



SHISEIDO

# ANNUAL REPORT 2014

Shiseido Company, Limited [For the year ended March 31, 2014]



# ***Annual Report 2014* communicates how Shiseido is taking on the challenge of creating new value to achieve the highest level of beauty.**

Shiseido is taking on the challenge of transforming itself to create new value that builds on its existing value portfolio for achieving beauty. Our objective is the highest level of beauty.

We produced *Annual Report 2014* to communicate this image so that readers can better understand Shiseido's value over the medium and long term. With this rationale, we have created a cover design that draws on the power and beauty of a camellia blooming in the winter to express Shiseido's corporate resolution to take on the challenges of achieving the highest level of beauty. We hope you enjoy *Annual Report 2014*.



Model: Eimi Kuroda

## **Editorial Policy**

*Annual Report 2014* covers all of Shiseido's management and corporate activities, from management directions and strategies and the status of its businesses to non-financial information about its corporate social responsibility (CSR) and other activities. We produced the report with reference to the international integrated reporting framework provided by the International Integrated Reporting Council.

**Reporting Period:** *Annual Report 2014* primarily covers results for the year ended March 2014 (April 1, 2013 to March 31, 2014; January 1, 2013 to December 31, 2013 for overseas consolidated subsidiaries). It also includes certain information from before and shortly after this period.

**Scope of Coverage:** In principle, *Annual Report 2014* covers Shiseido Company, Limited (the Company) and its 94 consolidated subsidiaries (collectively, the Shiseido Group) as of March 31, 2014, except as otherwise noted.

## **Guidelines for Disclosing Non-Financial Information**

- United Nations Global Compact
- ISO26000 (international guidance standard for social responsibility issued by the International Organization for Standardization)
- *Sustainability Reporting Guidelines*, Version 3.1 (international guidelines for corporate sustainability reporting issued by the Global Reporting Initiative)
- 2012 Environmental Reporting Guidelines (issued by Japan's Ministry of the Environment)

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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. Forecasts for the year ending March 2015 are those issued with the Consolidated Settlement of Accounts on April 25, 2014.





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# THIS MOMENT. THIS LIFE. BEAUTIFULLY.



Shiseido commenced operations as Japan's first Western-style pharmacy in Tokyo's Ginza district 142 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 by bringing together all things

on Earth to create new value through Our Mission. We continue to evolve as a company that creates the highest level of beauty.

Shiseido is striving to become a preeminent global marketing company that excels at marketing and innovation and cultivates powerful brands. 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

- We cultivate relationships with people
- We appreciate genuine, meaningful values
- We create beauty, we create wellness.

### Our Values

- In Diversity, Strength
- In Challenge, Growth
- In Heritage, Excellence

### Our Way

- Toward Consumers
- Toward Business Partners
- Toward Shareholders
- Toward Employees
- Toward Society and the Earth







# SHISEIDO

## 資生堂

Our Keywords  
are Growth  
and Speed

### Masahiko Uotani

Representative Director,  
President & CEO

#### Profile

- 1954 Born in Nara Prefecture
- 1977 Joined The Lion Dentrifice Co., Ltd. (currently Lion Corporation)
- 1994 Appointed Director, Executive Vice President and Chief Officer of Marketing, Coca-Cola (Japan) Co., Ltd. Appointed President and then Chairman over the following 10 years.
- 2007 Founded BrandVision Inc. and served as Chief Executive Partner
- 2013 Appointed Outside Chief Marketing Advisor, Shiseido Company, Limited
- 2014 Appointed Representative Director, President & CEO



# A Message from the President & CEO

I became President & CEO in April 2014, and I would like to share what I intend to do as the leader of Shiseido, a company with a history and culture spanning more than 140 years.

My mission is not to simply strengthen initiatives to date to revitalize Shiseido. Rather, I see my mission as preparing Shiseido for the next era by implementing fundamental reforms to create new value and achieve robust growth – in other words, to restore Shiseido's vitality.

To do so requires fully leveraging the strengths in technology, creation and hospitality that Shiseido has cultivated over its long history, and enhancing the value of its brands. This alone, however, will not be enough. We need to further refine these strengths while reviewing business policies, operating processes and our organizational form without preconceptions. We need bold change. We cannot cling to the approaches of the past. Rather, we must continuously ask ourselves if we are doing things the best way so that we can decisively execute reforms that are directly related to growth. I imagine that we will confront obstacles in changing the approaches embedded over Shiseido's long history, but I am confident that I can provide the leadership to accomplish change by working closely with Shiseido's managers in Japan and around the world. Shiseido now has a sense of crisis, and many employees are eager for change. If top management has a strong will to reform and create value to achieve our mission of helping people live beautifully, we will surely evolve into a company with a powerful presence in global markets.

We will travel the path of change at maximum speed. Our keywords are Growth and Speed.

I am committed to providing the leadership for Shiseido to continue growing and evolving as an outstanding company over the next 50 to 100 years. I ask our shareholders and investors for their support as we carry out our reforms.

July 2014



Masahiko Uotani  
Representative Director,  
President & CEO

# Brands and Lines at a Glance

## Domestic Cosmetics Business

### Domestic Cosmetics Business Division

#### Counseling



ELIXIR

J C A U



MAQuillAGE

J C A



BENEFIQUE

J A



HAKU

J C A

Line targeting seniors  
(Launch scheduled in  
year ending March 2015)

J

#### Self-selection



AQUALABEL

J C A



ANESSA

J C A



TSUBAKI

J C A E



SENKA

J C<sup>1</sup> A



SEA BREEZE

J A

#### Toiletries

### Non-Shiseido



ÍPSA

J C A



d'icilà

J C A

### Healthcare Business Division



The Collagen

J



Main Regions of Availability  
(As of March 31, 2014)

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

## Global Business

### Overseas Cosmetics Division



global brand  
**SHISEIDO**

**J C A U E**



clé de peau **BEAUTÉ**

**J C A U E**

clé de peau **BEAUTÉ** Global Unit<sup>2</sup>



bareMinerals

**J C<sup>1</sup> A U E**



**NARS**

**J C<sup>1</sup> A U E**



**ISSEY MIYAKE**

**J C A U E**

Jean Paul **GAULTIER**

**J C A U E**

narciso rodriguez

**J A U E**

**ELIE SAAB**

**J C A U E**



**AUPRES**

**C**



**urara**

**C**



**PURE&MILD**

**C**



**Za**

**J C A**

### Professional Divisions



**THE HAIR CARE**

**J C A**

1. Only in Hong Kong

2. Managed by an organization independent from the Domestic Cosmetics Business and the Global Business

# Financial and Non-Financial Highlights

Shiseido Company, Limited and Subsidiaries  
For the years ended March 2010 to 2014

## Six Numbers That Define Shiseido Today

### Years Since Founding

# 142

Shiseido has built a value portfolio that is a strength today by continuing to take on the challenge of helping people live beautifully since its founding.

### Overseas Sales Ratio

# 50.5%

As of March 31, 2014, the global brand *SHISEIDO* is available in 89 countries and regions including Japan. The overseas sales ratio exceeded 50 percent for the first time in the year ended March 2014.

### Number of Production Bases

# 14

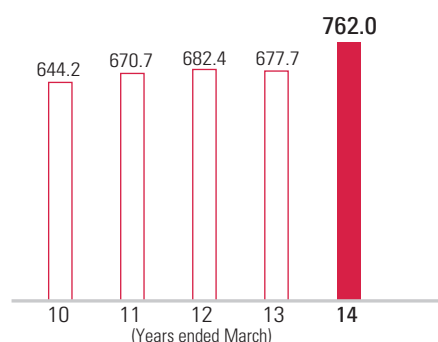
Shiseido has an optimum production network with 14 production bases worldwide, in Asia (including Japan), France and the United States.

## Key Performance Indicators

### Financial Indicators

#### Net Sales

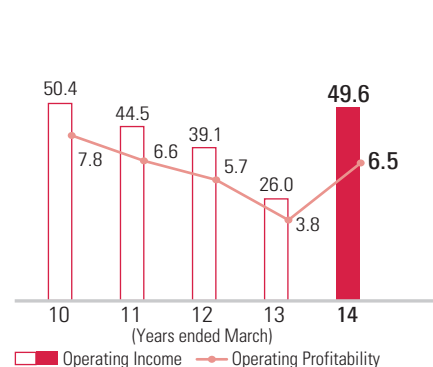
(Billions of yen)



#### Operating Income / Operating Profitability

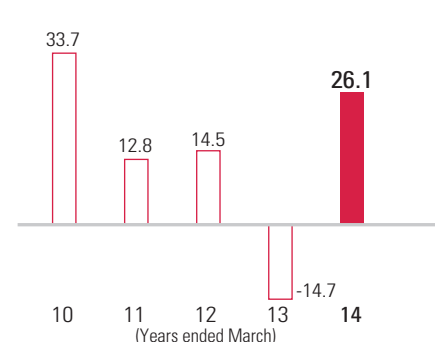
(Billions of yen)

(%)



#### Net Income (Loss)

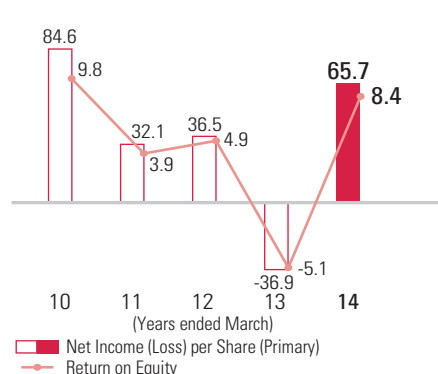
(Billions of yen)



#### Net Income (Loss) per Share<sup>1/</sup> / Return on Equity<sup>2</sup>

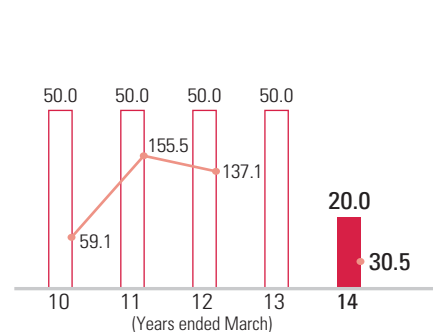
(Yen)

(%)



#### Cash Dividends per Share and Consolidated Payout Ratio<sup>3</sup>

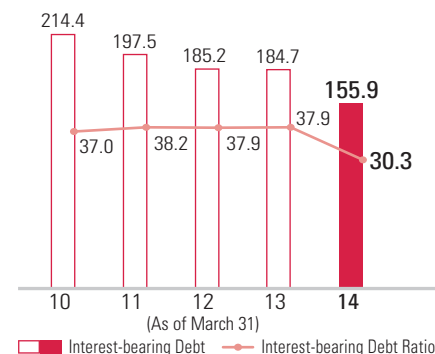
(Yen)



#### Interest-Bearing Debt / Interest-Bearing Debt Ratio<sup>2, 4</sup>

(Billions of yen)

(%)



- 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. Changes in accounting treatment due to the amendment of Employee Benefits (International Accounting Standard (ISA) No. 19) are not retrospectively applied prior to the year ended March 2013.  
3. Consolidated payout ratio is not presented for the year ended March 2013 because of the net loss.  
4. Interest-bearing debt ratio = Interest-bearing debt ÷ Invested capital\* \* Invested capital = Interest-bearing debt + Total net assets



Please refer to pages 72 to 73 for an in-depth 11-year summary of selected financial data.

## IFSCC Congresses Number of Awards Received

# 22

Shiseido has received a total of 22 awards (18 top awards, 4 honorary mentions), far more than its peers, from the International Federation of Societies of Cosmetic Chemists (IFSCC), which is recognized as the leading authority among cosmetics researchers worldwide.

## Number of Beauty Consultants

Approximately

# 22,000

Approximately 22,000 beauty consultants worldwide put the spirit of *omotenashi* into practice to achieve the highest level of beauty, thus embodying this unique Shiseido strength.

## Global (including Japan) Percentage of Female Leaders

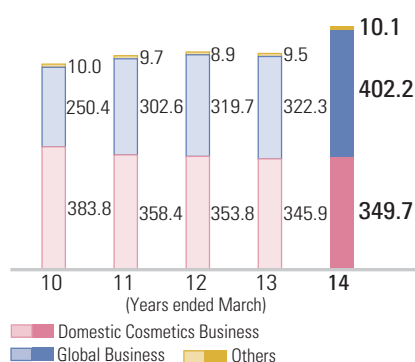
# 49.7%

About 90 percent of Shiseido's customers and 80 percent of its employees are women, so Shiseido has various programs to help its female employees play a central role in management and business activities.

## Business and Segment Indicators

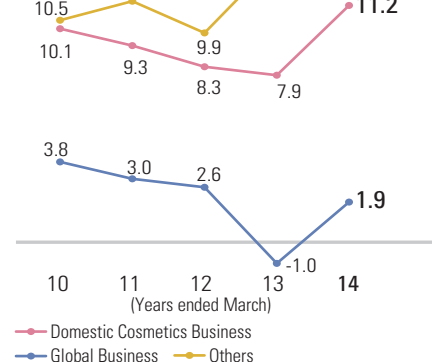
### Net Sales by Reportable Segment<sup>5,6</sup>

(Billions of yen)



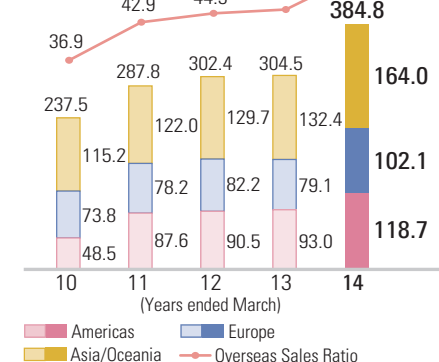
### Operating Profitability by Reportable Segment<sup>7</sup>

(%)



### Overseas Sales / Overseas Sales Ratio

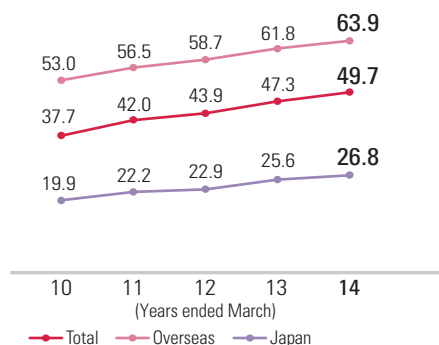
(Billions of yen)



## Social Indicators

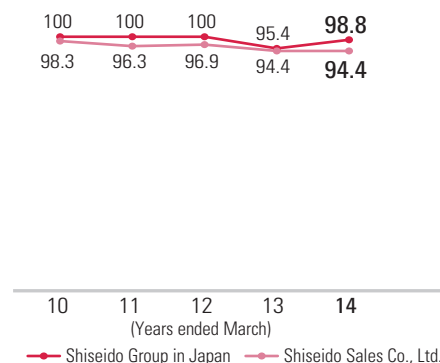
### Percentage of Female Leaders<sup>8</sup>

(%)



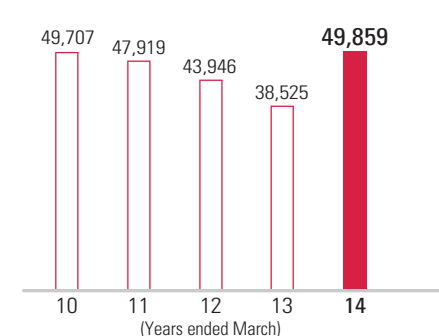
### Stability Rate for Employees in Japan Returning to Work after Taking Childcare Leave<sup>9,10</sup>

(%)



### Cumulative Number of LIFE QUALITY BEAUTY SEMINAR Participants

(Participants)



(Please refer to page 47 for details on SHISEIDO LIFE QUALITY BEAUTY SEMINARS)

5. Domestic Professional Division sales are included in the Global Business segment.

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

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

8. Percentage of female leaders in Japan is as of April 1 each year.

9. Number of employees who returned to work after taking childcare leave in the previous fiscal year and are still working as of March 31 of the current fiscal ÷ total number of employees who returned to work after taking childcare leave in the previous fiscal year x 100

10. Target personnel in Shiseido Group companies in Japan: managerial /major career path personnel; target personnel in Shiseido Sales Co., Ltd.: beauty consultants (excluding fixed-term contract employees)

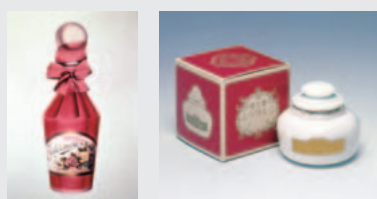
# A History of Value Creation

Shiseido commenced operations as Japan's first Western-style pharmacy in 1872, a time when Chinese herbal remedies were still the mainstream in Japan. Since then, we have led the evolution of the cosmetics industry, continuously creating value through marketing and technology while expanding the delivery of this value worldwide.

In the year ending March 2015, Shiseido will further evolve its value portfolio and enter a new stage of innovation.

## The Creation of New Value through Marketing

### Creation of New Concepts



- 1897: Launched Japan's first prescription beauty lotion, *Eudermine*
- 1918: Launched *Cold Cream*, Japan's first authentic beauty cream
- 1967: Launched *MG5*, a total line of cosmetics for men in Japan
- 1982: Launched top-end prestige brand *clé de peau*
- 2005: Launched the *MAQuillAGE* makeup line
- 2013: Launched *FullMake Washable Base*, the world's first\* makeup base that enables makeup removal with warm water

\* Source: Research by Shiseido using database formulated by Mintel Japan, Inc.

### A Consistently Innovative Business Model



- 1902: Began sales of soda water and ice cream
- 1923: Initiated the Shiseido Cosmetics Chain Store System, Japan's first voluntary chain store system
- 1928: Opened Shiseido Parlour. Began full-scale operation of a restaurant business
- 1934: Introduced Miss Shiseido, the predecessor to modern beauty consultants
- 1937: Launched membership organization Hanatsubaki Club
- 2011: Initiated e-commerce in China and the United States
- 2012: Established a business model in Japan linking the Internet with physical stores

## Innovative Research and Development

### Establishment and Development of Research Platform



- 1916: Established the Testing Room for R&D and quality assurance
- 1968: Completed Shiseido Research Labs as a comprehensive technology platform
- 1989: Provided comprehensive support for the establishment of the MGH/Harvard Cutaneous Biology Research Center for original research
- 2000: Opened Shiseido Research Center
- 2006: Established Shiseido Southeast Asia Research Center, creating an R&D network spanning five regions worldwide
- 2013: Received our 18th top award from the IFSCC, for a total of 22 IFSCC awards

### Leader in the Areas of Skin-Brightening and Anti-Aging



- 1917: Launched skin-brightening lotion
- 1984: First in Japan to successfully mass-produce hyaluronic acid
- 1990: Launched *WHITNESS ESSENCE* containing the skin-brightening active ingredient arbutin
- 1993: Developed formulation containing anti-wrinkle ingredient retinol
- 1999: Elucidated the skin firmness mechanism
- 2005: Launched the anti-blemish skin-brightening *HAKU* line
- 2007: Launched renewed *HAKU* containing the skin-brightening active ingredient 4MSK

1872

**Shiseido's  
Foundation**



## 142nd Year of Innovation

### Accelerated Globalization

#### Expansion of Overseas Bases



- 1957: Commenced sales in Taiwan (start of full-scale overseas operations)
- 1965: Founded a subsidiary in the United States (established base in the Americas)
- 1968: Founded a subsidiary in Italy (established base in Europe)
- 1981: Began selling cosmetics in Beijing
- 2010: Constructed a factory in Vietnam as the base for our masstige\* strategy

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

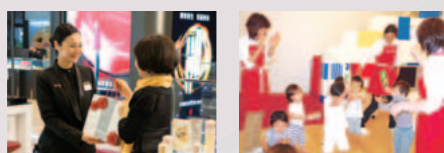
#### Expansion of Overseas Brands



- 1988: Acquired Zotos International, Inc.
- 1990: Established Beauté Prestige International S.A.
- 1994: Launched China-only department store brand *AUPRES*
- 2000: Acquired the *NARS* brand of the United States
- 2006: Launched *urara*, a brand exclusively for cosmetics specialty stores in China
- 2010: Acquired Bare Escentuals, Inc. of the United States

### Expansion of Social Value

#### Empowering Women



- 1937: Launched *Hanatsubaki*, a corporate culture magazine
- 1949: Began Cosmetics Treatment Course seminars for young women about to join the workforce
- 1989: Proposed Successful Aging
- 2003: Opened Kangaroo Shiodome, an in-house nursery school
- 2007: Established the Shiseido Female Researcher Science Grant
- 2010: Signed the Women's Empowerment Principles
- 2013: Selected by Japan's Ministry of Economy, Trade and Industry for inclusion in Diversity Management Selection 100
- 2014: Shiseido ranked top overall in the "Survey on Female Workers' Workplace Opportunities" conducted by *Nikkei Woman*.

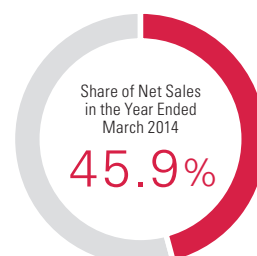
#### Social and Environmental Activities



- 1872: Shiseido is founded as Japan's first Western-style pharmacy, specializing in Western medicine
- 1939: Began collecting empty product containers from Hanatsubaki Club members
- 1990: First in the cosmetics industry to eliminate the use of chlorofluorocarbons
- 2000: All factories in Japan and overseas received ISO14001 certification
- 2004: Announced participation in the United Nations Global Charter
- 2006: Opened the SHISEIDO LIFE QUALITY BEAUTY CENTER in Japan
- 2009: First in the industry to be certified as an "Eco-First Company"

# Business Overview

## Domestic Cosmetics Business



### Domestic Cosmetics Business Division

**Counseling** High- and mid-priced cosmetics products sold by beauty consultants using techniques including value-added counseling and "one point counseling" (tips)

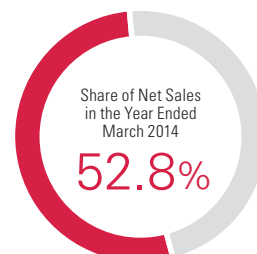
**Self-Selection** Mid- and low-priced cosmetics that customers select by themselves

**Toiletries** Shampoo and other haircare products as well as body care products

### Healthcare Business Division, Non-Shiseido and Others

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

## Global Business



### 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

Sale of **JOICO**, **THE HAIR CARE** and other brands, and operation of hair salons and spas in Japan and overseas

## Others

Share of Net Sales  
in the Year Ended  
March 2014

1.3%

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



# Shiseido's Strategy

While refining its portfolio of strengths, Shiseido will undertake fundamental reforms to generate full-fledged growth in order to create new value.

This section features an interview in which President & CEO Masahiko Uotani explains reforms to create value in the future. It also covers business and financial strategy.

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# An Interview with the President & CEO



**We will decisively implement fundamental reforms with a sense of urgency so that Shiseido evolves and grows as a preeminent global marketing company.**

Masahiko Uotani  
Representative Director,  
President & CEO

Q

Before you discuss the future, please reflect on the year ended March 2014.

**We achieved many of the objectives we set at the beginning of the year, but many issues need to be resolved before we can move into our next phase of growth.**

During the year ended March 2014, we initiated policies to remove obstacles to lay the groundwork for growth in the year ending March 2015 and beyond. We implemented various initiatives in Japan and abroad based on distinction and concentration while reforming our cost and business structures, optimizing inventory levels at stores in Japan and China, and improving the soundness of businesses that generate little or no profit. Sales and income increased for the year as a result of these initiatives, and also because of the strong performance of our prestige category in Japan and positive effect of a surge in demand prior to the April 2014 increase in Japan's consumption tax. Overall, we achieved many of the objectives we set at the beginning of the fiscal year. However, we have not yet achieved a full-scale recovery in the Domestic Cosmetics Business. Overseas, we have not yet established a globally competitive organization that will enable growth. With these and other issues remaining, I have a strong sense of crisis when I consider Shiseido's current circumstances.

Q

What challenges must Shiseido address in order to generate full-fledged growth?

**The biggest challenge is that Shiseido is not keeping pace with changing consumers and markets, so we need to implement fundamental reforms.**

Shiseido is not responding rapidly enough to changing markets, consumer values and purchasing behavior. As a result, we are probably not nurturing our brands and lines as well as we could be. This came to my attention through my participation as Outside Chief Marketing Advisor in the Marketing Reform Project during 2013 and my direct dialogue with around 10,000 employees. For example, Shiseido has structured its own sales network, but cannot adapt to change with this mechanism alone. This situation has developed because our business structure and organization in Japan and overseas are divided vertically, and because we are not sufficiently developing people who can create new value at a global level. My mission is to quickly resolve these issues and execute fundamental reforms that enable growth.

Specifically, we face two challenges. In Japan, we were able to improve profit levels in part because of an anomalous surge in demand in March 2014. However, we need to face the fact that sales and market share have continued to erode over the past several years and start reengineering the business model we have been using. Overseas, sales have been solid, but we have ample room to improve profitability compared with our global competitors. We will review our domestic and overseas business structure strategies and enhance our brand value to restore growth potential and profitability.

Q

What initiatives will be a particular focus in implementing reforms to generate growth?

**Our most important asset is the value of our brands, and we will rebuild that asset in Japan and around the world.**

Brands will be a key to resolving our issues in Japan and abroad. We are in the brand business, and its core is creating appealing brands and delivering that brand value, our most important asset, to customers. To create brand value we need to increase the synergy between marketing activities in which we seek insights into latent customer needs and analyze purchasing behavior, and innovation in product development, including development technology and packaging. We will focus intently on delivering the results of this synergy to customers.

Our first specific initiative will be reforming the corporate brand *SHISEIDO*, which is the well-spring of Shiseido's absolute value. *SHISEIDO* is everywhere in Japan irrespective of category and price, from prestige cosmetics to shampoo and food products. This has raised Shiseido's favorable



public image and profile as a company, but it has blurred the definition of the value that *SHISEIDO* offers, resulting in value dilution. We will therefore thoroughly strengthen our brands/lines by clearly defining what *SHISEIDO* is and what it is not. In particular, we will select six brands/lines to strongly promote *SHISEIDO*. In the year ending March 2015, we plan to execute an extensive brand renovation and cultivation initiative for three of them – the global brand *SHISEIDO*, *ELIXIR* and *MAQUILLAGE* – which we have been studying since the Marketing Reform Project last year.

Next we will restructure our brand portfolio strategy. Using a matrix of brands and regions, we will eliminate the numerous redundancies to streamline our brand portfolio. We will also clarify investment priorities and take other steps to raise profitability.

In addition, we will continue to strengthen our global brands, including the global brand *SHISEIDO*, the China-only department store brand *AUPRES* and cosmetics specialty store brand *urara*, and *bareMinerals*. At the same time, we will accelerate the global rollout of *clé de peau BEAUTÉ*, which is the top-end prestige brand with the highest potential to create value. We will also nurture the makeup artist brand *NARS* and our designer fragrance brands more vigorously.

#### Six Brands/Lines That Will Strongly Promote *SHISEIDO*

Brand/Line	Reform Directions
<i>SHISEIDO</i>	Brand shared globally
<i>ELIXIR</i>	Line focused on skincare
<i>MAQUILLAGE</i>	Line focused on makeup
<i>BENEFIQUE</i>	Comprehensive line for cosmetics specialty stores
<i>HAKU</i>	Specialized skin-brightening line
Line targeting seniors (Launch scheduled in year ending March 2015)	Launch of a new line that embodies successful aging

Q

What approaches will Shiseido take in addressing the internal systemic issues you mentioned?

**We will also carry out various reforms of our business base to be a preeminent global marketing company.**

We need to evolve into a preeminent global marketing company to restore growth and take on global competitors. This will include establishing a brand management system and strengthening our operational system to improve management precision. We will leverage existing strengths while creating unconventional new value by engaging in a consistent marketing process that integrates R&D, manufacturing and sales. We will facilitate this by creating mechanisms to incorporate external alliances and open innovation.

We will fundamentally review current head office roles. We will clarify the responsibilities of the head office and frontline sales in Japan and overseas and delegate authority to frontline sales under the Think Global, Act Local concept. We will also strengthen global management functions by aligning the accounting years in Japan and overseas. On January 1, 2016, we plan to adopt a uniform consolidated accounting year ending December 31. This will accelerate global decision-making.

Q

Please discuss management strategy for the year ending March 2015 and the medium term.

**We have positioned the year ending March 2015 as a time to build and prepare for our long-term vision and the next three-year plan for competing globally.**

In April 2014, Shiseido introduced a new management team, with changes including the replacement of the Chief Officer of the Domestic Cosmetics Business Division, General Manager of the Marketing Department, and Chief Financial Officer, in addition to my appointment. The new management team is looking ahead to 2020, a milestone year in which Tokyo will host the Olympics and the Paralympics. We are discussing what we want Shiseido to be, the redefinition of our business domains and business structure, the structuring and promotion of our brand portfolio strategy, improvement of our marketing and innovation capabilities, organizational and corporate culture reforms, and enhancement of our business base. We will incorporate our conclusions in two consecutive three-year plans culminating in 2020. The first will commence in the fiscal period ending December 2015.



The year ending March 2015 is a time to formulate our long-term vision and next three-year plan and begin fundamental reforms. Initiatives to generate growth in the fiscal period ending December 31, 2015 and beyond will include launching a new brand strategy, executing reforms in Japan, China and for Bare Escentuals, Inc. in the United States, and further reforming our cost structure.

Q

Please discuss the outlook for the year ending March 2015.

**We forecast that net sales will increase, but we will prioritize investments to build the foundation for our brand cachet in order to generate full-fledged growth.**

For the year ending March 2015, we plan to increase net sales 2.4 percent year on year, or 1 percent on a local currency basis, to ¥780.0 billion. We forecast real year-on-year growth of 4.4 percent on a local currency basis excluding the anomalous drop in sales following the surge in demand before Japan's consumption tax increase in the year ended March 2014. At the same time, we have budgeted a 15.4 percent decrease in operating income to ¥42.0 billion due to

factors including increased investment that will include marketing outlays to generate growth.

We expect net income to increase 45.3 percent to ¥38.0 billion due to factors including gain on the April 2014 sale of the esthetic skincare brands *CARITA* and *DECLÉOR*, which are mainly distributed in Europe.

We intend to maintain total cash dividends for the year ending March 2015 at ¥20.00 per share, which is equivalent to a consolidated payout ratio of about 40 percent excluding the nonrecurring gain on the sale of *CARITA* and *DECLÉOR*. We will deploy the funds from the sale of these brands to strengthen our brands, open new markets, conduct M&As and enhance our operating fundamentals in order to generate growth in the future. (Please refer to Business Strategy on pages 21 through 26 and Financial Strategy on page 27 for additional details.)

#### Past Results Compared with Forecast for the Year Ending March 2015

(Billions of yen, except per share data and percentages)

	Year Ended March 2014	Year Ending March 2015 (Forecast)	Year-on-Year Comparison	Local Currency Basis	<b>Principal Exchange Rates</b>  Year ended March 2014 USD 1: JPY 97.7 EUR 1: JPY 129.7 CNY 1: JPY 15.9  Year ending March 31, 2015 (forecast) USD 1: JPY 100 EUR 1: JPY 135 CNY 1: JPY 16.5
<b>Net sales</b>	762.0	780.0	+2.4%	+1%	
<b>Domestic</b>	377.3	370.0	-1.9%	-2%	
<b>Overseas</b>	384.8	410.0	+6.6%	+4%	
<b>Operating income</b>	49.6	42.0	-15.4%	—	
<b>Net income</b>	26.1	38.0	+45.3%	—	
<b>Cash dividends per share (Yen)</b>	20.0	20.0	—	—	
<b>Consolidated payout ratio</b>	30.5%	21.0%	—	—	

Q

Please close by sharing your enthusiasm about future growth.

**Committed to expanding corporate value, we will transform Shiseido into a more competitive organization that can take on the competition.**

Shiseido aims to create new value by achieving the highest level of beauty to contribute to the world. We must continually evolve this value creation to be an outstanding company in the future. Therefore, I will implement fundamental reforms to transform Shiseido into a preeminent global marketing company – in other words, a competitive organization. I will focus on evolving the organization to enable quick response to market movements, and on accelerating decision-making.

We will improve financial indicators such as return on equity and cash flow as well as sales and income to achieve sustained growth that enhances corporate value. I invite our stakeholders to share our enthusiasm as we put our keywords of Growth and Speed into practice.



# Business Strategy

## Domestic Cosmetics Business



Japanese word for hospitality, offer counseling to propose the most suitable cosmetics, thus playing a key role in increasing the value of Shiseido's brands. The benchmarks for evaluating beauty consultants were formerly based on customer satisfaction levels. However, based on a Company policy of emphasizing retail sales, from the year ending March 2015 beauty consultants will also be evaluated using retail sales targets for each store to promote a mechanism that emphasizes both customer satisfaction levels and retail sales.

### ■ Channels

Shiseido operates mainly in the cosmetics specialty store, department store, drugstore and general merchandise store channels. Among these channels, Shiseido demonstrates its advantages at stores where it can provide quality services and counseling. Cosmetics specialty 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 11,000 member stores as of March 31, 2014. Shiseido

## Business Summary

### ■ Categories 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.

In the cosmetics business, counseling is Shiseido's most representative category, in which beauty consultants who personify *omotenashi*, the

### The Domestic Cosmetics Business by Category

Category	Products	Main Channels	Main Brands/Lines
Counseling	High-priced cosmetics	Cosmetics specialty stores, department stores, general merchandise stores	The global brand SHISEIDO, <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	Fine toiletries	Drugstores, general merchandise stores, convenience stores	<i>SENKA</i> , <i>TSUBAKI</i> , <i>SEA BREEZE</i> , <i>FullMake Washable Base</i>



BENEFIQUE

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. Our aim is to help individual customers achieve beauty through two-way linkages between physical stores and Shiseido's watashi+ corporate website, which offers online shopping, online counseling services (Web BC counseling) and a store navigator that lets customers search for cosmetics stores and introduces discrete stores. The number of website members and the number of customers directed to stores are steadily increasing, and we will reflect customer purchasing and beauty data in product development and innovations to enhance our competitiveness.

## Market Environment

During the year ended March 2014, the domestic cosmetics market showed signs of recovery due to the effect of government economic policies. The market was essentially unchanged from the previous fiscal year until the third quarter, but sales surged from January 2014 onward because of the effect on demand of the pending increase in Japan's consumption tax in April. As a result, sales were approximately 20 percent higher

compared with the fourth quarter of the previous fiscal year, and increased approximately 4 to 5 percent year on year. Sales grew in the low-, mid- and high-priced cosmetics categories, with market recovery most evident in the market for mid- and high-priced cosmetics.

In the year ending March 2015, we expect economic recovery to support a moderate upswing in the Japanese cosmetics market. However, we are assuming a low single-digit decrease during the first half in reaction to the surge in sales prior to the start of the fiscal year.

## Overview of Performance in the Year Ended March 2014

During the year ended March 2014, sales expanded in the Domestic Cosmetics Business segment due to factors including the surge in retail sales ahead of the increase in Japan's consumption tax. At the same time, we collected inventory from stores. As a result, segment sales increased 1.1 percent year on year to ¥349.7 billion.

Sales in the counseling category increased 4.7 percent year on year as we strengthened prestige products and promotions, which benefited from advanced customer care capabilities and a more favorable macro

environment. However, sales in the self-selection category decreased 4.6 percent year on year because we strengthened the lineup of summer products in the previous fiscal year. Sales in the toiletries category decreased 6.3 percent year on year despite robust *SENKA* sales, due to a decrease in sales of *TSUBAKI* and other factors.

Segment income (operating income) increased 43.5 percent year on year to ¥39.5 billion because of higher marginal income due to the increase in sales and reduced bonuses for employees in light of results for the previous fiscal year.

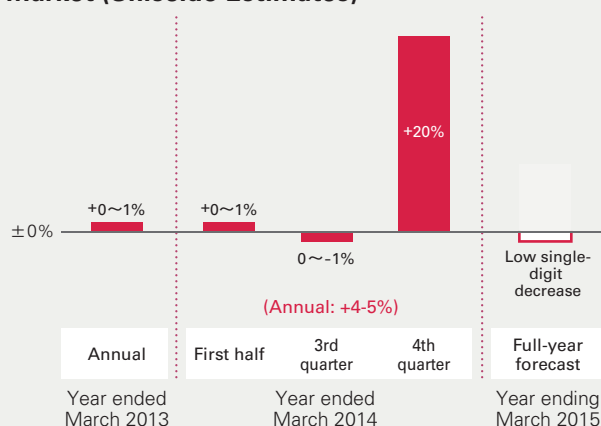
(Please refer to the Overview of Operating Results and Financial Condition on pages 60 to 69 for more details on performance in the Domestic Cosmetics Business segment in the year ended March 2014.)

## Initiatives for the Year Ending March 2015

### ■ Launch of a New Brand Strategy

In the year ending March 2015, we will thoroughly rebuild and strengthen the value of the corporate brand *SHISEIDO* to restore the growth potential of the Domestic Cosmetics Business segment. We

### Retail Sales Trends in the Domestic Cosmetics Market (Shiseido Estimates)



### Sales by Division

(Billions of yen, except percentages)			
Years Ended March 31	2013	2014	Year-on-Year Change
<b>Domestic Cosmetics Business Division</b>	296.1	298.2	+0.7%
Counseling cosmetics	176.2	184.5	+4.7%
Self-selection cosmetics	80.7	77.0	-4.6%
Toiletries	39.2	36.7	-6.3%
<b>Healthcare Business Division</b>	14.9	15.3	+3.2%
<b>Other Businesses</b>	34.9	36.2	+3.6%
<b>Total</b>	345.9	349.7	+1.1%

will clearly define *SHISEIDO*, and select six brands/lines to enhance the value of *SHISEIDO*. We will clarify the value that each of these six brands/lines demonstrates while completely renewing them. For the global brand *SHISEIDO*, we have designated the *ULTIMUNE* beauty serum that will launch in September 2014, *FUTURE SOLUTION LX* and *BIO-PERFORMANCE* as globally shared core lines that we will thoroughly strengthen and innovate so they can drive sales growth in the prestige category.

We plan to launch new products in the *ELIXIR* line that use breakthrough development technology. In the second half of the fiscal year, we will renew *ELIXIR* as a line that integrates female beauty with cutting-edge science. For *MAQUILLAGE*, we plan to execute an innovative renewal in the second half based on making it a trendy makeup line that conveys the femininity of the new era.

We will also increase the value of the *BENEFIQUE* and *HAKU* lines and the new line for seniors scheduled for introduction during the year ending March 2015 by combining our strengths in innovation with new marketing approaches.

### ■ Collaborative Initiatives with Cosmetics Specialty Stores and Large Retailers

We are enhancing sales and distribution policies in conjunction with our brand strategy. We revised the ratio of wholesale to retail pricing for the cosmetics specialty store line *BENEFIQUE* under a new policy for cosmetics specialty stores launched in April 2014. The PS Program of support measures for cosmetics specialty stores, in which approximately 800 stores participate, also evolved further with the introduction of the Platinum Shop system for conducting collaborative initiatives and support measures aligned with store features. We will roll out this system at approximately 3,000 stores. In the self-selection category, since sales space expansion is directly linked to sales growth, we will accelerate collaborative initiatives through company-by-company alliances. We will also strengthen stores' retailing proposal and implementation capabilities through Japan Retail Innovation Co., Ltd., a Shiseido subsidiary specializing in retail support that initiated full-scale operations in October 2013.

Shiseido formerly used sales subsidiary sales and retail sales in management. However, in April 2014

we made retail sales our standard management indicator. We have excluded sales subsidiary sales from employee assessments at the head office and sales companies. We are instituting a cycle in which retail sales growth expands sales subsidiary sales to quickly establish a virtuous cycle style of management linked to the earnings that generate the capital for future growth. In this way, we are building a mechanism to stop store inventories from ever building up again.

### Outlook for the Year Ending March 2015

The Domestic Cosmetics Business segment will energetically implement the new brand strategy mentioned above and other initiatives during the year ending March 2015. However, given the pronounced effect of the drop in demand in reaction to the surge before the increase in Japan's consumption tax, we forecast that segment sales will decrease 1.6 percent compared with the year ended March 2014 to ¥344.0 billion. We also forecast that segment income (operating income) will decrease because of lower marginal income due to the decrease in sales and increase in personnel expenses as a result of higher bonuses.



ELIXIR



HAKU



## Global Business



in the prestige category with a focus on the global brand *SHISEIDO* in the department store channel. 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 prestige cosmetics and the potent designer fragrances brands of Beauté Prestige International S.A. Marketing channels include department stores, perfumeries and travel retail.\*

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 drugstores, hypermarkets and other retail outlets in the masstige channel.

The Overseas and Domestic Professional Divisions develop and sell

## Business Summary

The Overseas Cosmetics Division operates worldwide. As of March 31, 2014, the global brand *SHISEIDO* was available in 89 countries and regions, including Japan. Manufacturing and

research and development are also conducted internationally based on regional characteristics, at 14 production facilities, including four in Japan, and nine research facilities, including three in Japan.

In North America, Shiseido operates

### Trends in Overseas Cosmetics Markets (Shiseido Estimates)

	Year ended March 2014	Year ending March 2015
Europe	Minimal growth, essentially unchanged year on year	Challenging conditions will continue, with the market essentially unchanged
Americas	Firm, with mid-single-digit growth	Mid-single-digit growth
China	Gradual recovery from tough market environment, with high-single-digit growth	Continued high-single-digit growth
Other Asian countries	Moderate expansion, with mid-single-digit growth	Continued mid-single-digit growth

### Sales by Division

(Billions of yen, except percentages)

Years Ended March 31	2013	2014	Year-on-Year Change	Year-on-Year Change (Local currency basis)
Overseas Cosmetics Division	280.3	353.2	+26.0%	+1.4%
Overseas and Domestic Professional Divisions	42.1	49.0	+16.5%	+1.3%
Total	322.3	402.2	+24.8%	+1.4%

**Principal Exchange Rates** Year ended March 2014  
 USD 1: JPY 97.7 EUR 1: JPY 129.7 CNY 1: JPY 15.9

products for salons and operate hair and beauty salons and spas in Japan and overseas.

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

## Market Environment

Overseas cosmetics markets were closely linked with economic conditions in their respective regions. During the year ended March 2014, ongoing economic expansion in the United States kept its cosmetics market firm, but the European market was flat year on year because of the debt crisis and a high unemployment rate. In Asia, where some nations were impacted by political conditions, the cosmetics market grew moderately overall.

For the year ending March 2015, we forecast that conditions will remain challenging in the European market and cause it to be flat year on year. On the other hand, we forecast moderate growth in markets in the Americas and Asia.

## Overview of Performance in the Year Ended March 2014

Affected by the depreciation of the yen, sales in the Global Business

segment increased 24.8 percent on a yen basis to ¥402.2 billion, and 1.4 percent year on year on a local currency basis. Sales increased year on year in the Overseas Cosmetics Division and the Overseas and Domestic Professional Divisions. Higher sales of the global brand *SHISEIDO*, *NARS* and designer fragrances drove growth in the Overseas Cosmetics Division, while sales in Asia drove growth in the Overseas and Domestic Professional Divisions. In addition, sales and earnings decreased at Bare Escentuals Inc. due to its ongoing restructuring plan following the recognition of an impairment loss in the previous fiscal year. By region on a local currency basis, sales increased 4.2 percent in the Americas and 2.6 percent in Europe, but decreased 0.3 percent in Asia and Oceania with a 1.8 percent decrease in China due to adjustments in shipments aimed at optimizing store-level inventories.

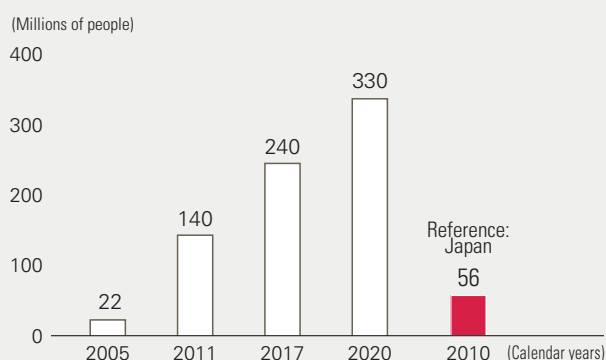
Segment income (operating income) was ¥7.7 billion, a significant improvement compared with a segment loss (operating loss) of ¥3.3 billion for the previous fiscal year. Factors included more efficient expense management resulting from cost structure reforms ongoing from the previous fiscal year.

In February 2014, we concluded a contract to sell the esthetic skincare brands *CARITA* and *DECLÉOR*, which are mainly distributed in Europe, to French cosmetics company L'Oréal S.A. We completed the sale of both brands for 230 million euro in April 2014. (Please refer to the Review by Reportable Segment for the Global Business in Overview of Operating Results and Financial Condition on pages 60 to 69 for additional details.)

## Initiatives for the Year Ending March 2015

During the year ending March 2015, Shiseido will execute brand strategies to establish a global presence. These strategies will concentrate particularly on enhancing value in the China business, in which Shiseido has a long history of cultivating strengths, and in the Bare Escentuals business. In addition, we will enhance our operating fundamentals and expand our business in emerging countries that will be our next growth engine, including the joint venture we established in the Middle East during the year ended March 2014 and the joint venture we established in Indonesia in April 2014.

### Cosmetics Users\* in China (Shiseido Estimates)



\*Defined as urban women age 20 and older with an annual income of at least 30 thousand yuan.



AUPRES

## ■ China

We project that the number of cosmetics users in the Chinese market will increase to 330 million in 2020. China is a challenging market with political issues and other risks, but it is an attractive and important market that we have positioned as a growth driver. During the year ending March 2015, we will continue the strategy we initiated in the previous fiscal year of narrowing the brands and geographical areas we will strengthen. We are targeting double-digit sales growth and operating profitability for China overall. Specific initiatives will include building on the renewal of the skin-brightening line of the China-only department store brand *AUPRES* in March 2014 and thoroughly strengthening the China-only cosmetics specialty store brand *urara* to nurture it into the top brand in its channel. We will also expand our focus areas from two provinces to four.

## ■ Bare Escentuals

The number one brand in the U.S. mineral foundation is *bareMinerals*. This brand benefits from Bare Escentuals' unique omni-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, boutiques, and other doors. We have initiated business reforms to strengthen this business model, which creates synergies between the retail and direct marketing businesses, but will implement additional reforms during the year ending March 2015. We will acquire new customers and increase sales at existing stores in ways such as renewing infomercials, launching products tailored for particular retailers, and launching the brand's first serum foundation, *bareSkin*. We expect these initiatives to generate sales growth, but we forecast that operating income will decrease because of greater investment to make the *bareMinerals* brand shine even brighter.

## ■ Other Brands

We are focusing on the United States in strengthening the *NARS* brand, which launched 20 years ago, to maintain its double-digit growth during the year ending March 2015. In the fragrance business, which accounts for approximately half of sales in Europe, we will strengthen three existing brands – *ISSEY MIYAKE*, *narciso rodriguez* and *ELIE SAAB* – to maintain

mid-single-digit growth during the year ending March 2015. Targeting double-digit growth overseas for the top-end brand *clé de peau BEAUTÉ*, we will accelerate its worldwide rollout to transform it into a truly global high-prestige brand.

## Outlook for the Year Ending March 2015

For the year ending March 2015, the Global Business segment will execute initiatives to generate additional growth. We forecast that segment sales will increase 5.9 percent year on year to ¥426.0 billion. We also forecast that segment income (operating income) will increase.



*bareMinerals*



*NARS*



# Financial Strategy

## 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, 2014, it represented 2.0 months of consolidated net sales.

Shiseido uses 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 \$100 million. As of March 31, 2014, Shiseido maintained a sufficient level of liquidity and a high level of financial flexibility.

Shiseido's benchmark interest-bearing debt ratio is 25 percent in order to maintain an A credit rating that enables financing on favorable terms. For large-scale investments that require financing, Shiseido will consider factors including business trends, financial condition and market environment to make timely investments using the optimum financing method.

## Reinforcing Our Operating Fundamentals

Shiseido will continue to implement cost and business structure reforms to further strengthen its operating fundamentals. While investing to succeed in its markets, Shiseido will reinforce its financial base in ways such as improving cash flow and effectively using assets and increasing capital efficiency to generate sustained growth.

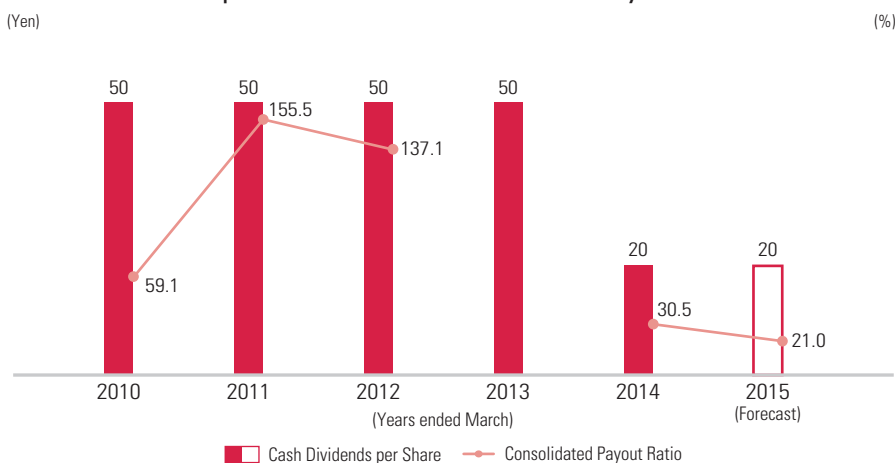
In addition, the overseas sales ratio now exceeds 50 percent and Shiseido increasingly needs to make management decisions flexibly and with a global perspective. Therefore, in 2015 Group companies in Japan will transition from a fiscal year that ends on March 31 to one that ends on December 31, and will align the accounting periods of all Group companies accordingly. Specifically, the nine months ending December 31, 2015 will be a transitional fiscal period leading to fiscal 2016, which will begin on January 1, 2016 and end on December 31, 2016 to initiate Shiseido's new fiscal cycle. This

change will accelerate management in ways such as rapidly reconfiguring investment allocation, and will increase management transparency and quality through timely and appropriate disclosure of management information.

## Shareholder Returns

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

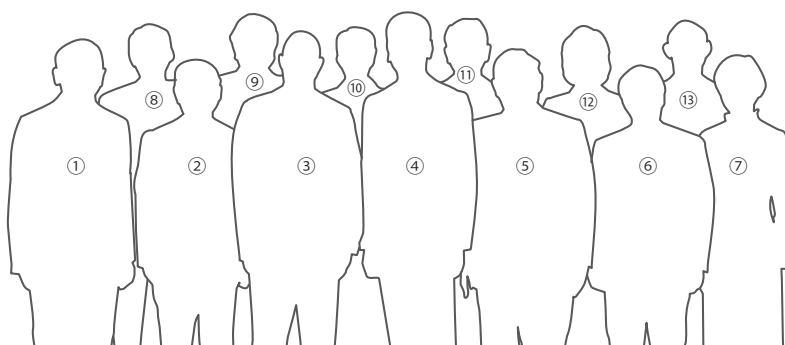
### Cash Dividends per Share and Consolidated Payout Ratio\*



\*Consolidated payout ratio is not presented for the year ended March 2013 because of the net loss.

# Board of Directors, Audit & Supervisory Board Members and Corporate Officers

(As of June 25, 2014)



⑧

Yoshinori Nishimura  
Audit & Supervisory  
Board Member

⑨

Tatsuo Uemura  
External Director

⑩

Taeko Nagai  
External Director

⑪

Akio Harada  
External Audit &  
Supervisory Board  
Member

⑫

Eiko Tsujiyama  
External Audit &  
Supervisory Board  
Member

⑬

Nobuo Otsuka  
External Audit &  
Supervisory Board  
Member

①

Shoichiro Iwata  
External Director

②

Yu Okazawa  
Director, Corporate  
Executive Officer

③

Carsten Fischer  
Representative  
Director, Corporate  
Senior Executive  
Officer

④

Masahiko Uotani  
Representative  
Director, President &  
CEO

⑤

Tsunehiko Iwai  
Director, Corporate  
Executive Officer

⑥

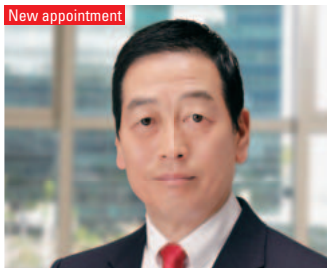
Toru Sakai  
Director, Corporate  
Executive Officer

⑦

Yasuko Takayama  
Audit & Supervisory  
Board Member

## Directors

New appointment



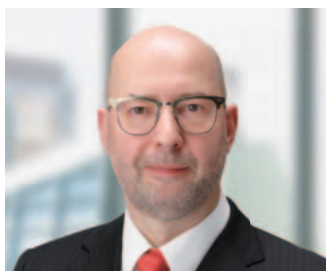
### Masahiko Uotani

(Date of birth: June 2, 1954)

**Representative Director, President & CEO**

Chairman of CSR Committee

1977 Joined the Lion Dentrifrice Co., Ltd. (currently Lion Corporation)  
1983 Graduated from Columbia University in the City of New York, Graduate School of Business Administration (MBA)  
1988 Manager, Citibank, N.A.  
1991 Representative Director, Vice President of Kraft Japan Limited (currently Mondeléz Japan Limited)  
1994 Director, Executive Vice President and Chief Officer of Marketing of Coca-Cola (Japan) Co., Ltd.  
2001 Representative Director, President of Coca-Cola (Japan) Co., Ltd.  
2006 Representative Director, Chairman of Coca-Cola (Japan) Co., Ltd.  
2007 Representative Director, Chief Executive Partner of BrandVision Inc.  
2011 Outside Director of ASKUL Corporation  
2012 Corporate Advisor of Coca-Cola West Co., Ltd. [incumbent]  
Director of Citibank Japan Ltd. (part time)  
2013 Outside Chief Marketing Advisor of Shiseido  
2014 President & CEO [incumbent], Chairman of CSR Committee [incumbent], Representative Director [incumbent]



### Carsten Fischer

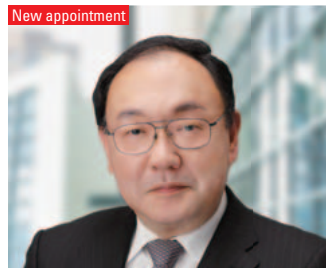
(Date of birth: September 7, 1962)

**Representative Director, Corporate Senior Executive Officer**

Responsible for Global Business (International Business, China Business and Professional Business)  
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, The 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  
2012 Representative Director [incumbent]

New appointment



### Tsunehiko Iwai

(Date of birth: May 28, 1953)

**Director, Corporate Executive Officer**

Responsible for Research & Development, Production and Technical Affairs

1979 Joined Shiseido  
2002 General Manager of Product Commercialization Planning Department  
2004 Chief Officer of Fine Chemical Division  
2006 General Manager of Technical Department  
2008 Corporate Officer  
2009 General Manager of Quality Management Department  
2010 Responsible for Technical Planning, Quality Management and Frontier Science Business  
2013 Responsible for Technical Planning, Quality Management, Pharmaceuticals Affairs, CSR, Environmental Affairs and Frontier Science Business  
2014 Corporate Executive Officer [incumbent], Responsible for Research & Development, Production, and Technical Affairs [incumbent], Director [incumbent]



### Yu Okazawa

(Date of birth: May 18, 1957)

**Director, Corporate Executive Officer**

Responsible for Asian Strategy  
Chief Officer of China Business Division

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, Chief Officer of China Business Division [incumbent], General Manager of Asia Pacific Sales Department, 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]  
2014 Responsible for Asian Strategy [incumbent]



### Toru Sakai

(Date of birth: October 16, 1956)

**Director, Corporate Executive Officer**

Responsible for Domestic Cosmetics Business, Healthcare Business, Chief Officer of Domestic Cosmetics Business Division

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, Director [incumbent]  
2014 Responsible for Domestic Cosmetics Business and Healthcare Business [incumbent], Chief Officer of Domestic Cosmetics Business Division [incumbent]

## Directors



### Shoichiro Iwata\*

(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 Nagai\*

(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  
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], Chairman of Japanese Centre of International Theatre Institute [incumbent]



### Tatsuo Uemura\*

(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, Jasdac 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  
2013 Acting Chairman of the Board of Governors of NHK [incumbent]

## Corporate Officers

### Chikako Sekine

#### Corporate Executive Officer

Responsible for Beauty Consultation, Beauty Creation, Consumer Information and Domestic Non-Shiseido Brand Businesses

### Ryuichi Yabuki

#### Corporate Executive Officer

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

### Jean-Philippe Charrier

New appointment

Chief Officer of Professional Business Operations Division

### Takahiro Hayashi

Responsible for Corporate Culture  
Advertising Creation  
Public Relations

### Masaya Hosaka

New appointment

Responsible for Technical Planning, Quality Management, Pharmaceuticals Affairs, and Frontier Science Business  
General Manager of Technical Planning Department

### Kiyoshi Ishimoto

Responsible for Supply Chain  
(Production, Purchasing and Logistics)

- Directors retired as of June 25, 2014: Representative Director Shinzo Maeda (Retired from position of President & CEO as of March 31, 2014), Director Tatsuomi Takamori (Retired from position of Corporate Executive Officer as of March 31, 2014), Yoshinori Nishimura (Retired from position of Corporate Officer as of March 31, 2014)
- Audit & Supervisory Board Member retired as of June 25, 2014: Audit & Supervisory Board Member Toshio Yoneyama
- Corporate Officer retired as of March 31, 2014: Corporate Executive Officer Masaru Miyagawa



## Audit & Supervisory Board Members

New appointment



**Yoshinori Nishimura**

(Date of birth: June 28, 1955)

### Audit & Supervisory Board Member

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, Responsible for Finance, Investor Relations and Information System Planning, Responsible for Internal Control  
2012 Director  
2014 Audit & Supervisory Board Member [incumbent]



**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]



**Akio Harada\***

(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.  
2011 External Director of Turnaround Initiative Corporation of Japan  
2013 Outsider Director of Sumitomo Corporation [incumbent]  
2014 Director of Yamazaki Baking Co., Ltd. [incumbent]



**Nobuo Otsuka\***

(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 Tsujiyama\***

(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]

**Norio Iwasaki** New appointment

Responsible for Domestic Cosmetic Business Strategies and New Business Models  
General Manager of Business Planning Department, Domestic Cosmetics Business Division  
President, Shiseido FITIT Co., Ltd.  
President, Shiseido International Inc.

**Hiroshi Maruyama**

Responsible for International Business Strategy and Marketing

**Shigeto Ohtsuki**

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

**Kazuhisa Shibata** New appointment

Responsible for General Affairs, Legal Affairs, Executive Affairs, CSR, and Environmental Affairs

**Youichi Shimatani**

Responsible for Research & Development  
(Retired from position of Representative Director, Executive Vice President as of March 31, 2012)

**Shigekazu Sugiyama**

Responsible for Marketing of Domestic Cosmetics Business Division and Clé de Peau BEAUTÉ Marketing Unit  
General Manager of Marketing Department, Domestic Cosmetics Business Division

**Norio Tadakawa** New appointment

Chief Financial Officer  
Responsible for Finance, Investor Relations, Information System Planning, and Internal Control

\*Independent Director/Audit & Supervisory Board Member required by Rule 436-2 of the Tokyo Stock Exchange Securities Listing Regulations.

# Shiseido's Value Creation

Aligned with the Shiseido Group corporate philosophy Our Mission, Values and Way (MVW), our vision and the management and business strategies we execute are all linked to value creation. This section presents Shiseido's value-creation process and unique strengths along with relevant initiatives to help readers understand Shiseido's MVW-centric approach to value creation.

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## Shiseido's Value Creation

We are creating value together with our stakeholders comprising customers, business partners, shareholders, employees, society, communities and the Earth based on MVW, the Shiseido Group corporate philosophy.

Shiseido conducts its business activities using internal and external capital, which we refer to as the six forms of capital. Our objective is expanding the value of our brands, which in turn creates additional resources for use in increasing brand value. In a nutshell, Shiseido's value creation process is a mutually reinforcing cycle of resources and brand value.

### The Six Forms of Capital

Financial Capital

Manufacturing Capital

Intellectual Capital

Human Capital

Social Capital

Natural Capital

Research & Development

▶ P. 38

# Process (Business Model)

## Brand Value

Three strengths  
that help create brand value



Strength 1

**Technology**

▶ P. 34



Strength 2

**Creation**

▶ P. 34



Strength 3

***Omotenashi***

▶ P. 35

### Shiseido's Value Creation Process

Product  
Development

▶ P. 40

Production and  
Procurement

▶ P. 42

Advertising

▶ P. 44

Customer Care

▶ P. 45

### The Six Forms of Capital

#### Financial Capital

Cash flow that can be reinvested in value creation. Increased market capitalization is also a key form of financial value.

#### Manufacturing Capital

Includes our nine research centers, 14 factories, our head office, sales companies in Japan and overseas, and the various networks that link them.

#### Intellectual Capital

Includes brands, cosmetics technology, knowledge and insight, counseling expertise, various patents, and ability to articulate lifestyles.

#### Human Capital

Includes high levels of employee motivation, specialized knowledge and skills centered on MVW, the Shiseido Group corporate philosophy.

#### Social Capital

Includes customer trust, and strong relationships with business partners and in various channels.

#### Natural Capital

Includes water, air, soil, minerals, forests and other natural resources, along with energy resources used in manufacturing and other activities.

# Shiseido's Unique Strengths

Technology, creation and *omotenashi* (hospitality) are unique strengths that Shiseido has carefully nurtured. These value drivers continue to give us a powerful advantage in value creation. We believe that the key to successfully enhancing our global competitiveness is refining these strengths to a peerless level.

## Shiseido Strength 1

Shiseido insists on superior performance and quality in continuously creating highly safe cosmetics with new concepts and leading-edge beauty methods. Backing this focus is our world-class technology foundation for R&D and production.

For example, Shiseido has received a total of 22 awards from the International Federation of Societies of Cosmetic Chemists (IFSCC), recognized as the leading authority among cosmetics researchers worldwide. Our award total is far greater than any of our global competitors.

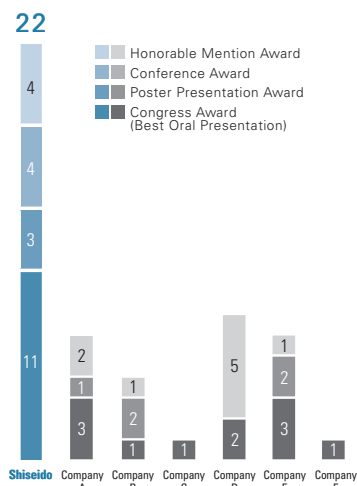
Thus Shiseido's history of taking on challenges for more

## Technology

than a century has backed our ability to refine our technological capabilities. Our long list of firsts in Japan includes developing the nation's first beauty lotion founded on Western-style pharmacology and the establishment of organizations for research and development and quality assurance. As a result, we have accumulated highly creative research data and knowledge and insight that have supported numerous breakthrough research achievements.

Shiseido is involved in technology fields in which advances are not achieved in a day. We will continue to concentrate on further strengthening our technology foundation because we aim to inspire our customers, not simply satisfy their needs and wants.

**Number of Awards Received from IFSCC: Shiseido vs. Peers**



## Shiseido Strength 2

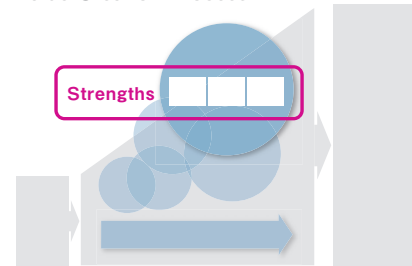
Shiseido's unique approach to creation resonates with customers. It is an important strength because it allows us to communicate the value we generate.

We have passed down our unique aesthetic sense, the Shiseido style, while voluntarily repudiating past successes and modes of expression to keep the Shiseido style new. Nearly 100 in-house creators following this approach have helped us win tremendous support and empathy from our



This New Year's advertisement for 2014 more strongly projected the spirit of innovation that Shiseido has long cultivated, calling out to all women who seek the highest level of beauty in "this moment and this life."





# Creation

customers and lead the Japanese advertising and design community. Moreover, the group of leading hair and makeup artists backstage when fashion designer collections are presented in places like New York and Paris and at the fashion shows sponsored by the Japanese government to support “Cool Japan” has outstanding value in creating the highest level of beauty.

At the same time, changes have been rapid in the environment surrounding creation, including advances in the Internet and information technology devices. We are refining our unique creativity to better lead change and express the highest level of beauty worldwide.

## Shiseido Strength 3

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 the highest level of beauty that starts with the skin and ends with the heart. This is the spirit of *omotenashi*, which our approximately 22,000 beauty consultants worldwide put into practice at sales counters, our point of contact with customers. They introduce beauty methods aligned with the skin and the preferences of each and every customer, while serving other roles such as communicating product value, including exceptional safety and performance. Thus beauty consultants contribute significantly to enhancing Shiseido’s competitiveness in the counseling category by embodying Shiseido’s brand cachet.

Beauty consultants and their counseling will help customers worldwide achieve beauty and enrich their hearts so that they continue to ask for and use our products.

In 2014, we will celebrate the 80th anniversary of Miss Shiseido, the predecessor to the

# Omotenashi

modern beauty consultant. We will further deepen the spirit of *omotenashi* passed down over this long history as well as our beauty knowledge and technology. We will also share them globally by concentrating on strengthening training in Japan and overseas and improving sales counter activities that use information technology to achieve the highest level of beauty for customers.



Beauty consultants have been using Beauty Tablet mobile information terminals in counseling at sales counters since June 2013.

# Value Creation Case Study: *clé de peau*



Shiseido proactively enhances brand value to create new value. This section presents a case study of how we have leveraged our strengths to reconfigure and increase the value of *clé de peau BEAUTÉ*, our consummate top-end prestige brand.

## Making a More Radiant Brand

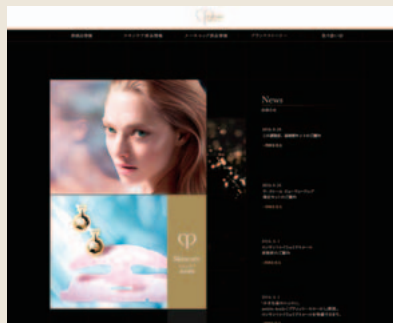
*clé de peau BEAUTÉ* (CPB) accounts for the largest share of sales in the Domestic Cosmetics Business and is Shiseido's consummate top-end prestige brand. In 2011, we renewed CPB as a global luxury brand based on leading-edge beauty theory. Its core value, "radiance of joy," was the guiding principle for all aspects of the project. We created the "radiance of joy" concept based on considerations such as the brand's existing strengths, those we wanted to nurture in the future, and global surveys. The concept expressed our intention to make CPB a brand that bathes customers' skin and spirit in radiant joy.

We then emphasized initiatives that unified the processes of value creation, from research and product development to advertising and sales counter service. Sales counters would deliver CPB's brand value to customers, so once a month we brought the people in charge of each process together for meetings and created opportunities for the people in charge of development to listen to customers' opinions first-hand at sales counters. We also implemented training to deepen beauty consultant understanding of CPB's brand value. Our objective was to spread awareness of the brand's value in Japan and abroad.



### *clé de peau BEAUTÉ* Laboratories

We achieved superb safety, functionality and ease of use through skin cell research that is among the most sophisticated in the world.



### Website

We communicate with customers through the brand's website, which envelops visitors in the CPB brand story, and its Facebook page, which is a virtual conversation lounge.



### Radiance Counters

Sales counters that emphasize the radiance of the brand and its products. We embraced customer perspectives to make them comfortable and inviting.



## Communicating Value by Linking Strengths

Our first specific initiative to reform CPB was formulating a three-year plan for 2011 to 2013. Our strategy was to expand value by leveraging brand strengths to innovate in the skincare category, then do the same in the makeup category. We concentrated not only on communicating the unique value of the products, but also on the brand's unique world, which we call its brand story. We also created and distributed a brand book so that all employees involved with the brand were fully versed in CPB's value.

In technology, our study of skin at the cellular level led to our discovery that much like the brain, skin is able to process information, which was the basis for our unique "brain skin theory." *clé de peau BEAUTÉ* Laboratories began communicating CPB's sophisticated performance and inimitability. Product development also began generating fresh beauty proposals by intently focusing on insights into latent customer needs to create products that propose new value concepts.

Creation was of course involved. We communicated in new ways by initiating large-scale press conferences in Japan and abroad to reach out to customer segments we had not discovered before. Advertising that strongly showcased the brand image, sampling events, and Internet-based initiatives were particularly effective.

To enhance *omotenashi*, we introduced Radiance Counters designed to spark excitement among visiting customers. Petite Ecole, a concurrent promotion designed to broaden encounters with new customers, provided brief lessons at Radiance Counters. We also wanted to satisfy customers with sophisticated aesthetics, so we created Tokimeki Service (service that delights) in 2012, covering everything from beauty consultant attitude to deportment and proposals. We implemented thorough training and seminars in Japan and abroad to heighten the value of beauty consultants as evangelists of CPB's brand value.

## Widespread Awareness of Brand Value Drives Success

We generated major successes over the three years of these initiatives. One example is *le sérum*, a beauty lotion launched in October 2013. It generated the highest initial monthly sales of all new CPB products ever and attracted a large number of new customers. Today, the CPB brand has the support of a wide range of age groups, from customers in their 20s to those in their 60s.

Building on these successes, we intend to escalate value creation and communication for CPB. From the year ending March 2015, we have been launching new products to further enhance CPB's inimitability. Other initiatives include reinforcing the cultivation of existing products such as *le sérum* through activities that turn users into brand aficionados, especially because these products are premium-priced. We will cultivate CPB to make it the leading brand in the high-prestige market while expanding its global presence, and apply examples of its success to other brands.



Focusing on moisturizing the stratum corneum cells, which are the key to beautiful skin, *le sérum* brings out a new radiance that exceeds expectations (launched September 2013).

# The Value Creation Process

## Research & Development

### Basic Policy

The objective of our research and development is to achieve the beauty customers want by integrating our broad portfolio of technologies and knowledge from areas including sales counters, product development and marketing to create superior value and quality. We also want to address sophisticated and diverse beauty needs, so we are creating new value by producing experiences that resonate with customers and go beyond the tangible craftsmanship that has traditionally been the point of origin of our customer relationships. Specifically, we contemplate how we can give customers heartfelt satisfaction as we enhance the functions and effectiveness of our products and services. We are therefore emphasizing research activities that provide insights into what customers think and feel, trans-

form those insights into realities, and communicate the resulting value. Our advanced R&D capabilities and safety are particularly strong.

### Promoting Innovative Research and Development

We are strengthening our technology platform to enhance our technological capabilities. In September 2013, we integrated the functions of the Shiseido Research Center (Kanazawa Hakkei) into the Shiseido Research Center (Shin-Yokohama) to enable consistency from basic to applied research, and in May 2014 we opened Shiseido Cell-Processing and Expansion Center (SPEC) in Kobe. As a result, we now have nine R&D bases in five countries including Japan.

Shiseido is also building a worldwide R&D organization with approximately 1,000 researchers to maximize its R&D capabilities. Specifically, Japanese research centers will serve as hubs transferring technology to overseas R&D bases while enhancing product development capabilities for local brands to deliver optimum value to local customers.

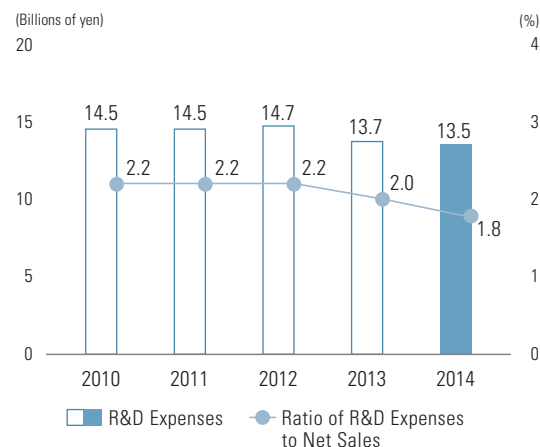
### A Leader in Skin-Brightening and Anti-Aging

Our key research fields include 1) development of highly active cosmetic ingredients for skin brightening and anti-aging, in which we excel; 2) elucidation of complex mechanisms such as skin functions and aging; and 3) development of emulsification technologies, which are very important for cosmetics. For example, Shiseido is a leader in skin-brightening research in Japan and around the world. We have developed four of the 20 or so active skin-brightening ingredients currently approved by Japan's Ministry of Health, Labour and Welfare. In 2007, we developed potassium 4-methoxy salicylic acid (4MSK), which surpasses arbutin, the representative ingredient for skin-brightening that we developed previously. We are working to enhance our technological capabilities through full-scale entry into regenerative medicine, a new field for us, and initiatives in social sciences such as psychology and ethology.

#### Highlights of the Year Ended March 2014

- Shiseido Co., Ltd. won top honors in both the oral and poster presentation categories at the 22nd International Federation of Societies of Cosmetic Chemists (IFSCC) 2013 Conference. This marks Shiseido's 22nd IFSCC award, including top awards, the largest number among cosmetics manufacturers worldwide.
- R&D expenses decreased 0.9 percent year on year to ¥13,540 million.
- The ratio of R&D expenses to net sales decreased 0.2 percentage points year on year to 1.8 percent.
- We concluded a Collaboration and Technology Transfer Agreement covering Asia including Japan with RepliCel Life Sciences Inc. of Canada, which specializes in medical research with themes such as hair regeneration to commercialize safe and effective hair regeneration treatments.

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





## Focused on Safety

As a corporation that handles chemical substances, Shiseido places the highest priority on quality and safety, and has been conducting full-scale research into cosmetics safety since the 1960s.

A particular current 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 nanomaterial 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 ingredients judged to be genetically modified 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.

In these ways, we deliver high-quality products that we have carefully confirmed to be safe for humans and the environment.

## Policy toward Abolishing Animal Testing for Cosmetics

Shiseido does not test its cosmetic products or ingredients on animals except when absolutely mandated by law,<sup>1</sup> or in the rare case where there are absolutely no alternative methods for guaranteeing product safety.<sup>2</sup>

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 have been developing alternative testing methods for more than 20 years. Recently, we have been developing the Human Cell Line Activation Test (h-CLAT), a method for assessing sensitization to substances that does not involve animals, in collaboration with Kao Corporation. This method costs less and requires smaller samples and less time than animal testing, but provides highly precise measurement of sensitization. We are championing this technology worldwide while involving cosmetics companies in Japan and overseas, with the goal of official certification in 2015.

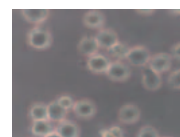
1. Mandated by law: In China, in order to guarantee the safety of imported cosmetics, safety studies including animal testing may be required.
2. Guaranteeing product safety: When new ingredients or ingredients that have already been used are suspected to be potentially harmful based on the latest scientific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

This photo from "Visualization of water distribution in facial skin using novel high-sensitivity water imaging systems and application to cosmetics evaluation," which won a top award in the IFSCC oral category, shows the change in water distribution in facial skin after 85 minutes in low relative humidity conditions (10%).

▲ Water  
High  
Low  
n=15, mean



THP-1



Cells derived from human white blood cells

Test substance



Observation and analysis using dedicated apparatus



A change in THP-1 cells indicates that the test substance is a potential allergenic substance.

An alternative to animal testing, the h-CLAT method uses characteristic changes in human white blood cells in reaction to sensitizers. Allergy sensitivity is evaluated by cultivating these cells together with test substances.

## Product Development

### Basic Policy

Based on the Shiseido Group corporate philosophy, Our Mission, Values and Way, we aim to serve our customers and society by consistently providing products with genuine, meaningful value. Products and services that satisfy consumers are created by combining tangibles that comprise cosmetics products and associated intangibles such as various information and beauty methods.

Shiseido does this by focusing on accurately identifying insights into ever-changing latent customer needs and product development that unifies research, marketing, advertising, production and other divisions.

### Creating New Value

Shiseido wants to create genuine value through its products. Based on our policy of only putting products on the market that customers will appreciate, we are intensely selective during product development so that we only launch delightfully well-rounded products. This emphasis involves leveraging our unique competencies to create new value.

Our unique shape memorizing cell technology used in *IBUKI*, in the global brand *SHISEIDO*, was created through research focused on the mechanism that causes frequent occurrence of uneven skin in women in their 20s and 30s. These women are concerned about roughness, visible pores and unevenness caused by changes in the environment. *IBUKI* effectively keeps skin smooth by plumping up the stratum corneum cells, which are intimately related to skin texture, with natural moisturizing factors. *FullMake Washable Base (FWB)*, which we launched in February 2013, was

developed with the concept of freeing women from the drudgery of removing makeup. A next-generation makeup base that enables makeup removal with warm water, this new lifestyle proposal was a major hit, and sales are going strong.

### Initiatives to Incorporate Customer Feedback

Shiseido shares valuable feedback from customer consultation and requests and other sources throughout the Company and incorporates it in product development in order to achieve customer-oriented craftsmanship.

In Japan, we collect a variety of customer feedback. Our Customer Information Center receives approximately 110,000 customer comments and inquiries annually via toll-free calls, e-mail, letters and other means, and beauty consultants use terminals to submit another 90,000 comments received at sales counters. We also collect feedback via Twitter and other social networking sites. Moreover, we

#### Highlights of the Year Ended March 2014

- September 2013: Launched *IBUKI* in the global brand *SHISEIDO*. *IBUKI* promotes smooth, beautiful skin with a new approach to skincare focused on the mechanism unique to the skin of younger women that causes frequent occurrence of unevenness.
- September 2013: Launched *Enriched Serum* in the *ELIXIR SUPERIER* line.
- Expanded the use of the Mirror system to 20 countries and regions.
- Increased the number of products that have been switched to sugar cane-derived polyethylene packaging to approximately 50.



We began switching to sugar cane-derived polyethylene packaging in September 2011 with *SUPER MILD*. The expanding range of products with this new packaging currently includes *ELIXIR*, *TSUBAKI* and *ANESSA*.

Research &  
DevelopmentProduct  
DevelopmentProduction and  
Procurement

Advertising

Customer Care

are using a system called Mirror in 20 countries and regions including Japan to efficiently collect, analyze and organize customer feedback in real time for shared use by our internal divisions, including research centers, production, product development and sales. In particular, centralized collection and management of customer comments has enhanced our ability to respond to risks. We take customer opinions and evaluations of our products seriously and use them as reference in making product improvements. They provide us with an understanding of how consumers feel about the cosmetics they use in their daily lives, and why. We use this knowledge to create more satisfying value.

The Shiseido Group corporate website presents our Mirror system and representative examples of products that reflect customer feedback.

Please visit “A Structure That Reflects Customer Feedback” at the following URL for specific product examples.

<http://www.shiseidogroup.com/csr/challenge/customer/response.html>

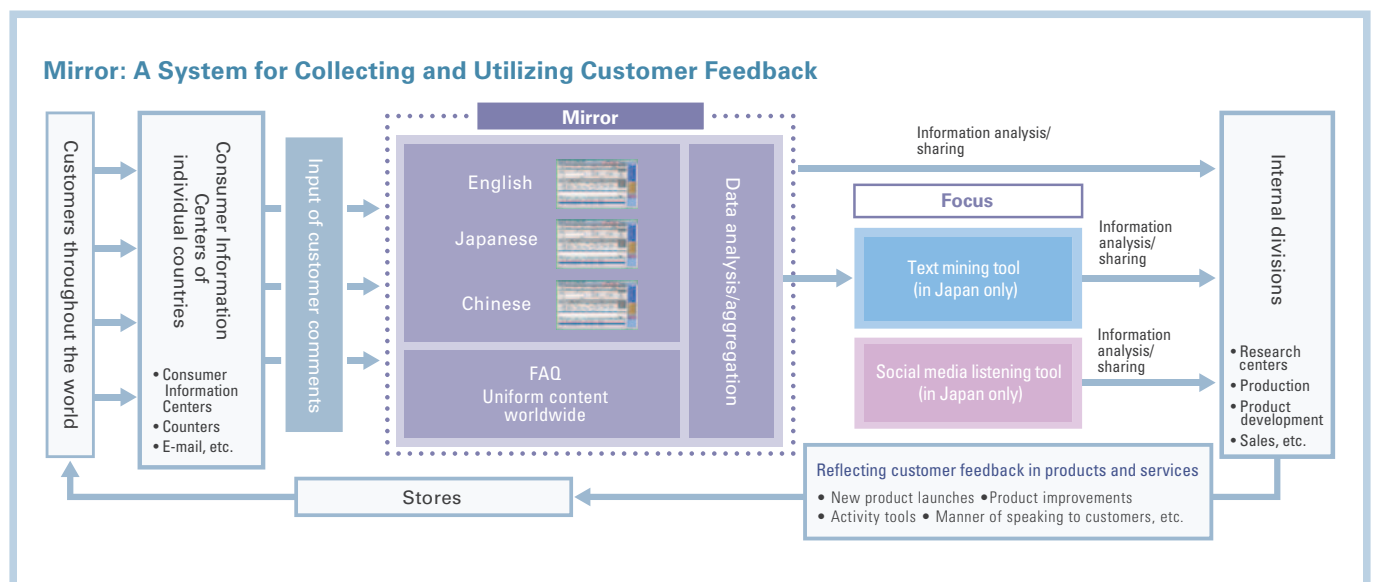
## Product Development That Reduces Environmental Impact

Shiseido formulated its Production Eco Standards in the year ended March 2011 to serve as environmental standards for product design. They are not simply standards for environmental friendliness. Rather, they are intended to support new lifestyle proposals through production that facilitates the coexistence of beauty and ecology without impairing the value of cosmetics in terms of factors such as effectiveness, user experience, ease of use and beauty of design.

Specifically, we are switching to cosmetics product containers made of sugar cane-derived polyethylene, adding refill products and expanding the use of environmentally friendly paper such as bagasse paper made from sugar cane fiber residue left over in the juice extraction process. We are also moving to conserve water resources by reducing the amount of water required to manufacture and use our products.

Shiseido's proposals for new cosmetics habits also help to reduce environmental impact. For example, a key feature of *FWB* is that it does not require makeup remover, which reduces the amount of water used in the makeup process from base application to face washing. Calculation using the water footprint method<sup>1</sup> showed us that *FWB* reduces water use by 1.6 liters<sup>2</sup> per cycle of the makeup process, or 90 liters per 35-gram package.

1. A method of calculating the amount of water consumed over the entire life cycle of a product, from procurement of ingredients to production, disposal and recycling
2. Calculation results obtained through third-party verification by Professor Norihiro Itsubo, Department of Environmental and Information Studies, Tokyo City University



## Production and Procurement

### Basic Policy

Shiseido is proactively structuring an optimum global production network to stably supply products to customers worldwide. We currently have a total of 14 production bases in Japan, China, Taiwan, Vietnam, France and the United States.

In addition, the business partners that Shiseido works with in its various procurement activities are essential to providing safe, excellent products and services. Shiseido's procurement policy is to achieve sustained, mutual development with all of its suppliers, who it views as partners in the creation of new value.

### Addressing Customer Needs and Increasing Production Efficiency

Shiseido is upgrading its production bases to accurately address ever-changing customer needs while increasing profitability. Specifically, we are shifting production among bases to raise production efficiency and innovate production technology by specializing each factory. We plan to close the Kamakura Factory by March 2015 and enhance production capacity by starting operations at a new building at the factory in Vietnam.

The state-of-the-art factory in Vietnam complies with the ISO22716 (Cosmetics GMP) international standards established in 2010 and will support the masstige business throughout Asia. The factory buildings occupy a 100,000m<sup>2</sup> site, and we can triple their size. The factory in Vietnam is positioned as our most important production base for supplying Japan and the fast-growing ASEAN markets, and we are shifting mid- and low-priced skin-care product manufacturing there.

Facilities in Japan are positioned as respective mother factories. They evolve Shiseido's production technologies while extending these technologies to overseas factories. In production technology development, Shiseido is evolving the quality of its powdered product coloring and molding technologies while using 3D printers and other technologies to enhance its ability to design the decorative surface features that give makeup products their distinctive look and to increase production speed.

### Initiatives to Reduce Environmental Impact

In its operations, Shiseido places importance on showing consideration for the environment with gratitude and esteem for the bounty of the Earth. Each production base proactively conducts environmental activities, and we lead the cosmetics industry in promoting production activities with reduced environmental impact.

We set down detailed action plans to achieve our targets for reducing CO<sub>2</sub> emissions and assiduously use PDCA

#### Highlights of the Year Ended March 2014

- Commenced production of new *ELIXIR*, *d program* and *Za* products at the factory in Vietnam, increasing production volume to 26 million units per year, or 1.6 times compared with December 2012.
- At the Kakegawa Factory, we produce *INTEGRATE Sweet Trick Eyes*, a three-item lineup of eye color that uses filling and decoration technologies to achieve totally different hues, texture and feel.
- 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 full-scale operation of a test farm.
- Conducted 463 surveys of compliance with the Shiseido Group Supplier Code of Conduct.



We are transferring production of *ELIXIR* and other mainstay skincare products to the factory in Vietnam, and plan to increase the facility's production capacity by 1.8 times current levels in 2015 with the start of operations at a new building.



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cycles. In addition, we achieve zero emissions at all of our production bases in Japan by using waste substances as raw materials. Each factory actively conserves energy, reduces waste and recycles in ongoing activities to reduce environmental impact.

## 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 standards to base manufacturing on rigorous quality control. We only use carefully selected raw materials for which the items related to safety have been meticulously confirmed. Similarly, we provide customers

with food and healthcare products they can use regularly with peace of mind by employing standards such as HACCP\* and ISO22000.

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 full-scale operation of a test farm. These initiatives target even greater quality consistency and plant raw material procurement that is reliable, safe and has high traceability to the producer.

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

## Cooperation with Business Partners

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). The code stipulates our standards for human rights, legal compliance, labor practices, the protection of intellectual property and confidentiality, environ-

mental conservation, fair commercial transactions and compliance monitoring. We distribute the code to educate our suppliers in Japan and overseas about it, and conclude purchasing contracts and memorandums of understanding (MoUs) to ensure compliance.

As of March 2014, departments of our primary factories that purchase raw materials and components 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.

We monitor compliance with the Shiseido Group Supplier Code of Conduct through regular surveys covering items such as quality and order fulfillment management systems and CSR initiatives. In addition, we deepen understanding of our procurement policies by holding annual purchasing policy sessions in Japan attended by approximately 140 companies.



We employ rigorous quality control that strictly complies with all items of the ISO22716 (Cosmetics GMP) international standards to ensure that the products we manufacture are high-quality, safe and reliable.

### 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	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

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## Advertising

### Basic Policy

Shiseido believes that designing lifestyles and making proposals to society are important to helping people live beautifully, and we think communication with people worldwide is an essential value-creation process. Our Way, which is our code of conduct, stipulates the production of ethical, creative and appealing advertising that wins the support of consumers and helps them select products and services.

Since establishing the Design Department, currently the Advertising and Design Department, in 1916, Shiseido has been a leader in Japanese advertising and design because it has passed down its unique aesthetic sense, the Shiseido style, while keeping it at the leading edge through innovation. Today, the Advertising and Design Department employs nearly 100 cre-

ators, including graphic designers, television commercial planners and other advertising production creators, package designers who design products, space designers who design places for encounters with customers, copywriters and photographers. They are the specialized group of professionals who handle Shiseido's communication.

### Unique Shiseido Creativity

The history of Shiseido cosmetics is the history of Japanese cosmetics, and we have always been a leader in the development of Japan's modern beauty culture as well as its cosmetics culture. For example, Japanese traditional hairstyles were the mainstream in Japan in 1923, when Shiseido introduced a hairstyle that hid the ears and was suited to Western clothing. It remained extremely popular for the next 10 years and left its mark on the history of Japan's beauty culture. This originality continued into the country's post-

war period of rapid economic growth, when Shiseido broke new ground in Japan by advocating an active female image with a summer campaign that communicated the sociocultural message that suntanned skin is healthy and beautiful. With the widespread acceptance of the heightened social profile for women in the first half of the 1990s, we launched a high-performance, long-lasting lipstick that became exceptionally popular among working women. In the latter half of the same decade, we contributed to raising women's fashion aesthetics by uniting fashion with makeup.

Thus, Shiseido has consistently innovated fashion culture to fit the times, and its media and promotional approaches have also driven the beauty industry. Given the powerful buzz effect created by its websites in recent years, Shiseido is reinforcing customer relationships by combining uniform communication of value through traditional mass media with timely and direct communication of value through media such as social networking sites.

#### Highlights of the Year Ended March 2014

- The ratio of marketing costs (advertising costs and promotional expenses) to net sales decreased 1.3 percentage points to 22.2 percent.
- Awarded a bronze prize at the 2013 London International Awards.
- Selected Dentsu Aegis Network Ltd. as sole media buyer in major overseas markets.
- Aggressively strengthened marketing for the growing senior market.



The London International Awards recognize exceptional advertising works from all over the world. In November 2013, Shiseido received a bronze prize at the 2013 London International Awards in the "Motion Graphics – Animation" category for video content titled "Everything Can be Described by Mathematics," available on the Shiseido Group corporate website.

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## Customer Care

### Basic Policy

As a matter of policy, Shiseido sincerely strives to heighten satisfaction and trust at all points of contact with consumers to enhance brand value. 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 internal certification of competency in beauty knowledge and technology. This certification system was approved by the Ministry of Health, Labour and Welfare.

### Initiatives to Enhance the Spirit of *Omotenashi*

Beauty consultants emphasize reaching out to customers with the 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. With 22,000 participants around the world, the contest encourages beauty consultants to review their beauty techniques and customer care every day and refine and enhance their professional skills.

In the year ending March 2015, we celebrate the 80th anniversary of Miss Shiseido, the predecessor to our beauty consultants today. Using this occasion as an opportunity, in January 2014 we redefined our concept of the ideal

beauty consultant and beauty consultants' unique customer care. We clarified the Beauty Consultant Oath, printed it on pocket-sized cards for distribution to beauty consultants, and reflected the new oath in seminars.

### Service That Puts Customers First

Shiseido collects, analyzes and internally shares customer feedback, and uses it for product development and initiatives to improve service. We also use customer feedback to further enhance customer care and satisfaction by providing it to workplaces in real time to prompt review of activities and highlight issues that we need to address. (Please refer to "Mirror: A System for Collecting and Utilizing Customer Feedback" on page 41 for details about our Mirror system.)

The Consumer Information Center is another important point of customer contact. It sincerely handles inquiries and consultation, and is dedicated to

#### Highlights of the Year Ended March 2014

- Held 19 beauty consultant training programs over 37 seminars.
- Approximately 10,000 beauty consultants in Japan began using the Beauty Tablet, a mobile information terminal.
- Handled approximately 110,000 inquiries/comments at the Consumer Information Center and collected approximately 90,000 customer comments from sales counters.
- Received a 3 Stars Quality Service rating in the quality monitoring (telephone) division of HDI-Japan's Fiscal 2013 Benchmarking Survey.



Originating as Miss Shiseido in 1934, beauty consultants have changed with the times while conducting activities that help our customers achieve even greater beauty.

providing the most helpful information to customers. Proactive customer communication also includes online beauty consultation called Web BC counseling, which we have provided via our total beauty service website *watashi+* since 2012.

Help Desk Institute is the world's largest support service industry association, and its Japanese subsidiary, HDI-Japan, evaluated the quality of the Consumer Information Center's customer service. Shiseido received the highest 3 Stars Quality Service rating, a first for the cosmetics industry, in the quality monitoring (telephone) division of HDI-Japan's Fiscal 2013 Benchmarking Survey.

## Higher Levels of Customer Care

Shiseido is improving customer care and proposal capabilities at sales counters by using software it developed that condenses the customer

care expertise and beauty technology it has cultivated to date. We are also using international versions of this software overseas.

In June 2013, we equipped approximately 10,000 beauty consultants in Japan with the Beauty Tablet, a mobile information terminal. In the following month, we began installing three proprietary software applications for use in serving customers at sales counters: a makeup simulator that projects the customer's face just like a mirror and allows customers to experience makeup pattern and other simulations without removing makeup; a foundation finder; and an application for skincare consultation. We use this kind of leading technology as a tool to improve customer satisfaction by capturing interest at the sales counter and giving customers the means to discover their own charm.



The *Shiseido Beauty Consultant Omoitenashi Credo* is a code of conduct shared by beauty consultants worldwide.



Shiseido's Consumer Information Center's customer service received the highest 3 Stars Quality Service rating in the quality monitoring (telephone) division of HDI-Japan's Fiscal 2013 Benchmarking Survey.



# Cross-Divisional Initiatives

## Basic Policy

Shiseido believes that addressing social challenges in addition to conducting its businesses is essential to cooperating with stakeholders to help people live beautifully. Our Way, which is the code of conduct for putting our corporate philosophy into practice, guides us as we act on this belief. Our Way draws on numerous global standards, including the United Nations Global Compact, which we have participated in since 2004, and the ISO26000 standards.

Among various social challenges, we have defined three core areas in which we can put Shiseido's unique capabilities to use – women and cosmetics, the environment, and culture – while concentrating on nurturing the people who are the source of value creation.

Reflecting the high regard of numerous institutions involved in auditing socially responsible investing and corporate ethics for the above approaches and specific activities, the United Nations Global Compact selected

Shiseido for inclusion in the new Global Compact 100 stock index announced in October 2013. Shiseido was one of six Japanese companies included in the 100 companies that make up the index. Shiseido was also selected as one of the World's Most Ethical Companies for the third consecutive year in March 2014.

## Women and Cosmetics

### Initiatives to Enhance the Quality of Life through 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 our customers by enriching their hearts.

This program includes SHISEIDO

LIFE QUALITY MAKEUP, in which we provide 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 opened the renovated SHISEIDO LIFE QUALITY BEAUTY CENTER in Ginza, Tokyo to serve as a base for discovering and developing new cosmetics capabilities. We also began providing makeup advice to address skin concerns such as dullness and loss of eyebrows and eyelashes as a side effect of cancer treatment.

We hold SHISEIDO LIFE QUALITY BEAUTY SEMINARS throughout Japan as a social business that aims to improve and support the quality of life while addressing the various beauty needs of groups including the elderly, the developmentally challenged, students and adults. We are conducting these seminars free of charge overseas.

In addition, Shiseido is providing face and hand massages along with makeup and other services in the areas stricken

#### Highlights of the Year Ended March 2014

- The United Nations Global Compact selected Shiseido for inclusion in the new Global Compact 100 stock index. Shiseido was one of six Japanese companies included in the 100 companies that make up the index.
- The Ethisphere Institute selected Shiseido as one of the World's Most Ethical Companies for the third consecutive year.
- Shiseido completed the switchover to the exclusive use of RSPO-certified palm oil.
- March 2012: The Ministry of Economy, Trade and Industry selected Shiseido for inclusion in its Diversity Management Selection 100 project.



Over 3,000 people have visited the SHISEIDO LIFE QUALITY BEAUTY CENTER since it opened in June 2006. The center moved to Ginza, Tokyo in October 2013 with the opening of the new head office there, and further enhanced its activities.

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."

## Helping to Empower Women

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 Grant for female researchers who will lead the next generation. Recipients can use a portion of the grant to hire a research assistant. 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),<sup>1</sup> 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.

1. A set of international guidelines collaboratively developed by the United Nations Global Compact and the United Nations Development Fund for Women (UNIFEM), part of UN Women.

## 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 holds exhibitions with a focus on contemporary art, including "Tsubaki-kai" (Camellia Club) for Shiseido Group works and "shiseido art egg" for works by the general public. Shiseido also exhibits a collection of some of these works 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 142 years.

*Hanatsubaki* is a corporate culture magazine we launched in 1937 that consistently communicates leading-edge content in areas including culture, fashion and art. The annual Hanatsubaki Award for Contemporary Poetry, established in 1983, continues to support language that conveys beauty by recognizing outstanding poetry anthologies.

At the same time, Shiseido Hanatsubaki Hall and Word Shiseido Hall, both in Ginza, Tokyo, also hold programs that communicate beauty within and outside the company.

## The Environment

### Basic Policy for Environmental Activities

The name Shiseido derives from a Chinese expression meaning "praise



During the year ended March 2014, a total of 49,859 people attended 2,812 SHISEIDO LIFE QUALITY BEAUTY SEMINARS, which were conducted at medical institutions, senior care facilities and various events in 15 countries and one region.



Founded in 1919, the Shiseido Gallery is Japan's oldest operating art gallery. It continues to energetically present contemporary expression that is both cutting edge and genuine.

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. We are now executing the Shiseido Earth Care Project, an environmental initiative involving all employees throughout the world aimed at engendering a new lifestyle that links beauty and eco 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”<sup>2</sup> by Japan's Ministry of the

Environment. In addition to reporting the progress of committed initiatives to the Ministry of the Environment, we make regular announcements through the Shiseido Group corporate website and other channels.

2. Created by the Ministry of the Environment in April 2008. Further promotes the efforts of leading companies to protect the environment by having them make a commitment to the Minister for the Environment.

## Reducing Environmental Impact

As in the previous three years, Shiseido is undertaking initiatives to reduce environmental impact in the three years that began in April 2014, with emphasis on environmental friendliness throughout the product life cycle and global reduction of CO<sub>2</sub> emissions.

Environmental friendliness throughout the product life cycle 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. In addition, the chart below shows the

global CO<sub>2</sub> emission reduction targets of our business facilities for the year ending March 2021.

## Initiatives to Preserve Biodiversity

### Palm Oil Initiatives

The demand for palm oil 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, and has completed the switchover.

CO<sub>2</sub> Emission Reduction Targets and Results for the Year Ended March 2014

Scope		Targets	Results
Domestic	Production facilities	15% reduction compared with the year ended March 2010 (absolute amount)	Achieved <sup>3</sup>
	Non-production facilities	5% reduction compared with the year ended March 2010 (absolute amount)	Achieved
Overseas	Production facilities	20% reduction (compared with BAU <sup>1</sup> )	Achieved
	Non-production facilities	4% reduction compared with the year ended March 2010 (absolute amount) <sup>2</sup>	Achieved <sup>3</sup>

CO<sub>2</sub> Emission Reduction Targets for the Year Ending March 2021

Scope		Targets
Domestic	Production facilities	20% reduction compared with the year ended March 2010 (absolute amount)
	Non-production facilities	14% reduction compared with the year ended March 2010 (absolute amount)
Overseas	Production facilities	23% reduction (compared with BAU <sup>1</sup> )
	Non-production facilities	11% reduction compared with the year ended March 2010 (absolute amount) <sup>2</sup>

1. Business as usual. Volume of CO<sub>2</sub> emitted assuming that particular reduction measures are not implemented.

2. Excluding overseas non-production facilities for which data was unavailable.

3. Including emission allowances exercised.

## Personnel

### Diversity and Inclusion

As of March 31, 2014, a total of 46,462 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 individual differences to promote diversity and inclusion while facilitating work and making it satisfying by creating a corporate culture in which diverse employees are free to exercise their capabilities and create new value.

About 90 percent of our customers and 80 percent of our employees are women, so our female employees must 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 the specific action plan we implemented 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 female leaders are continuously developed.

As a result, we have built career awareness among women, and as of April 2014 had increased the percentage of female leaders in Japan by approximately 1.2 points compared with 2009 to 26.8 percent. The percentage of female managers worldwide, including Japan, is 49.7 percent.

### Nurturing Global Human Resources

Since its founding, Shiseido has been so focused on 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 focus was 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.

With our overseas business expanding and society rapidly globalizing, in 2008 Shiseido also formulated its Global Human Resources Policy. The full-fledged global human resource strategy we initiated has three objectives: 1) effectively leverage Groupwide 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 building a human resource development program and a core human resources information system.

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



Kangaroom Shiodome, an in-house nursery school, and the Kangaroo Staff system, which supports retail activities during evening hours by having other employees fill in for beauty consultants who are taking time off to care for their children, are two examples of Shiseido's original initiatives to help balance work with childrearing and nursing care.



In May 2014, Shiseido was the top-ranking company in the "Survey on Female Workers' Workplace Opportunities" conducted by *Nikkei Woman*. This is just one example of the external recognition we have received for our efforts to foster a corporate culture that encourages diversity and inclusion in the workplace.



# Corporate Governance

## Basic 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 eight 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 2014.

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

## Progress of Shiseido's Corporate Governance Policy

### Enhance Management Transparency, Fairness and Speed

#### Clarify allocation of responsibility

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

#### Reinforce supervisory and auditing functions

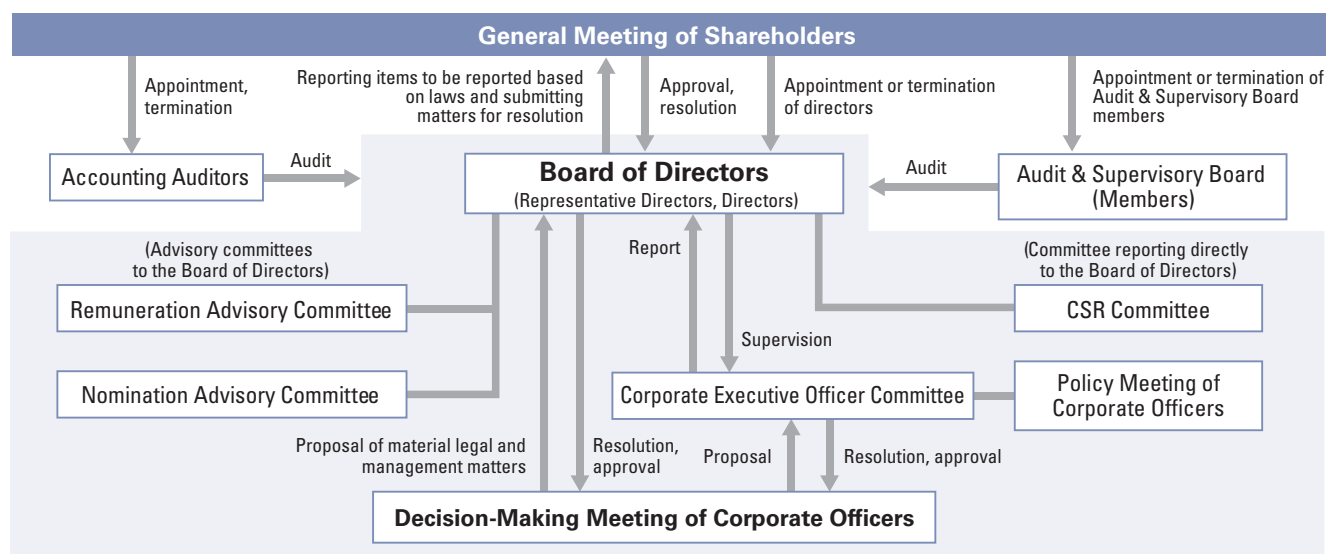
- 2005 Increased number of external Audit & Supervisory Board members from 2 to 3
- 2006 Appointed external directors
- 2011 Increased number of external directors from 2 to 3
- 2012 Established standards for assessing independence

#### Enhance management transparency and soundness

- 2001 Established Remuneration Advisory Committee
- 2005 Established Nomination Advisory Committee

#### Strengthen decision-making functions

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



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, 2014, eight, or 62 percent of the 13 members of the Board of Directors and the Audit & Supervisory Board have built careers outside of Shiseido; three, or 23 percent, are women; and one, or 8 percent, is a foreign national.

\* See page 53 for the detailed Standards for Assessing the Independence of External Directors and Audit & Supervisory Board Members

#### ■ Provision of Training to Directors, Corporate Officers, etc. and Cultivation of the Next Generation of Management

Prior to the assumption of office, the Company's newly appointed external directors and external Audit & Supervisory Board members take part in its training programs through which they attain knowledge of the Company, such as the industry in which it operates, its

history, an overview of its business, strategies and more. For directors and corporate officers, the Company holds an executive program in which the President & CEO also participates, as well as utilizing training at external institutions, in order to develop leadership capabilities to an even higher level.

To cultivate the next generation of management, executives who are corporate officer candidates are provided with training programs to acquire the leadership abilities and management skills required for top management officers.

### 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 & CEO 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 the Company 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 15 Audit & Supervisory Board meetings

### 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 114th Ordinary General Meeting of Shareholders in the IR section of the Shiseido Group corporate website (<http://www.shiseidogroup.com/ir/shareholder/e1406shm/html/index.html>).

held in the year ended March 2014 was 100 percent. Audit & Supervisory Board member attendance at Board of Directors meetings was also 100 percent. Internal audits of the entire Group are conducted to ensure that business is executed in an appropriate manner, and audit results are reported to the Board of Directors and 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.

## 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 & CEO, the CSR Committee is composed of members representing a broad cross-section of the Company, and also includes external experts. It submits proposals for and reports on action plans and their results to the Board of Directors.

## Committees and Their Members

### Advisory Committees to the Board of Directors (Year Ending March 2015)

Remuneration Advisory Committee	
[Chair]	Shoichiro Iwata, External Director
[Members]	Tatsuo Uemura, External Director
	Taeko Nagai, External Director
	Masahiko Uotani, Representative Director, President & CEO
	Carsten Fischer, Representative Director, Corporate Senior Executive Officer
[Observer]	Norio Tadakawa, Corporate Officer

Convened four times in the year ended March 2014. Activities included analyzing trends in executive compensation for companies in general in the year ended March 2013, and reviewing bonuses for Shiseido directors.

Nomination Advisory Committee	
[Chair]	Tatsuo Uemura, External Director
[Members]	Shoichiro Iwata, External Director
	Taeko Nagai, External Director
	Masahiko Uotani, Representative Director, President & CEO
	Carsten Fischer, Representative Director, Corporate Senior Executive Officer

Convened once in the year ended March 2014. 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.

### Committee Reporting Directly to the Board of Directors (Year Ending March 2015)

CSR Committee	
[Chair]	Masahiko Uotani, Representative Director, President & CEO
[Members]	Carsten Fischer, Representative Director, Corporate Senior Executive Officer, Responsible for Global Business (International Business, China Business and Professional Business), Chief Officer of International Business Division
	Tsunehide Iwai, Director, Corporate Executive Officer, Responsible for Research & Development, Production and Technical Affairs
	Toru Sakai, Director, Corporate Executive Officer, Responsible for Domestic Cosmetics Business and Healthcare Business, Chief Officer of Domestic Cosmetics Business Division
	Taeko Nagai, External Director
	Shigeto Ohtsuki, Corporate Officer, Responsible for Personnel and Corporate Culture Reforms and General Manager of Personnel Department
	Kazuhisa Shibata, Corporate Officer, Responsible for General Affairs, Legal Affairs, Executive Affairs, CSR and Environmental Affairs
	Norio Tadakawa, Corporate Officer (Chief Financial Officer), Responsible for Finance, Investor Relations, Information System Planning and Internal Control
	Hirofumi Takakura, General Manager of Corporate Planning Department
	Hajime Akatsuka, Chairman of the Central Executive Committee, Shiseido Labor Union
	Mariko Kawaguchi, External Member, Chief Researcher, Research Division, Daiwa Institute of Research
[Observer]	Yasuko Takayama, Full-time Audit & Supervisory Board Member

Convened three times in the year ended March 2014. Deliberated matters such as future environmental activities and risk management.

## The Process for Selecting the New President:

### Shiseido's First Direct Appointment of a Candidate from Outside the Group

Beginning around summer 2013, the Nomination Advisory Committee chaired by an external director held extraordinary meetings about once a month. Without preconceptions, with nothing off limits, and with no possibilities excluded, the committee searched for people related to Shiseido both internally and externally. Specifically, the committee interviewed and made inquiries about multiple candidates, called on external institutions for assessments, and screened candidates from various angles. Masahiko Uotani, who participated in the Shiseido Marketing Reform Project that began in April 2013, was one of the candidates. The committee came to the consensus that his 10 years of management experience with Coca-Cola (Japan) Company, Ltd. and global marketing competencies were both needed and well suited for a Shiseido undergoing renewal. The Board of Directors approved his appointment in December 2013.



## Remuneration for Directors, Corporate Officers and Audit & Supervisory Board Members

Remuneration for 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 factors such as the achievement of the final year targets of the Three-Year Plan 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

### 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 for Directors and Audit & Supervisory Board Members for the Year Ended March 2014

(Millions of yen)

	Basic	Short-Term Incentive Bonus	Medium-Term Incentive Remuneration	Long-Term Incentive Stock Options	Total
Directors (9)	247	84	196	98	626
External directors (3 of the 9 directors)	39	—	—	—	39
Audit & Supervisory Board members (5)	96	—	—	—	96
External Audit & Supervisory Board members (3 of the 5 members)	36	—	—	—	36
Total	343	84	196	98	722

#### 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.
- The above amount of basic fixed remuneration includes ¥31 million as basic fixed remuneration for the year ended March 2014 that four subsidiaries of the Company paid through the Company to one director of the Company who served concurrently as the director of said subsidiaries. In addition, as stated in "Partial Change in Remuneration for Directors for the Year Ended March 2014" on page 56, the amount of basic fixed remuneration paid to Representative Director Shinzo Maeda was reduced.
- As stated in "Partial Change in Remuneration for Directors for the Year Ended March 2014" on page 56, the amount of bonus for each director eligible for the payment was reduced.

4. The medium-term incentive remuneration is as per the resolution of the 111th Ordinary General Meeting of Shareholders held on June 24, 2011. Calculation standards for the medium-term incentive remuneration for directors except Representative Director Carsten Fischer are based on the achievement of the fiscal year targets of the Three-Year Plan ended March 2014, which were set as 6 percent of average annual growth in net sales over the three years and 10 percent of consolidated operating profitability. On the grounds that the indicators for these targets fell short of the lowest limit of the level qualifying for medium-term incentive remuneration, no payment shall be made for the year ended March 2014. None of the external directors receive medium-term incentive remuneration. The amount of the medium-term incentive remuneration to be paid to Representative Director Carsten Fischer was determined based on the achievement rate against the targets for net sales and profits in the business in his charge for the period from April 1, 2011 to March 31, 2014. On the conclusion of the year ended March 2014, the Company was able to estimate the amount of medium-term incentive remuneration to be paid to Mr. Fischer, as the business performance for the relevant three-year period had been confirmed to meet the targets. Consequently the above table states the amount of the remuneration for Mr. Fischer. The amount stated in the above table represents the value of the remuneration for the relevant three-year period.
5. The amount of long-term incentive stock options indicated above represents the expenses for the year ended March 2014 associated with stock options (stock acquisition rights) granted in the fiscal year, upon the approval of the Ordinary General Meeting of Shareholders, in consideration of duties executed by directors. As stated in "Partial Change in Remuneration for Directors for the Year Ended March 2014," the amount of remuneration in the form of stock acquisition rights allotted as stock options for directors eligible for the payment was reduced in the same manner as bonuses.
6. In addition to the above payments, ¥13 million was recorded for the year ended March 31, 2014 as expenses associated with stock options granted to three directors of the Company, at the time they served as corporate officers not holding the offices of directors.
7. None of the directors or the Audit & Supervisory Board members will be paid remuneration other than the executive remuneration described above (including remuneration described in Notes 1 through 6).

#### Remuneration by Type to Representative Directors and Directors Whose Total Remuneration Exceeded ¥100 Million for the Year Ended March 2014

(Millions of yen)

	Basic	Short-Term Incentive Bonus	Medium-Term Incentive Remuneration	Long-Term Incentive Stock Options	Total
Shinzo Maeda Representative Director	43	22	—	49	115
Carsten Fischer Representative Director	82	27	196	24	330

#### Notes:

1. As stated in "Partial Change in Remuneration for Directors for the Year Ended March 2014" on page 56, the amount of basic fixed remuneration paid to Representative Director Shinzo Maeda was reduced.
2. The above amount of basic fixed remuneration includes ¥31 million as basic fixed remuneration for the year ended March 2014 that four subsidiaries paid through the Company to Representative Director Carsten Fischer, who served concurrently as the director of said subsidiaries.
3. As stated in "Partial Change in Remuneration for Directors for the Year Ended March 2014," the amount of bonus for each director eligible for the payment was reduced.
4. The medium-term incentive remuneration is as stated in Note 4 of the "Remuneration to Directors and Audit & Supervisory Board Members for the Year Ended March 2014" on page 55.
5. The amount of long-term incentive stock options indicated above represents the expenses for the year ended March 2014 associated with stock options (stock acquisition rights) granted in the fiscal year, upon the approval of the Ordinary General Meeting of Shareholders, in consideration of duties executed by directors. As stated in "Partial Change in Remuneration for Directors for the Year Ended March 2014," the amount of remuneration in the form of stock acquisition rights allotted as stock options for directors eligible for the payment was reduced in the same manner as bonuses.
6. Neither of the two directors above will be paid remuneration other than the remuneration described above (including remuneration described in Notes 1 through 5).

standards, the proportion of each type of remuneration for each rank of corporate officer is indicated in the table on page 55. 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 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. All performance-linked remuneration, including the short-term incentive bonus, medium-term incentive remuneration and long-term incentive stock options, is 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.

#### ■ Partial Change in Remuneration for Directors for the Year Ended March 2014

For the year ended March 2014, Shiseido lowered the business performance targets and reduced the

dividend based on a downward revision of targets for the Three-Year Plan from the initial level. Reflecting seriously on this decision, Shiseido reduced bonuses as well as long-term incentive remuneration for eligible directors.

The method of calculating bonuses was redesigned so that the amount payable at a target achievement level of 100 percent is 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 was 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 were 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 was reduced by ¥6 million.

#### ■ Partial Change in Remuneration for Directors for the Year Ending March 2015

In the year ending March 2015, the Company will focus on preparing for the next stage of growth under a new management structure and formulate a new medium-term business plan to achieve renewed growth. The new medium-term business plan will be implemented from the fiscal period ending December 2015. In conjunction with this, the Company also plans to introduce a new remuneration system in the same fiscal year, and consequently has decided not to set medium-term incentive remuneration for the year ending March 2015. Therefore, the Company has altered part of the remuneration structure for directors for the year ending March 2015. Of the amount of medium-term incentive remuneration, part of the portion for the year ending March 2015 (about 60 percent of the average amount for eligible directors) will be replaced by payment of bonuses and stock options paid as long-term incentive remuneration for the year ending March 2015.

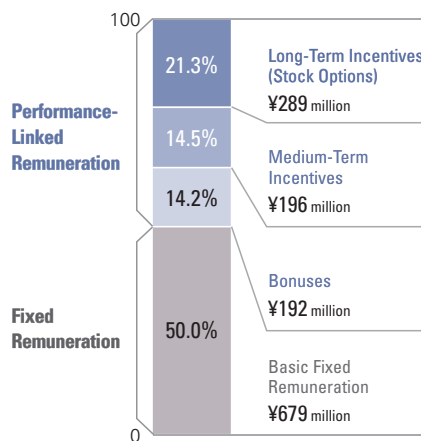
The decision to suspend the medium-term incentive remuneration in the year ending March 2015 and the replacement of part of this remuneration with bonuses and stock options are temporary measures, and do not constitute a change to the Company's director remuneration system.

#### ■ Proportion of Each Type of Remuneration Paid to Directors Excluding External Directors for the Period of the Three-Year Plan

The chart below shows the proportion of each type of remuneration paid to directors (excluding external directors) for the period of the Company's Three-Year Plan ended March 2014.

The proportions of fixed remuneration

and performance-linked remuneration shown in the chart below are due to the fact that the Company did not pay bonuses for the year ended March 2013 and the amount of performance-linked remuneration was reduced for the year ended March 2014 in response to the downward revision to the initial management targets in the Three-Year Plan for the three years ended March 2014, as stated in "Partial Change in Remuneration, etc. for Directors in Respect of the Year Ended March 2014" above.



## 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 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. These offices provide consultation to employees on a wide range of business-related matters. In the year ending March 2015, the CSR Committee Hotline of the CSR Committee chair was established to specialize in receiving reports on misconduct and operational risks. Employees have been informed about this hotline, along with "Reporting to Audit & Supervisory Board Members" that was set up at the same time to accept reports via e-mail pointing out management issues and misconduct involving senior executives. These new contact points have strengthened the Company's internal systems for reporting compliance issues.

Outside Japan, a whistleblower hotline is provided at each subsidiary. In addition, the Shiseido Group Global Hotline is available in the CSR Committee for report and consultation on issues that cannot be resolved internally.

As for internal regulations, 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 & CEO 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 & CEO, 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 2014, Shiseido conducted more than 500 such meetings. In addition to subjects such as business status and strategies, Shiseido actively discusses environmental, social and governance (ESG) and other non-financial information with investors.

In addition, the President & CEO (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 securities analysts and institutional investors	<ul style="list-style-type: none"> <li>Twice-yearly meetings led by the President &amp; CEO to announce first-half and full-year results (teleconferences by members of the Investor Relations Department to announce first- and third-quarter results)</li> <li>One-to-one meetings at Shiseido</li> </ul>	<ul style="list-style-type: none"> <li>One-to-one meetings with investors in Europe, North America, Asia, etc.</li> <li>Visits to domestic and overseas institutional investors and asset owners</li> <li>Business briefings</li> </ul>
For individual investors	<ul style="list-style-type: none"> <li>Twice-yearly information meetings led by the President &amp; CEO (or the Chief Financial Officer) and webcasts on the Shiseido Group corporate website</li> <li>Twice-yearly shareholder meetings (for individual shareholders) and online reports of meetings on the Shiseido Group corporate website</li> </ul>	<ul style="list-style-type: none"> <li>Shareholder surveys</li> <li>Responses to shareholder inquiries by telephone and e-mail</li> </ul>
IR materials available on the Shiseido Group corporate website	<ul style="list-style-type: none"> <li>Notice of Convocation of the Ordinary General Meeting of Shareholders</li> <li>Annual securities filing and quarterly reports (Japanese only)</li> <li>Corporate Governance Report</li> <li>Timely disclosure materials</li> <li>Financial Results Briefing materials</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated Settlement of Accounts</li> <li>Annual Report</li> <li>To Our Shareholders and Investors (Printed brochure for shareholders) (Japanese only)</li> <li>CSR Report (website), non-financial information regarding ESG (website)</li> </ul>
Other	<ul style="list-style-type: none"> <li>Internal sharing of <i>IR Report</i>, which analyzes investor opinions concerning management and reports on management issues</li> </ul>	<ul style="list-style-type: none"> <li>Internal communication meetings to convey investor evaluations of Shiseido to employees</li> </ul>



# 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 deter-

mine 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 2014, 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.

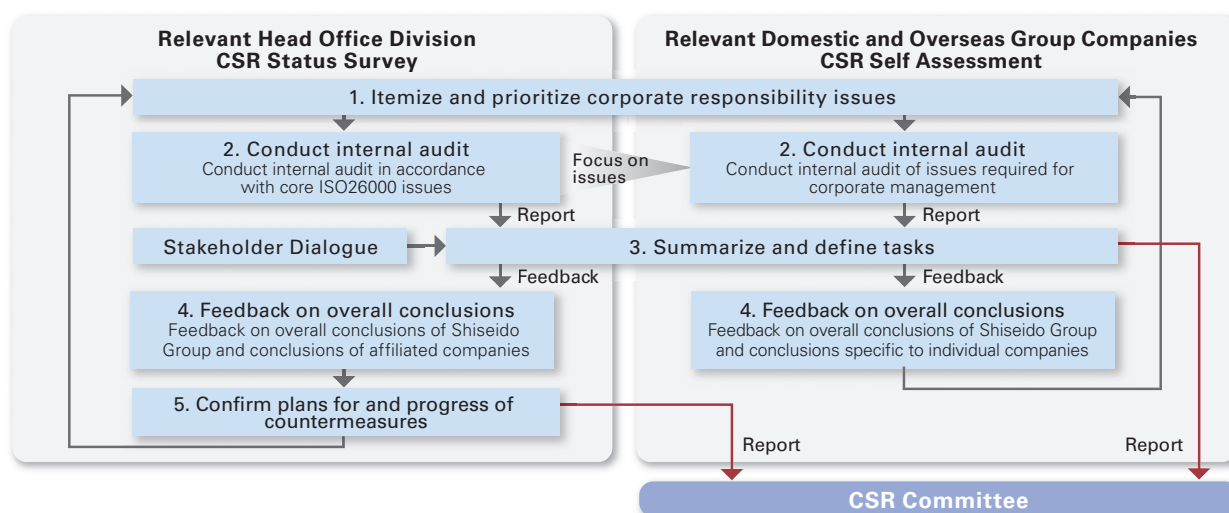
## Business Continuity Plan (BCP)

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



# Overview of Operating Results and Financial Condition

## Operating Results

### Overview

In the fiscal year ended March 31, 2014, the Japanese economy recovered moderately, underpinned by government economic measures. The domestic cosmetics market also showed signs of a turnaround. Moreover, there was a temporary surge in demand ahead of the consumption tax hike in April 2014.

Overseas cosmetics markets were closely linked with economic conditions in their respective countries. In the United States, firm growth in the cosmetics market continued with ongoing economic expansion. In Europe, growth in the cosmetics market was minimal because of weak economic expansion due to the financial crisis and high unemployment rates. In Asia, where some nations were impacted by political conditions, the cosmetics market grew moderately overall.

The Shiseido Group continued implementing the Three-Year Plan it launched in the fiscal year ended March 31, 2012 under the theme of getting into a growth trajectory. Impacted by factors including the prolonged debt crisis in Europe and a worsening business environment in China sparked by the Senkaku Islands issue, during the fiscal year ended March 31, 2013 we shifted our aim to a highly profitable structure that would allow us to achieve steady income growth even when sales growth only matches market performance. During the fiscal year ended March 31, 2014, the final year of the plan, we paved the way for sustained growth with rigorous distinction and concentration aimed at removing obstacles. We continued implementing cost and business structure reforms and began efforts to optimize store inventory levels while concentrating on initiatives such as improving the soundness of businesses that generate little or no profit. At the same time, we allocated resources to strong, large, and highly profitable fields in Japan and overseas with a focus on reinforcing our strengths in three areas: Japan, China and Bare Escentuals, Inc.

As a result, consolidated net sales increased 12.4 percent compared with the previous fiscal year. Domestic sales rose 1.1 percent year on year, and overseas sales increased 26.4 percent.

Operating income surged 90.6 percent because of an increase in marginal income due to higher sales and foreign exchange gains. Other factors included ongoing Groupwide implementation of cost structure reforms and efficient expense management, together with lower bonuses, pension costs and other personnel expenses in Japan.

Net income rose because the increase in operating income and gain on sales of properties by sales subsidiaries more than offset an extraordinary loss on collection of products Shiseido no longer manufactures to optimize store inventory levels and the

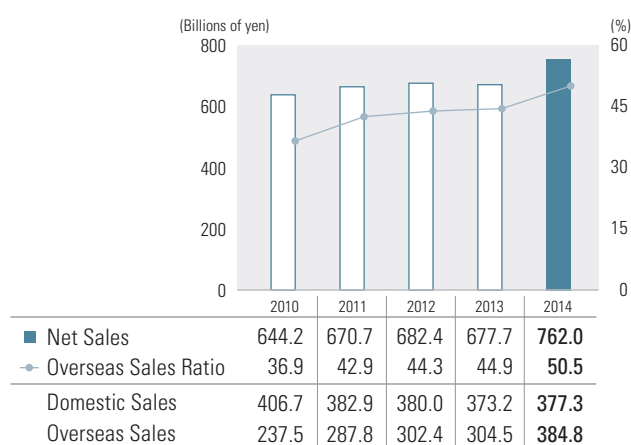
recognition of a tax payment that is likely to result from a transfer pricing investigation.

As a result, consolidated operating profitability for the fiscal year ended March 31, 2014 was 6.5 percent, consolidated return on equity (ROE) was 8.4 percent, and the overseas sales ratio was 50.5 percent.

### ■ Net Sales

Net sales increased 12.4 percent compared with the previous fiscal year to ¥762,047 million (\$7,404,265 thousand), and increased 1.3 percent on a local currency basis. Domestic sales increased 1.1 percent compared with the previous fiscal year. Overseas sales increased 26.4 percent, and increased 1.8 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 13.7 percent compared with the previous fiscal year to ¥189,560 million (\$1,841,819 thousand). The ratio of cost of sales to net sales increased 0.3 percentage points to 24.9 percent, mainly because overseas sales with a higher cost of sales ratio accounted for a larger proportion of net sales.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses (SG&A) increased 7.8 percent compared with the previous fiscal year to ¥522,843 million (\$5,080,091 thousand). The ratio of SG&A expenses to net sales decreased 3.0 percentage points to 68.6 percent. Details of SG&A expenses are as follows.

#### Marketing Costs

Marketing costs consist of advertising and promotional expenses. The ratio of marketing costs to net sales decreased 1.3 percentage points to 22.2 percent because Shiseido reformed its cost structure in Japan and efficiently managed marketing expenses overseas.

### Personnel Expenses

The ratio of personnel expenses to net sales decreased 0.8 percentage points to 23.9 percent. The primary reasons were reduced bonuses and pension costs in Japan.

### Other Expenses

The ratio of other expenses to net sales decreased 0.7 percentage points to 21.3 percent. The primary reasons were cost structure reforms in Japan and overseas and efficient expense management.

### M&A-Related Amortization Expenses

The ratio of amortization of expenses associated with mergers and acquisitions to net sales decreased 0.2 percentage points to 1.2 percent.

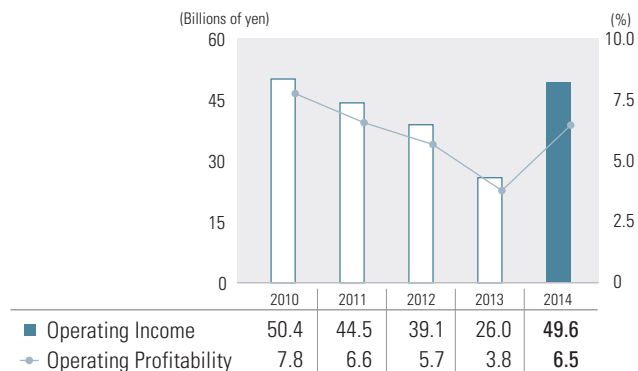
### Cost of Sales Ratio/SG&A Expenses Ratio/SG&A Expenses

	2010	2011	2012	2013	2014
Cost of Sales Ratio (%)	24.9	25.2	23.9	24.6	<b>24.9</b>
SG&A Expenses Ratio (%)	67.3	68.2	70.4	71.6	<b>68.6</b>
Marketing Costs	22.7	21.5	23.5	23.5	<b>22.2</b>
Personnel Expenses	23.0	23.7	23.9	24.7	<b>23.9</b>
Other Expenses	21.3	21.7	21.6	22.0	<b>21.3</b>
M&A-Related Amortization Expenses	0.3	1.3	1.4	1.4	<b>1.2</b>
SG&A Expenses (Billions of yen)	433.7	457.6	480.3	484.9	<b>522.8</b>
Marketing Costs	146.3	144.4	160.3	159.0	<b>169.3</b>
Personnel Expenses	148.4	159.3	163.3	167.7	<b>181.8</b>
Other Expenses	137.4	145.3	147.6	149.1	<b>162.7</b>
M&A-Related Amortization Expenses	1.6	8.6	9.1	9.1	<b>9.0</b>

### ■ Operating Income

Operating income increased 90.6 percent compared with the previous fiscal year to ¥49,644 million (\$482,355 thousand). Complementing an increase in marginal income due to growth in sales and foreign exchange gains, Groupwide cost structure reforms and efficient expense management continued, and bonuses, pension costs and other personnel expenses decreased in Japan. Operating profitability increased 2.7 percentage points to 6.5 percent.

### Operating Income/Operating Profitability



### ■ Other Income (Expenses)

Net other income totaled ¥783 million (\$7,608 thousand), compared with net other expenses of ¥32,488 million (\$345,654 thousand) for the previous fiscal year. Although we recognized impairment loss on intangible assets associated with the acquisition of U.S. cosmetics subsidiary Bare Escentuals completed in the fiscal year ended March 31, 2010, and structural reform expenses resulting from the reorganization of production and R&D bases, structural reform expenses and impairment of goodwill decreased, while gain on sales and disposal of property, plant and equipment increased.

### ■ Income (Loss) before Income Taxes

Income before income taxes was ¥50,427 million (\$489,963 thousand), compared with loss before income taxes of ¥6,442 million (\$68,539 thousand) for the previous fiscal year.

### ■ Income Taxes, Including Deferred Taxes

Income taxes, including deferred taxes, increased 246.0 percent compared with the previous fiscal year to ¥21,691 million (\$210,756 thousand). Taxable income increased year on year, and Shiseido recognized an estimated tax reconciliation pursuant to the transfer pricing investigation.

### ■ Minority Interests in Net Income of Consolidated Subsidiaries

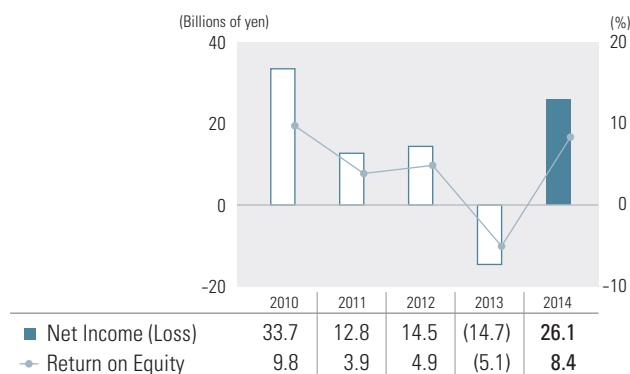
Minority interests in net income of consolidated subsidiaries increased 31.1 percent compared with the previous fiscal year to ¥2,587 million (\$25,136 thousand).

### ■ Net Income (Loss)

Net income totaled ¥26,149 million (\$254,071 thousand), compared with net loss of ¥14,685 million (\$156,240 thousand) for the previous fiscal year. Net income per share was ¥65.7 (\$0.64), compared with net loss per share of ¥36.9 (\$0.39) for the previous fiscal year.

ROE was 8.4 percent, compared with negative 5.1 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 increased 1.1 percent compared with the previous fiscal year to ¥349,719 million (\$3,397,969 thousand). In the cosmetics business, we focused on expanding over-the-counter sales, with particular emphasis on reinforcing our prestige category. Sales increased in the cosmetics business despite the collection of products from stores to optimize their inventory levels, in part because the surge in demand ahead of the consumption tax hike was larger than expected. Sales also increased in the healthcare business.

## Domestic Cosmetics Business Division

In the Domestic Cosmetics Business Division, we targeted retail sales growth by continuing to selectively launch products that customers will strongly support while cultivating existing mainstay products. As a result, two core mid-priced lines performed well: the *ELIXIR* skincare and base-makeup line that frees women of aging stress and the *MAQuillage* total makeup line. We also stepped up communications activities designed to strengthen our position in the prestige category. Activities included airing television commercials for the global brand *SHISEIDO* and the top-end brand *clé de peau BEAUTÉ*. Sales increased as a result, especially in department stores.

One initiative continuing from the previous year was addressing the needs of seniors. We therefore created a dedicated site for seniors within the Shiseido watashi+ website, which is a next-generation beauty solutions and services website that brings together the web and existing retail stores. In addition, we set up a dedicated toll-free line for seniors and launched a dedicated tabloid, called *Kirameki Ms. Tsushin*. We also hosted Kirameki Master Salon seminars to help seniors rediscover their unique qualities and have fun mastering beauty care techniques.

The Shiseido Group also began optimizing store inventory

levels to remove obstacles to growth. We made progress in building a system to eliminate overstocking that includes innovative business management based on store sales. Other initiatives to streamline inventory included collecting products Shiseido no longer manufactures and products with a high stock-to-sales ratio.

## Healthcare Business Division

The Healthcare Business Division focused on mainstay beauty food line *The Collagen*, which maintained a high market share despite continued contraction of the retail sales market for collagen. We also expanded opportunities to interact with customers. In one initiative, we increased awareness and store availability for *CHOU-MEI-SOU*, a beauty food containing *Peucedanum japonicum* grown under contract without agrochemicals at farms on Yonaguni Island, Okinawa Prefecture. We also launched *Tsuyatsuya Purun Jelly* as part of the *KIREI NO SUSUME* line of beauty drinks, and increased points of contact with customers by complementing existing sales channels with distribution through convenience stores.

Segment income (operating income) for the Domestic Cosmetics Business increased 43.5 percent compared with the previous fiscal year to ¥39,461 million (\$383,414 thousand) because marginal income increased as a result of higher sales. Other factors included cost structure reform and efficient expense management.

## ■ Global Business

Segment sales for the Global Business increased 24.8 percent compared with the previous fiscal year to ¥402,214 million (\$3,908,026 thousand), and increased 1.4 percent on a local currency basis. Performance improved year on year for both the Overseas Cosmetics Division and the Overseas and Domestic Professional Divisions.

## Overseas Cosmetics Division

In the prestige market, the global brand *SHISEIDO* and makeup artist brand *NARS* continued to perform well, especially in the Americas. Designer fragrances also generated solid growth with the addition of the *Ferragamo* and *Burberry* brands, which complemented firm demand for *narciso rodriguez* and other brands. Bare Escentuals, Inc., which sells *bareMinerals* and other brands, committed to restructuring its operating fundamentals during the fiscal years to March 31, 2014 and 2015 to prepare for growth in the fiscal period to December 31, 2015 and beyond.

The business environment in China, a core market, gradually improved. It had been challenging due to factors such as restrained buying of Shiseido products as a result of the Senkaku Islands



issue. Sales decreased slightly on a local currency basis compared with the previous fiscal year due to factors such as adjustments in shipments to optimize store inventory levels. However, sales increased year on year on a yen basis due to the effect of foreign currency translation.

In the Asian masstige market, we reinforced *Za* and other masstige brands. We also strengthened our masstige marketing activities throughout Asia by applying knowledge such as the self-marketing expertise we have acquired in Taiwan and lessons from successful promotional campaigns in Thailand to other Asian countries. Sales increased in the Asian masstige market as a result.

The Group did not enter new emerging countries or regions during the fiscal year ended March 31, 2014. However, we did establish a wholly owned subsidiary in India, where we opened a representative office in the previous fiscal year to prepare for full-scale market entry after operating in India through sales agencies since 2001. Other initiatives to enhance our operating fundamentals in emerging countries included establishing a joint venture to coordinate our operations in seven countries in the Middle East, where we have sold our products through sales agencies since 1997. As of December 31, 2013, the global brand *SHISEIDO* was available in 89 countries and regions, including Japan.

### Overseas and Domestic Professional Divisions

In the professional business, we have focused on tapping Asian markets since 2010, and dramatic growth in South Korea and China drove this business during the fiscal year ended March 31, 2014. With sales in the Americas and Europe essentially unchanged, total overseas sales in the professional business increased year on year. Haircare and hair color were our priority in Japan, where two products performed well: *ADENOVITAL SCALP ESSENCE V*, a new product in *THE HAIR CARE* line; and *SALON SOLUTIONS*, a system-based product exclusively for salons.

During the fiscal year ended March 31, 2014, we began negotiations to sell the *CARITA* and *DECLÉOR* esthetic skincare brands, which are mainly distributed in Europe, to French cosmetics company L'Oréal S.A. We subsequently reached an agreement and concluded a contract in February 2014, and completed the sale of both brands in April 2014.

Segment income (operating income) for the Global Business totaled ¥7,660 million (\$74,427 thousand) compared with segment loss (operating loss) of ¥3,288 million (\$34,982 thousand) for the previous fiscal year. Factors included efficient expense management and the effect of foreign currency translation.

### ■ Others

Sales in the Others segment increased 6.5 percent compared with the previous fiscal year to ¥10,114 million (\$98,271 thousand) as a result of solid growth in the Frontier Science Division and growth in the restaurant business, where both restaurants and retail delivered favorable results.

### Frontier Science Division

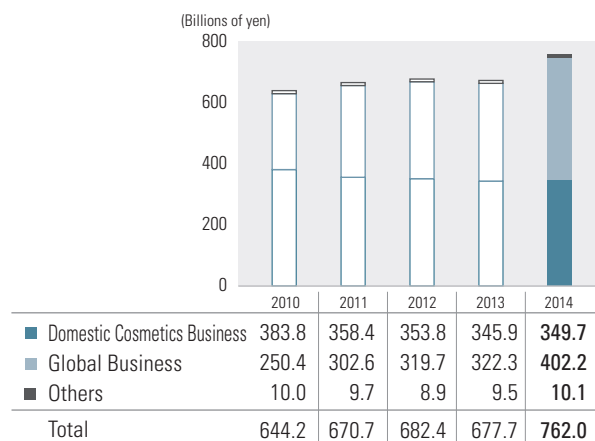
Frontier Science Division sales increased year on year. In addition to bio-hyaluronic acid, a raw material for cosmetics and pharmaceuticals, sales of the *2e* and *NAVISION* lines of cosmetics for medical institutions, derived from our beauty care skin research, remained strong. High-speed liquid chromatography-related equipment for purification and analysis, employing technology gained through our experience with cosmetics, also generated significant sales growth.

### Other Businesses

Sales increased substantially year on year in the restaurant business. Retail sales were favorable for restaurant business subsidiary Shiseido Parlour Co., Ltd. at its restaurants and at outlets including department stores, railway stations and airports. The renewal and reopening of the luxurious French restaurant *L'Osier* in October 2013 also contributed to results.

Segment income (operating income) for others increased 5.9 percent compared with the previous fiscal year to ¥2,082 million (\$20,229 thousand) because of higher marginal income resulting from increased sales.

### Net Sales by Reportable Segment



### Income by Reportable Segment (Before Amortization of Goodwill)

(Billions of yen)	2010	2011	2012	2013	2014
Domestic Cosmetics Business	39.1	33.7	29.6	27.7	<b>39.6</b>
Global Business	10.4	14.1	13.6	2.1	<b>12.1</b>
Others	1.7	1.8	1.4	2.0	<b>2.1</b>

### Income by Reportable Segment (After Amortization of Goodwill)

(Billions of yen)	2010	2011	2012	2013	2014
Domestic Cosmetics Business	38.9	33.6	29.5	27.5	<b>39.5</b>
Global Business	9.5	9.0	8.2	(3.3)	<b>7.7</b>
Others	1.7	1.8	1.4	2.0	<b>2.1</b>

### Profitability by Reportable Segment (Before Amortization of Goodwill)

(%)	2010	2011	2012	2013	2014
Domestic Cosmetics Business	10.1	9.4	8.3	8.0	<b>11.3</b>
Global Business	4.1	4.6	4.2	0.6	<b>3.0</b>
Others	10.5	11.4	9.9	13.4	<b>13.8</b>

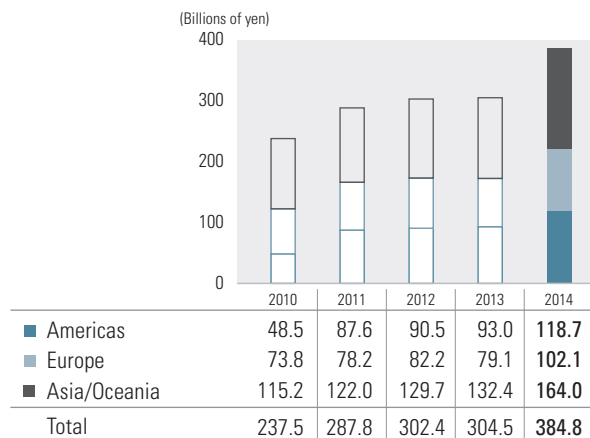
### Profitability by Reportable Segment (After Amortization of Goodwill)

(%)	2010	2011	2012	2013	2014
Domestic Cosmetics Business	10.1	9.3	8.3	7.9	<b>11.2</b>
Global Business	3.8	3.0	2.6	(1.0)	<b>1.9</b>
Others	10.5	11.4	9.9	13.4	<b>13.8</b>

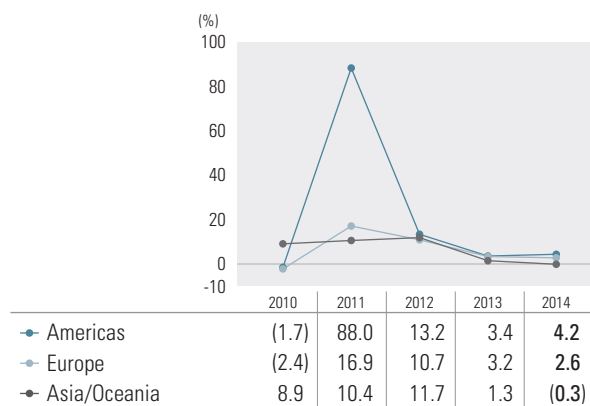
Note: Net profitability by reportable segment is calculated against sales for the segment, including intersegment sales.

Overseas sales by destination are as follows.

### Overseas Sales



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



\*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)	2010	2011	2012	2013	2014
U.S. dollar	93.6	87.8	79.8	79.8	<b>97.7</b>
Euro	130.2	116.4	111.1	102.6	<b>129.7</b>
Chinese yuan	13.7	13.0	12.4	12.7	<b>15.9</b>

## Liquidity and Capital Resources

### Cash Flows

Cash and cash equivalents (net cash) as of March 31, 2014 totaled ¥110,164 million, (\$1,070,385 thousand) an increase of ¥29,911 million (\$290,624 thousand) compared with the previous fiscal year end.

Cash Flows Summary	(Billions of yen)		
	2012	2013	2014
Cash Flows from Operating Activities	52.6	42.0	<b>84.3</b>
Cash Flows from Investing Activities	(20.7)	(25.5)	<b>(16.8)</b>
Cash Flows from Financing Activities	(35.5)	(24.7)	<b>(47.5)</b>
Cash and Cash Equivalents at End of Year	83.0	80.3	<b>110.2</b>

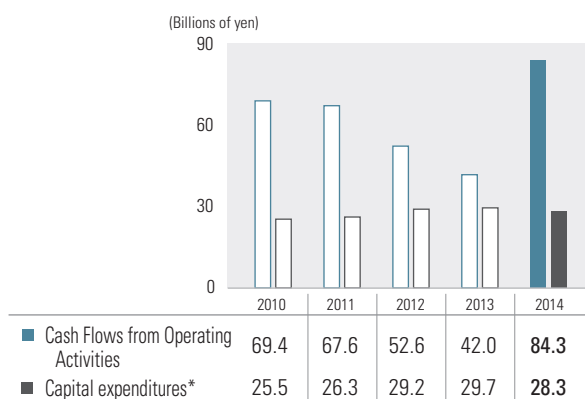
#### ■ Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥42,280 million (\$410,805 thousand) compared with the previous fiscal year to ¥84,321 million (\$819,287 thousand). Income before income taxes was ¥50,427 million (\$489,963 thousand), depreciation was ¥33,619 million (\$326,652 thousand), amortization of goodwill was ¥4,572 million (\$44,423 thousand), decrease in inventories was ¥7,828 million (\$76,059 thousand), increase in notes and accounts payable was ¥6,260 million (\$60,824 thousand), and income taxes paid totaled ¥17,605 million (\$171,055 thousand).

#### ■ Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥8,735 million (\$84,872 thousand) compared with the previous fiscal year to ¥16,799 million (\$163,224 thousand) due to factors including capital expenditures of ¥28,313 million (\$275,097 thousand), and net transfer to time deposits of ¥4,571 million (\$44,413 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 increased ¥22,718 million (\$220,735 thousand) compared with the previous fiscal year to ¥47,463 million (\$461,164 thousand) as factors including repayment of long-term debt of ¥52,497 million (\$510,076 thousand) and cash dividend paid of ¥13,949 million (\$135,532 thousand) more than offset proceeds from long-term debt of ¥22,874 million (\$222,250 thousand).

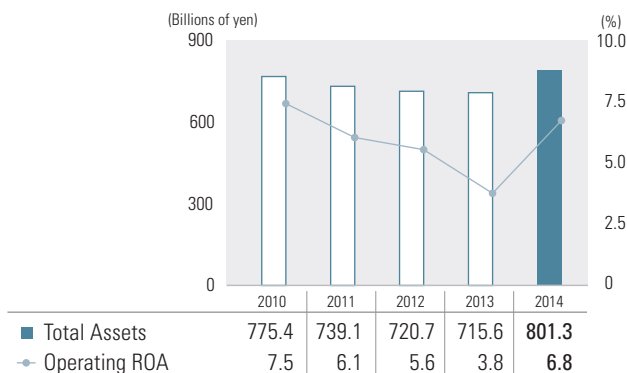
### Assets, Liabilities and Net Assets

#### ■ Assets

As of March 31, 2014, total assets increased 12.0 percent compared with the previous fiscal year end to ¥801,347 million (\$7,786,115 thousand).

Current assets increased 21.0 percent compared with the previous fiscal year end to ¥402,589 million (\$3,911,669 thousand). Non-current assets (fixed assets) increased 4.1 percent compared with the previous fiscal year end to ¥398,758 million (\$3,874,446 thousand), largely because of an increase in intangible assets at overseas consolidated subsidiaries due to the effect of foreign currency translation.

#### Total Assets/Operating ROA



#### ■ Liabilities

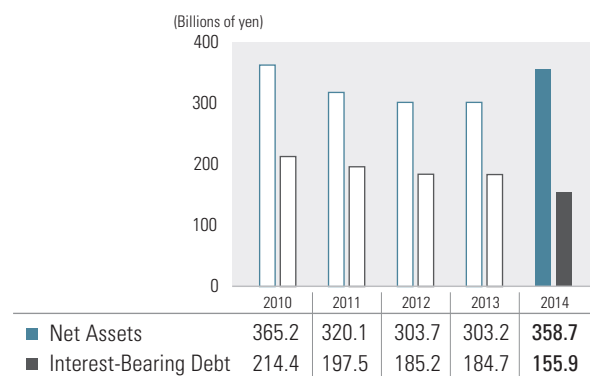
Total liabilities as of March 31, 2014 increased 7.3 percent compared with the previous fiscal year end to ¥442,639 million (\$4,300,806 thousand). A detailed explanation of interest-bearing debt is available in Note 7. SHORT-TERM AND LONG-TERM DEBT of the Notes to the Consolidated Financial Statements.

#### ■ Net Assets

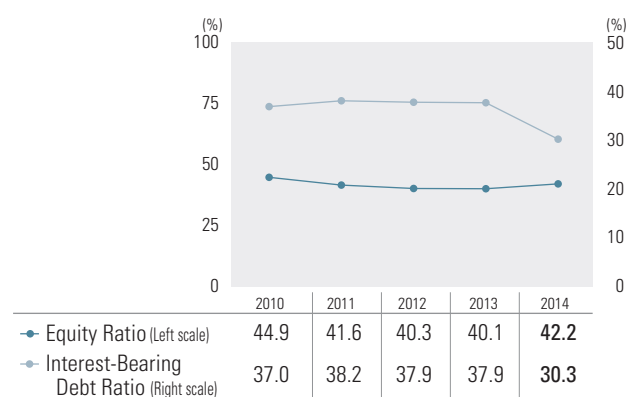
Total net assets as of March 31, 2014 increased 18.3 percent compared with the previous fiscal year end to ¥358,708 million (\$3,485,309 thousand), mainly due to foreign currency translation adjustments. As a result, as of March 31, 2014 net assets per share increased ¥128.2 (\$1.25) compared with the previous

fiscal year end to ¥849.4 (\$8.25). The equity ratio increased 2.1 percentage points to 42.2 percent from 40.1 percent a year earlier.

#### Net Assets/Interest-Bearing Debt



#### Equity Ratio/Interest-Bearing Debt Ratio



### Credit Ratings

Shiseido recognizes that it needs to maintain a certain level of credit rating to secure financial flexibility that is consistent with its capital/liquidity policies and to secure access to sufficient capital resources through capital markets. Shiseido has acquired ratings from Moody's 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, 2014)

### Changes in Accounting Policies

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No. 26")) and Guidance on Accounting Standard on Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No. 25")) except the article 35 of the Statement No. 26 and the article 67 of the Guidance No. 25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits. In accordance with the article 37 of the Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, a liability for retirement benefits in the amount of ¥60,826 million (\$591,003 thousand) has been recognized, deferred tax assets has increased by ¥11,522 million (\$111,951 thousand) and accumulated adjustments for retirement benefit in accumulated other comprehensive income has decreased by ¥20,101 million (\$195,307 thousand).

Effective from the year ended March 31, 2014, the Company has applied International Accounting Standard No. 19, "Employee Benefits" (amended June 16, 2011), to certain consolidated overseas subsidiaries. This has resulted in a change in recognition of changes in net defined benefit liabilities. The change in accounting standard has been applied retrospectively and is reflected in the consolidated financial statements for the previous fiscal year (ended March 31, 2013). Compared with figures prior to retrospective application, deferred tax assets and accrued retirement benefits in the previous fiscal year increased by ¥215 million (\$2,089 thousand) and ¥796 million (\$7,734 thousand), respectively, as a result of the change, while retained earnings, accumulated adjustments for retirement benefit, and minority interests, declined by ¥43 million (\$418 thousand), ¥440 million (\$4,285 thousand), and ¥97 million (\$942 thousand), respectively. In the previous fiscal year, the consolidated statement of comprehensive income showed a ¥486 million (\$4,722 thousand) decrease in adjustments for retirement benefit, net of tax, with comprehensive income decreasing by the same amount. Because there was minimal effect on the profits and losses in the previous fiscal year, the change was not reflected in the consolidated statement of operations for that period. However, the cumulative effect on net assets at the beginning of the previous fiscal year has been reflected, with the result that retained earnings, accumulated adjustments for retirement benefit, and minority interests in consolidated subsidiaries declined by ¥43 million (\$418 thousand), ¥8 million (\$78 thousand), and ¥43 million (\$418 thousand), respectively.



## Outlook for the Fiscal Year Ending March 31, 2015

In the fiscal year ending March 31, 2015, Shiseido forecasts a year-on-year increase in net sales largely because of sales growth in Europe, the Americas, China and emerging countries and foreign exchange gains. These factors should more than offset the drop in sales following the surge in demand ahead of the consumption tax hike and the sale of the *CARITA* and *DECLÉOR* brands to French cosmetics company L'Oréal. However, we also forecast that increased marketing expenditures to increase our growth potential and higher personnel expenses due to increased bonuses will cause operating income to decrease despite higher marginal income from sales growth.

For the fiscal year ending March 31, 2015, Shiseido forecasts that consolidated net sales will increase 2.4 percent year on year to ¥780.0 billion, operating income will decrease 15.4 percent to ¥42.0 billion, and net income will increase 45.3 percent to ¥38.0 billion.

### ■ Domestic Cosmetics Business

In the fiscal year ending March 31, 2015, we expect the domestic cosmetics market to expand moderately in line with economic recovery despite the drop in sales following the surge in demand ahead of the consumption tax hike. In this environment, we will energetically innovate core brands. However, the expected drop in sales will have a significant impact, so we expect a year-on-year decrease in segment sales. We also forecast a decrease in segment operating income due to increases in marketing expenditures and personnel expenses, as well as a decrease in marginal income due to lower segment sales.

### ■ Global Business

In Europe, we expect conditions in the cosmetics market to remain difficult due to the impact of the financial crisis. In the Americas, the cosmetics market is expected to continue growing moderately. In Asia, we forecast continued market growth, especially in China. In this context, we will focus on reinforcing our business in China, which is a Shiseido strength, and enhancing the value of Bare Escentuals, Inc. We will also strengthen our ability to meet needs in emerging countries that will be future growth engines. We forecast that foreign exchange gains will complement these initiatives to further expand growth potential, resulting in a year-on-year increase in segment sales and segment operating income.

### ■ Others

Going forward, Shiseido will continue reinforcing its 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 ¥100 per U.S. dollar, ¥135 per euro, and ¥16.5 per Chinese yuan.

## 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 25, 2014. 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, 2013, 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 50.5 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, 2014, 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, 2014, 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.

### 12. Natural Disasters and Accidents

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

### Significant Accounting Estimates

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

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

#### Property, Plant and Equipment

Shiseido reviews fixed assets, primarily property, plant and equipment, for impairment whenever circumstances indicate that their carrying value may not be recoverable. Business-use assets are pooled by business division to estimate future cash flow, and the net sales value of idle assets is estimated for each separate property. Based on these estimates, assets are devalued from book value to recoverable value. We consider information including estimates of future cash flow and recoverable value in making rational estimates. However, unpredictable factors could cause changes in underlying assumptions and estimates. This could change our estimates, decrease future cash flow and recoverable value, and require us to recognize impairment losses.

#### Goodwill, Trademarks and Other Intangible Assets

Shiseido reviews goodwill, trademarks and other intangible assets for impairment. Shiseido employs the opinions of external experts in estimating fair value and examining impairment for goodwill, trademarks and other intangible assets. The discounted cash flow method primarily used to estimate fair value relies extensively on estimates and assumptions regarding future cash flow and discount rate. These estimates and assumptions may significantly affect measurement and the amount of impairment recognized. We consider the estimates of fair value used for measuring impairment to be rational. However, unforeseen changes to underlying assumptions and estimates could 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.

# Reporting Points

## Shiseido's Value Creation and CSR

Shiseido believes that CSR is all corporate activities that put its corporate philosophy Our Mission, Values and Way (MVW) into practice, and how it creates value. We categorize CSR activities as Fundamental CSR or Unique Shiseido CSR. The former involves legal compliance and business continuity to minimize risk and protect corporate value, while the latter involves increasing corporate value and enabling growth.

Moreover, we cannot fulfill the corporate mission of helping people live beautifully called for by Our Mission simply by responding to the requests and demands of stakeholders. We also need to resolve global social issues and fulfill our responsibility as a leading company by providing guidance and breaking new ground. We believe that this approach creates value that is unique to Shiseido.

For further information regarding our CSR activities, please refer to the Social Responsibility section of the Shiseido Group corporate website.

<http://www.shiseidogroup.com/csr/>

## Production of *Annual Report 2014*

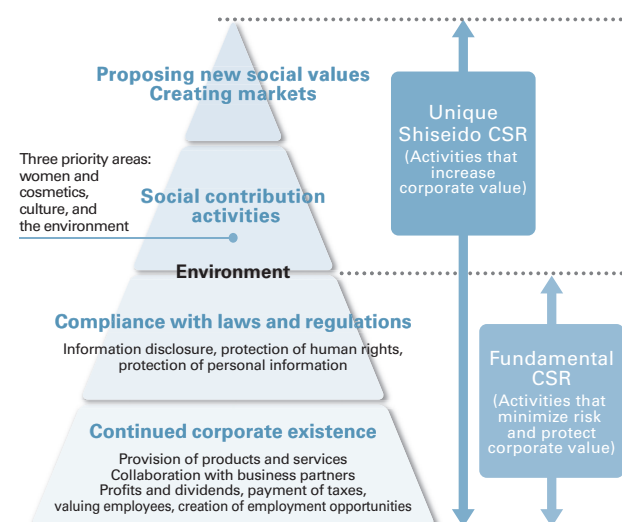
Based on the above mindset, we recognize that we need to obtain readers' understanding of our corporate vision and the value creation initiatives to achieve it so that their evaluation of and expectations for Shiseido are appropriate. Therefore, *Annual Report 2014* focuses on information that affects Shiseido's value creation, including issues that are negative for Shiseido.

In selecting content, we have emphasized subjects that are important for Shiseido management and that have a significant effect on social issues.

We considered the relative importance and significance of the information largely using feedback from customers and business partners, opinions and questions from shareholders and investors, questionnaires from SRI institutions, and the results of interviews with experts. We also referred to sources including the United Nations Global Compact, ISO26000 issued by the International Organization for Standardization, and GRI's *Sustainability Reporting Guidelines*, Version 3.1, particularly for disclosure of non-financial information.

At the same time, we considered the significance of reported items and reader convenience in allocating information between the corporate website and this report in order

## Shiseido CSR Domains



## Shiseido CSR Activities That Form Corporate Brand Value





to keep the report concise. We also targeted improved reliability during production by having many relevant internal divisions and external organizations verify the content.

In selecting and preparing content, we referred to the International Integrated Reporting Framework issued by the



International Integrated Reporting Council in December 2013.

Detailed information is available on our corporate and investor relations websites.

## Important and Influential Subjects for Shiseido's Value Creation

Shiseido's value creation involves the following points that are important for Shiseido management and that significantly influence social issues. The table presents internal and external capital (six forms of capital) that Shiseido's value creation significantly affects.

Internal and external resources (six forms of capital)	Resource overview	Particularly important and influential subjects
<b>Financial capital</b>	Cash flow that can be reinvested in value creation. Increased market capitalization is also a key form of financial value.	<ul style="list-style-type: none"> <li>Earnings growth</li> <li>Stable financial base</li> <li>Increased shareholder value and market capitalization</li> </ul>
<b>Manufacturing capital</b>	Includes our nine research centers, 14 factories, our head office, sales companies in Japan and overseas, and the various networks that link them.	<ul style="list-style-type: none"> <li>Providing reliable, safe products</li> <li>Technology and product innovation</li> <li>Proposing products with new value</li> </ul>
<b>Intellectual capital</b>	Includes brands, cosmetics technology, knowledge and insight, counseling expertise, various patents, and ability to articulate lifestyles.	<ul style="list-style-type: none"> <li>Increasing the value of the corporate brand and each product brand/line</li> <li>Technological and intellectual conceptualization</li> <li>Cultural capital management (use of intellectual and emotional assets)</li> </ul>
<b>Human capital</b>	Includes high levels of employee motivation, specialized knowledge and skills centered on MVW, the Shiseido Group corporate philosophy.	<ul style="list-style-type: none"> <li>Inculcating MVW</li> <li>Creating a corporate culture in which employees are free to exercise their capabilities and create new value</li> <li>Training that links the growth of employees with that of the Company</li> </ul>
<b>Social capital</b>	Includes customer trust, and strong relationships with business partners and in various channels.	<ul style="list-style-type: none"> <li>Raising customer satisfaction through products and services</li> <li>Using beauty technology and knowledge to enhance customer quality of life</li> <li>Supporting the empowerment of women</li> </ul>
<b>Natural capital</b>	Includes water, air, soil, minerals, forests and other natural resources, along with energy resources used in manufacturing and other activities.	<ul style="list-style-type: none"> <li>Proposing new lifestyles that link beauty and ecology</li> <li>Environmentally friendly value chain management</li> <li>Industry leadership in reducing environmental impact</li> </ul>

# 11-Year Summary of Selected Financial

Shiseido Company, Limited, and Subsidiaries  
For the fiscal years ended March 31, 2004 to 2014

Millions of yen  
(Except per share data)

	2004	2005	2006	2007	2008
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## Operating Results:

Net sales	¥624,248	¥639,828	¥670,957	¥694,594	¥723,485
Cost of sales	166,299	168,636	176,884	185,533	186,466
Selling, general and administrative expenses	420,471	444,663	455,194	459,056	473,554
Operating income	37,478	26,529	38,879	50,005	63,465
EBITDA (Note 2)	86,537	29,043	65,281	78,837	94,960
Net income (loss)	27,541	(8,856)	14,436	25,293	35,460

## Financial Position (At year-end):

Total assets	¥626,730	¥701,095	¥671,842	¥739,833	¥675,864
Short-term liabilities (Note 3)	47,678	25,213	12,786	66,144	38,653
Long-term debt	18,480	69,114	69,492	61,694	24,566
Interest-bearing debt	66,158	94,327	82,278	127,838	63,219
Net assets	385,336	369,957	387,613	403,797	399,739

## Cash Flows:

Cash flows from operating activities	¥ 47,074	¥ 52,434	¥ 21,812	¥ 69,431	¥ 75,308
Cash flows from investing activities	(43,033)	(24,900)	(12,640)	(18,483)	(5,803)
Cash flows from financing activities	(45,884)	17,421	(29,959)	1,837	(95,883)
Cash and cash equivalents at end of year	59,364	108,281	89,015	145,260	120,394

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

Net income (loss)(Note 4)	¥ 64.9	¥ (21.5)	¥ 34.4	¥ 60.9	¥ 86.1
Net assets (Note 4)	903.7	866.5	906.1	940.8	946.2
Cash dividend	22.0	24.0	30.0	32.0	34.0
Weighted average number of shares outstanding during the period (thousands)	414,723	414,219	412,855	412,572	407,696

## Financial Ratios:

Operating profitability (%)	6.0	4.1	5.8	7.2	8.8
Return on assets (%)	4.3	(1.3)	2.1	3.6	5.0
Operating ROA (%) (Note 5)	6.0	4.3	5.9	7.4	9.4
Return on equity (%)	7.6	(2.4)	3.9	6.6	9.2
Equity ratio (%)	59.8	51.2	55.7	52.5	56.6
Interest coverage ratio (times) (Note 6)	18.2	22.1	8.6	30.6	39.1
Debt-equity ratio (times) (Note 7)	0.18	0.26	0.22	0.33	0.17
Interest-bearing debt ratio (%) (Note 8)	14.7	20.3	17.5	24.0	13.7
Payout ratio (Consolidated) (%)	33.9	—	87.2	52.6	39.5
Number of employees at year-end (Note 9)	24,839	24,184	25,781	27,460	28,793
Net sales per employee	¥25.1	¥26.5	¥26.0	¥25.3	¥25.1

Notes: 1. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥102.92 = US\$1 prevailing on March 31, 2014.

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.

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

# Data

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

2009	2010	2011 (Note 10)	2012	2013 (Note 11)	2014	2014
¥690,256	¥644,201	¥670,701	¥682,386	¥677,728	¥762,047	\$7,404,265
171,752	160,166	168,692	162,990	166,784	189,560	1,841,818
468,590	433,684	457,551	480,261	484,898	522,843	5,080,092
49,914	50,351	44,458	39,135	26,046	49,644	482,355
75,078	75,699	65,576	76,974	61,463	91,286	886,961
19,373	33,671	12,791	14,515	(14,685)	26,149	254,071
¥606,569	¥775,446	¥739,120	¥720,708	¥715,593	¥801,347	\$7,786,115
27,601	112,693	16,362	9,735	39,395	64,054	622,366
34,452	101,754	181,156	175,418	145,274	91,864	892,577
62,053	214,447	197,518	185,153	184,669	155,918	1,514,944
351,951	365,208	320,127	303,716	303,154	358,708	3,485,309
¥ 42,768	¥ 69,432	¥ 67,587	¥ 52,600	¥ 42,041	¥ 84,321	\$ 819,287
(28,158)	(204,885)	(30,304)	(20,668)	(25,534)	(16,799)	(163,224)
(32,283)	120,359	(39,572)	(35,482)	(24,745)	(47,463)	(461,164)
91,858	77,157	88,592	82,974	80,253	110,164	1,070,385
¥ 48.0	¥ 84.6	¥ 32.1	¥ 36.5	¥ (36.9)	¥ 65.7	\$0.64
839.9	875.7	772.1	729.9	721.2	849.4	8.25
50.0	50.0	50.0	50.0	50.0	20.0	0.19
403,240	397,886	397,864	397,974	398,007	398,301	
7.2	7.8	6.6	5.7	3.8	6.5	
3.0	4.9	1.7	2.0	(2.0)	3.4	
8.2	7.5	6.1	5.6	3.8	6.8	
5.4	9.8	3.9	4.9	(5.1)	8.4	
55.6	44.9	41.6	40.3	40.1	42.2	
23.6	45.4	32.8	27.3	22.5	47.5	
0.18	0.62	0.64	0.64	0.64	0.46	
15.0	37.0	38.2	37.9	37.9	30.3	
104.1	59.1	155.5	137.1	—	30.5	
28,810	28,968	31,310	32,595	33,356	33,054	
¥24.0	¥22.2	¥21.4	¥20.9	¥20.3	¥23.1	\$224

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.

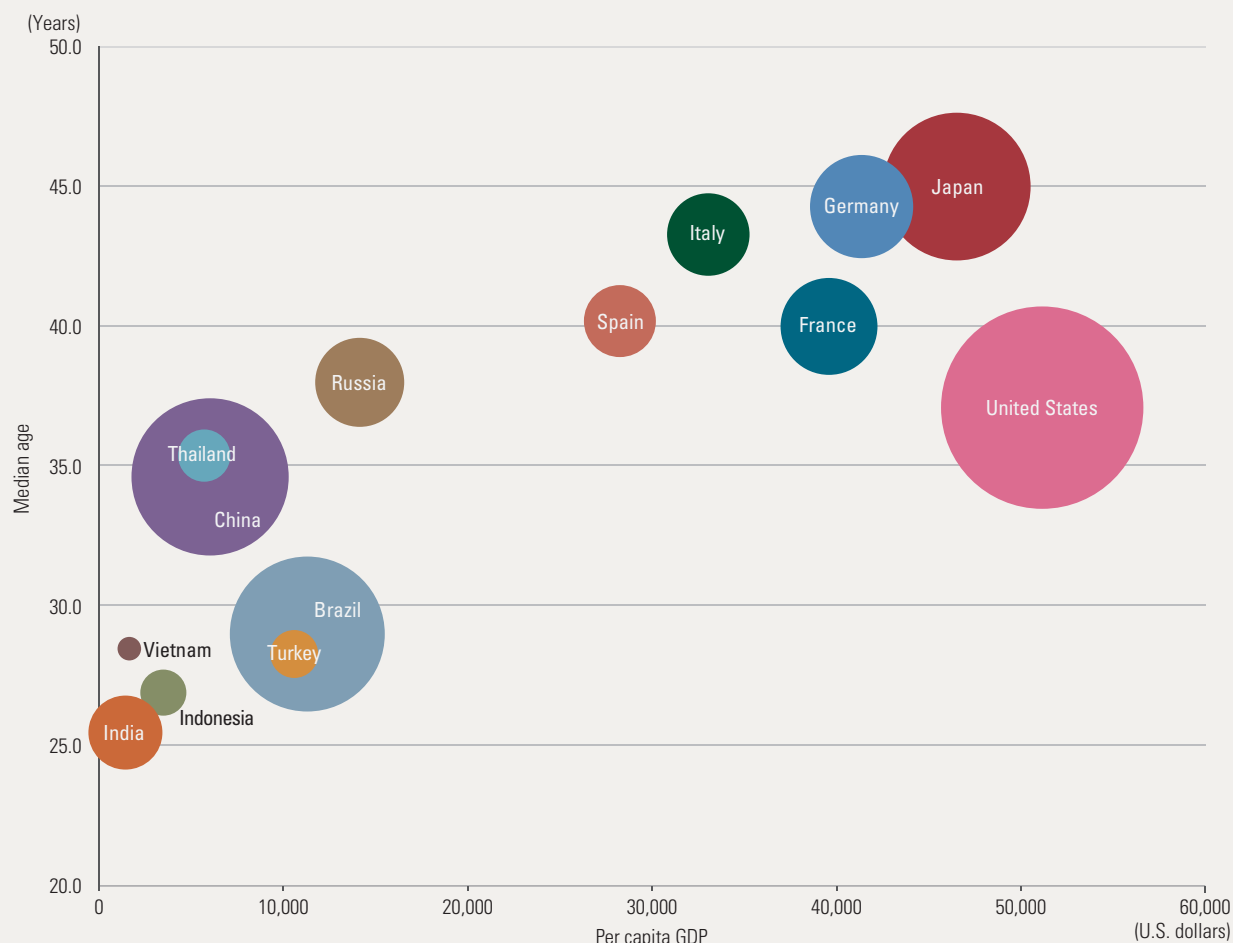
10. Shiseido Group subsidiaries in the Americas formerly recognized samples and promotional items associated with marketing activities at stores as assets when acquired and expensed them when shipped to customers. However, effective the fiscal year ended March 31, 2012 these subsidiaries began to expense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

11. Effective the fiscal year ended March 31, 2014, the Shiseido Group applied Employee Benefits (IAS 19, amended June 16, 2013) to certain consolidated subsidiaries and changed the method for recognizing changes in net defined benefit obligation. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2013 accordingly.

# Market Data

## Beauty and Personal Care Markets by Country

### Beauty and Personal Care Market Scale<sup>1</sup> by Country, Per Capita GDP and Median Age<sup>2</sup>



### Beauty and Personal Care Market Scale by Country and Population (2013)

Country	Beauty and Personal Care Market Scale (Millions of U.S. dollars)	Population (Millions)	Country	Beauty and Personal Care Market Scale (Millions of U.S. dollars)	Population (Millions)
United States	73,256	320	Italy	12,168	61
China (excluding Hong Kong)	44,220	1,386	India	9,793	1,252
Brazil	42,953	200	Spain	9,266	47
Japan	39,051	127	Thailand	4,884	67
Germany	19,051	83	Turkey	4,108	75
France	16,798	64	Indonesia	3,796	250
Russia	14,177	143	Vietnam	993	92

Source for beauty and personal care market scale: Euromonitor International, as of July 1, 2014

Source for per capita GDP, median age and population: "World Statistics 2014," Statistics Bureau, Ministry of Internal Affairs and Communications

1. Circle size indicates beauty and personal care market scale

2. The midpoint age separating the upper from the lower half of ages for each population ranked in order from the lowest to highest

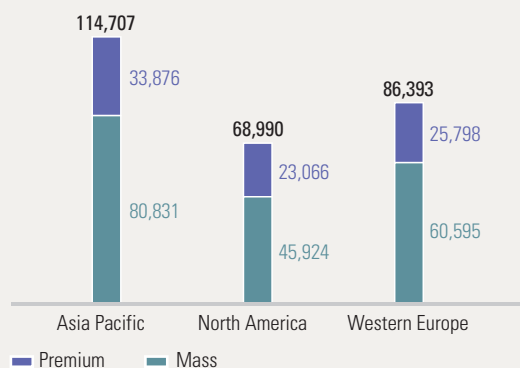


Please note that the relevant market data was compiled from data publicly available from several institutions and is not directly related to Shiseido's strategies. Also, annual data for each region is calculated based on local currencies translated into U.S. dollars at 2013 exchange rates.

## Beauty and Personal Care Market Trends by Area (Premium and Mass Categories<sup>1</sup>)

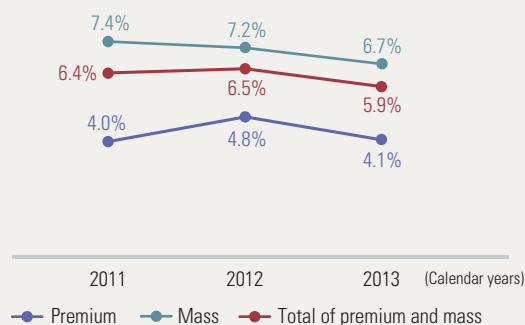
### Beauty and Personal Care Market Scale by Area<sup>2</sup> (2013)

(Millions of U.S. dollars)



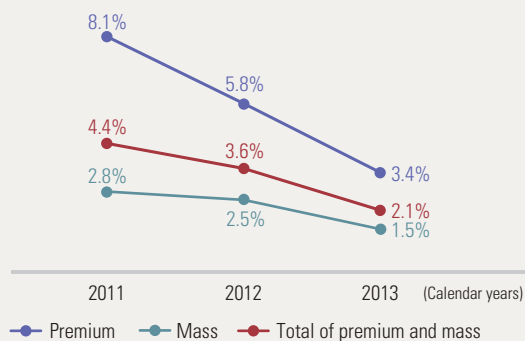
### Market Growth Rate: Asia Pacific<sup>3</sup>

(%)



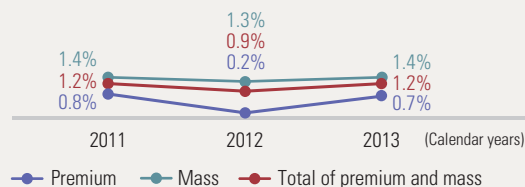
### Market Growth Rate: North America<sup>3</sup>

(%)



### Market Growth Rate: Western Europe<sup>3</sup>

(%)



Source: Euromonitor International, as of July 1, 2014

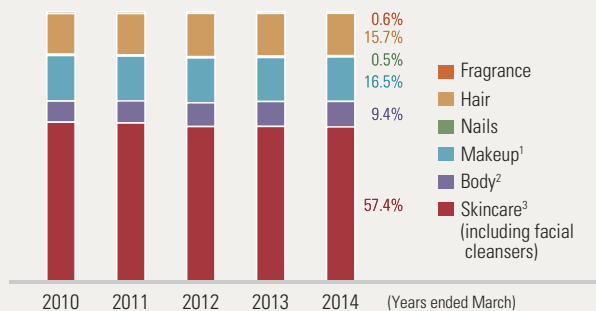
1. Categories are not delineated by price. They are determined comprehensively by Euromonitor International based on standards for positioning, price, sales channel, sales volume and other data for each region.

2. Excluding depilatories, men's shaving and oral care categories

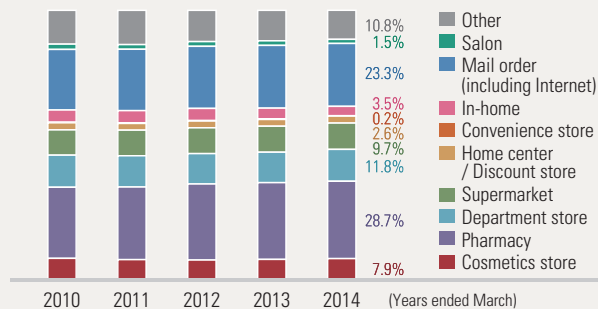
3. Asia Pacific: 46 countries including Japan, China and India; North America: Canada and the United States; Western Europe: 25 countries including France, the United Kingdom and Italy

## The Domestic Cosmetics Market

### Market Composition by Beauty Category



### Market Composition by Channel



Source: INTAGE Inc., SLI survey of general cosmetics market (cosmetics, haircare, body care, and others defined by Shiseido), April 1, 2009 to March 31, 2014 comparison of purchases (value base) by beauty categories defined by Shiseido

Source: INTAGE Inc., SLI survey of general cosmetics market (cosmetics, haircare, body care, and others defined by Shiseido), April 1, 2009 to March 31, 2014 comparison of purchases (value base) by channel

1. Foundation, eye shadow, lipstick, etc.

2. Bath additives, sunscreen, deodorant, etc.

3. Makeup remover, makeup base, beauty lotion, etc.

# Environmental Data

Shiseido has reported the volume of energy used (inputs) and environmental impact (outputs) determined through environmental accounting for the year ended March 2014.

The data was calculated and disclosed using *Sustainability Reporting Guidelines*, Version 3.1 of the Global Reporting Initiative (GRI) 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 2013	Year ended March 2014
Japan	Inputs	Electric power (ten thousand kWh)	Production facilities	3,104	2,988
			Non-production facilities	3,420	3,316
		City gas (ten thousand m <sup>3</sup> )	Production facilities	523	559
			Non-production facilities	87	103
		LPG (t)	Production facilities	9	7
			Non-production facilities	0	0
		Fuel (kl)	Production facilities	1	0
			Non-production facilities	2,108	2,029
	Outputs	Steam (GJ)	Non-production facilities	9,794	9,475
		Water (ten thousand m <sup>3</sup> )	Production facilities	76	73
		CO <sub>2</sub> (t) <sup>2</sup>	Production facilities	25,917	24,460
			Non-production facilities	22,888	20,936
		SO <sub>x</sub> (t)	Production facilities	0	0
		NO <sub>x</sub> (t)	Production facilities	14	13
		Wastewater (ten thousand m <sup>3</sup> )	Production facilities	70	65
		BOD (t)	Production facilities	15	14
		COD (t)	Production facilities	28	26
		Waste (t)	Production facilities	3,374	3,148
			Non-production facilities	1,333	1,271
Overseas	Inputs	Recycling ratio (%)	Production facilities	100	100
		Electric power (ten thousand kWh)	Production facilities	4,103	4,243
			Non-production facilities	720	714
		City gas (ten thousand m <sup>3</sup> )	Production facilities	365	372
			Non-production facilities	19	24
		LPG (t)	Production facilities	97	116
			Non-production facilities	0	0
		Fuel (kl)	Production facilities	77	61
	Outputs		Non-production facilities	1,147	1,103
		Steam (t)	Production facilities	4,248	4,217
		Water (ten thousand m <sup>3</sup> )	Production facilities	50	48
		CO <sub>2</sub> (t) <sup>2</sup>	Production facilities	22,175	22,627
			Non-production facilities	5,005	4,907
		Waste (t)	Production facilities	4,510	3,936
			Non-production facilities	799	980
		Recycling ratio (%)	Production facilities	83	81

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

2. The CO<sub>2</sub> equivalent of the total emissions of the six greenhouse gases (water vapor, CO<sub>2</sub>, 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		366	238
(1) - 1. Pollution prevention costs	Water contamination, atmospheric pollution, etc.	171	45
(1) - 2. Global environmental conservation costs	Promotion of energy conservation, measures to protect the ozone layer, etc.	192	6
(1) - 3. Resource recycling costs	Waste processing, recycling, wastewater re-use, material usage reduction, etc.	3	187
(2) Upstream and downstream costs	Costs associated with Recycling of Containers and Packaging Recycling Law, green procurement, product recycling, etc.	0	258
(3) Administrative costs	Personnel expenses (excluding R&D) for environmental management	0	532
(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	86
(6) Environmental remediation costs	Environmental remediation costs, etc.	0	0
(7) Other costs		0	0
Total		366	1,185

### 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.	30
Cost savings	From energy conservation	63
	Waste-related	8
	From resource conservation	39
	Other	0
Total		140

Environmental accounting period: April 1, 2013 - March 31, 2014

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 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://www.shiseidogroup.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 2013	Year ended March 2014	Scope
Women	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	1,690	1,583	Japan and overseas
		LIFE QUALITY BEAUTY SEMINARS <sup>1</sup>	Number of seminars held	Times	2,206	2,812	Japan and overseas
			Number of participants	Persons	38,525	49,859	Japan and overseas
	Activites for children	Shiseido Children’s Seminar <sup>2</sup>	Number of attendees (Note 2)	Persons	1,241	701	Japan
		Parent and child skincare classes	Number of participants	Number of parent/ child pairs	90 (45)	29 (16)	Japan
	Support for junior high school and high school girls in selecting science courses		Number of attendees	Persons	1,369	656	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	2	3	Japan	
Culture	Shiseido Corporate Museum		Number of exhibits	Exhibits	36,358	42,399	Japan
	Shiseido Gallery			Exhibits	23,483	27,970	Japan
	Shiseido Art House			Exhibits	27,902	29,576	Japan
Social Contribution by Employees	Shiseido Hanatsubaki Fund <sup>3</sup>		Monthly number of pledges (Note 3)	Pledges	15,743	17,162	Japan

1. In 2013, we initiated the Shiseido Life Quality Business by integrating the Shiseido Cosmetic Therapy Program for the Elderly launched in 2011 with various beauty seminars that we have been conducting for groups including the elderly and developmentally challenged, students and adults.

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 2013	Year ended March 2014	Scope	Reference
Number of employees	Persons	48,134	46,980	Group employees in Japan and overseas (including fixed-term contract employees) <sup>4</sup>	Number of fixed-term contract employees is average for the year.
Average age	Years	39.6	40.2	Group employees in Japan (excluding fixed-term contract employees)	
Average years of service	Years	15.8	16.4	Group employees in Japan (excluding fixed-term contract employees)	
Hours worked (total hours worked annually per employee)	Hours	1,806.7	1,812.8	Group employees in Japan (excluding managers and fixed-term contract employees)	Scheduled working hours Year ended March 2013: 1,844.5 hours Year ended March 2014: 1,844.5 hours
Ratio of female employees	%	83.0	83.1	Group employees in Japan (including fixed-term contract employees)	
Ratio of female leaders	%	25.6	26.8	Group employees in Japan	Managers with subordinates
Employees rehired after retirement	Persons	255	287	Group employees in Japan	
Ratio of physically and developmentally challenged employees	%	1.90	1.85	Group employees in Japan	
Employees taking nursing care leave	Persons	27	26	Group employees in Japan (including fixed-term contract employees)	
Employees taking time off for nursing care	Persons	14	14	Group employees in Japan (including fixed-term contract employees)	
Employees taking childcare leave	Persons	1,375	1,507	Group employees in Japan (including fixed-term contract employees)	Including data for short-term childcare leave program
Employees taking time off for childcare	Persons	1,720	1,829	Group employees in Japan (including fixed-term contract employees)	
Kangaroo Staff <sup>5</sup>	Persons	1,596	1,635	Group employees in Japan	A system of Shiseido Sales Co., Ltd.

4. Data for Group employees in Japan as of April 1, 2014

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

# Brand/Line Overview

## Brands and Lines by Category

		Brand/Line		Main Product Category
Domestic Cosmetics Business	Counseling cosmetics		ELIXIR	Skincare and base makeup
			MAQUILLAGE	Makeup
		BENEFIQUE	BENEFIQUE	Skincare, makeup and esthetic
		HAKU	HAKU	Skincare
	Self-selection cosmetics		AQUALABEL	Skincare
			INTEGRATE	Makeup
			ANESSA	Suncare
	Toiletries		TSUBAKI	Haircare
			SENKA	Skincare
			SEA BREEZE	Bodycare and haircare
	Other		IPSA	Skincare and makeup
			d'icila	Skincare and makeup
	Healthcare Business Division		The Collagen	Healthcare
Global Business	Cosmetics Business		global brand SHISEIDO	Skincare and makeup
			clé de peau BEAUTÉ	Skincare and makeup
		bareMinerals	bareMinerals	Skincare and makeup
			NARS	Skincare and makeup
			ISSEY MIYAKE Jean Paul GAULTIER narciso rodriguez ELIE SAAB	Fragrance
			AUPRES	Skincare and makeup
			urara	Skincare and makeup
			PURE&MILD	Skincare
			Za	Skincare and makeup
	Professional Business		THE HAIR CARE	Haircare

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 (as of March 31, 2014): Japan: **J** China: **C** Other Asian countries: **A** Americas: **U** Europe: **E**

	Main Sales Channels					Main Regions of Availability	Price Point		
	Voluntary Chain Stores <sup>1</sup>	Department Stores	Drugstores <sup>2</sup>	General Merchandise Stores <sup>2</sup>	Other		≤¥2,000	¥2,001–¥5,000	≥¥5,001
	●	●	●	●		J C A U	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
	●	●	●	●		J C A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
	●					J A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
	●	●	●	●		J C A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
			●	●		J C A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
			●	●	(Japan) Convenience Stores	J A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
			●	●	(Japan) Convenience Stores	J C A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
			●	●	(Overseas) Perfumeries, drugstores, hypermarkets	J C A E	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
			●	●	(Overseas) Drugstores, hypermarkets (Japan) Convenience Stores	J C <sup>3</sup> A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
			●	●	(Japan) Convenience Stores	J A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
		●				J C A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
	●					J C A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
			●	●		J	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
		●			Travel retail	J C A U E	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
	●	●		●	Travel retail	J C A U E	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
		●			Direct marketing (Overseas) Perfumeries, directly managed stores	J C <sup>3</sup> A U E	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
		●			(Overseas) Perfumeries, specialty stores	J C <sup>3</sup> A U E	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
		●			Perfumeries, travel retail	J C A U E	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
		●				C	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
	●					C	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
	●	●			Drugstores, hypermarkets	C	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
		● (Overseas only)			Variety stores <sup>4</sup> , drugstores, hypermarkets <sup>5</sup>	J C A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>
					Hair salons	J C A	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>

5. Large-scale suburban supermarkets



# An Introduction to Shiseido's Brands and Lines

## Domestic Cosmetics Business

### ELIXIR

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. Shiseido plans to implement a brand renewal in the second half of the year ending March 2015.



### 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. This line will also be restaged in the second half of the year ending March 2015. 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 cosmetics specialty 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.



### HAKU

This is a special line of skin-brightening products created from research on prevention of skin blemishes. Launched in 2005, it reflects the latest knowledge obtained from Shiseido's blemish prevention science. Shiseido renewed the line in February 2013. It is sold in three countries and regions, including Japan.



### 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

Launched in 2006 and renewed in 2010, INTEGRATE is a self-selection makeup line for highlighting adult beauty with a playfulness targeting women in their 20s and 30s. With a base makeup that is beneficial for the skin and makeup that adds playful accents, this brand brings out a lovely and happy complexion and look.



### ANESSA

Introduced in 1992, the ANESSA brand features Shiseido's strongest sun protection products, which help to defend beautiful skin against sunburn and other damaging effects of ultraviolet rays. ANESSA products incorporate cutting-edge sunburn prevention and skincare research, and are highly regarded by consumers. Renewed in February 2014, the brand is sold in five countries and regions, including Japan.



### TSUBAKI

A brand for beautiful haircare launched in 2006, TSUBAKI encompasses three lines: Shining, Damage Care and Head Spa. Now sold in eight countries and regions around the world, including Japan and China.



### 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 seven countries and regions in Asia, including Japan.



### 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.



### IPSAs

Not marketed under the Shiseido name, IPSAs 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 five countries and regions, including Japan.



### d'icilà

A non-Shiseido brand launched in 1991, d'icilà is sold in cosmetics specialty stores with a focus on making people feel comfortable. It is a high-value-added anti-aging brand with a lineup that includes skincare, makeup, haircare and body care products. Currently available in Japan, Taiwan and China.



### The Collagen

A patented beauty food supported by women in a wide range of age groups 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. Collagen Sparkling, a lightly carbonated drink, was added to the lineup in March 2014.



## Global Business

The global brand *SHISEIDO*

Shiseido's main prestige brand. Sold in 89 countries and regions with the brand statement "Because the beauty is already in you." Includes skincare lines exemplified by *ULTIMUNE* (scheduled for launch in September 2014) and the premium skincare line *SHISEIDO FUTURE SOLUTION LX*, as well as makeup, suncare and other product lines.

*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 "radiance of joy."

*bareMinerals*

The core brand of Bare Escentuals, Inc. 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.

*NARS*

Created in 1994 by makeup artist and photographer François Nars. Acquired by Shiseido in 2000 and sold in 24 countries worldwide, including the United States, as of March 31, 2014. 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 (BPI) offers fragrances created by famous designers. These include *ISSEY MIYAKE* (launched in 1992; available in 119 countries); *Jean Paul GAULTIER* (launched in 1993; available in 116 countries); *narciso rodriguez* (launched in 2003; available in 104 countries); and *ELIE SAAB* (launched in 2011; available in 96 countries) (country counts as of December 31, 2013). In certain countries, BPI sells fragrances of well-known brands such as *Hermes*, *Burberry* and *Ferragamo*.

*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. Widely favored as a national brand in China, with designations such as top-end national brand in 2006, *AUPRES* celebrates its 20th anniversary in 2014.

*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.

*Za*

Developed for women in their 20s in evolving Asia, *Za* was launched in 1997 as a reasonably priced full-line skincare and makeup brand with high-quality, multifunctional products. Now available in 12 countries and regions including China and Hong Kong, Taiwan, Thailand, India and Japan, it is a mass-tige brand primarily sold in drugstores and hypermarkets.

*THE HAIR CARE*

A total haircare line exclusively for salons, *THE HAIR CARE* incorporates hair, skin and psychological research to truly satisfy Japanese and other Asians by optimizing the condition of their hair. Launched in Japan in 2011 and in eight other Asian countries and regions since 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 <sup>1</sup>	Equity ownership percentage <sup>2</sup>
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. <sup>3</sup>	Paris, France	(Thousands of euro) €19,374		100.0 (100.0)
Shiseido China Co., Ltd.	Shanghai, China	(Thousands of yuan) CNY 565,093		100.0
Shanghai Zotos Citic Cosmetics Co., Ltd.	Shanghai, China	(Thousands of yuan) CNY 418,271		92.6 (66.4)
Shiseido Liyuan Cosmetics Co., Ltd.	Beijing, China	(Thousands of yuan) CNY 94,300		65.0 (33.0)
Shiseido Hong Kong Cosmetics Ltd.	Hong Kong, China	(Thousands of HK dollars) HKD 123,000		100.0
Taiwan Shiseido Co., Ltd.	Taipei, Taiwan	(Thousands of NT dollars) NTD 1,154,588		51.0
Shiseido Professional Co., Ltd.	Chuo-ku, Tokyo	¥250 million		100.0
Shiseido Beauty Salon Co., Ltd.	Chuo-ku, Tokyo	¥100 million		100.0
Shiseido Parlour Co., Ltd.	Chuo-ku, Tokyo	¥100 million	Others	99.3
Selan Anonymous Association <sup>4</sup>	Chiyoda-ku, Tokyo	¥11,600 million		[100.0]
Other: 67 subsidiaries <sup>5</sup>	—	—	—	—
(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. Carita International S.A., which handles the *CARITA* brand, and FIPAL S.A.S. (the holding company of Laboratoires Decléor S.A.S., which handles the *DECLÉOR* brand) were transferred in conjunction with the sale of the *CARITA* and *DECLÉOR* brand businesses to L'Oréal S.A. on April 30, 2014.

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

5. Other subsidiaries is the sum of domestic subsidiaries as of March 31, 2014 and overseas subsidiaries as of December 31, 2013.

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# Consolidated Financial Statements

## CONSOLIDATED BALANCE SHEETS

Shiseido Company, Limited and Subsidiaries  
March 31, 2013 and 2014

March 31, 2013 and 2014		Millions of yen		Thousands of U.S. dollars (Note 1)
	Note	2013	2014	2014
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash and time deposits	3, 4, 7	¥ 59,330	¥ 95,774	\$ 930,567
Short-term investments in securities	3, 4, 5	31,934	33,129	321,891
Notes and accounts receivable:	4			
Trade		118,229	138,280	1,343,568
Unconsolidated subsidiaries and affiliates		3	3	29
		118,232	138,283	1,343,597
Less: allowance for doubtful accounts		(970)	(1,483)	(14,409)
		117,262	136,800	1,329,188
Inventories	6	84,552	90,245	876,846
Deferred tax assets	9	24,944	26,569	258,152
Other current assets		14,659	20,072	195,025
Total current assets		332,681	402,589	3,911,669
<b>Property, Plant and Equipment, at Cost:</b>				
Buildings and structures	7	158,731	166,117	1,614,040
Machinery and equipment	7	148,677	165,287	1,605,975
Leased assets		7,518	7,360	71,512
		314,926	338,764	3,291,527
Less: accumulated depreciation		(224,050)	(238,020)	(2,312,670)
		90,876	100,744	978,857
Land		31,833	30,853	299,777
Construction in progress		5,096	3,282	31,889
Total property, plant and equipment	20	127,805	134,879	1,310,523
<b>Intangible Assets:</b>				
Goodwill	20	57,128	63,378	615,799
Leased assets		535	587	5,703
Trademarks		45,246	55,173	536,077
Other intangible assets		47,784	47,595	462,446
Total intangible assets		150,693	166,733	1,620,025
<b>Investments and Other Assets:</b>				
Investments in securities	4, 5, 7	29,325	24,834	241,294
Investments in unconsolidated subsidiaries and affiliates	4	1,185	2,056	19,977
Prepaid pension expenses	8	17,155	—	—
Long-term prepaid expenses		10,087	11,994	116,537
Deferred tax assets	9	20,589	33,118	321,784
Other investments	7	26,073	25,144	244,306
Total investments and other assets		104,414	97,146	943,898
<b>Total Assets</b>	20	¥ 715,593	¥ 801,347	\$ 7,786,115

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



Thousands of  
U.S. dollars (Note 1)

	Note	2013	2014	2014
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Short-term debt	4, 7	¥ 5,976	¥ 6,727	\$ 65,361
Current portion of long-term debt	4, 7	33,419	57,327	557,005
Notes and accounts payable:	4			
Trade		42,653	50,067	486,465
Unconsolidated subsidiaries and affiliates		890	879	8,541
		43,543	50,946	495,006
Other payables	4	39,628	48,043	466,800
Accrued income taxes		9,114	17,503	170,064
Reserve for sales returns		10,610	11,085	107,705
Accrued bonuses for employees		12,493	18,094	175,806
Accrued bonuses for directors		269	290	2,818
Provision for liabilities and charges		387	487	4,732
Provision for structural reforms		362	122	1,185
Deferred tax liabilities	9	8	35	340
Other current liabilities		31,416	39,124	380,140
Total current liabilities		187,225	249,783	2,426,962
Long-Term Liabilities:				
Long-term debt	4, 7	145,274	91,864	892,577
Accrued retirement benefits	8	44,151	—	—
Liability for retirement benefits	8	—	60,826	591,003
Allowance for losses on guarantees		350	350	3,401
Allowance for environmental measures		445	395	3,838
Provision for structural reforms		1,397	1,062	10,318
Deferred tax liabilities	9	28,931	33,414	324,660
Other long-term liabilities		4,666	4,945	48,047
Total long-term liabilities		225,214	192,856	1,873,844
Total Liabilities		412,439	442,639	4,300,806
CONTINGENT LIABILITIES				
NET ASSETS				
Shareholders' Equity:				
Common stock	11	64,507	64,507	626,768
Authorized: 1,200,000,000 shares as of March 31, 2013 and 2014				
Issued: 400,000,000 shares as of March 31, 2013 and 2014				
Capital surplus		70,258	70,258	682,647
Retained earnings		191,477	203,452	1,976,797
Less: treasury stock, at cost		(3,698)	(2,682)	(26,059)
Treasury stock: 1,960,234 shares as of March 31, 2013 and				
1,422,159 shares as of March 31, 2014				
Total shareholders' equity		322,544	335,535	3,260,153
Accumulated Other Comprehensive Income:				
Unrealized gains (losses) on available-for-sale securities	5	2,799	3,544	34,435
Foreign currency translation adjustments		(37,833)	19,691	191,323
Accumulated adjustments for retirement benefit		(440)	(20,208)	(196,347)
Total accumulated other comprehensive income		(35,474)	3,027	29,411
Stock Acquisition Rights	12	846	942	9,153
Minority Interests in Consolidated Subsidiaries		15,238	19,204	186,592
Total Net Assets		303,154	358,708	3,485,309
Total Liabilities and Net Assets		¥715,593	¥801,347	\$7,786,115

# CONSOLIDATED STATEMENTS OF OPERATIONS/ CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited and Subsidiaries  
For the fiscal years ended March 31, 2013 and 2014

## CONSOLIDATED STATEMENTS OF OPERATIONS

		Millions of yen		Thousands of U.S. dollars (Note 1)
	Note	2013	2014	2014
<b>Net Sales</b>	20	¥677,728	¥762,047	\$7,404,265
<b>Cost of Sales</b>		166,784	189,560	1,841,818
<b>Gross profit</b>		510,944	572,487	5,562,447
<b>Selling, General and Administrative Expenses</b>	13	484,898	522,843	5,080,092
<b>Operating income</b>	20	26,046	49,644	482,355
<b>Other Income (Expenses):</b>				
Interest and dividend income		1,299	1,610	15,643
Interest expense		(1,782)	(1,731)	(16,819)
Foreign exchange gain		1,133	740	7,190
Equity in earnings of affiliates		47	82	797
Gain on sales of investments in securities	5	74	642	6,238
Loss on revaluation of investments in securities		(20)	(77)	(748)
Gain (loss) on sales and disposal of property, plant and equipment		(35)	4,961	48,202
Impairment loss	17, 20	(29,122)	(970)	(9,425)
Structural reform expense	18	(5,745)	(5,555)	(53,974)
Other, net		1,663	1,081	10,504
		(32,488)	783	7,608
<b>Income (loss) before income taxes</b>		(6,442)	50,427	489,963
<b>Income Taxes</b>	9			
Current		15,375	22,156	215,274
Income taxes for prior periods		—	1,700	16,518
Deferred		(9,105)	(2,165)	(21,036)
		6,270	21,691	210,756
<b>Income (loss) before minority interests</b>		(12,712)	28,736	279,207
<b>Minority Interests in Net Income of Consolidated Subsidiaries</b>		(1,973)	(2,587)	(25,136)
<b>Net income (loss)</b>		¥(14,685)	¥ 26,149	\$ 254,071

		Yen		U.S. dollars (Note 1)
<b>Per Share</b>	2 (9)			
Net income (loss) — basic		¥(36.9)	¥65.7	\$0.64
— diluted*		—	65.5	0.64
Cash dividend		50.0	20.0	0.19
Weighted Average Number of Shares (thousands)		398,007	398,301	

\* Diluted net income per share is not disclosed for the year ended March 31, 2013 because a net loss per share was posted.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

		Millions of yen		Thousands of U.S. dollars (Note 1)
	Note	2013	2014	2014
<b>Income (Loss) before Minority Interests</b>		¥(12,712)	¥28,736	\$279,207
<b>Other Comprehensive Income</b>				
Unrealized gains (losses) on available-for-sale securities	5	2,297	815	7,919
Foreign currency translation adjustments		30,850	60,699	589,769
Adjustments for retirement benefit		(486)	391	3,799
Share of other comprehensive income of associates accounted for under the equity method		37	82	796
<b>Total other comprehensive income</b>	19	32,698	61,987	602,283
<b>Comprehensive Income</b>		¥ 19,986	¥90,723	\$881,490
(Breakdown)				
Comprehensive income attributable to shareholders of the Company		¥ 15,945	¥84,751	\$823,465
Comprehensive income attributable to minority interests		4,041	5,972	58,025

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, 2013 and 2014

	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	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Stock acquisition rights	Minority interests in consolidated subsidiaries
<b>Balance as of April 1, 2012</b>	400,000	¥64,507	¥70,264	¥225,599	¥(3,779)	¥ 606	¥(66,702)	—	¥668	¥12,553
Effect of changes in accounting policies (cumulative)	—	—	—	(43)	—	—	—	¥ (8)	—	(43)
Balance at beginning of term reflecting changes in accounting policies	400,000	64,507	70,264	225,556	(3,779)	606	(66,702)	(8)	668	12,510
Net loss	—	—	—	(14,685)	—	—	—	—	—	—
Cash dividend from retained earnings	—	—	—	(19,900)	—	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	—	419	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(2)	—	—	—	—	—
Disposal of treasury stock	—	—	(6)	(6)	83	—	—	—	—	—
Change in scope of consolidation	—	—	—	93	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	2,193	28,869	(432)	178	2,728
<b>Balance as of March 31, 2013</b>	400,000	64,507	70,258	191,477	(3,698)	2,799	(37,833)	(440)	846	15,238
Net income	—	—	—	26,149	—	—	—	—	—	—
Cash dividend from retained earnings	—	—	—	(13,934)	—	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	—	(5)	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(5)	—	—	—	—	—
Disposal of treasury stock	—	—	—	(235)	1,021	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	745	57,524	(19,768)	96	3,966
<b>Balance as of March 31, 2014</b>	400,000	¥64,507	¥70,258	¥203,452	¥(2,682)	¥3,544	¥ 19,691	¥(20,208)	¥942	¥19,204

	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	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Stock acquisition rights	Minority interests in consolidated subsidiaries
<b>Balance as of April 1, 2013</b>	400,000	\$626,768	\$682,647	\$1,860,445	\$(35,931)	\$27,196	\$(367,596)	\$ (4,275)	\$8,220	\$148,057
Net income	—	—	—	254,071	—	—	—	—	—	—
Cash dividend from retained earnings	—	—	—	(135,387)	—	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	—	(49)	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(48)	—	—	—	—	—
Disposal of treasury stock	—	—	—	(2,283)	9,920	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	7,239	558,919	(192,072)	933	38,535
<b>Balance as of March 31, 2014</b>	400,000	\$626,768	\$682,647	\$1,976,797	\$(26,059)	\$34,435	\$ 191,323	\$(196,347)	\$9,153	\$186,592

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, 2013 and 2014

		Millions of yen		Thousands of U.S. dollars (Note 1)
	Note	2013	2014	2014
<b>Cash Flows from Operating Activities:</b>				
Income (loss) before income taxes		¥ (6,442)	¥ 50,427	\$ 489,963
Depreciation		32,046	33,619	326,652
Amortization of goodwill		5,491	4,572	44,423
Impairment loss		29,122	970	9,425
(Gain) loss on sales and disposal of property, plant and equipment		35	(4,961)	(48,202)
(Gain) loss on sales of investments in securities		(74)	(703)	(6,831)
(Gain) loss on revaluation of investments in securities		20	77	748
Structural reform expense		3,987	—	—
Increase (decrease) in allowance for doubtful accounts		(52)	214	2,079
Increase (decrease) in reserve for sales returns		(938)	(580)	(5,635)
Increase (decrease) in accrued bonuses for employees		(3,047)	4,482	43,548
Increase (decrease) in accrued bonuses for directors		(127)	22	214
Increase (decrease) in provision for liabilities and charges		(235)	2	19
Increase (decrease) in provision for structural reforms		1,758	(575)	(5,587)
Increase (decrease) in accrued retirement benefits		850	(45,043)	(437,651)
Increase (decrease) in liability for retirement benefits		—	29,505	286,679
Increase (decrease) in allowance for environmental measures		(41)	(50)	(486)
(Increase) decrease in prepaid pension expenses		3,793	17,155	166,683
Interest and dividend income		(1,299)	(1,610)	(15,643)
Interest expense		1,782	1,731	16,819
Equity in earnings (losses) of affiliates		(47)	(82)	(797)
(Increase) decrease in notes and accounts receivable		2,871	(3,001)	(29,159)
(Increase) decrease in inventories		(5,891)	7,828	76,059
Increase (decrease) in notes and accounts payable		(10,953)	6,260	60,824
Other		1,704	1,980	19,239
Subtotal		54,313	102,239	993,383
Interest and dividends received		1,293	1,462	14,205
Interest paid		(1,867)	(1,775)	(17,246)
Income taxes paid		(11,698)	(17,605)	(171,055)
Net cash provided by operating activities		42,041	84,321	819,287
<b>Cash Flows from Investing Activities:</b>				
Transfers to time deposits		(18,269)	(22,273)	(216,411)
Proceeds from maturity of time deposits		19,606	17,702	171,998
Acquisition of short-term investments in securities		(231)	(816)	(7,929)
Proceeds from sales of short-term investments in securities		283	884	8,589
Acquisition of investments in securities		(16)	(1,505)	(14,623)
Proceeds from sales of investments in securities		188	6,441	62,583
Acquisition of property, plant and equipment		(18,764)	(17,964)	(174,543)
Proceeds from sales of property, plant and equipment		1,934	7,462	72,503
Acquisition of intangible assets		(5,755)	(4,394)	(42,693)
Payments of long-term prepaid expenses		(5,173)	(5,955)	(57,861)
Other		663	3,619	35,163
Net cash used in investing activities		(25,534)	(16,799)	(163,224)
<b>Cash Flows from Financing Activities:</b>				
Net increase (decrease) in short-term debt		3,296	(396)	(3,848)
Proceeds from long-term debt		1,508	22,874	222,250
Repayment of long-term debt		(5,995)	(52,497)	(510,076)
Repayment of lease obligations		(2,147)	(2,223)	(21,599)
Acquisition of treasury stock		(2)	(5)	(49)
Disposal of treasury stock		71	787	7,647
Cash dividend paid		(19,897)	(13,949)	(135,532)
Cash dividend paid to minority shareholders		(1,579)	(2,054)	(19,957)
Net cash used in financing activities		(24,745)	(47,463)	(461,164)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		5,517	9,852	95,725
Net Change in Cash and Cash Equivalents		(2,721)	29,911	290,624
Cash and Cash Equivalents at Beginning of Year	3	82,974	80,253	779,761
Cash and Cash Equivalents at End of Year	3	¥ 80,253	¥ 110,164	\$ 1,070,385

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, 2013 to conform to the presentation for the year ended March 31, 2014.

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥102.92 = US\$1 prevailing on March 31, 2014 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 98 subsidiaries (companies over which the Company exercises control over operations) as of March 31, 2014 (95 as of March 31, 2013). The accompanying consolidated financial statements as of March 31, 2014 include the accounts of the Company and its 94 (93 as of March 31, 2013) significant subsidiaries (the "Companies").

The Company has 7 affiliates (companies that are not subsidiaries but over which the Company exercises significant influence) as of March 31, 2014 (9 as of March 31, 2013). Investments in 3 affiliates are accounted for by the equity method as of March 31, 2014 (3 as of March 31, 2013).

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

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 4 unconsolidated subsidiaries and 4 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 by the Company and its domestic consolidated subsidiaries and the straight-line method by 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 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 represents 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) 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.

## (17) 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).

## (18) Provision for Structural Reforms

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

**(19) Liability for Retirement Benefits**

- ① Periodic allocation methodology for the estimated retirement benefit amount  
The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount until the end of the current fiscal year on a straight-line basis.
- ② Amortization of past service cost and actuarial gains/losses  
Past 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.  
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.

**(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.

**(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 derivative transactions to the amounts of foreign currency denominated receivables and payables and actual requirements, 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 operations. For derivatives used for hedging purposes, if derivatives meet the requirements for hedge accounting, gains or losses on derivatives are deferred until recognition of the hedged transactions.

If interest rate swap contracts are used as a hedge and meet certain hedging criteria, the interest rate swaps are not stated at fair value, and instead 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). 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 stated at fair value, and instead 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 Denominated 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 Policies**

Effective from the year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No. 26")) and Guidance on Accounting Standard on Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No. 25")) except for article 35 of the Statement No. 26 and article 67 of the Guidance No. 25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and plan assets has been recognized as a liability for retirement benefits. In accordance with the article 37 of the Statement No. 26, the effect of the change in accounting policies arising from initial application has been recognized in accumulated adjustments for retirement benefit in accumulated other comprehensive income.

As a result of the application, a liability for retirement benefits in the amount of ¥60,826 million (\$591,003 thousand) has been recognized, deferred tax assets has increased by ¥11,522 million (\$111,951 thousand) and accumulated adjustments for retirement benefit in accumulated other comprehensive income has decreased by ¥20,101 million (\$195,307 thousand).

Effective from the year ended March 31, 2014, the Company has applied International Accounting Standard No. 19, "Employee Benefits" (amended June 16, 2011), to certain consolidated overseas subsidiaries. This has resulted in a change in recognition of changes in net defined benefit liabilities. The change in accounting standard has been applied retrospectively and is reflected in the consolidated financial statements for the previous fiscal year (ended March 31, 2013). Compared with figures prior to retrospective application, deferred tax assets and accrued retirement benefits in the previous fiscal year increased by ¥215 million and ¥796 million, respectively, as a result of the change, while retained earnings, accumulated adjustments for retirement benefit, and minority interests declined by ¥43 million, ¥440 million, and ¥97 million, respectively. In the previous fiscal year, the consolidated statement of comprehensive income showed a ¥486 million decrease in adjustments for retirement benefit, net of tax, with comprehensive income decreasing by the same amount. Because there was minimal effect on the profits and losses in the previous fiscal year, the change was not reflected in the consolidated statement of operations for that period. However, the cumulative effect on net assets at the beginning of the previous fiscal year has been reflected, with the result that retained earnings, accumulated adjustments for retirement benefit, and minority interests in consolidated subsidiaries declined by ¥43 million, ¥8 million, and ¥43 million, respectively.

### **(27) Accounting Standards Issued but Not Yet Adopted**

Accounting Standard for Business Combinations and others

- "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013)
- "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013)
- "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013)
- "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, September 13, 2013)
- "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013)
- "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, September 13, 2013)

#### **① Overview**

These accounting standards were revised mainly focusing on 1) the treatment of the parent company's changes in equity of its subsidiary while the parent company's control is continuing because of additional acquisition of shares of the subsidiary; 2) the treatment of acquisition-related expenses; 3) the presentation of net income and the change from minority interests to non-controlling interests; and 4) the treatment of provisional accounting.

#### **② Expected Application Date**

The Company expects to apply these accounting standards from the fiscal year beginning April 1, 2015.

#### **③ Effect of Applying the Accounting Standard**

The effect of the application of these accounting standards is under consideration.

Accounting Standard for Retirement Benefits and others

- "Accounting Standards for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012)
- "Guidance on Accounting Standards for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012)

#### **① Overview**

These accounting standards were 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 these accounting standards 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 effect of the application of these accounting standards is under consideration.

### **(28) Change in Presentation**

(Consolidated Statements of Cash Flows)

In the previous fiscal year, "Increase (decrease) in provision for structural reforms" was included in "Structural reform expense." Effective from the fiscal year ended March 31, 2014, this item is newly presented as a separate item in order to clarify the cash flows from operating activities. As a result, ¥5,745 million of "Structural reform expense" within "Cash Flows from Operating Activities" in the previous fiscal year was reclassified as ¥1,758 million of "Increase (decrease) in provision for structural reforms" and ¥3,987 million of "Structural reform expense" to conform to the presentation used in the fiscal year ended 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, 2013 and 2014 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
Cash and time deposits	¥59,330	¥ 95,774	\$ 930,567
Short-term investments in securities	31,934	33,129	321,891
Total	¥91,264	¥128,903	\$1,252,458
Time deposits with maturities exceeding 3 months	(9,321)	(16,377)	(159,123)
Debt securities with maturities exceeding 3 months	(1,690)	(2,362)	(22,950)
Cash and cash equivalents	¥80,253	¥110,164	\$1,070,385

Significant non-cash transactions are as follows:

¥1,735 million and ¥1,565 million (\$15,206 thousand) of assets and obligations related to finance lease transactions were newly recorded in the years ended March 31, 2013 and 2014, 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 Types of financial instruments, risks and risk management system

Notes and accounts receivable are exposed to customer credit risk. The Companies mitigate 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 manage 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 consolidated 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			
	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, accounts payable and other payables	(83,171)	(83,171)	—
⑤ Short-term borrowings from banks and other financial institutions	(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

Millions of yen			
	2014		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	¥ 95,774	¥ 95,774	—
② Notes and accounts receivable (less allowance for doubtful accounts)	136,800	136,800	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	54,034	54,034	—
④ Notes, accounts payable and other payables	(98,989)	(98,989)	—
⑤ Short-term borrowings from banks and other financial institutions	(6,727)	(6,727)	—
⑥ Bonds	(90,000)	(90,337)	¥ (337)
⑦ Long-term borrowings from banks and other financial institutions	(55,640)	(58,140)	(2,500)
⑧ Lease obligations	(3,551)	(3,586)	(35)
⑨ Derivative instruments			
i. Hedge accounting not applied	1	1	—
ii. Hedge accounting applied	—	2,563	2,563

Thousands of U.S. dollars (Note 1)			
	2014		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	\$ 930,567	\$ 930,567	—
② Notes and accounts receivable (less allowance for doubtful accounts)	1,329,188	1,329,188	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	525,010	525,010	—
④ Notes, accounts payable and other payables	(961,806)	(961,806)	—
⑤ Short-term borrowings from banks and other financial institutions	(65,361)	(65,361)	—
⑥ Bonds	(874,465)	(877,740)	\$ (3,275)
⑦ Long-term borrowings from banks and other financial institutions	(540,614)	(564,905)	(24,291)
⑧ Lease obligations	(34,503)	(34,843)	(340)
⑨ Derivative instruments			
i. Hedge accounting not applied	10	10	—
ii. Hedge accounting applied	—	24,903	24,903

\* 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, accounts payable and other payables; ⑤ Short-term borrowings from banks and other financial institutions

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, 2013 and 2014.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
	Carrying value	Carrying value	Carrying value
Shares of subsidiaries and affiliates	¥1,185	¥2,056	\$19,977
Unlisted equity securities	8,063	3,052	29,654
Investment in limited partnership and others	888	877	8,521

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.

Loss on revaluation for securities stated at cost was recognized in the amounts of ¥4 million and ¥11 million (\$107 thousand) for the years ended March 31, 2013 and 2014, respectively.

\*3: Maturity dates of financial assets are as follows:

	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	—	¥3,500
Available-for-sale securities with maturity (Investment trust)	1,870	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	165	723	—	—
Other	—	—	—	1,000
	¥202,627	¥1,023	—	¥4,500

	Millions of yen			
	2014			
	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	¥ 95,774	—	—	—
Notes and accounts receivable	136,800	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	7,000	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	15,300	—	—	¥3,000
Available-for-sale securities with maturity (Investment trust)	2,763	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	160	¥717	—	—
Other	—	—	—	1,000
	¥257,797	¥717	—	¥4,000

Thousands of U.S. dollars (Note 1)

	2014			
	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	\$ 930,567	—	—	—
Notes and accounts receivable	1,329,188	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	68,014	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	148,659	—	—	\$29,149
Available-for-sale securities with maturity (Investment trust)	26,846	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	1,555	\$6,966	—	—
Other	—	—	—	9,716
	\$2,504,829	\$6,966	—	\$38,865

## 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, 2013 and 2014 are as follows:

Available-for-sale securities:

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

Millions of yen

	2014			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	¥10,286	¥15,699	¥5,956	¥543
Bonds	4,300	3,978	—	322
Other	33,801	34,357	556	0
	¥48,387	¥54,034	¥6,512	¥865

Thousands of U.S. dollars (Note 1)

	2014			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
Equity securities	\$ 99,942	\$152,536	\$57,870	\$5,276
Bonds	41,780	38,651	—	3,129
Other	328,420	333,823	5,402	0
	\$470,142	\$525,010	\$63,272	\$8,405

\* Loss on revaluation of investments in securities stated at fair value was recognized in the amount of ¥14 million for the year ended March 31, 2013. There is no loss on revaluation of investments in securities stated at fair value for the year ended March 31, 2014.

Proceeds from sales, and gross realized gains and losses from the sales of available-for-sale securities in the years ended March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
Proceeds from sales	¥470	¥7,324	\$71,162
Gross realized gains	88	718	6,976
Gross realized losses	14	15	146

## 6. INVENTORIES

Inventories held by the Companies as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
Merchandise and finished products	¥60,143	¥64,251	\$624,281
Work in process	4,539	4,586	44,559
Raw materials and supplies	19,870	21,408	208,006
	¥84,552	¥90,245	\$876,846

## 7. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
Short-term borrowings from banks and other financial institutions (weighted average interest rate 5.81%)	¥ 5,976	¥ 6,727	\$ 65,361
Short-term debt	¥ 5,976	¥ 6,727	\$ 65,361
Long-term borrowings from banks and other financial institutions			
(Borrowings due within one year, weighted average interest rate 0.52%)	31,685	5,926	57,579
(Borrowings due after one year, weighted average interest rate 0.53%)	53,029	49,714	483,035
0.65% unsecured yen bonds due in December 2014	50,000	50,000	485,814
0.55% unsecured yen bonds due in June 2015	40,000	40,000	388,651
Lease obligations			
(Borrowings due within one year, weighted average interest rate 2.52%)	1,734	1,401	13,613
(Borrowings due after one year, weighted average interest rate 2.66%)	2,245	2,150	20,890
	¥178,693	¥149,191	\$1,449,582
Less: portion due within one year	(33,419)	(57,327)	(557,005)
Long-term debt	¥145,274	¥ 91,864	\$ 892,577

The aggregate annual maturities of long-term debt as of March 31, 2014 are as follows:

For the years ending March 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2015	¥ 57,327	\$ 557,005
2016	46,969	456,364
2017	6,376	61,951
2018	18,637	181,082
2019	862	8,376
2020 and thereafter	19,020	184,804
	¥149,191	\$1,449,582

Assets pledged as collateral as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
Buildings and structures	¥15,308	¥14,717	\$142,995
Other investments	15,200	15,200	147,688
Investments in securities	1,512	1,156	11,232
Cash and time deposits	1,336	1,092	10,610
Machinery and equipment	2	2	19
	¥33,358	¥32,167	\$312,544

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of March 31, 2013 and 2014:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
Current portion of long-term debt	¥23,250	¥ 730	\$ 7,093
Long-term debt	—	21,755	211,378
	¥23,250	¥22,485	\$218,471

## 8. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have contributory funded pension plans, unfunded termination allowance plans, defined contribution plans and a retirement benefit prepayment plan. In some cases, additional voluntary retirement benefits were paid when an employee retired, which were accounted for as retirement benefit expenses when incurred. In addition, certain overseas subsidiaries have defined benefit plans, retirement allowance plans and defined contribution plans. The Company and certain consolidated subsidiaries use a simplified method for calculating retirement benefits. Please refer to explanation of changes in accounting policies for retirement benefit in the current fiscal year in note 2(26).

As of and for the year ended March 31, 2013

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 sheet as of March 31, 2013 are as follows:

	Millions of yen
	2013
Retirement benefit obligations	¥(238,017)
Fair value of plan assets	171,783
Funded status of the pension benefit plans	(66,234)
Unrecognized net actuarial loss	39,344
Unrecognized prior service cost	(106)
Net retirement benefit obligation	¥ (26,996)
Prepaid pension expenses	17,155
Accrued retirement benefits	¥ (44,151)

The net periodic pension benefit cost for the year ended March 31, 2013 is as follows:

	Millions of yen
	2013
Service cost	¥ 8,248
Interest cost	5,178
Expected return on plan assets	(6,354)
Amortization of net actuarial loss	5,716
Amortization of prior service cost	(310)
Net periodic pension benefit cost	¥12,478

Actuarial assumptions

The principal actuarial assumptions at March 31, 2013 are as follows:

Discount rate	1.6%
Expected rate of return	4.0%

**As of and for the year ended March 31, 2014**

Defined benefit plans, including a plan applying a simplified method

(1) Movement in retirement benefit obligations	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Balance at April 1, 2013	¥238,017	\$2,312,641
Service cost	7,836	76,137
Interest cost	3,839	37,301
Actuarial loss (gain)	(2,290)	(22,250)
Benefit paid	(10,910)	(106,005)
Other	1,255	12,193
Balance at March 31, 2014	¥237,747	\$2,310,017

(2) Movement in plan assets	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Balance at April 1, 2013	¥171,783	\$1,669,092
Expected return on plan assets	6,845	66,508
Actuarial loss (gain)	2,387	23,193
Contributions paid by the employer	3,633	35,299
Benefit paid	(8,014)	(77,866)
Other	287	2,789
Balance at March 31, 2014	¥176,921	\$1,719,015

(3) Reconciliation from retirement benefit obligations and plan assets to liability (asset) for retirement benefits	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Funded retirement benefit obligations	¥ 194,364	\$ 1,888,496
Plan assets	(176,921)	(1,719,014)
	17,443	169,482
Unfunded retirement benefit obligations	43,383	421,521
Total net liability for retirement benefits at March 31, 2014	60,826	591,003
Liability for retirement benefits	60,826	591,003
Total net liability for retirement benefits at March 31, 2014	¥ 60,826	\$ 591,003

(4) Retirement benefit costs	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Service cost	¥ 7,836	\$ 76,137
Interest cost	3,839	37,301
Expected return on plan assets	(6,845)	(66,508)
Net actuarial loss amortization	3,773	36,659
Past service costs amortization	(314)	(3,051)
Other	715	6,947
Total retirement benefits costs for the fiscal year ended March 31, 2014	¥ 9,004	\$ 87,485

(5) Adjustments for retirement benefit	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Net actuarial loss amortization	¥(533)	\$(5,179)

(6) Accumulated adjustments for retirement benefit	Millions of yen	Thousands of U.S. dollars (Note 1)
	2014	2014
Actuarial gains and losses that are yet to be recognized	¥ 208	\$ 2,021
Past service costs that are yet to be recognized	31,621	307,239
Total balance at March 31, 2014	¥31,829	\$309,260



## (7) Accumulated adjustments for retirement benefit

## ① Plan assets at March 31, 2014 comprise:

Bonds	62.4%
Equity securities	18.8%
Other	18.8%
<b>Total</b>	<b>100.0%</b>

## ② Long-term expected rate of return

Terms of payment, portfolio of plan assets, historical returns, operating policy, market trends and other factors have been considered in determining the long-term expected rate of return.

## (8) Actuarial assumptions

The principal actuarial assumption at March 31, 2014 (expressed as weighted averages) are as follows:

Discount rate	1.6%
Long-term expected rate of return	4.0%

## Defined contribution plans

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥1,439 million (\$13,982 thousand) and ¥432 million (\$4,197 thousand), respectively, for the year ended March 31, 2014.

## 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 was 38.0% for the fiscal year ended March 31, 2014. Income taxes for prior periods are estimated additional taxes related to transactions between the Company and overseas consolidated subsidiaries. The Company received the notice of correction by Tokyo Regional Taxation Bureau on June 17, 2014. As a result, differences between estimated amounts and actual amounts are minimal. After consideration, the Company will take appropriate action.

Reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2014 is as follows:

	2013	2014
Statutory tax rate	—	38.0%
Increase (decrease) due to:		
Permanently nondeductible expenses	—	0.8
Dividend income not taxable	—	0.5
Unrealized intercompany profit	—	(1.5)
Adjustment of deferred tax assets for enacted changes in tax laws and rates	—	1.8
Tax credits	—	(2.0)
Differences of tax rates for overseas consolidated subsidiaries	—	(0.1)
Income taxes for prior periods	—	3.4
Movement in valuation allowance	—	(0.9)
Others	—	3.0
<b>Effective tax rate</b>	<b>—</b>	<b>43.0%</b>

No reconciliation is presented for the year ended March 31, 2013 because there was a loss before income tax.

Amendments to the amount of deferred tax assets and liabilities associated with changes in tax rates including primarily corporate taxes.

The Partial Revision of Income Tax Act (Act No.10, 2014) was enacted on March 31, 2014. Accordingly, the Special Corporation Tax for Reconstruction will be abolished for fiscal years beginning on or after April 1, 2014. As a result, the statutory tax rate used to calculate deferred tax assets and liabilities decreased from 38% to 36% at March 31, 2014. As a result of the change in statutory tax rate, net deferred tax assets (after deducting deferred tax liabilities) at fiscal year-end decreased by ¥886 million (\$8,609 thousand), while income taxes (deferred) increased by ¥886 million (\$8,609 thousand) for the year ended March 31, 2014.

Deferred tax assets and liabilities (both current and non-current) as of March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
Deferred tax assets:			
Accrued retirement benefits	¥ 9,266	—	—
Liability for retirement benefits	—	¥21,395	\$207,880
Inventories	9,373	11,561	112,330
Depreciation	4,689	3,410	33,132
Unrealized intercompany profit in inventory and property, plant and equipment	6,592	5,340	51,885
Accrued expenses	6,507	7,720	75,010
Accrued bonuses for employees	3,699	4,899	47,600
Write-down of investments in securities and other investments	4,208	4,083	39,672
Tax losses carried forward	847	495	4,810
Reserve for sales returns	1,386	541	5,256
Accrued enterprise tax	477	876	8,511
Unrealized gains (losses) on available-for-sale securities	478	310	3,012
Other	4,640	7,053	68,529
Total gross deferred tax assets	52,162	67,683	657,627
Less: valuation allowance	(2,959)	(3,748)	(36,416)
Total deferred tax assets	¥49,203	¥63,935	\$621,211
Deferred tax liabilities:			
Goodwill and other intangible assets	¥27,711	¥32,478	\$315,566
Special tax-purpose reserve	809	785	7,627
Unrealized gains (losses) on available-for-sale securities	2,241	2,483	24,126
Undistributed earnings of overseas consolidated subsidiaries	870	1,145	11,125
Other	978	806	7,831
Total deferred tax liabilities	¥32,609	¥37,697	\$366,275
Net deferred tax assets	¥16,594	¥26,238	\$254,936

Note: As stated in Note 2 (26), "Change in Accounting Policies," the change in accounting standard has been applied retrospectively.

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
Current assets-deferred tax assets	¥ 24,944	¥ 26,569	\$ 258,152
Fixed assets-deferred tax assets	20,589	33,118	321,784
Current liabilities-deferred tax liabilities	(8)	(35)	(340)
Fixed liabilities-deferred tax liabilities	(28,931)	(33,414)	(324,660)
Net deferred tax assets	¥ 16,594	¥ 26,238	\$ 254,936

## 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, 2014 include amounts representing year-end cash dividend of ¥3,986 million (\$38,729 thousand), ¥10.0 (\$0.10) per share, which was approved at the shareholders' meeting held on June 25, 2014.

## 12. STOCK OPTION PLAN

Summarized information on the stock options granted as of March 31, 2014 is as follows:

① 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	91,000 shares	91,000 shares
Exercise price	¥1,427	
Exercisable period	July 1, 2006 - June 28, 2014	

② 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	167,000 shares	167,000 shares
Exercise price	¥1,481	
Exercisable period	July 1, 2007 - June 28, 2015	

③ 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	

④ 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	

⑤ 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	13,000 shares	12,000 shares	25,000 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2011 - July 30, 2018	August 1, 2011 - July 30, 2018	

⑥ 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	30,000 shares	93,700 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2012 - July 31, 2019	August 1, 2012 - July 31, 2019	

## ⑦ 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	35,100 shares	94,200 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2013 - July 31, 2020	August 1, 2013 - July 31, 2020	

## ⑧ 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	

## ⑨ 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	

## ⑩ Stock option plan approved by the shareholders on June 25, 2013 and resolved by the Board of Directors on July 31, 2013

	Stock options granted on August 29, 2013	Stock options granted on August 29, 2013	Total
Number of shares for options granted	44,100 shares	39,500 shares	83,600 shares
Number of shares for options outstanding	44,100 shares	39,500 shares	83,600 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2016 - July 31, 2028	August 1, 2016 - July 31, 2028	

## 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 ¥13,659 million and ¥13,540 million (\$131,558 thousand) for the fiscal years ended March 31, 2013 and 2014, respectively.

There are no research and development expenses included in total manufacturing expenses for the fiscal years ended March 31, 2013 and 2014.

## 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, and software.

#### ② As lessee:

None applicable

**(2) Operating leases**

Lease obligations under operating leases at March 31, 2013 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
① As lessee:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within one year	¥ 4,954	¥ 6,912	\$ 67,159
Due after one year	21,079	27,748	269,607
	¥26,033	¥34,660	\$336,766
② As lessor:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within one year	¥ 161	¥ 161	\$ 1,565
Due after one year	4,104	3,943	38,311
	¥ 4,265	¥ 4,104	\$ 39,876

**16. DERIVATIVE FINANCIAL INSTRUMENTS**

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: Selling US\$	¥4,305	—	¥ 1	¥ 1
EUR	2,298	—	42	42
GBP	1,460	—	16	16
AU\$	98	—	0	0
Foreign exchange contracts: Buying US\$	983	—	(12)	(12)
EUR	9,164	—	(87)	(87)
	—	—	¥(40)	¥(40)

**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 US\$/to pay fixed yen	¥22,500	¥17,500	¥690
Interest rate swap contracts:			
To receive variable/to pay fixed	23,250	—	(85)

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of March 31, 2014 are as follows:

**① Derivatives that do not meet the criteria for hedge accounting**

	Millions of yen			
	2014			
	Contract amount			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling US\$	¥ 5,975	—	¥ 50	¥ 50
EUR	4,449	—	(0)	(0)
GBP	1,718	—	(21)	(21)
AU\$	84	—	4	4
Foreign exchange contracts: Buying US\$	2,147	—	(17)	(17)
EUR	11,893	—	(15)	(15)
	—	—	¥ 1	¥ 1



Thousands of U.S. dollars (Note 1)

		2014			
		Contract amount		Estimated fair value	Unrealized gain (loss)
		Total	Settled over one year		
Foreign exchange contracts: Selling	US\$	\$58,055	—	\$ 486	\$ 486
	EUR	43,228	—	(0)	(0)
	GBP	16,693	—	(204)	(204)
	AU\$	816	—	39	39
Foreign exchange contracts: Buying	US\$	20,861	—	(165)	(165)
	EUR	115,556	—	(146)	(146)
		—	—	\$ 10	\$ 10

## ② Derivatives that meet the criteria for hedge accounting

Millions of yen

		2014		
		Contract amount		Estimated fair value
		Total	Settled over one year	
Interest rate and currency swap contracts:				
To receive variable US\$/to pay fixed yen		¥17,500	¥12,500	¥2,341
Interest rate swap contracts:				
To receive variable/to pay fixed		22,485	21,755	222

Thousands of U.S. dollars (Note 1)

		2014		
		Contract amount		Estimated fair value
		Total	Settled over one year	
Interest rate and currency swap contracts:				
To receive variable US\$/to pay fixed yen		\$170,035	\$121,454	\$22,746
Interest rate swap contracts:				
To receive variable/to pay fixed		218,471	211,378	2,157

## 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.

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 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. were devalued to their recoverable value, resulting in ¥503 million in other expenses. The recoverable value was computed using the net sales value, evaluated based on the estimated price if sold. Among business-use assets, the book values of buildings and structures were devalued to their recoverable value, resulting in ¥10 million in other expenses.

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

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

For the fiscal year ended March 31, 2014, in the Global Business segment, goodwill related to the acquisition of the Zotos was subject to impairment tests based on U.S. accounting standards. Consequently, such goodwill was devalued to its recoverable value, resulting in a ¥937 million (\$9,104 thousand) 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 11.5%.

The book values of tools, instruments, and fixtures were devalued to their recoverable value, resulting in ¥33 million (\$321 thousand) in other expenses. The recoverable value is computed using the net sales value, evaluated based on the estimated price if sold.

## 18. STRUCTURAL REFORM EXPENSE

For the fiscal year ended March 31, 2013, 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.

For the fiscal year ended March 31, 2014, structural reform expenses are expenses associated with optimizing store-level inventories and HR management enhancement, 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.

Structural reform expenses for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2014	2014
<b>Structural reform expense</b>			
Impairment loss on fixed assets	¥3,981	—	—
Allowance for demolition and removal	1,551	—	—
Adjustment store stock	—	¥3,961	\$38,486
Early retirement bonus	—	1,594	15,488
Other	213	—	—
	¥5,745	¥5,555	\$53,974

## 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)
	2013	2014	2014
<b>Unrealized gains (losses) on available-for-sale securities, net of taxes:</b>			
Increase (decrease) during the fiscal year	¥ 3,473	¥ 1,750	\$ 17,004
Reclassification adjustments	0	(557)	(5,412)
Amount before tax	3,473	1,193	11,592
Tax (expense) or benefit	(1,176)	(378)	(3,673)
Subtotal	¥ 2,297	¥ 815	\$ 7,919
<b>Foreign currency translation adjustments:</b>			
Increase (decrease) during the fiscal year	¥30,850	¥60,699	\$589,769
Reclassification adjustments	—	—	—
Subtotal	¥30,850	¥60,699	\$589,769
<b>Adjustment for retirement benefit:</b>			
Increase (decrease) during the fiscal year	¥ (672)	¥ 460	\$ 4,470
Reclassification adjustments	—	73	709
Amount before tax	(672)	533	5,179
Tax (expense) or benefit	186	(142)	(1,380)
Subtotal	¥ (486)	¥ 391	\$ 3,799
<b>Share of other comprehensive income of associates accounted for under the equity method:</b>			
Increase (decrease) during the fiscal year	¥ 37	¥ 82	\$ 796
Total other comprehensive income	¥32,698	¥61,987	\$602,283

## 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 and other businesses.

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) and other businesses.

## (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, 2013 and 2014 is as follows:

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	¥401,992	¥44,396	¥651,852	¥63,741	¥715,593
Other Items						
Depreciation and Amortization	¥ 14,883	¥ 16,125	¥ 1,007	¥ 32,015	¥ 31	¥ 32,046
Amortization of Goodwill	¥ 142	¥ 5,349	—	¥ 5,491	—	¥ 5,491
Increase in Property, Plant and Equipment and Intangible Assets	¥ 12,908	¥ 15,170	¥ 220	¥ 28,298	—	¥ 28,298

Millions of yen						
	2014					
	Domestic Cosmetics Business	Global Business	Others*1	Subtotal	Adjustment*2	Total
Net Sales						
Sales to outside customers	¥349,719	¥402,214	¥10,114	¥762,047	—	¥762,047
Intersegment sales or transfers	2,108	3,281	4,938	10,327	¥(10,327)	—
Total	¥351,827	¥405,495	¥15,052	¥772,374	¥(10,327)	¥762,047
Segment Income *3	¥ 39,461	¥ 7,660	¥ 2,081	¥ 49,202	¥ 442	¥ 49,644
Segment Assets	¥199,327	¥483,606	¥44,045	¥726,978	¥ 74,369	¥801,347
Other Items						
Depreciation and Amortization *4	¥ 12,771	¥ 19,857	¥ 965	¥ 33,593	¥ 26	¥ 33,619
Amortization of Goodwill	¥ 142	¥ 4,430	—	¥ 4,572	—	¥ 4,572
Increase in Property, Plant and Equipment and Intangible Assets	¥ 14,319	¥ 15,098	¥ 199	¥ 29,616	—	¥ 29,616

Thousands of U.S. dollars (Note 1)						
	2014					
	Domestic Cosmetics Business	Global Business	Others*1	Subtotal	Adjustment*2	Total
Net Sales						
Sales to outside customers	\$3,397,969	\$3,908,026	\$ 98,270	\$7,404,265	—	\$7,404,265
Intersegment sales or transfers	20,482	31,879	47,979	100,340	\$(100,340)	—
Total	\$3,418,451	\$3,939,905	\$146,249	\$7,504,605	\$(100,340)	\$7,404,265
Segment Income *3	\$ 383,414	\$ 74,427	\$ 20,220	\$ 478,061	\$ 4,294	\$ 482,355
Segment Assets	\$1,936,718	\$4,698,853	\$427,954	\$7,063,525	\$ 722,590	\$7,786,115
Other Items						
Depreciation and Amortization	\$ 124,087	\$ 192,936	\$ 9,376	\$ 326,399	\$ 253	\$ 326,652
Amortization of Goodwill	\$ 1,380	\$ 43,043	—	\$ 44,423	—	\$ 44,423
Increase in Property, Plant and Equipment and Intangible Assets	\$ 139,127	\$ 146,696	\$ 1,934	\$ 287,757	—	\$ 287,757

\*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 and others) and the restaurant business and other businesses.

\*2. Below is a description of adjustments.

(1) The "Segment Income" adjustment relates to intersegment transaction eliminations.

(2) The "Companywide assets (not allocated to specific segments)" included in the "Segment Assets" adjustment line as of March 31, 2013 and 2014 were ¥66,389 million and ¥76,790 million (\$746,113 thousand), respectively, consisting mainly of assets not belonging to specific segments (cash and time deposits, short-term investments in securities, investments in securities and others) and assets related to administrative operations. Moreover, the "Intersegment eliminations" included in the "Segment Assets" adjustment line as of March 31, 2013 and 2014 were ¥2,648 million and ¥2,421 million (\$23,523 thousand), respectively.

(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 Property, Plant and Equipment and Intangible Assets."

\*3. Segment income is adjusted for operating income described in the consolidated statements of operations.

\*4. As stated in Note 2 (26) "change in accounting policies," effective March 31, 2014, the Accounting Standard for Retirement Benefits and Guidance on Accounting Standard on Retirement Benefits is being applied transitionally as determined in its Clause 37. As a result, segment assets for the Domestic Cosmetics, Global Business, and Other segments decreased by ¥3,375 million (\$32,792 thousand), ¥194 million (\$1,885 thousand), and ¥166 million (\$1,613 thousand), respectively.

\*5. As stated in Note 2 (26) "Change in Accounting Policies," amended International Accounting Standard No. 19 "Employee Benefits" is applied effective for the fiscal year ended March 31, 2014. This change has been applied retrospectively, with the result that segment assets of the Global Business segment at the previous fiscal year increased by ¥215 million.

### (Related Information)

For the fiscal year ended March 31, 2013

#### ① Information on products and services

Sales to outside customers in the cosmetics business exceed 90% of net sales of the consolidated statements of operations and, therefore, the Company omits this disclosure.

#### ② Geographical information

##### I 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

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

##### II Property, Plant and Equipment

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

#### ③ Main customers information

There is no outside customer representing 10% or more of net sales of the consolidated statements of operations and, therefore, the Company omits this disclosure.

For the fiscal year ended March 31, 2014

#### ① Information on products and services

Sales to outside customers in the cosmetics business exceed 90% of net sales of the consolidated statements of operations and, therefore, the Company omits this disclosure.

#### ② Geographical information

##### I Net sales

Millions of yen						
2014						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
¥377,273	¥118,682	¥102,735	¥102,138	¥163,954	¥111,495	¥762,047

Thousands of U.S. dollars (Note 1)						
2014						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
\$3,665,692	\$1,153,148	\$998,202	\$992,401	\$1,593,024	\$1,083,317	\$7,404,265

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

## II Property, Plant and Equipment

Millions of yen

2014						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
¥82,490	¥19,034	¥18,915	¥9,241	¥24,114	¥16,239	¥134,879

Thousands of U.S. dollars (Note 1)

2014						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
\$801,496	\$184,940	\$183,784	\$89,788	\$234,299	\$157,783	\$1,310,523

## ③ Main customers information

Sales to main customers is not existing 10% more of net sales of the consolidated statements of operations and therefore, the Company omits this disclosure.

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

Millions of yen

2013			
Domestic Cosmetics Business	Global Business	Others	Total
¥3,067	¥30,006	¥30	¥33,103

Millions of yen

2014			
Domestic Cosmetics Business	Global Business	Others	Total
—	¥958	¥12	¥970

Thousands of U.S. dollars (Note 1)

2014			
Domestic Cosmetics Business	Global Business	Others	Total
—	\$9,308	\$117	\$9,425

## (5) Information about segment unamortized goodwill

Millions of yen

2013			
Domestic Cosmetics Business	Global Business	Others	Total
¥1,277	¥55,851	—	¥57,128

Millions of yen

2014			
Domestic Cosmetics Business	Global Business	Others	Total
¥1,135	¥62,243	—	¥63,378

Thousands of U.S. dollars (Note 1)

2014			
Domestic Cosmetics Business	Global Business	Others	Total
\$11,028	\$604,771	—	\$615,799



## 21. SUBSEQUENT EVENT

### (Significant Subsequent Event)

Transfer of significant business and sale of shares in significant subsidiaries

On February 19, 2014, the Company signed an agreement with L'Oréal S.A. Under the agreement, the Company will sell shares and related assets of its affiliates handling the *CARITA* and *DECLÉOR* brands of skincare, body care, and haircare products to L'Oréal. The Company completed the sale on April 30, 2014.

### 1. Reasons for the sale

In its Professional Division, the Company will direct its focus on SHISEIDO PROFESSIONAL, which is growing significantly in Asia (especially in Japan and China) and *JOICO*, which is growing in the United States and Europe, in order to maximize its strengths in the haircare domain. In terms of region, the Companies are seeking to accelerate deployment in Asia, where the professional haircare market is growing rapidly. *CARITA* and *DECLÉOR* are currently advancing their skincare and other businesses, mainly in Europe. These brands have strengths in business areas other than "haircare" and "Asia," which are core priority domains for the Professional Division going forward. Accordingly, the Company reached an agreement for L'Oréal to purchase *CARITA* and *DECLÉOR*, having determined that selling the two brands to L'Oréal is the best choice for both the Company and the brands.

### 2. Name of counterparty to agreement

L'Oréal S.A.

### 3. Timeline

Conclusion of agreement: February 19, 2014

Date of share/asset transfer: April 30, 2014

### 4. Outline of companies subject to transfer and related assets

The companies subject to the transfer are Carita International S.A. (which handles the *CARITA* brand) and FIPAL S.A.S. (holding company of Laboratoires Decléor S.A.S., which handles the *DECLÉOR* brand). Overviews of the two companies are given below.

#### (1) Outline of Carita

- ① Name: Carita International S.A.
- ② Business: Sale of cosmetics
- ③ Transactions with the Company: No direct transactions
- ④ Net sales: ¥3,151 million (year ended December 31, 2013)

#### (2) Outline of FIPAL

- ① Name: FIPAL S.A.S.
- ② Business: Holding company of Decléor Group (manufacture and sale of cosmetics)
- ③ Transactions with the Company: No direct transactions (including with Decléor Group)
- ④ Non-operating income: ¥193 million\* (year ended December 31, 2013)

\* FIPAL is the holding company of the Decléor Group, consisting of Laboratoires Decléor and its subsidiaries. Accordingly, FIPAL receives dividend income from the Decléor Group, stated as non-operating income. In the year ended December 31, 2013, Laboratoires Decléor and its subsidiaries (Decléor U.S.A., Inc. and Decléor UK Ltd.) posted net sales of ¥7,577 million in total.

#### (3) Outline of related assets

Related assets to be transferred to L'Oréal include inventories and fixed assets such as cosmetics counters in retail stores related to the *CARITA* and *DECLÉOR* activities. At present, the combined book value of these assets is approximately ¥279 million (based on the exchange rate as of April 30, 2014).

### 5. Transfer price, number of shares to be transferred, equity stake after transfer

#### (1) Transfer price

Transfer price of *CARITA* and *DECLÉOR* brands: €230 million (combined value of shares in Carita International and FIPAL and related assets)

#### (2) Number of shares to be transferred

Carita International: 148,575  
FIPAL: 990,700

#### (3) Equity ratio after transfer

The Company will have no equity stake in both Carita International and FIPAL following the transaction.

### 6. Effect of transfers on the Company's financial position, business results, and cash flows

Gain on sales is ¥22,624 million (based on the exchange rate as of April 30, 2014) and will be reflected in the Company's consolidated financial statements for the year ending March 31, 2015.

# 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, 2014 and 2013, 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, 2014 and 2013, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

## **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 21 to the consolidated financial statements, Shiseido Company, Limited signed an agreement with L'Oréal S.A. on February 19, 2014 for the transfer of shares and related assets of its affiliates handling the CARITA and DECLÉOR brands and completed the sale on April 30, 2014.

## **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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*

June 25, 2014  
Tokyo, Japan

# Investor Information

(As of March 31, 2014)

## ■ Number of Shareholders

59,296

## ■ Common Shares Issued and Outstanding

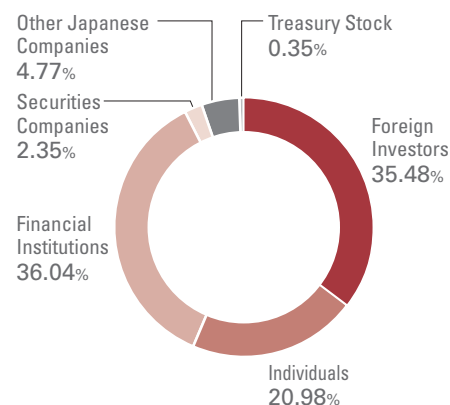
400,000,000 (including 1,422,159 in treasury stock)

## ■ Principal Shareholders

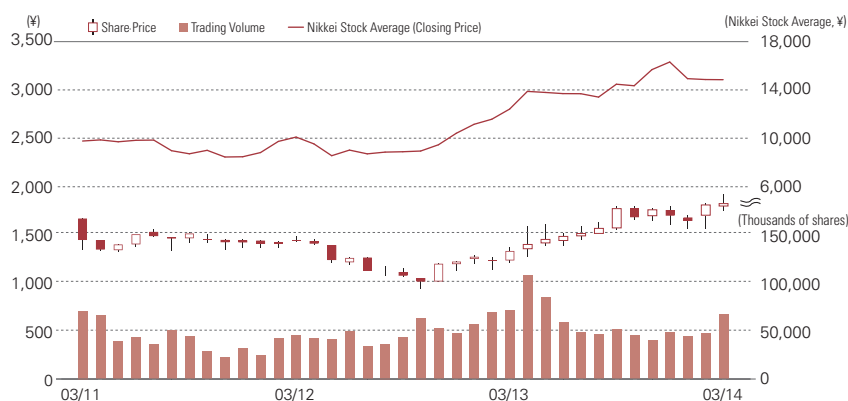
Shareholders	Number of shares held (thousands)	Percentage of shareholding
The Master Trust Bank of Japan, Ltd. (Trust Account)	28,275	7.09
Mizuho Bank, Ltd.	23,526	5.90
Japan Trustee Services Bank, Ltd. (Trust Account)	13,290	3.33
MORGAN STANLEY & CO. INTERNATIONAL PLC	12,436	3.12
Shiseido Employees' Stockholding	10,046	2.52
Nippon Life Insurance Company	6,317	1.58
NIPPONKOA Insurance Company, Ltd.	5,934	1.48
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	5,764	1.44
Mitsui Sumitomo Insurance Company, Limited	5,600	1.40
MSCO CUSTOMER SECURITIES	5,318	1.33

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

## ■ Composition of Shareholders



## ■ Monthly Share Price Range and Trading Volume



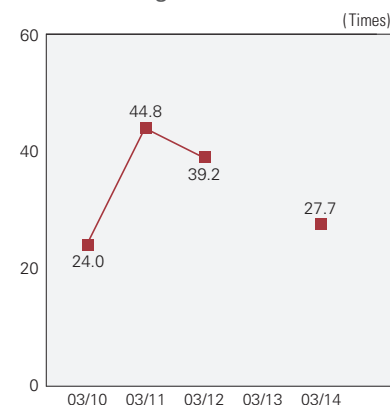
## ■ Composition of Shareholders (%)

(By number of shares)	2013	2014
Foreign Investors	21.62	35.48
Individuals	28.76	20.98
Financial Institutions	40.69	36.04
Securities Companies	3.18	2.35
Other Japanese Companies	5.23	4.77
Treasury Stock	0.49	0.35

(By number of shareholders)	2013	2014
Foreign Investors	0.60	0.89
Individuals	98.26	97.78
Financial Institutions	0.18	0.19
Securities Companies	0.05	0.05
Other Japanese Companies	0.88	1.06
Treasury Stock	0.00	0.00

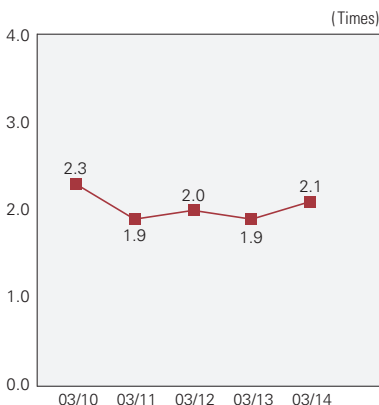
## ■ Stock Price Indicators

### Price/Earnings Ratio (PER)



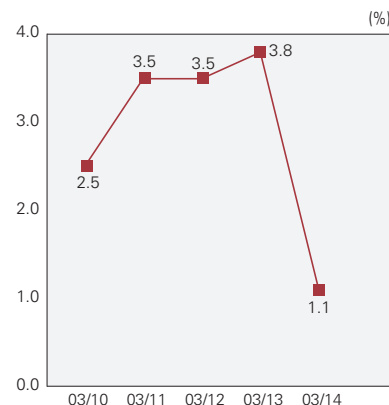
Note: 1. Price/Earnings Ratio = Closing stock price at fiscal year-end/Net income per share  
2. PER is not calculated for the year ended March 31, 2013 because of the net loss.

### 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, 2014)

## ■ 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

33,054 [13,408]

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 QX (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://www.shiseidogroup.com/>



Investor Relations Website  
<http://www.shiseidogroup.com/ir/>



## For further information, please contact Investor Relations Department

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SHISEIDO

