for cosmetics specialty stores in China in 2006, *urara* is sold throughout the country. With a brand concept of becoming more radiant, *urara* offers a full lineup from skincare to makeup for the new and increasingly cosmetics-aware generation of Chinese women.



PURE&MILD

A mid-to-low-priced skincare brand sold in cosmetics specialty stores, drugstores, department stores and other outlets in China. Its broad lineup targets people with a strong orientation toward natural plant-based products. *PURE&MILD* has been popular among Chinese women for more than a decade since its launch in 2001.



NARS

Created in 1994 by makeup artist and photographer François Nars. Acquired by Shiseido in 2000 and as of March 31, 2013 sold in 20 countries worldwide, including the United States. Chic yet timeless, this brand features colors that anticipate fashion trends and innovative products.



ISSEY MIYAKE, Jean Paul Gaultier, narciso rodriguez, ELIE SAAB

Headquartered in Paris, Beauté Prestige International offers fragrances created by famous designers. These include *ISSEY MIYAKE* (launched in 1992; available in 111 countries); *Jean Paul Gaultier* (launched in 1993; available in 112 countries); *narciso rodriguez* (launched in 2003; available in 98 countries); and *ELIE SAAB* (launched in 2011; available in 82 countries). (Country counts as of December 2012)



CARITA

Created in 1945 by the Carita sisters, the first female hair artists in Paris. *CARITA* delivers the highest level of beauty through hair, skin and body care products and tailor-made services for elite women with sophisticated aesthetics, including royal family members. This premium beauty professional brand that originated in salons is distributed in 56 countries and regions around the world as of March 2013.



THE HAIR CARE

A total haircare brand exclusively for salons, *THE HAIR CARE* incorporates hair, skin and psychological research to truly satisfy Japanese and Asians by optimizing the condition of their hair. Launched in Japan in 2011 and in six other Asian countries in 2012. Professional counselors propose optimal salon and at-home care to give customers the incredibly beautiful hair they desire.



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 |
| Shiseido Pharmaceutical Co., Ltd. | Chuo-ku, Tokyo | ¥100 million | | 100.0 |
| FT Shiseido 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) |
| 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 (66.4) |
| 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 |
| 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, 2013 and overseas subsidiaries as of December 31, 2012.

Management's Discussion and Analysis

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11-Year Summary of Selected Financial Data

Shiseido Company, Limited, and Subsidiaries
For the fiscal years ended March 31, 2003 to 2013

Millions of yen
(Except per share data)

| | 2003 | 2004 | 2005 | 2006 | 2007 |
|--|----------|----------|----------|----------|----------|
| Operating Results: | | | | | |
| Net sales | ¥621,250 | ¥624,248 | ¥639,828 | ¥670,957 | ¥694,594 |
| Cost of sales | 170,702 | 166,299 | 168,636 | 176,884 | 185,533 |
| Selling, general and administrative expenses | 403,459 | 420,471 | 444,663 | 455,194 | 459,056 |
| Operating income | 47,089 | 37,478 | 26,529 | 38,879 | 50,005 |
| EBITDA (Note 2) | 66,827 | 86,537 | 29,043 | 65,281 | 78,837 |
| Net income (loss) | 24,496 | 27,541 | (8,856) | 14,436 | 25,293 |

Financial Position (At year-end):

| | | | | | |
|---------------------------------|----------|----------|----------|----------|----------|
| Total assets | ¥663,403 | ¥626,730 | ¥701,095 | ¥671,842 | ¥739,833 |
| Short-term liabilities (Note 3) | 55,117 | 47,678 | 25,213 | 12,786 | 66,144 |
| Long-term debt | 44,291 | 18,480 | 69,114 | 69,492 | 61,694 |
| Interest-bearing debt | 99,408 | 66,158 | 94,327 | 82,278 | 127,838 |
| Net assets | 364,728 | 385,336 | 369,957 | 387,613 | 403,797 |

Cash Flows:

| | | | | | |
|--|----------|----------|----------|----------|----------|
| Cash flows from operating activities | ¥ 66,848 | ¥ 47,074 | ¥ 52,434 | ¥ 21,812 | ¥ 69,431 |
| Cash flows from investing activities | (44,049) | (43,033) | (24,900) | (12,640) | (18,483) |
| Cash flows from financing activities | (12,211) | (45,884) | 17,421 | (29,959) | 1,837 |
| Cash and cash equivalents at end of year | 101,103 | 59,364 | 108,281 | 89,015 | 145,260 |

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

| | | | | | |
|---|---------|---------|----------|---------|---------|
| Net income (loss)(Note 4) | ¥ 58.0 | ¥ 64.9 | ¥ (21.5) | ¥ 34.4 | ¥ 60.9 |
| Net assets (Note 4) | 844.7 | 903.7 | 866.5 | 906.1 | 940.8 |
| Cash dividend | 20.0 | 22.0 | 24.0 | 30.0 | 32.0 |
| Weighted average number of shares outstanding during the period (thousands) | 419,580 | 414,723 | 414,219 | 412,855 | 412,572 |

Financial Ratios:

| | | | | | |
|--|--------|--------|--------|--------|--------|
| Operating profitability (%) | 7.6 | 6.0 | 4.1 | 5.8 | 7.2 |
| Return on assets (%) | 3.7 | 4.3 | (1.3) | 2.1 | 3.6 |
| Operating ROA (%) (Note 5) | 7.3 | 6.0 | 4.3 | 5.9 | 7.4 |
| Return on equity (%) | 7.0 | 7.6 | (2.4) | 3.9 | 6.6 |
| Equity ratio (%) | 53.3 | 59.8 | 51.2 | 55.7 | 52.5 |
| Interest coverage ratio (times) (Note 6) | 30.0 | 18.2 | 22.1 | 8.6 | 30.6 |
| Debt-equity ratio (times) (Note 7) | 0.28 | 0.18 | 0.26 | 0.22 | 0.33 |
| Interest-bearing debt ratio (%) (Note 8) | 21.4 | 14.7 | 20.3 | 17.5 | 24.0 |
| Payout ratio (Consolidated) (%) | 34.5 | 33.9 | — | 87.2 | 52.6 |
| Number of employees at year-end (Note 9) | 25,202 | 24,839 | 24,184 | 25,781 | 27,460 |
| Net sales per employee | ¥24.7 | ¥25.1 | ¥26.5 | ¥26.0 | ¥25.3 |

Notes: 1. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥93.99 = US\$1 prevailing on March 31, 2013.

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

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)

| 2008 | 2009 | 2010 | 2011 (Note 10) | 2012 | 2013 | 2013 |
|----------|----------|-----------|----------------|----------|----------|-------------|
| ¥723,485 | ¥690,256 | ¥644,201 | ¥670,701 | ¥682,386 | ¥677,728 | \$7,210,639 |
| 186,466 | 171,752 | 160,166 | 168,692 | 162,990 | 166,784 | 1,774,487 |
| 473,554 | 468,590 | 433,684 | 457,551 | 480,261 | 484,898 | 5,159,038 |
| 63,465 | 49,914 | 50,351 | 44,458 | 39,135 | 26,046 | 277,115 |
| 94,960 | 75,078 | 75,699 | 65,576 | 76,974 | 61,463 | 653,931 |
| 35,460 | 19,373 | 33,671 | 12,791 | 14,515 | (14,685) | (156,240) |
| ¥675,864 | ¥606,569 | ¥775,446 | ¥739,120 | ¥720,708 | ¥715,378 | \$7,611,214 |
| 38,653 | 27,601 | 112,693 | 16,362 | 9,735 | 39,395 | 419,140 |
| 24,566 | 34,452 | 101,754 | 181,156 | 175,418 | 145,274 | 1,545,633 |
| 63,219 | 62,053 | 214,447 | 197,518 | 185,153 | 184,669 | 1,964,773 |
| 399,739 | 351,951 | 365,208 | 320,127 | 303,716 | 303,734 | 3,231,557 |
| ¥ 75,308 | ¥ 42,768 | ¥ 69,432 | ¥ 67,587 | ¥ 52,600 | ¥ 42,041 | \$ 447,292 |
| (5,803) | (28,158) | (204,885) | (30,304) | (20,668) | (25,534) | (271,667) |
| (95,883) | (32,283) | 120,359 | (39,572) | (35,482) | (24,745) | (263,273) |
| 120,394 | 91,858 | 77,157 | 88,592 | 82,974 | 80,253 | 853,846 |
| ¥ 86.1 | ¥ 48.0 | ¥ 84.6 | ¥ 32.1 | ¥ 36.5 | ¥ (36.9) | \$ (0.39) |
| 946.2 | 839.9 | 875.7 | 772.1 | 729.9 | 722.4 | 7.69 |
| 34.0 | 50.0 | 50.0 | 50.0 | 50.0 | 50.0 | 0.53 |
| 407,696 | 403,240 | 397,886 | 397,864 | 397,974 | 398,007 | |
| 8.8 | 7.2 | 7.8 | 6.6 | 5.7 | 3.8 | |
| 5.0 | 3.0 | 4.9 | 1.7 | 2.0 | (2.0) | |
| 9.4 | 8.2 | 7.5 | 6.1 | 5.6 | 3.8 | |
| 9.2 | 5.4 | 9.8 | 3.9 | 4.9 | (5.1) | |
| 56.6 | 55.6 | 44.9 | 41.6 | 40.3 | 40.2 | |
| 39.1 | 23.6 | 45.4 | 32.8 | 27.3 | 22.5 | |
| 0.17 | 0.18 | 0.62 | 0.64 | 0.64 | 0.64 | |
| 13.7 | 15.0 | 37.0 | 38.2 | 37.9 | 37.8 | |
| 39.5 | 104.1 | 59.1 | 155.5 | 137.1 | — | |
| 28,793 | 28,810 | 28,968 | 31,310 | 32,595 | 33,356 | |
| ¥25.1 | ¥24.0 | ¥22.2 | ¥21.4 | ¥20.9 | ¥20.3 | \$216 |

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 include 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 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

Signs of economic recovery emerged in Japan during the fiscal year ended March 31, 2013. The economic policies of a new administration engendered positive expectations that resulted in a weaker yen and higher stock prices, but consumer sentiment remained depressed. The size of the cosmetics market was therefore essentially unchanged year on year.

Overseas, cosmetics markets were closely linked with the economic conditions in their respective countries. Growth in European markets was low, restrained by the debt crisis and high unemployment rates. In contrast, markets in the Americas and Asia, including China, expanded moderately.

Shiseido has been aiming to become a global player representing Asia with its origins in Japan. During the fiscal year ended March 31, 2012, Shiseido launched its current Three-Year Plan under the theme of getting into a growth trajectory. During the fiscal year ended March 31, 2013, Shiseido began implementing its four growth strategies – the Global Mega-Brand Strategy, the Asian Breakthrough Strategy, the New Frontier Strategy and the Customer-First Strategy – 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.

However, Shiseido's operating environment has changed substantially because of factors including Japan's delayed recovery, slowing economies in Europe and China, and unexpectedly acute deterioration of the business environment in the growth engine of China. Consequently, Shiseido could not expect strong sales growth.

Under these circumstances, we shifted our aim to a highly profitable structure that will allow us to achieve steady income growth even when sales growth only matches market performance. However, results have been unfavorable because we had already made significant investments in marketing expenses in Japan and overseas. Domestic sales decreased 1.8 percent compared with the previous fiscal year, while overseas sales increased a marginal 0.7 percent. As a result, consolidated net sales decreased 0.7 percent compared with the previous fiscal year.

Operating income decreased 33.4 percent compared with the previous fiscal year despite initiatives to reform the Shiseido Group's overall cost structure and efforts to efficiently manage expenses. Among other factors, anti-Japanese

sentiment caused sales growth in China to slow while we were aggressively investing in marketing overseas, and marginal income decreased due to lower sales in Japan.

The Shiseido Group reported a net loss for the fiscal year ended March 31, 2013. Factors included lower operating income, impairment loss on goodwill associated with the acquisition of U.S. cosmetics subsidiary Bare Escentuals in March 2010, and structural reform expenses resulting from the reorganization of production and R&D bases.

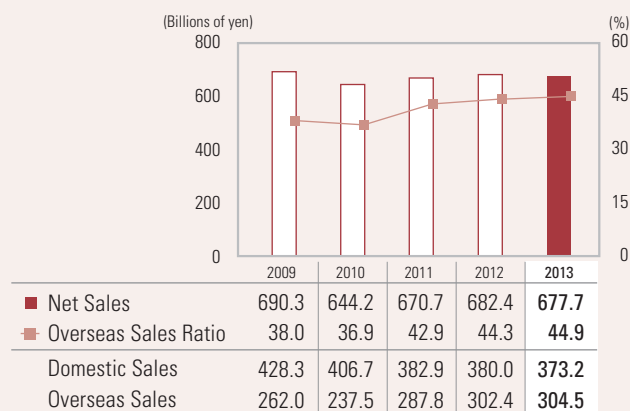
As a result, consolidated operating profitability for the fiscal year ended March 31, 2013 was 3.8 percent, consolidated return on equity (ROE) was negative 5.1 percent, and the overseas sales ratio was 44.9 percent.

The Shiseido Group has implemented various initiatives to generate synergies with Bare Escentuals since the acquisition. Moreover, we have been nurturing Bare Escentuals' operations in the large-scale retail market. However, expansion of this business has taken longer than expected, and sales in recent months have deviated substantially from plan. Given these circumstances, the Shiseido Group reported impairment loss for the fiscal year ended March 31, 2013 after reviewing its long-term plan in April 2013.

Net Sales

Net sales decreased 0.7 percent compared with the previous fiscal year to ¥677,728 million (\$7,210,639 thousand), and increased 0.1 percent on a local currency basis. Domestic sales decreased 1.8 percent compared with the previous fiscal year. Overseas sales edged up 0.7 percent, and increased 2.4 percent on a local currency basis.

Net Sales/Overseas Sales Ratio



Cost of Sales and Selling, General and Administrative Expenses

Cost of Sales

Cost of sales increased 2.3 percent compared with the previous fiscal year to ¥166,784 million (\$1,774,486 thousand). The ratio of cost of sales to net sales increased 0.7 percentage points to 24.6 percent. Primary factors included an increase in the ratio of fixed costs to net sales because of lower production volume, regional sales mix and the change in elimination of unrealized intercompany profit in inventory at overseas operations.

Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased 1.0 percent compared with the previous fiscal year to ¥484,898 million (\$5,159,038 thousand). The ratio of SG&A expenses to net sales increased 1.2 percentage points to 71.6 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 was unchanged at 23.5 percent. Shiseido worked to raise marketing cost efficiency in Japan, but advertising expenses increased overseas.

Personnel Expenses

The ratio of personnel expenses to net sales increased 0.8 percentage points to 24.7 percent. The primary reason was the addition of personnel to expand overseas operations.

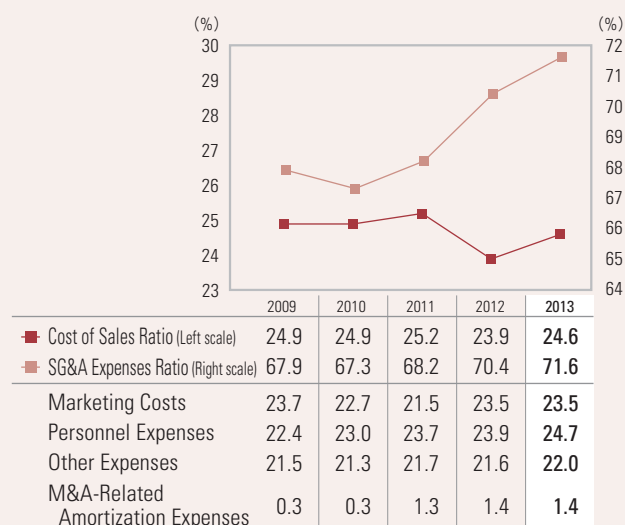
Other Expenses

The ratio of other expenses to net sales increased 0.4 percentage points to 22.0 percent. Other expenses decreased in Japan, but rose overseas due to increased depreciation expenses resulting from expanded investment in sales counters. Other factors included an increase in outsourcing expenses.

M&A-Related Amortization Expenses

The ratio of amortization expenses associated with mergers and acquisitions to net sales was unchanged at 1.4 percent.

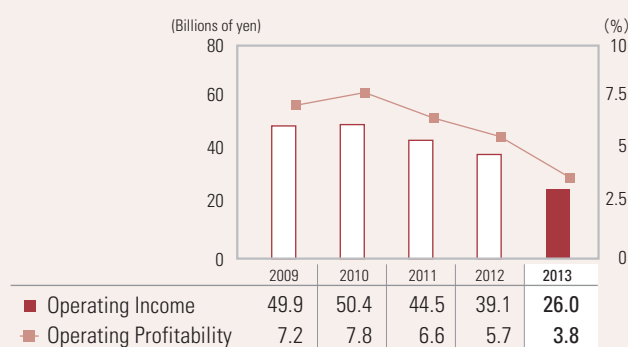
Cost of Sales Ratio/SG&A Expenses Ratio



Operating Income

Operating income decreased 33.4 percent compared with the previous fiscal year to ¥26,046 million (\$277,115 thousand). Aggressive investment in marketing expenses overseas, slow sales growth in China due to anti-Japanese sentiment, and a decrease in marginal income due to the drop in domestic sales offset Groupwide cost structural reform initiatives and efforts to efficiently manage expenses. Operating profitability decreased 1.9 percentage points to 3.8 percent.

Operating Income/Operating Profitability



Other Income (Expenses)

Net other expenses totaled ¥32,488 million (\$345,654 thousand), compared with net other expenses of ¥187 million for the previous fiscal year. Primary factors included impairment loss on intangible assets totaling ¥28,587 million (\$304,149 thousand) associated with the acquisition of U.S. cosmetics subsidiary Bare Escentuals completed in the fiscal year ended March 31, 2010, and structural reform expenses totaling ¥5,745 million (\$61,124 thousand) resulting from the reorganization of production and R&D bases.

Income (Loss) before Income Taxes

Loss before income taxes was ¥6,442 million (\$68,539 thousand), compared with income before income taxes of ¥38,948 million for the previous fiscal year.

Income Taxes, Including Deferred Taxes

Income taxes, including deferred taxes, decreased 71.4 percent compared with the previous fiscal year to ¥6,270 million (\$66,709 thousand). The tax expense from elimination of unrealized intercompany profit, which is a factor that influences Shiseido's tax rate, decreased because taxable income increased year on year.

Minority Interests in Net Income of Consolidated Subsidiaries

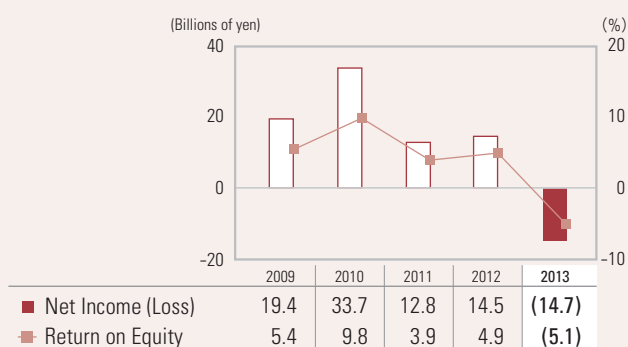
Minority interests in net income of consolidated subsidiaries decreased 22.4 percent compared with the previous fiscal year to ¥1,973 million (\$20,992 thousand).

Net Income (Loss)

Net loss totaled ¥14,685 million (\$156,240 thousand), compared with net income of ¥14,515 million for the previous fiscal year.

Net loss per share was ¥36.9 (\$0.39), compared with net income per share of ¥36.5 for the previous fiscal year. ROE was negative 5.1 percent, compared with 4.9 percent for the previous fiscal year.

Net Income (Loss) /Return on Equity



Review by Reportable Segment

Domestic Cosmetics Business

Segment sales for the Domestic Cosmetics Business decreased 2.2 percent year on year to ¥345,883 million (\$3,679,998 thousand). Sales decreased because of the intensely competitive environment in the cosmetics business and the impact of overall market contraction on the core brands of the healthcare business.

Domestic Cosmetics Business Division

In the Cosmetics Business Division, as in the previous fiscal year we continued to reduce the number of new product launches by carefully selecting products we expected customers to strongly support. We also continued to cultivate existing products. During the year, we launched products that meet customer needs. These included *FullMake Washable Base*, a totally new makeup base that enables makeup removal with warm water, and *Special Gel Cream*, a product with five functions (beauty lotion, beauty essence, emulsion, mask and cream) in the *AQUALABEL* self-selection skincare line.

In April 2012, we launched web-based marketing that links the Internet with brick-and-mortar retail stores to create opportunities to discover new customers. This is the first change to our business model since we introduced the chain store system 90 years ago in 1923.

In addition, we started building frameworks for reflecting customer opinions and refining our sales activities. We also began sharing successful case studies throughout Japan.

However, challenges remain in the foundation market, long a Shiseido strength; our interaction with the many seniors who have been loyal to our company; and our efforts to deepen relationships with business partners.

Healthcare Business Division

In the Healthcare Business Division, *CHOU-MEI-SOU*, a health and beauty food containing *peucedanum japonicum* grown without agrochemicals under contract at farms on Yonaguni Island, continued to perform well. However, a sharp contraction of Japan's overall collagen food market affected sales of core line and market share leader *The Collagen*.

Other Cosmetics-Related Businesses

In other cosmetics-related businesses, subsidiaries selling non-Shiseido brands continued to perform well. These included Ettusais Co., Ltd., which introduced the *Za* skincare and makeup brand we sell in Asia to Japan, as well as D'icila Co., Ltd. and Ipsa Co., Ltd. Benefiting from a recovery in sales at airport duty-free shops, The Ginza Co., Ltd. also contributed.

Segment income (operating income) for the Domestic Cosmetics Business decreased 6.6 percent compared with the previous fiscal year to ¥27,508 million (\$292,669 thousand) mainly because marginal income decreased as a result of lower sales, and segment profitability was 7.9 percent.

Global Business

Segment sales for the Global Business increased 0.8 percent compared with the previous fiscal year to ¥322,350 million (\$3,429,620 thousand), and increased 2.5 percent on a local currency basis. Performance improved for both the Overseas Cosmetics Division and the Overseas and Domestic Professional Divisions.

Overseas Cosmetics Division

In the prestige market, sales of the global brand *SHISEIDO* increased strongly. Key performers included the *SHISEIDO FUTURE SOLUTION LX* premium skincare line, the *WHITE LUCENT* skin brightening line, and the Global Sun care line of sunscreens. Sales of the *NARS* makeup artist brand also increased substantially, especially in North America. In addition, designer fragrances generated solid sales growth, and the travel retail business continued to perform well. The *bareMinerals* brand did not meet expectations because sales were essentially unchanged year on year. Within this brand, a new pressed-powder makeup foundation called *READY* performed well in North America, but existing powder-type foundations struggled. We invested in television advertising and other media to build our presence in the large-scale retail market, but expanding sales is taking longer than expected.

In the core Chinese market, our employees, offices and factories were not harmed by anti-Japanese demonstrations. However, subsequent anti-Japanese sentiment kept us from implementing aggressive promotional campaigns at the end of the year, which typically accounts for a high percentage of annual sales. This was one of several reasons sales in China were essentially unchanged on a local-currency basis but increased slightly in yen terms.

In the Asian masstige market, sales of *Za* continued to grow mainly in Thailand, and we introduced *SENKA* in Thailand, Singapore and Malaysia.

In emerging countries, we introduced the *bareMinerals* and *NARS* brands in Brazil, a future growth engine. In India, we opened a representative office and studied approaches for full-scale market entry. We also steadily expanded our business in new markets with initiatives including sales launches in Tunisia and Argentina. As of December 31, 2012, therefore, the global brand *SHISEIDO* was available in 89 countries and regions, including Japan.

Overseas and Domestic Professional Divisions

Sales of *THE HAIR CARE ADENOVITAL*, a next-generation hair-growth treatment that incorporates the active medicinal ingredient adenosine, increased in Japan. Zotos International Inc., which sells hair products to beauty salons in the Americas, also performed well. However, the esthetic spa brand *DECLÉOR* struggled due to deteriorating economic conditions in Europe.

Segment loss (operating loss) for the Global Business totaled ¥3,288 million (\$34,982 thousand) compared with segment income of ¥8,213 million for the previous fiscal year. Factors included aggressive marketing investments in growth markets, primarily China, and in the *bareMinerals* brand. Also, sales in China were significantly below expectations due to anti-Japanese demonstrations.

Others

Sales in the Others segment increased 6.5 percent compared with the previous fiscal year to ¥9,495 million (\$101,021 thousand) as a result of solid growth in both the Frontier Science Division and the restaurant business.

Frontier Science Division

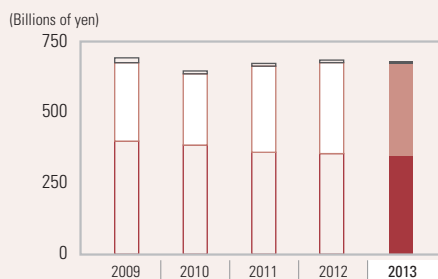
Frontier Science Division sales increased year on year. Bio-hyaluronic acid, a raw material for cosmetics and pharmaceuticals, sold well, as did *NAVISION*, a line for medical institutions derived from our beauty care skin research. *L'estrogel*, a medical-use treatment for menopausal disorders, also performed well.

Other Businesses

Shiseido Parlour Co., Ltd., a subsidiary in the restaurant business, increased sales of cakes and other items at its head store in Ginza and other restaurants and at outlets including department stores, railway stations and airports.

Segment income (operating income) for Others increased 42.3 percent compared with the previous fiscal year to ¥1,965 million (\$20,906 thousand). Segment profitability was 13.4 percent because of higher marginal income resulting from increased sales.

Net Sales by Reportable Segment



| | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------------|-------|-------|-------|-------|-------|
| Domestic Cosmetics Business | 397.6 | 383.8 | 358.4 | 353.8 | 345.9 |
| Global Business | 275.7 | 250.4 | 302.6 | 319.7 | 322.3 |
| Others | 17.0 | 10.0 | 9.7 | 8.9 | 9.5 |
| Total | 690.3 | 644.2 | 670.7 | 682.4 | 677.7 |

Income by Reportable Segment (Before Amortization of Goodwill)

| (Billions of yen) | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------------|------|------|------|------|------|
| Domestic Cosmetics Business | 32.9 | 39.1 | 33.7 | 29.6 | 27.7 |
| Global Business | 16.8 | 10.4 | 14.1 | 13.6 | 2.1 |
| Others | 1.5 | 1.7 | 1.8 | 1.4 | 2.0 |

Income by Reportable Segment (After Amortization of Goodwill)

| (Billions of yen) | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------------|------|------|------|------|-------|
| Domestic Cosmetics Business | 32.7 | 38.9 | 33.6 | 29.5 | 27.5 |
| Global Business | 15.4 | 9.5 | 9.0 | 8.2 | (3.3) |
| Others | 1.5 | 1.7 | 1.8 | 1.4 | 2.0 |

Profitability by Reportable Segment (Before Amortization of Goodwill)

| (%) | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------------|------|------|------|------|------|
| Domestic Cosmetics Business | 8.2 | 10.1 | 9.4 | 8.3 | 8.0 |
| Global Business | 6.0 | 4.1 | 4.6 | 4.2 | 0.6 |
| Others | 5.1 | 10.5 | 11.4 | 9.9 | 13.4 |

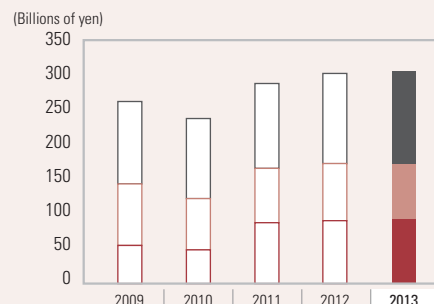
Profitability by Reportable Segment (After Amortization of Goodwill)

| (%) | 2009 | 2010 | 2011 | 2012 | 2013 |
|-----------------------------|------|------|------|------|-------|
| Domestic Cosmetics Business | 8.1 | 10.1 | 9.3 | 8.3 | 7.9 |
| Global Business | 5.5 | 3.8 | 3.0 | 2.6 | (1.0) |
| Others | 5.1 | 10.5 | 11.4 | 9.9 | 13.4 |

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

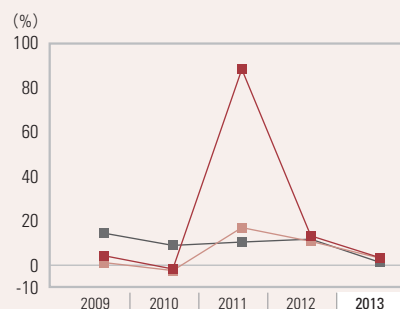
Overseas sales by destination are as follows.

Overseas Sales



| | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------|-------|-------|-------|-------|-------|
| Americas | 54.9 | 48.5 | 87.6 | 90.5 | 93.0 |
| Europe | 88.5 | 73.8 | 78.2 | 82.2 | 79.1 |
| Asia/Oceania | 118.6 | 115.2 | 122.0 | 129.7 | 132.4 |
| Total | 262.0 | 237.5 | 287.8 | 302.4 | 304.5 |

Year-on-Year Growth in Overseas Sales (Local Currency Basis)*



| | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------|------|-------|------|------|------|
| Americas | 4.3 | (1.7) | 88.0 | 13.2 | 3.4 |
| Europe | 1.2 | (2.4) | 16.9 | 10.7 | 3.2 |
| Asia/Oceania | 14.4 | 8.9 | 10.4 | 11.7 | 1.3 |

*The above year-on-year growth in overseas sales on a local currency basis is a year-on-year comparison before translation into yen. Exchange rates for each fiscal year are presented below.

| (Yen) | 2009 | 2010 | 2011 | 2012 | 2013 |
|--------------|-------|-------|-------|-------|-------|
| U.S. dollar | 103.4 | 93.6 | 87.8 | 79.8 | 79.8 |
| Euro | 152.4 | 130.2 | 116.4 | 111.1 | 102.6 |
| Chinese yuan | 14.9 | 13.7 | 13.0 | 12.4 | 12.7 |

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, 2013, cash and time deposits together with short-term investments in securities totaled ¥91,264 million (\$970,997 thousand). It represented 1.6 months of consolidated net sales.

As of March 31, 2013, interest-bearing debt totaled ¥184,669 million (\$1,964,773 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 ¥120.0 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 \$300 million. A financial subsidiary in the United States has also established an unused commercial paper program totaling \$90 million.

As of March 31, 2013, 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, 2013 totaled ¥80,253 million (\$853,846 thousand), a decrease of ¥2,721 million (\$28,950 thousand) compared with the previous fiscal year-end.

| | 2011 | 2012 | 2013 |
|--|--------|--------|--------|
| Cash Flows from Operating Activities | 67.6 | 52.6 | 42.0 |
| Cash Flows from Investing Activities | (30.3) | (20.7) | (25.5) |
| Cash Flows from Financing Activities | (39.6) | (35.5) | (24.7) |
| Cash and Cash Equivalents at End of Year | 88.6 | 83.0 | 80.3 |

Cash Flows from Operating Activities

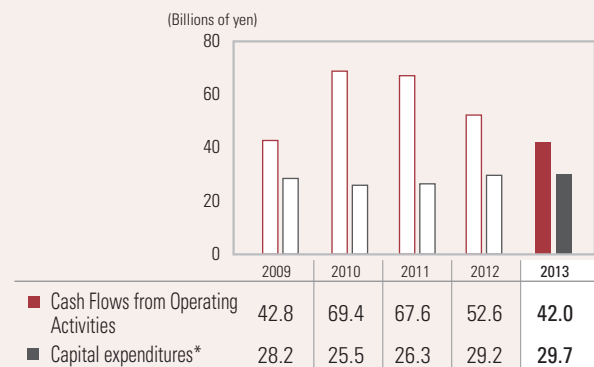
Net cash provided by operating activities was ¥42,041 million (\$447,292 thousand). Loss before income taxes was ¥6,442 million (\$68,539 thousand). Income taxes paid totaled ¥11,698

million (\$124,460 thousand) and increase in working capital totaled ¥13,973 million (\$148,665 thousand), Depreciation was ¥32,046 million (\$340,951 thousand), amortization of goodwill was ¥5,491 million (\$58,421 thousand) and impairment loss was ¥29,122 million (\$309,841 thousand).

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥25,534 million (\$271,667 thousand) due to factors including capital expenditures of ¥29,692 million (\$315,906 thousand), and net proceeds from maturity of time deposits of ¥1,337 million (\$14,225 thousand).

Cash Flows from Operating Activities/Capital expenditures*



* Property, Plant and Equipment + Intangible Assets + Long-term Prepaid Expenses

Cash Flows from Financing Activities

Net cash used in financing activities totaled ¥24,745 million (\$263,273 thousand) due to factors including cash dividend paid of ¥19,897 million (\$211,693 thousand) and repayment of long-term debt of ¥5,995 million (\$63,783 thousand).

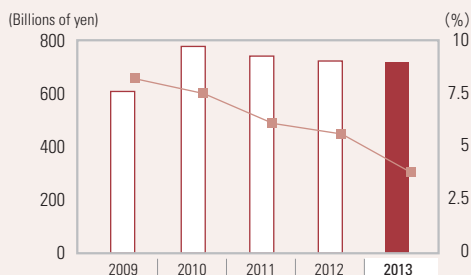
■ Assets, Liabilities and Net Assets

Assets

As of March 31, 2013, total assets decreased 0.7 percent compared with the previous fiscal year end to ¥715,378 million (\$7611,214 thousand).

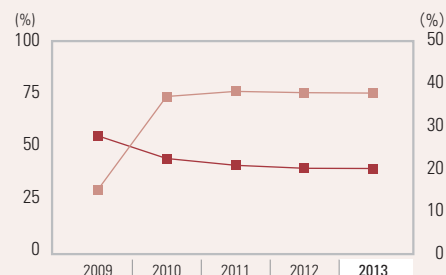
Current assets increased 5.5 percent compared with the previous fiscal year end to ¥332,681 million (\$3,539,536 thousand). Non-current assets (fixed assets) decreased 5.6 percent compared with the previous fiscal year end to ¥382,697 million (\$4,071,678 thousand) largely because of impairment loss on goodwill associated with Bare Escentuals and impairment losses on property, plant and equipment resulting from business structure reforms.

Total Assets/Operating ROA



| | | | | | |
|-----------------|-------|-------|-------|-------|-------|
| ■ Total Assets | 606.6 | 775.4 | 739.1 | 720.7 | 715.4 |
| ■ Operating ROA | 8.2 | 7.5 | 6.1 | 5.6 | 3.8 |

Equity Ratio/Interest-Bearing Debt Ratio



| | | | | | |
|---|------|------|------|------|------|
| ■ Equity Ratio (Left scale) | 55.6 | 44.9 | 41.6 | 40.3 | 40.2 |
| ■ Interest-Bearing Debt Ratio (Right scale) | 15.0 | 37.0 | 38.2 | 37.9 | 37.8 |

Liabilities

Total liabilities as of March 31, 2013 decreased 1.3 percent compared with the previous fiscal year end to ¥411,644 million (\$4,379,657 thousand).

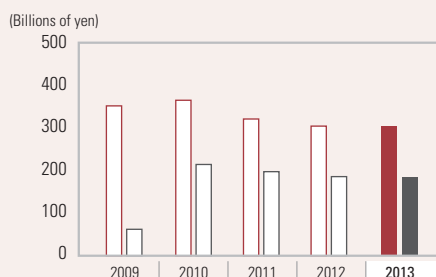
A detailed explanation of interest-bearing debt is available in Note 7. SHORT-TERM AND LONG-TERM DEBT of the Notes to the Consolidated Financial Statements.

Net Assets

Total net assets as of March 31, 2013 were essentially unchanged compared with the previous fiscal year end at ¥303,734 million (\$3,231,557 thousand).

As a result, as of March 31, 2013 net assets per share decreased ¥7.5 (\$0.08) compared with the previous fiscal year end to ¥722.4 (\$7.69). The equity ratio decreased 0.1 percentage points to 40.2 percent from 40.3 percent a year earlier.

Net Assets/Interest-Bearing Debt



| | | | | | |
|-------------------------|-------|-------|-------|-------|-------|
| ■ Net Assets | 352.0 | 365.2 | 320.1 | 303.7 | 303.7 |
| ■ Interest-Bearing Debt | 62.1 | 214.4 | 197.5 | 185.2 | 184.7 |

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 Japan K.K. (Moody's) and Standard and Poor's Ratings Japan K.K. (S&P) to facilitate fund procurement in global capital markets.

| | Moody's | S&P |
|------------|------------------------|----------------------|
| Long-term | A2 (Outlook: Negative) | A- (Outlook: Stable) |
| Short-term | P-1 | A-2 |

(As of May 31, 2013)

Changes in Accounting Policies That Are Difficult to Distinguish from Changes in Accounting Estimates

Pursuant to the revision of the Corporation Tax Act, effective the fiscal year ended March 31, 2013 Shiseido and its domestic consolidated subsidiaries have adopted a method for calculating depreciation expenses based on the revised Corporation Tax Act for property, plant and equipment acquired on and after April 1, 2012.

The effect of this change on operating income, ordinary income and income before income taxes is not material.

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 research centers in Yokohama, Kanagawa, Japan, the Beauty Creation Research Center in Shinagawa, 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 Congress 2012 held in October 2012 in Johannesburg, South Africa, Shiseido won its 16th IFSCC 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, 2013, R&D expenses for the Shiseido Group totaled ¥13,659 million (\$145,324 thousand) and represented 2.0 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 ¥5,247 million (\$55,825 thousand) that cannot be allocated to specific businesses.

Domestic Cosmetics Business

Wishing to help customers have beautiful skin and beautiful lifestyles, Shiseido conducts a broad range of R&D activities, from basic research in dermatology and interface science to the development of cosmetics ingredients, the development and evaluation of products, the development of beauty regimes, and research into sensitivity and the senses.

During the fiscal year ended March 31, 2013, Shiseido put the results of its ongoing skin brightening research to work in *HAKU Melanofocus CR* to answer the question that many women had posed: "Why do I still have blemishes even though I am regularly doing skin brightening care?" Blemished skin features a special kind of damage that results in excess melanin production. Melanin is not discharged smoothly and accumulates within the skin. Deploying its large body of research into the mechanism of melanin production, Shiseido discovered a new route for melanin production within the skin called the subcutaneous melanin route that is linked to continuous melanin production caused by disruption of internal skin functions.

We conscientiously listen to customer opinions about makeup. Many have told us that they want to use makeup to highlight their beautiful skin, not look like they are trying to cover it

up. We therefore developed a foundation that erases pores by reducing their contrast with the skin rather than using the conventional approach of filling and concealing pores. It lays down a thin film that appears to be bare skin, making it the long-sought foundation that delivers all of the functions required of its category: softening pore edges and evening skin tone, bringing out superior skin color and translucency, providing smoothness and moisture, and delivering long-lasting effect. *MAQuillAGE True Powdery UV* foundation uses this technology, which provides a thin film that erases pores even though it is only 0.01mm thick.

In haircare, we made the most significant innovation within the *TSUBAKI* haircare line, which makes Japanese hair lustrous and beautiful, since its launch. Focusing on the large amount of melanin contained in Japanese hair, Shiseido was the first to discover that melanin holes caused by hair damage are a key factor in loss of luster. We formulated ingredients that repair these holes by filling them in, allowing light that penetrates into hair to reflect beautifully and bring out deep, ideal luster.

R&D expenses for the fiscal year ended March 31, 2013 in the Domestic Cosmetics Business segment totaled ¥5,390 million (\$57,347 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, 2013, Shiseido made a discovery during the course of research into dermal stem cells, which play a key role in enhancing the skin's self-restoring capabilities and are attracting interest in regenerative medicine. We learned that inositol effectively promotes production of the platelet-derived growth factor PFGF-BB, which declines with age. Using the results of this research, Shiseido has successfully developed new anti-aging skincare technology that enhances the skin's self-restoring capabilities by increasing the skin's regenerative and repair capabilities.

Moreover, Shiseido was the first to discover that nasolabial folds, more commonly known as laugh lines, are not like fixed wrinkles because even when they are pronounced they smooth away when people lie on their backs. Rather, they demarcate the line to which cheeks sag under the pull of gravity, and are closely correlated with advancing age because they grow deeper and longer as people get older. We also discovered that an extract from the leaves of *Rubus suavissimus* S. Lee (the Chinese sweet tea plant), effectively prevents and ameliorates laugh lines, and deployed it in anti-aging skincare technology.

R&D expenses for the fiscal year ended March 31, 2013 in the Global Business segment totaled ¥2,790 million (\$29,684 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.

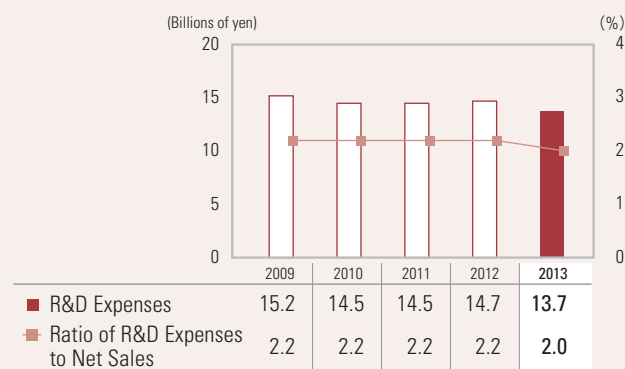
In chromatography development, we are establishing a technology platform for product commercialization by proactively licensing technology from outside Shiseido to promote the development of fillers that differ from our conventional lineup.

R&D expenses for the fiscal year ended March 31, 2013 in the Others segment totaled ¥232 million (\$2,468 thousand).

In other news, Shiseido received a 2012 Environment Minister's Award for Global Warming Prevention Activity in the Technological Development and Commercialization category. The award recognized our development of a low-energy skincare emulsion manufacturing process that we introduced at our fac-

ories. The award-winning low-energy skincare emulsion manufacturing process significantly reduces energy needed for heating and cooling without degrading quality, enabling us to cut CO₂ emissions by about 65 percent compared with the conventional process. The process is now used to manufacture products including *ROSARIUM Rose Body Milk RX*.

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



Outlook for the Fiscal Year Ending March 31, 2014

In the fiscal year ending March 31, 2014, Shiseido forecasts a year-on-year increase in net sales because of factors including higher domestic sales; sales growth in Europe, the United States, China and emerging countries; and foreign exchange gains. We also forecast that increased marginal income from higher net sales along with cost structure reforms and business structure reforms will support a year-on-year increase in operating income.

For the fiscal year ending March 31, 2014, Shiseido forecasts that consolidated net sales will increase 4.8 percent year on year to ¥710.0 billion, operating income will increase 45.9 percent to ¥38.0 billion, and net income will be ¥20.0 billion.

Domestic Cosmetics Business

In the fiscal year ending March 31, 2014, we expect the domestic cosmetics market to recover moderately despite uncertainty about the future. In the Domestic Cosmetics Business segment, we will strengthen our position in the prestige category, focus on the market for seniors and develop web-based marketing. We expect these initiatives to result in a slight year-on-year increase in segment sales. We also forecast that segment operating income will increase because of higher marginal income from growth in segment sales and the benefits of cost structural reforms.

Global Business

We expect conditions in the European cosmetics market to remain difficult due to the impact of the financial crisis. We also expect cosmetics markets in the Americas to continue growing moderately. In Asia, we forecast continued market growth, especially in China. In this context, the Shiseido Group will work to achieve further growth by building on our strengths in China, enhancing the value of Bare Escentuals, and strengthening our ability to meet needs in emerging countries that will be future growth engines. We forecast increased segment sales and income in the Global Business as a result of these initiatives and foreign exchange gains.

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 major currency exchange rates of ¥85 per U.S. dollar, ¥115 per euro, and ¥14 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 tar-

get, we prioritize payment of stable dividends while implementing share buybacks in a flexible manner. We 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, 2013, Shiseido paid an annual cash dividend of ¥50 (\$0.53) per share, consisting of an interim and year-end dividend of ¥25 (\$0.27) per share each.

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, 2013. 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 countries, 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 December 31, 2012, Shiseido conducted business in 89 countries and regions (including Japan), and overseas sales account for a growing percentage of consolidated net sales each year, totaling 44.9 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 appreciates. Foreign exchange fluctuations that exceed assumptions could negatively affect Shiseido's business performance and financial position.

Share prices

As of March 31, 2013, 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. These unforeseen situations 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, 2013, Shiseido was not involved in material litigation other than the litigation discussed in Note 10. CONTINGENT LIABILITIES of the Notes to the Consolidated Financial Statements. 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. Specifically, we have formulated

and rigorously comply with our Personal Information Protection Rules, Confidential Information Controlling Regulation and Information System Controlling Regulation to carefully handle personal customer information and protect all information assets. Moreover, Shiseido has obtained Privacy Mark certification, a Japanese Industrial Standard that recognizes the appropriateness of a company's systems for protecting personal information, and renews this certification every two years. However, unforeseeable events, such as leakage of information due to unauthorized access, could negatively affect the Shiseido's Group'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 in estimating fair value and examining

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.

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 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 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.

Financial Section

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Consolidated Financial Statements

CONSOLIDATED BALANCE SHEETS

Shiseido Company, Limited, and Subsidiaries
March 31, 2012 and 2013

| | Note | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------|------------------|------------------|---------------------------------------|
| | | 2012 | 2013 | 2013 |
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and time deposits | 3, 4, 7 | ¥ 67,122 | ¥ 59,330 | \$ 631,237 |
| Short-term investments in securities | 3, 4, 5 | 26,717 | 31,934 | 339,760 |
| Notes and accounts receivable: | 4 | | | |
| Trade | | 112,874 | 118,229 | 1,257,889 |
| Unconsolidated subsidiaries and affiliates | | 1 | 3 | 32 |
| | | 112,875 | 118,232 | 1,257,921 |
| Less: allowance for doubtful accounts | | (935) | (970) | (10,320) |
| | | 111,940 | 117,262 | 1,247,601 |
| Inventories | 6 | 71,902 | 84,552 | 899,585 |
| Deferred tax assets | 9 | 19,861 | 24,944 | 265,390 |
| Other current assets | | 17,688 | 14,659 | 155,963 |
| Total current assets | | 315,230 | 332,681 | 3,539,536 |
| Investments and Other Assets: | | | | |
| Investments in securities | 4, 5, 7 | 26,176 | 29,325 | 312,001 |
| Investments in unconsolidated subsidiaries and affiliates | 4 | 1,220 | 1,185 | 12,608 |
| Prepaid pension expenses | 8 | 20,948 | 17,155 | 182,519 |
| Long-term prepaid expenses | | 9,659 | 10,087 | 107,320 |
| Deferred tax assets | 9 | 18,085 | 20,374 | 216,768 |
| Other investments | 7 | 25,949 | 26,073 | 277,402 |
| Total investments and other assets | | 102,037 | 104,199 | 1,108,618 |
| Property, Plant and Equipment, at Cost: | | | | |
| Buildings and structures | 7, 18 | 158,246 | 158,731 | 1,688,807 |
| Machinery and equipment | 7 | 138,498 | 148,677 | 1,581,839 |
| Leased assets | | 8,707 | 7,518 | 79,987 |
| | | 305,451 | 314,926 | 3,350,633 |
| Less: accumulated depreciation | | (211,677) | (224,050) | (2,383,764) |
| | | 93,774 | 90,876 | 966,869 |
| Land | | 33,091 | 31,833 | 338,685 |
| Construction in progress | | 2,932 | 5,096 | 54,218 |
| Total property, plant and equipment | 20 | 129,797 | 127,805 | 1,359,772 |
| Intangible Assets: | | | | |
| Goodwill | 17, 20 | 84,540 | 57,128 | 607,809 |
| Leased assets | | 613 | 535 | 5,692 |
| Trademarks | | 40,584 | 45,246 | 481,392 |
| Other intangible assets | | 47,907 | 47,784 | 508,395 |
| Total intangible assets | | 173,644 | 150,693 | 1,603,288 |
| Total Assets | 20 | ¥ 720,708 | ¥ 715,378 | \$ 7,611,214 |

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

| | Note | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|------|-----------------|----------|---------------------------------------|
| | | 2012 | 2013 | 2013 |
| LIABILITIES AND NET ASSETS | | | | |
| Current Liabilities: | | | | |
| Short-term debt | 4, 7 | ¥ 1,990 | ¥ 5,976 | \$ 63,581 |
| Current portion of long-term debt | 4, 7 | 7,745 | 33,419 | 355,559 |
| Notes and accounts payable: | 4 | | | |
| Trade | | 47,296 | 42,653 | 453,804 |
| Unconsolidated subsidiaries and affiliates | | 1,009 | 890 | 9,469 |
| Other payables | 4 | 48,305 | 43,543 | 463,273 |
| Accrued income taxes | | 44,273 | 39,628 | 421,619 |
| Reserve for sales returns | | 8,026 | 9,114 | 96,968 |
| Accrued bonuses for employees | | 11,065 | 10,610 | 112,884 |
| Accrued bonuses for directors | | 15,030 | 12,493 | 132,918 |
| Provision for liabilities and charges | | 396 | 269 | 2,862 |
| Provision for structural reforms | | 566 | 387 | 4,117 |
| Deferred tax liabilities | 9 | — | 362 | 3,852 |
| Other current liabilities | | 20 | 8 | 85 |
| Total current liabilities | | 27,303 | 31,416 | 334,249 |
| | | 164,719 | 187,225 | 1,991,967 |
| Long-Term Liabilities: | | | | |
| Long-term debt | 4, 7 | 175,418 | 145,274 | 1,545,633 |
| Accrued retirement benefits | 8 | 42,089 | 43,356 | 461,283 |
| Allowance for losses on guarantees | | 350 | 350 | 3,724 |
| Allowance for environmental measures | | 487 | 445 | 4,735 |
| Provision for structural reforms | | — | 1,397 | 14,863 |
| Deferred tax liabilities | 9 | 27,623 | 28,931 | 307,809 |
| Other long-term liabilities | | 6,306 | 4,666 | 49,643 |
| Total long-term liabilities | | 252,273 | 224,419 | 2,387,690 |
| Total Liabilities | | 416,992 | 411,644 | 4,379,657 |
| CONTINGENT LIABILITIES | | | | |
| | 10 | | | |
| NET ASSETS | | | | |
| | 11 | | | |
| Shareholders' Equity: | | | | |
| Common stock | | 64,507 | 64,507 | 686,318 |
| Authorized: 1,200,000,000 shares as of March 31, 2012 and 2013 | | | | |
| Issued: 400,000,000 shares as of March 31, 2012 and 2013 | | | | |
| Capital surplus | | 70,264 | 70,258 | 747,505 |
| Retained earnings | | 225,599 | 191,520 | 2,037,664 |
| Less: treasury stock, at cost | | (3,779) | (3,698) | (39,345) |
| Treasury stock: 2,002,324 shares as of March 31, 2012 and 1,960,234 shares as of March 31, 2013 | | | | |
| Total shareholders' equity | | 356,591 | 322,587 | 3,432,142 |
| Accumulated Other Comprehensive Income: | | | | |
| Unrealized gains (losses) on available-for-sale securities, net of taxes | 5 | 606 | 2,799 | 29,780 |
| Foreign currency translation adjustments | | (66,702) | (37,833) | (402,522) |
| Total accumulated other comprehensive income | | (66,096) | (35,034) | (372,742) |
| Stock Acquisition Rights | 12 | 668 | 846 | 9,001 |
| Minority Interests in Consolidated Subsidiaries | | 12,553 | 15,335 | 163,156 |
| Total Net Assets | | 303,716 | 303,734 | 3,231,557 |
| Total Liabilities and Net Assets | | ¥720,708 | ¥715,378 | \$7,611,214 |

CONSOLIDATED STATEMENTS OF OPERATIONS/ CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited, and Subsidiaries
For the fiscal years ended March 31, 2012 and 2013

CONSOLIDATED STATEMENTS OF OPERATIONS

| | Note | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|--------|-----------------|-----------|---------------------------------------|
| | | 2012 | 2013 | 2013 |
| Net Sales | 20 | ¥682,386 | ¥677,728 | \$7,210,639 |
| Cost of Sales | | 162,990 | 166,784 | 1,774,486 |
| Gross profit | | 519,396 | 510,944 | 5,436,153 |
| Selling, General and Administrative Expenses | 13 | 480,261 | 484,898 | 5,159,038 |
| Operating income | 20 | 39,135 | 26,046 | 277,115 |
| Other Income (Expenses): | | | | |
| Interest and dividend income | | 1,523 | 1,299 | 13,821 |
| Interest expense | | (1,824) | (1,782) | (18,959) |
| Foreign exchange gain (loss) | | (604) | 1,133 | 12,054 |
| Equity in earnings (losses) of affiliates | | (122) | 47 | 500 |
| Gain (loss) on sales of investments in securities | 5 | (233) | 74 | 787 |
| Loss on revaluation of investments in securities | | (76) | (20) | (213) |
| Gain (loss) on sales and disposal of property, plant and equipment | | (90) | (35) | (372) |
| Impairment loss | 17, 20 | (96) | (29,122) | (309,841) |
| Structural reform expenses | 18, 20 | — | (5,745) | (61,124) |
| Other, net | | 1,335 | 1,663 | 17,693 |
| | | (187) | (32,488) | (345,654) |
| Income (loss) before income taxes | | 38,948 | (6,442) | (68,539) |
| Income Taxes | 9 | | | |
| Current | | 13,954 | 15,375 | 163,581 |
| Deferred | | 7,935 | (9,105) | (96,872) |
| | | 21,889 | 6,270 | 66,709 |
| Income (loss) before minority interests | | 17,059 | (12,712) | (135,248) |
| Minority Interests in Net Income of Consolidated Subsidiaries | | (2,544) | (1,973) | (20,992) |
| Net income (loss) | | ¥ 14,515 | ¥(14,685) | \$ (156,240) |
| | | | Yen | U.S. dollars (Note 1) |
| Per Share | 2 (9) | | | |
| Net income — basic | | ¥36.5 | ¥(36.9) | \$(0.39) |
| — fully diluted* | | 36.4 | — | — |
| Cash dividend | | 50.0 | 50.0 | 0.53 |
| Weighted Average Number of Shares (thousands) | | 397,974 | 398,007 | |

* The Shiseido Group has not stated a figure for fully diluted net income per share because it posted a net loss per share in the year under review.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Note | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|------|-----------------|-----------|---------------------------------------|
| | | 2012 | 2013 | 2013 |
| Income (Loss) before Minority Interests | | ¥ 17,059 | ¥(12,712) | \$(135,248) |
| Other Comprehensive Income | | | | |
| Unrealized gains (losses) on available-for-sale securities, net of taxes | 5 | 562 | 2,297 | 24,438 |
| Foreign currency translation adjustments | | (12,145) | 30,850 | 328,226 |
| Share of other comprehensive income of associates accounted for using equity method | | (19) | 37 | 394 |
| Total other comprehensive income | 19 | (11,602) | 33,184 | 353,058 |
| Comprehensive Income | | 5,457 | 20,472 | 217,810 |
| (Breakdown) | | | | |
| Comprehensive income attributable to shareholders' equity | | 3,376 | 16,378 | 174,253 |
| Comprehensive income attributable to minority interests | | 2,081 | 4,094 | 43,557 |

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, 2012 and 2013

| | 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, 2011 | 400,000 | ¥64,507 | ¥70,258 | ¥231,336 | ¥(3,875) | ¥ 84 | ¥(55,041) | ¥591 | ¥12,267 |
| Net income (loss) 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 | — | — | — | — |
| 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 |
| Net income (loss) for the year ended March 31, 2013 | — | — | — | (14,685) | — | — | — | — | — |
| Cash dividend from retained earnings | — | — | — | (19,900) | — | — | — | — | — |
| Equity transactions with noncontrolling interests and others | — | — | — | 419 | — | — | — | — | — |
| Acquisition of treasury stock | — | — | — | — | (2) | — | — | — | — |
| Disposal of treasury stock | — | — | (6) | (6) | 83 | — | — | — | — |
| Change in scope of consolidation | — | — | — | 93 | — | — | — | — | — |
| Change in unrealized gains (losses) on available-for-sale securities, net of taxes | — | — | — | — | — | 2,193 | — | — | — |
| Change in foreign currency translation adjustments | — | — | — | — | — | — | 28,869 | — | — |
| Issuance of stock acquisition rights | — | — | — | — | — | — | — | 178 | — |
| Increase in minority interests | — | — | — | — | — | — | — | — | 2,782 |
| Balance as of March 31, 2013 | 400,000 | ¥64,507 | ¥70,258 | ¥191,520 | ¥(3,698) | ¥2,799 | ¥(37,833) | ¥846 | ¥15,335 |

| | 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, 2012 | 400,000 | \$686,318 | \$747,569 | \$2,400,245 | \$(40,206) | \$ 6,447 | \$(709,671) | \$7,107 | \$133,557 |
| Net income (loss) for the year ended March 31, 2013 | — | — | — | (156,240) | — | — | — | — | — |
| Cash dividend from retained earnings | — | — | — | (211,725) | — | — | — | — | — |
| Equity transactions with noncontrolling interests and others | — | — | — | 4,459 | — | — | — | — | — |
| Acquisition of treasury stock | — | — | — | — | (22) | — | — | — | — |
| Disposal of treasury stock | — | — | (64) | (64) | 883 | — | — | — | — |
| Change in scope of consolidation | — | — | — | 989 | — | — | — | — | — |
| Change in unrealized gains (losses) on available-for-sale securities, net of taxes | — | — | — | — | — | 23,333 | — | — | — |
| Change in foreign currency translation adjustments | — | — | — | — | — | — | 307,149 | — | — |
| Issuance of stock acquisition rights | — | — | — | — | — | — | — | 1,894 | — |
| Increase in minority interests | — | — | — | — | — | — | — | — | 29,599 |
| Balance as of March 31, 2013 | 400,000 | \$686,318 | \$747,505 | \$2,037,664 | \$(39,345) | \$29,780 | \$(402,522) | \$9,001 | \$163,156 |

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, 2012 and 2013

| | Note | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|------|-----------------|-----------|---------------------------------------|
| | | 2012 | 2013 | 2013 |
| Cash Flows from Operating Activities: | | | | |
| Income (loss) before income taxes | | ¥ 38,948 | ¥ (6,442) | \$ (68,539) |
| Depreciation | | 30,683 | 32,046 | 340,951 |
| Amortization of goodwill | | 5,519 | 5,491 | 58,421 |
| Impairment loss | | 96 | 29,122 | 309,841 |
| (Gain) loss on sales and disposal of property, plant and equipment | | 90 | 35 | 372 |
| (Gain) loss on sales of investments in securities | | 233 | (74) | (787) |
| (Gain) loss on revaluation of investments in securities | | 76 | 20 | 213 |
| Loss on disaster | | (923) | — | — |
| Structural reform expenses | | — | 5,745 | 61,124 |
| Increase (decrease) in allowance for doubtful accounts | | (11) | (52) | (553) |
| Increase (decrease) in reserve for sales returns | | (183) | (938) | (9,980) |
| Increase (decrease) in accrued bonuses for employees | | 3,705 | (3,047) | (32,418) |
| Increase (decrease) in accrued bonuses for directors | | 23 | (127) | (1,351) |
| Increase (decrease) in provision for liabilities and charges | | (140) | (235) | (2,500) |
| Increase (decrease) in accrued retirement benefits | | 1,004 | 850 | 9,044 |
| Increase (decrease) in allowance for environmental measures | | (8) | (41) | (436) |
| (Increase) decrease in prepaid pension expenses | | 3,612 | 3,793 | 40,355 |
| Interest and dividend income | | (1,523) | (1,299) | (13,821) |
| Interest expense | | 1,824 | 1,782 | 18,959 |
| Equity in earnings (losses) of affiliates | | 122 | (47) | (500) |
| (Increase) decrease in notes and accounts receivable | | (12,716) | 2,871 | 30,546 |
| (Increase) decrease in inventories | | (8,102) | (5,891) | (62,677) |
| Increase (decrease) in notes and accounts payable | | 9,627 | (10,953) | (116,534) |
| Other | | 2,581 | 1,704 | 18,129 |
| Subtotal | | 74,537 | 54,313 | 577,859 |
| Interest and dividends received | | 1,472 | 1,293 | 13,757 |
| Interest paid | | (1,928) | (1,867) | (19,864) |
| Income taxes paid | | (21,481) | (11,698) | (124,460) |
| Net cash provided by operating activities | | 52,600 | 42,041 | 447,292 |
| Cash Flows from Investing Activities: | | | | |
| Transfers to time deposits | | (16,690) | (18,269) | (194,372) |
| Proceeds from maturity of time deposits | | 21,752 | 19,606 | 208,597 |
| Acquisition of short-term investments in securities | | (314) | (231) | (2,458) |
| Proceeds from sales of short-term investments in securities | | 576 | 283 | 3,011 |
| Acquisition of investments in securities | | (221) | (16) | (170) |
| Proceeds from sales of investments in securities | | 603 | 188 | 2,000 |
| Acquisition of property, plant and equipment | | (17,719) | (18,764) | (199,638) |
| Proceeds from sales of property, plant and equipment | | 1,677 | 1,934 | 20,577 |
| Acquisition of intangible assets | | (7,017) | (5,755) | (61,230) |
| Payments of long-term prepaid expenses | | (4,500) | (5,173) | (55,038) |
| Other | | 1,185 | 663 | 7,054 |
| Net cash used in investing activities | | (20,668) | (25,534) | (271,667) |
| Cash Flows from Financing Activities: | | | | |
| Net increase (decrease) in short-term debt | | (3,431) | 3,296 | 35,068 |
| Proceeds from long-term debt | | 650 | 1,508 | 16,044 |
| Repayment of long-term debt | | (8,366) | (5,995) | (63,783) |
| Repayment of lease obligations | | (2,602) | (2,147) | (22,843) |
| Acquisition of treasury stock | | (3) | (2) | (21) |
| Disposal of treasury stock | | 105 | 71 | 755 |
| Cash dividend paid | | (19,891) | (19,897) | (211,693) |
| Cash dividend paid to minority shareholders | | (1,944) | (1,579) | (16,800) |
| Net cash used in financing activities | | (35,482) | (24,745) | (263,273) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | | (2,068) | 5,517 | 58,698 |
| Net Change in Cash and Cash Equivalents | | (5,618) | (2,721) | (28,950) |
| Cash and Cash Equivalents at Beginning of Year | 3 | 88,592 | 82,974 | 882,796 |
| Cash and Cash Equivalents at End of Year | 3 | ¥ 82,974 | ¥ 80,253 | \$ 853,846 |

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, 2012 to conform to the presentation for the year ended March 31, 2013.

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥93.99 = US\$1 prevailing on March 31, 2013 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 95 subsidiaries (companies over which the Company exercises control over operations) as of March 31, 2013 (97 as of March 31, 2012). The accompanying consolidated financial statements as of March 31, 2013 include the accounts of the Company and its 93 (94 as of March 31, 2012) significant subsidiaries (the "Companies").

The Company has 9 affiliates (companies that are not subsidiaries but over which the Company exercises significant influence) as of March 31, 2013 (13 as of March 31, 2012). Investments in 3 affiliates (3 as of March 31, 2012) are accounted for by the equity method as of March 31, 2013.

The Shiseido Group established SHISEIDO Kozmetik Anonim Sirketi (Shiseido Turkey). As a result, SHISEIDO Kozmetik Anonim Sirketi is included in the scope of consolidation in the current fiscal year.

Orbit, Inc. was absorbed by Shiseido FITIT Co., Ltd. in a merger and was excluded from the scope of consolidation in the fiscal year ended March 31, 2013. Blush Holdings, LLC was liquidated and was excluded from the scope of consolidation in the fiscal year ended March 31, 2013.

The major consolidated subsidiaries are listed in "Main Subsidiaries and Affiliates" on page 82.

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 2 unconsolidated subsidiaries and 6 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 periodic 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 building attachments) 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)

Amortized intangible assets mainly use the straight-line method. The main estimated useful lives are as follows:

Software: 5 years

Customer relationships: 10 years

(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 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 operations 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 distributors' stock.

(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) 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.

(17) 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.

(18) Allowance for Environmental Measures

The Company and its domestic consolidated subsidiaries provide a reserve for 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).

(19) Provision for Structural Reform

The Company provides a reserve for the estimated amount of expenses and the losses to be incurred in association with structural reforms.

(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).

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 amendment), and necessary modifications have been made for consolidation.

(25) Application of Consolidated Taxation System

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. The cumulative effect of this change on net assets at the beginning of the fiscal year ended March 31, 2012 was a ¥1,064 million reduction in retained earnings after restatement, reported on the consolidated statement of changes in net assets.

(27) Changes to Accounting Policies (Change in Accounting Policy for Situations Which Are Difficult to Distinguish from a Change in Accounting Estimate)

Pursuant to an amendment to the Corporation Tax Act, effective the fiscal year ended March 31, 2013, the Company and its domestic consolidated subsidiaries have changed the depreciation method for property, plant and equipment purchased on/after April 1, 2012 and the method now conforms to the amended Act. The aforementioned changes had a minimal effect on operating income, ordinary income, and loss before income taxes and minority interests for the fiscal year ended March 31, 2013.

(28) Accounting Standards Issued but Not Yet Adopted

Revised Accounting Standard for Consolidated Financial Statements

- “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 Applying the 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, 2012, non-recourse debt accounted for ¥800 million (\$8,512 thousand) of the current portion of long-term debt of ¥7,745 million (\$82,402 thousand) and for ¥23,250 million (\$247,367 thousand) of long-term debt of ¥175,418 million (\$1,866,347 thousand). The assets collateralizing non-recourse debt totaled ¥33,855 million (\$360,198 thousand) and consisted of buildings and structures totaling ¥15,927 million (\$169,454 thousand), guarantee deposits totaling ¥15,200 million (\$161,720 thousand) in other investments in investments and other assets, investments in securities totaling ¥1,512 million (\$16,087 thousand), cash and time deposits totaling ¥1,214 million (\$12,916 thousand), and machinery and equipment totaling ¥2 million (\$21 thousand).

As of March 31, 2013, non-recourse debt accounted for ¥23,250 million (\$247,367 thousand) of the current portion of long-term debt of ¥33,419 million (\$355,559 thousand). The assets collateralizing non-recourse debt totaled ¥33,358 million (\$354,910 thousand) and consisted of buildings and structures totaling ¥15,308 million (\$162,868 thousand), guarantee deposits totaling ¥15,200 million (\$161,720 thousand) in other investments in investments and other assets, investments in securities totaling ¥1,512 million (\$16,087 thousand), cash and time deposits totaling ¥1,336 million (\$14,214 thousand), and machinery and equipment totaling ¥2 million (\$21 thousand).

Accounting Standards about Retirement Benefits

- “Accounting standards about retirement benefits” (ASBJ Statement No. 26, May 17, 2012)
- “Guidance on accounting standards about retirement benefits” (ASBJ Guidance No. 25, May 17, 2012)

① Overview

This accounting standard was revised with a focus on the treatment of unrecognized actuarial gains and losses and unrecognized prior service cost, the determination of projected benefit obligations and current service cost, and enhancement of disclosure.

② Expected Application Date

The Company plans to apply this accounting standard from the end of the fiscal year beginning April 1, 2013. However, the Company plans to apply the accounting standard regarding the revision of the determination of projected benefit obligations and current service cost from the fiscal year beginning April 1, 2014.

③ Effect of Applying the Accounting Standard

The Company is currently assessing the effect of applying the accounting standard in preparing the financial statements for the fiscal year ending March 31, 2014.

International Accounting Standard No. 19, Employee Benefits, June 16, 2011

① Overview

For overseas consolidated subsidiaries, this accounting standard was revised primarily to eliminate the reporting option of deferring recognition of changes in net defined benefit liability.

② Expected Application Date

The Company expects to apply this accounting standard from the end of the fiscal year beginning April 1, 2013.

③ Effect of Applying the Accounting Standard

The Company is currently assessing the effect of applying the accounting standard in preparing the financial statements for the fiscal year ending March 31, 2014.

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, 2012 and 2013 is as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|---------|---------------------------------------|
| | 2012 | 2013 | 2013 |
| Cash and time deposits | ¥67,122 | ¥59,330 | \$631,237 |
| Short-term investments in securities | 26,717 | 31,934 | 339,760 |
| Total | ¥93,839 | ¥91,264 | \$970,997 |
| Time deposits with maturities exceeding 3 months | (9,517) | (9,321) | (99,170) |
| Debt securities with maturities exceeding 3 months | (1,348) | (1,690) | (17,981) |
| Cash and cash equivalents | ¥82,974 | ¥80,253 | \$853,846 |

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, 2012 are ¥1,973 million and ¥1,973 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 ¥1,735 million (\$18,459 thousand) and ¥1,735 million (\$18,459 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 | | |
|---|--------------------|----------------|----------|
| | 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) |

| | Millions of yen | | |
|---|--------------------|----------------|----------|
| | 2013 | | |
| | Carrying value (*) | Fair value (*) | Variance |
| ① Cash and time deposits | ¥ 59,330 | ¥ 59,330 | — |
| ② Notes and accounts receivable (less allowance for doubtful accounts) | 117,262 | 117,262 | — |
| ③ Short-term investments in securities and investments in securities Available-for-sale securities | 52,308 | 52,308 | — |
| ④ Notes and accounts payable | (83,171) | (83,171) | — |
| ⑤ Short-term bank borrowings | (5,976) | (5,976) | — |
| ⑥ Bonds | (90,000) | (90,751) | ¥ (751) |
| ⑦ Long-term borrowings from banks and other financial institutions | (84,714) | (85,717) | (1,003) |
| ⑧ Lease obligations | (3,979) | (4,019) | (40) |
| ⑨ Derivative instruments | | | |
| i. Hedge accounting not applied | (40) | (40) | — |
| ii. Hedge accounting applied | — | 605 | 605 |

| | Thousands of U.S. dollars (Note 1) | | |
|---|------------------------------------|----------------|------------|
| | 2013 | | |
| | Carrying value (*) | Fair value (*) | Variance |
| ① Cash and time deposits | \$ 631,237 | \$ 631,237 | — |
| ② Notes and accounts receivable (less allowance for doubtful accounts) | 1,247,601 | 1,247,601 | — |
| ③ Short-term investments in securities and investments in securities Available-for-sale securities | 556,527 | 556,527 | — |
| ④ Notes and accounts payable | (884,892) | (884,892) | — |
| ⑤ Short-term bank borrowings | (63,581) | (63,581) | — |
| ⑥ Bonds | (957,549) | (965,539) | \$ (7,990) |
| ⑦ Long-term borrowings from banks and other financial institutions | (901,309) | (911,980) | (10,671) |
| ⑧ Lease obligations | (42,334) | (42,760) | (426) |
| ⑨ Derivative instruments | | | |
| i. Hedge accounting not applied | (426) | (426) | — |
| ii. Hedge accounting applied | — | 6,437 | 6,437 |

*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, 2012 and 2013.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|----------------|---------------------------------------|
| | 2012 | 2013 | 2013 |
| | Carrying value | Carrying value | Carrying value |
| Shares of subsidiaries and affiliates | ¥1,220 | ¥1,185 | \$12,608 |
| Unlisted equity securities | 8,090 | 8,063 | 85,786 |
| Investment in limited partnership, etc. | 996 | 888 | 9,448 |

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.

*3: The carrying value of monetary assets as of March 31, 2012 and 2013

| | 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 |
| | Millions of yen | | | |
| | 2013 | | | |
| | 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 | ¥ 59,330 | — | — | — |
| Notes and accounts receivable | 117,262 | — | — | — |
| Short-term investments in securities and investments in securities | | | | |
| Available-for-sale securities with maturity (Negotiable certificate of deposit) | 9,500 | — | — | — |
| Available-for-sale securities with maturity (Corporate bonds) | 14,500 | ¥ 300 | — | ¥4,500 |
| Available-for-sale securities with maturity (Investment trust) | 1,870 | — | — | — |
| Available-for-sale securities with maturity (Investment in limited partnership, etc.) | 165 | 723 | — | — |
| | ¥202,627 | ¥1,023 | — | ¥4,500 |

Thousands of U.S. dollars (Note 1)

| | 2013 | | | |
|---|-----------------------|----------------------------------|------------------------------------|--------------------|
| | 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 | \$ 631,237 | — | — | — |
| Notes and accounts receivable | 1,247,601 | — | — | — |
| Short-term investments in securities and investments in securities | | | | |
| Available-for-sale securities with maturity (Negotiable certificate of deposit) | 101,075 | — | — | — |
| Available-for-sale securities with maturity (Corporate bonds) | 154,272 | \$ 3,192 | — | \$47,877 |
| Available-for-sale securities with maturity (Investment trust) | 19,896 | — | — | — |
| Available-for-sale securities with maturity (Investment in limited partnership, etc.) | 1,755 | 7,692 | — | — |
| | \$2,155,836 | \$10,884 | — | \$47,877 |

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, 2012 and 2013 are as follows:

Available-for-sale securities:

| | 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 |

| | Millions of yen | | | |
|-------------------|-----------------|-----------------|------------------------|-------------------------|
| | 2013 | | | |
| | Cost | Carrying amount | Gross unrealized gains | Gross unrealized losses |
| Equity securities | ¥ 9,756 | ¥14,467 | ¥5,381 | ¥ 670 |
| Bonds | 4,800 | 4,076 | — | 724 |
| Other | 33,405 | 33,765 | 405 | 45 |
| | ¥47,961 | ¥52,308 | ¥5,786 | ¥1,439 |

| | Thousands of U.S. dollars (Note 1) | | | |
|-------------------|------------------------------------|-----------------|------------------------|-------------------------|
| | 2013 | | | |
| | Cost | Carrying amount | Gross unrealized gains | Gross unrealized losses |
| Equity securities | \$103,798 | \$153,921 | \$57,251 | \$ 7,128 |
| Bonds | 51,069 | 43,366 | — | 7,703 |
| Other | 355,411 | 359,240 | 4,308 | 479 |
| | \$510,278 | \$556,527 | \$61,559 | \$15,310 |

* Loss on revaluation for securities stated at fair value was recognized in the amounts of ¥7 million and ¥14 million (\$149 thousand) for the years ended March 31, 2012 and 2013, respectively.

Also, loss on revaluation for securities stated at cost was recognized in the amounts of ¥66 million and ¥4 million (\$43 thousand) for the years ended March 31, 2012 and 2013, respectively.

Proceeds from sales, and gross realized gains and losses from the sale of available-for-sale securities in the years ended March 31, 2012 and 2013 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|-----------------------|-----------------|------|------------------------------------|------|
| | 2012 | 2013 | 2012 | 2013 |
| Proceeds from sales | ¥1,180 | ¥470 | \$5,001 | |
| Gross realized gains | 26 | 88 | 936 | |
| Gross realized losses | 259 | 14 | 149 | |

6. INVENTORIES

Inventories held by the Companies as of March 31, 2012 and 2013 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|----------------------------|-----------------|---------|---------------------------------------|
| | 2012 | 2013 | 2013 |
| Goods | ¥49,564 | ¥60,143 | \$639,887 |
| Work in process | 3,651 | 4,539 | 48,292 |
| Raw materials and supplies | 18,687 | 19,870 | 211,406 |
| | ¥71,902 | ¥84,552 | \$899,585 |

7. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of March 31, 2012 and 2013 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
| | 2012 | 2013 | 2013 |
| Short-term bank borrowings (weighted average interest rate 5.50%) | ¥ 1,990 | ¥ 5,976 | \$ 63,581 |
| Short-term debt | ¥ 1,990 | ¥ 5,976 | \$ 63,581 |
| Long-term borrowings from banks and other financial institutions | | | |
| (Borrowings due within one year, weighted average interest rate 0.98%) | 5,915 | 31,685 | 337,110 |
| (Borrowings due after one year, weighted average interest rate 0.35%) | 82,836 | 53,029 | 564,198 |
| 0.65% unsecured yen bonds due in December 2014 | 50,000 | 50,000 | 531,972 |
| 0.55% unsecured yen bonds due in June 2015 | 40,000 | 40,000 | 425,577 |
| Lease obligations | | | |
| (Borrowings due within one year, weighted average interest rate 2.74%) | 1,830 | 1,734 | 18,449 |
| (Borrowings due after one year, weighted average interest rate 2.87%) | 2,582 | 2,245 | 23,886 |
| | ¥183,163 | ¥178,693 | \$1,901,192 |
| Less: portion due within one year | (7,745) | (33,419) | (355,559) |
| Long-term debt | ¥175,418 | ¥145,274 | \$1,545,633 |

The aggregate annual maturities of long-term debt as of March 31, 2013 are as follows:

| For the years ending March 31 | Millions of yen | Thousands of U.S. dollars (Note 1) |
|-------------------------------|-----------------|---------------------------------------|
| 2014 | ¥ 33,419 | \$ 355,559 |
| 2015 | 56,184 | 597,766 |
| 2016 | 45,838 | 487,690 |
| 2017 | 5,383 | 57,272 |
| 2018 | 37,690 | 401,000 |
| 2019 and thereafter | 179 | 1,905 |
| | ¥178,693 | \$1,901,192 |

Assets pledged as collateral as of March 31, 2012 and 2013 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---------------------------|-----------------|---------|---------------------------------------|
| | 2012 | 2013 | 2013 |
| Buildings and structures | ¥15,927 | ¥15,308 | \$162,868 |
| Other investments | 15,200 | 15,200 | 161,720 |
| Investments in securities | 1,512 | 1,512 | 16,087 |
| Cash and time deposits | 1,214 | 1,336 | 14,214 |
| Machinery and equipment | 2 | 2 | 21 |
| | ¥33,855 | ¥33,358 | \$354,910 |

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of March 31, 2012 and 2013:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|-----------------------------------|-----------------|---------|---------------------------------------|
| | 2012 | 2013 | 2013 |
| Current portion of long-term debt | ¥ 800 | ¥23,250 | \$247,367 |
| Long-term debt | 23,250 | — | — |
| | ¥24,050 | ¥23,250 | \$247,367 |

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, 2012 and 2013 is as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|--|-----------------|------------|---------------------------------------|
| | 2012 | 2013 | 2013 |
| Projected benefit obligations | ¥(207,512) | ¥(238,017) | \$(2,532,365) |
| Fair value of plan assets | 159,254 | 171,783 | 1,827,673 |
| Funded status of the pension benefit plans | (48,258) | (66,234) | (704,692) |
| Unrecognized net actuarial loss | 27,474 | 40,072 | 426,343 |
| Unrecognized prior service cost | (357) | (39) | (415) |
| Net retirement benefit obligation | ¥ (21,141) | ¥ (26,201) | \$ (278,764) |
| Prepaid pension expenses | 20,948 | 17,155 | 182,519 |
| Accrued retirement benefits | ¥ (42,089) | ¥ (43,356) | \$ (461,283) |

The net periodic pension benefit costs for the years ended March 31, 2012 and 2013 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|------------------------------------|-----------------|---------|---------------------------------------|
| | 2012 | 2013 | 2013 |
| Service cost | ¥ 8,162 | ¥ 8,248 | \$ 87,754 |
| Interest cost | 5,136 | 5,178 | 55,091 |
| Expected return on plan assets | (6,360) | (6,354) | (67,603) |
| Amortization of net actuarial loss | 6,422 | 5,716 | 60,815 |
| Amortization of prior service cost | (1,100) | (310) | (3,298) |
| Net periodic pension benefit cost | ¥12,260 | ¥12,478 | \$132,759 |

The discount rate used to determine the actuarial present value of projected benefit obligations as of March 31, 2012 is mainly 2.5% and 2013 is mainly 1.6%. The expected rate of return on plan assets of those plans as of March 31, 2012 and 2013 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 year ended March 31, 2012.

Regarding the fiscal year ended March 31, 2013, the statement is omitted since we had loss before income taxes.

| | 2012 | 2013 |
|---|-------|------|
| Statutory tax rate | 41.0% | — |
| Increase (decrease) due to: | | |
| Permanently nondeductible expenses | 1.4 | — |
| Dividend income not taxable | 0.7 | — |
| Unrealized intercompany profit | 9.2 | — |
| Adjustment of deferred tax assets for enacted changes in tax laws and rates | 7.1 | — |
| Tax credits | (1.4) | — |
| Differences of tax rates for overseas consolidated subsidiaries | (1.7) | — |
| Valuation allowance | (3.0) | — |
| Others | 2.9 | — |
| Effective tax rate | 56.2% | — |

Deferred tax assets and liabilities (both current and non-current) as of March 31, 2012 and 2013 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|-----------------|---------|---------------------------------------|
| | 2012 | 2013 | 2013 |
| Deferred tax assets: | | | |
| Inventories | ¥ 8,249 | ¥ 9,373 | \$ 99,723 |
| Depreciation | 3,761 | 4,689 | 49,888 |
| Unrealized intercompany profit in inventory and property, plant and equipment | 2,213 | 6,592 | 70,135 |
| Accrued expenses | 5,318 | 6,507 | 69,231 |
| Accrued retirement benefits | 7,307 | 9,051 | 96,297 |
| Accrued bonuses for employees | 4,639 | 3,699 | 39,355 |
| Write-down of investments in securities and other investments | 3,767 | 4,208 | 44,771 |
| Tax losses carried forward | 1,513 | 847 | 9,012 |
| Reserve for sales returns | 1,469 | 1,386 | 14,746 |
| Accrued enterprise tax | 243 | 477 | 5,075 |
| Other | 4,528 | 5,118 | 54,453 |
| Total gross deferred tax assets | 43,007 | 51,947 | 552,686 |
| Less: valuation allowance | (3,117) | (2,959) | (31,482) |
| Total deferred tax assets | ¥39,890 | ¥48,988 | \$521,204 |
| Deferred tax liabilities: | | | |
| Goodwill and other intangible assets | ¥25,393 | ¥27,711 | \$294,829 |
| Special tax-purpose reserve | 832 | 809 | 8,607 |
| Unrealized gains (losses) on available-for-sale securities | 511 | 2,241 | 23,843 |
| Undistributed earnings of overseas consolidated subsidiaries | 727 | 870 | 9,256 |
| Other | 2,124 | 978 | 10,406 |
| Total deferred tax liabilities | ¥29,587 | ¥32,609 | \$346,941 |
| Net deferred tax assets | ¥10,303 | ¥16,379 | \$174,263 |

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, 2013 include amounts representing year-end cash dividend of ¥9,951 million (\$105,873 thousand), ¥25.0 (\$0.27) per share, which was approved at the shareholders' meeting held on June 25, 2013.

12. STOCK OPTION PLAN

Summarized information on the stock options granted as of March 31, 2013 is as follows:

① 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 | 97,000 shares | 97,000 shares |
| Exercise price | ¥1,287 | |
| Exercisable period | July 1, 2005 - June 26, 2013 | |

② 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 | |

③ 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 | |

④ 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 | |

⑤ 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 | |

⑥ 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 | 21,000 shares | 39,000 shares |
| Exercise price | ¥1 | ¥1 | |
| Exercisable period | August 1, 2011 - July 30, 2018 | August 1, 2011 - July 30, 2018 | |

⑦ 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 | 63,700 shares | 44,100 shares | 107,800 shares |
| Exercise price | ¥1 | ¥1 | |
| Exercisable period | August 1, 2012 - July 31, 2019 | August 1, 2012 - July 31, 2019 | |

⑧ 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 | |

⑨ 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 | |

⑩ Stock option plan approved by the shareholders on June 26, 2012 and resolved by the Board of Directors on July 31, 2012

| | Stock options granted on August 30, 2012 | Stock options granted on August 30, 2012 | Total |
|--|---|---|----------------|
| Number of shares for options granted | 108,600 shares | 100,400 shares | 209,000 shares |
| Number of shares for options outstanding | 108,600 shares | 100,400 shares | 209,000 shares |
| Exercise price | ¥1 | ¥1 | |
| Exercisable period | August 1, 2015 - July 31, 2027 | August 1, 2015 - July 31, 2027 | |

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 ¥14,674 million and ¥13,659 million (\$145,324 thousand) for the fiscal years ended March 31, 2012 and 2013, respectively.

There are no research and development expenses included in total manufacturing expenses for the fiscal years ended March 31, 2012 and 2013.

14. TRANSACTIONS WITH RELATED PARTIES

None applicable

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, 2012 and 2013 are as follows:

| | Millions of yen | | Thousands of |
|---|-----------------|---------|-----------------------|
| | 2012 | 2013 | U.S. dollars (Note 1) |
| ① As lessee: | | | |
| The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows: | | | |
| Due within one year | ¥ 4,234 | ¥ 4,954 | \$ 52,708 |
| Due after one year | 17,460 | 21,079 | 224,268 |
| | ¥21,694 | ¥26,033 | \$276,976 |
| 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 | ¥ 161 | \$ 1,713 |
| Due after one year | 5,672 | 4,104 | 43,664 |
| | ¥ 5,886 | ¥ 4,265 | \$ 45,377 |

16. DERIVATIVE FINANCIAL INSTRUMENTS

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 | | | |
| | Total | Settled over one year | Estimated fair value | Unrealized gain (loss) |
| 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 |
| | — | — | — | ¥(201) |

② Derivatives that meet the criteria for hedge accounting

| | Millions of yen | | |
|---|-----------------|-----------------------|----------------------|
| | 2012 | | |
| | Contract amount | | |
| | Total | Settled over one year | Estimated fair value |
| 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) |

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2013 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

| | Millions of yen | | | |
|---------------------------------------|-----------------|-----------------------|----------------------|------------------------|
| | 2013 | | | |
| | Contract amount | | | |
| | Total | Settled over one year | Estimated fair value | Unrealized gain (loss) |
| Foreign exchange contracts: Put US\$ | ¥ 4,305 | — | ¥4,304 | ¥ 1 |
| EUR | 2,298 | — | 2,256 | 42 |
| GBP | 1,460 | — | 1,444 | 16 |
| AU\$ | 98 | — | 98 | 0 |
| Foreign exchange contracts: Call US\$ | 983 | — | 971 | (12) |
| EUR | 9,164 | — | 9,077 | (87) |
| | — | — | — | ¥(40) |

| | Thousands of U.S. dollars (Note 1) | | | |
|---------------------------------------|------------------------------------|-----------------------|----------------------|------------------------|
| | 2013 | | | |
| | Contract amount | | | |
| | Total | Settled over one year | Estimated fair value | Unrealized gain (loss) |
| Foreign exchange contracts: Put US\$ | \$45,803 | — | \$45,792 | \$ 11 |
| EUR | 24,449 | — | 24,003 | 446 |
| GBP | 15,534 | — | 15,363 | 171 |
| AU\$ | 1,043 | — | 1,043 | 0 |
| Foreign exchange contracts: Call US\$ | 10,459 | — | 10,331 | (128) |
| EUR | 97,500 | — | 96,574 | (926) |
| | — | — | — | \$(426) |

② Derivatives that meet the criteria for hedge accounting

| Millions of yen | | | |
|---|---------|--------------------------|-------------------------|
| 2013 | | | |
| Contract amount | | | |
| | Total | Settled over one year | Estimated fair value |
| Interest rate and currency swap contracts: | | | |
| To receive variable U.S.\$/to pay fixed yen | ¥22,500 | ¥17,500 | ¥690 |
| Interest rate swap contracts: | | | |
| To receive variable/to pay fixed | 23,250 | — | (85) |

| Thousands of U.S. dollars (Note 1) | | | |
|---|-----------|--------------------------|-------------------------|
| 2013 | | | |
| Contract amount | | | |
| | Total | Settled over one year | Estimated fair value |
| Interest rate and currency swap contracts: | | | |
| To receive variable U.S.\$/to pay fixed yen | \$239,387 | \$186,190 | \$7,341 |
| Interest rate swap contracts: | | | |
| To receive variable/to pay fixed | 247,367 | — | (904) |

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.

For the fiscal year ended March 31, 2012, the book value of domestic idle assets, due to be decommissioned was devalued to their recoverable value, with a ¥19 million loss on buildings and structures reported as other expenses. In the Global Business, the assets of subsidiaries in China which were no longer in use were devalued to their recoverable value, with a ¥77 million loss on software reported as other expenses.

For the fiscal year ended March 31, 2013, in the Global Business segment, goodwill related to the acquisition of the Bare Escentuals Group was subject to impairment tests based on U.S. accounting standards, after comprehensive consideration of the current situation, in which sales have been underperforming projections. Consequently, such goodwill was devalued to its recoverable value, resulting in a ¥28,587 million (\$304,149 thousand) loss (excluding the amount already amortized pursuant to Japanese accounting standards), reported as other expenses. The recoverable value was measured as the value in use, which was calculated by discounting estimated net cash inflows using a discount rate of 10%.

The book values of tools, instruments, and fixtures of Bare Escentuals, Inc. have been devalued to their recoverable value, resulting in ¥503 million (\$5,352 thousand) in other expenses. The recoverable value is computed using the net sale value, evaluated based on the estimated price if sold. Among business-use assets, the book values of buildings and structures have been devalued to their recoverable value, resulting in ¥10 million (\$106 thousand) in other expenses.

The book values of idle assets, decommissioned in order to reinforce the Group's production facilities, have been devalued to their recoverable value, with the reduction amount reported as other expenses. This includes an ¥11 million (\$117 thousand) loss on buildings and structures and an ¥11 million (\$117 thousand) loss on machinery and equipment.

The recoverable value is computed using the net sale value, evaluated based on the estimated price if sold.

18. STRUCTURAL REFORM EXPENSES

Structural reform expenses are expenses associated with reorganization of production and R&D bases, which are part of one-time expenses related to business structural reforms resulting from drastic reassessment of organizations, and processes aimed at building a robust business structure.

Impairment losses on fixed assets included among structural reform expenses as follows.

For the fiscal year ended March 31, 2013, the book values of Group assets scheduled for closure have been devalued to their recoverable value, with the reduction amount reported as other expenses. This includes a ¥2,411 million (\$25,652 thousand) loss on buildings and structure, a ¥950 million (\$10,108 thousand) loss on land, and a ¥620 million (\$6,596 thousand) loss on machinery and equipment. The recoverable value is computed using the net sale value, evaluated based on the estimated price if sold.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|------------------------------------|-----------------|--------|---------------------------------------|
| | 2012 | 2013 | 2013 |
| Structural reform expenses | | | |
| Impairment loss on fixed assets | — | ¥3,981 | \$42,356 |
| Allowance for demolition, removal. | — | 1,551 | 16,502 |
| Other | — | 213 | 2,266 |
| | — | ¥5,745 | \$61,124 |

19. 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 | 2013 | 2013 |
| Unrealized gains (losses) on available-for-sale securities, net of taxes: | | | |
| Increase (decrease) during the fiscal year | ¥ 838 | ¥ 3,473 | \$ 36,951 |
| Reclassification adjustments | (6) | 0 | 0 |
| Amount before tax | 832 | 3,473 | 36,951 |
| Tax (expense) or benefit | (270) | (1,176) | (12,512) |
| Subtotal | ¥ 562 | ¥ 2,297 | \$ 24,438 |
| Foreign currency translation adjustments: | | | |
| Increase (decrease) during the fiscal year | ¥(11,945) | ¥30,850 | \$328,226 |
| Reclassification adjustments | (200) | — | — |
| Subtotal | ¥(12,145) | ¥30,850 | \$328,226 |
| Share of other comprehensive income of associates accounted for using equity method: | | | |
| Increase (decrease) during the fiscal year | ¥ (19) | ¥ 37 | \$ 394 |
| Total other comprehensive income | ¥(11,602) | ¥33,184 | \$353,058 |

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, 2012 and 2013 are as follows:

| | 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 |

| | Millions of yen | | | | | |
|--|-----------------------------|-----------------|----------|----------|--------------|----------|
| | 2013 | | | | | |
| | Domestic Cosmetics Business | Global Business | Others*1 | Subtotal | Adjustment*2 | Total |
| Net Sales | | | | | | |
| Sales to outside customers | ¥345,883 | ¥322,350 | ¥ 9,495 | ¥677,728 | — | ¥677,728 |
| Intersegment sales or transfers | 1,898 | 2,870 | 5,209 | 9,977 | ¥ (9,977) | — |
| Total | ¥347,781 | ¥325,220 | ¥14,704 | ¥687,705 | ¥ (9,977) | ¥677,728 |
| Segment Income *3 | ¥ 27,508 | ¥ (3,288) | ¥ 1,965 | ¥ 26,185 | ¥ (139) | ¥ 26,046 |
| Segment Assets | ¥205,464 | ¥401,777 | ¥44,396 | ¥651,637 | ¥63,741 | ¥715,378 |
| Other Items | | | | | | |
| Depreciation and Amortization *4 | ¥ 14,883 | ¥ 16,125 | ¥ 1,007 | ¥ 32,015 | ¥ 31 | ¥ 32,046 |
| Amortization of Goodwill | ¥ 142 | ¥ 5,349 | — | ¥ 5,491 | — | ¥ 5,491 |
| Increase in Tangible and Intangible Fixed Assets | ¥ 12,908 | ¥ 15,170 | ¥ 220 | ¥ 28,298 | — | ¥ 28,298 |

| | Thousands of U.S. dollars (Note 1) | | | | | |
|--|------------------------------------|-----------------|-----------|-------------|--------------|-------------|
| | 2013 | | | | | |
| | Domestic Cosmetics Business | Global Business | Others*1 | Subtotal | Adjustment*2 | Total |
| Net Sales | | | | | | |
| Sales to outside customers | \$3,679,998 | \$3,429,620 | \$101,021 | \$7,210,639 | — | \$7,210,639 |
| Intersegment sales or transfers | 20,194 | 30,535 | 55,421 | 106,150 | \$(106,150) | — |
| Total | \$3,700,192 | \$3,460,155 | \$156,442 | \$7,316,789 | \$(106,150) | \$7,210,639 |
| Segment Income *3 | \$ 292,669 | \$ (34,982) | \$ 20,906 | \$ 278,593 | \$ (1,478) | \$ 277,115 |
| Segment Assets | \$2,186,020 | \$4,274,678 | \$472,348 | \$6,933,046 | \$ 678,168 | \$7,611,214 |
| Other Items | | | | | | |
| Depreciation and Amortization *4 | \$ 158,346 | \$ 171,561 | \$ 10,714 | \$ 340,621 | \$ 330 | \$ 340,951 |
| Amortization of Goodwill | \$ 1,511 | \$ 56,910 | — | \$ 58,421 | — | \$ 58,421 |
| Increase in Tangible and Intangible Fixed Assets | \$ 137,334 | \$ 161,400 | \$ 2,341 | \$ 301,075 | — | \$ 301,075 |

*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, purification/analytical equipment, 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, 2012 and 2013 were ¥60,888 million and ¥60,389 million (\$642,505 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, 2012 and 2013 were ¥2,565 million and ¥2,648 million (\$28,173 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. As described in Change to Accounting Policies (Change in Accounting Policy for Situations Which Are Difficult to Distinguish from a Change in Accounting Estimate), pursuant to an amendment to the Corporation Tax Act, effective the fiscal year ended March 31, 2013, the Company and its consolidated subsidiaries have changed the depreciation method for property, plant and equipment purchased on/after April 1, 2012 and the method now conforms to the amended Act. The aforementioned changes had a minimal effect on operating income, ordinary income, and loss before income taxes and minority interests for the fiscal year ended March 31, 2013.

(Related Information)

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 |

* 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 |

For the fiscal year ended March 31, 2013

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 | | | | | | |
|-----------------|----------|---------|---------|----------------|---------|----------|
| 2013 | | | | | | |
| Japan | Americas | | Europe | Asia / Oceania | | Total |
| | | U.S.A. | | | China | |
| ¥373,252 | ¥92,974 | ¥80,456 | ¥79,128 | ¥132,374 | ¥90,724 | ¥677,728 |

Thousands of U.S. dollars (Note 1)

| 2013 | | | | | | |
|-------------|-----------|-----------|-----------|----------------|-----------|-------------|
| Japan | Americas | | Europe | Asia / Oceania | | Total |
| | | U.S.A. | | | China | |
| \$3,971,188 | \$989,190 | \$856,006 | \$841,877 | \$1,408,384 | \$965,252 | \$7,210,639 |

* Classification of net sales is determined by country or geographical location.

② Tangible fixed assets

| Millions of yen | | | | | | |
|-----------------|----------|---------|--------|----------------|---------|----------|
| 2013 | | | | | | |
| Japan | Americas | | Europe | Asia / Oceania | | Total |
| | | U.S.A. | | | China | |
| ¥83,999 | ¥14,852 | ¥14,631 | ¥8,194 | ¥20,760 | ¥14,129 | ¥127,805 |

Thousands of U.S. dollars (Note 1)

| 2013 | | | | | | |
|-----------|-----------|-----------|----------|----------------|-----------|-------------|
| Japan | Americas | | Europe | Asia / Oceania | | Total |
| | | U.S.A. | | | China | |
| \$893,701 | \$158,017 | \$155,665 | \$87,179 | \$220,875 | \$150,325 | \$1,359,772 |

(4) Information about segment loss on impairment of fixed assets

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 |

For the fiscal year ended March 31, 2013

| | Millions of yen | | | |
|------------------------------------|-----------------------------|-----------------|--------|---------|
| | 2013 | | | |
| | Domestic Cosmetics Business | Global Business | Others | Total |
| Loss on impairment of fixed assets | ¥3,067 | ¥30,006 | ¥30 | ¥33,103 |

1. Global business amount are mainly goodwill with USA subsidiary.

2. Impairment details as follows: Domestic Cosmetics business: ¥3,044 million, Global business: ¥907 million, Others: ¥30 million

| | Thousands of U.S. dollars (Note 1) | | | |
|------------------------------------|------------------------------------|-----------------|--------|-----------|
| | 2013 | | | |
| | Domestic Cosmetics Business | Global Business | Others | Total |
| Loss on impairment of fixed assets | \$32,631 | \$319,247 | \$319 | \$352,197 |

(5) Information about segment unamortized goodwill

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 |

For the fiscal year ended March 31, 2013

| | Millions of yen | | | |
|---|-----------------------------|-----------------|--------|---------|
| | 2013 | | | |
| | Domestic Cosmetics Business | Global Business | Others | Total |
| Balance at the end of the current fiscal year | ¥1,277 | ¥55,851 | — | ¥57,128 |

| | Thousands of U.S. dollars (Note 1) | | | |
|---|------------------------------------|-----------------|--------|-----------|
| | 2013 | | | |
| | Domestic Cosmetics Business | Global Business | Others | Total |
| Balance at the end of the current fiscal year | \$13,586 | \$594,223 | — | \$607,809 |

21. 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, 2013 and 2012, and the consolidated statements of operations, statements of 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, 2013 and 2012, 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, 2013 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 25, 2013

Investor Information

(As of March 31, 2013)

Number of Shareholders

89,700

Common Shares Issued and Outstanding

400,000,000 (including 1,960,234 in treasury stock)

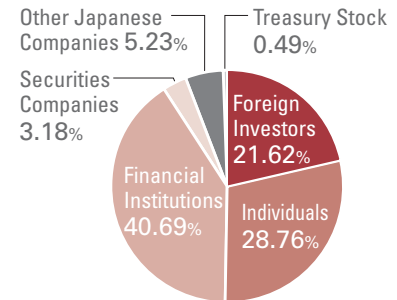
Principal Shareholders

| Shareholders | Number of shares held (thousands) | Percentage of shareholding |
|--|-----------------------------------|----------------------------|
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 28,702 | 7.21 |
| Mizuho Bank, Ltd. | 23,526 | 5.91 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 15,973 | 4.01 |
| Shiseido Employees' Stockholding | 10,350 | 2.60 |
| NIPPONKOA Insurance Company, Ltd. | 8,477 | 2.12 |
| Mitsui Sumitomo Insurance Company, Limited | 8,000 | 2.00 |
| SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS | 7,685 | 1.93 |
| Nippon Life Insurance Company | 7,019 | 1.76 |
| Asahi Mutual Life Insurance Company | 6,079 | 1.52 |
| The Bank of New York Mellon as Depository Bank for Depository Receipt Holders* | 5,839 | 1.46 |

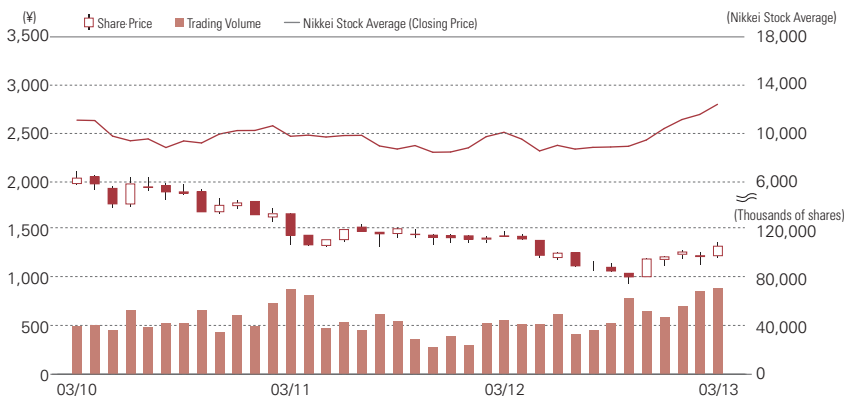
Calculations of percentage of shareholding are based on the total number of issued and outstanding shares and treasury stock.

* The Bank of New York Mellon as Depository Bank for Depository Receipt Holders is an owner of record for The Bank of New York Mellon, a depository for American depository receipts.

Composition of Shareholders



Monthly Share Price Range and Trading Volume



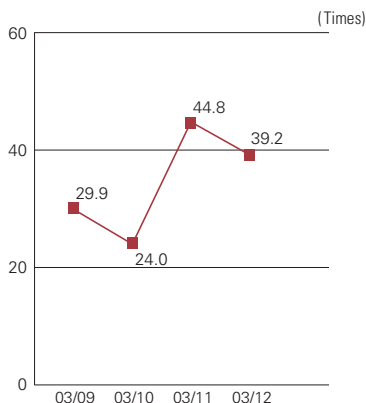
Composition of Shareholders (%)

| (By number of shares) | 2012 | 2013 |
|--------------------------|-------|-------|
| Foreign Investors | 25.09 | 21.62 |
| Individuals | 23.84 | 28.76 |
| Financial Institutions | 42.17 | 40.69 |
| Securities Companies | 3.20 | 3.18 |
| Other Japanese Companies | 5.17 | 5.23 |
| Treasury Stock | 0.50 | 0.49 |

| (By number of shareholders) | 2012 | 2013 |
|-----------------------------|-------|-------|
| Foreign Investors | 0.67 | 0.60 |
| Individuals | 98.01 | 98.26 |
| Financial Institutions | 0.25 | 0.18 |
| Securities Companies | 0.08 | 0.05 |
| Other Japanese Companies | 0.97 | 0.88 |
| Treasury Stock | 0.00 | 0.00 |

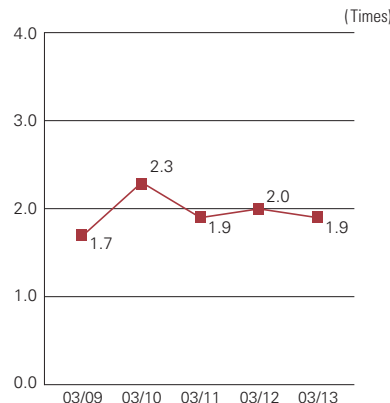
Stock Price Indicators

Price/Earnings Ratio (PER)



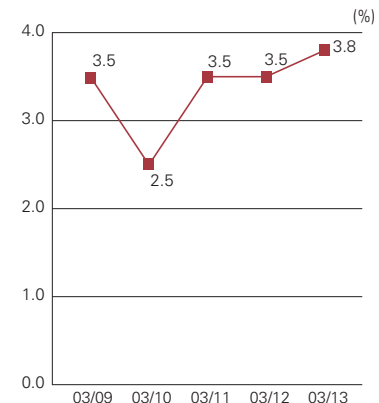
Note: 1. Price/Earnings Ratio = Closing stock price at fiscal year-end/Net income per share
2. PER is not calculated for the year ended March 31, 2013 because of the net loss.

Price/Book Value Ratio (PBR)



Note: Price/Book Value Ratio = Closing stock price at fiscal year-end/Net assets per share

Dividend Yield



Note: Dividend Yield = Cash dividends per share/ Closing stock price at fiscal year-end

Corporate Information

(As of March 31, 2013)

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

33,356 [13,889]

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

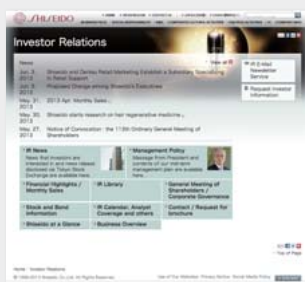
Sumitomo Mitsui Trust Bank, Limited
1-4, Marunouchi 1-chome,
Chiyoda-ku,
Tokyo 100-8233, Japan

Website

Shiseido Group Corporate Website
<http://group.shiseido.com/>



Investor Relations Website
<http://group.shiseido.com/ir/>



For further information, please contact Investor Relations Department

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This annual report was produced using environmentally friendly printing. It helps reduce the consumption of wood resources and energy for transportation and other activities by using 30 percent less paper by weight. It also uses plant-based inks. Moreover, printing employed green electricity produced by solar generation that did not emit CO₂, thus helping counter global warming.



This mark certifies use of the Certificate of Green Electricity through Solar Power provided by Tuvalu-Forest Corporation.

SHISEIDO