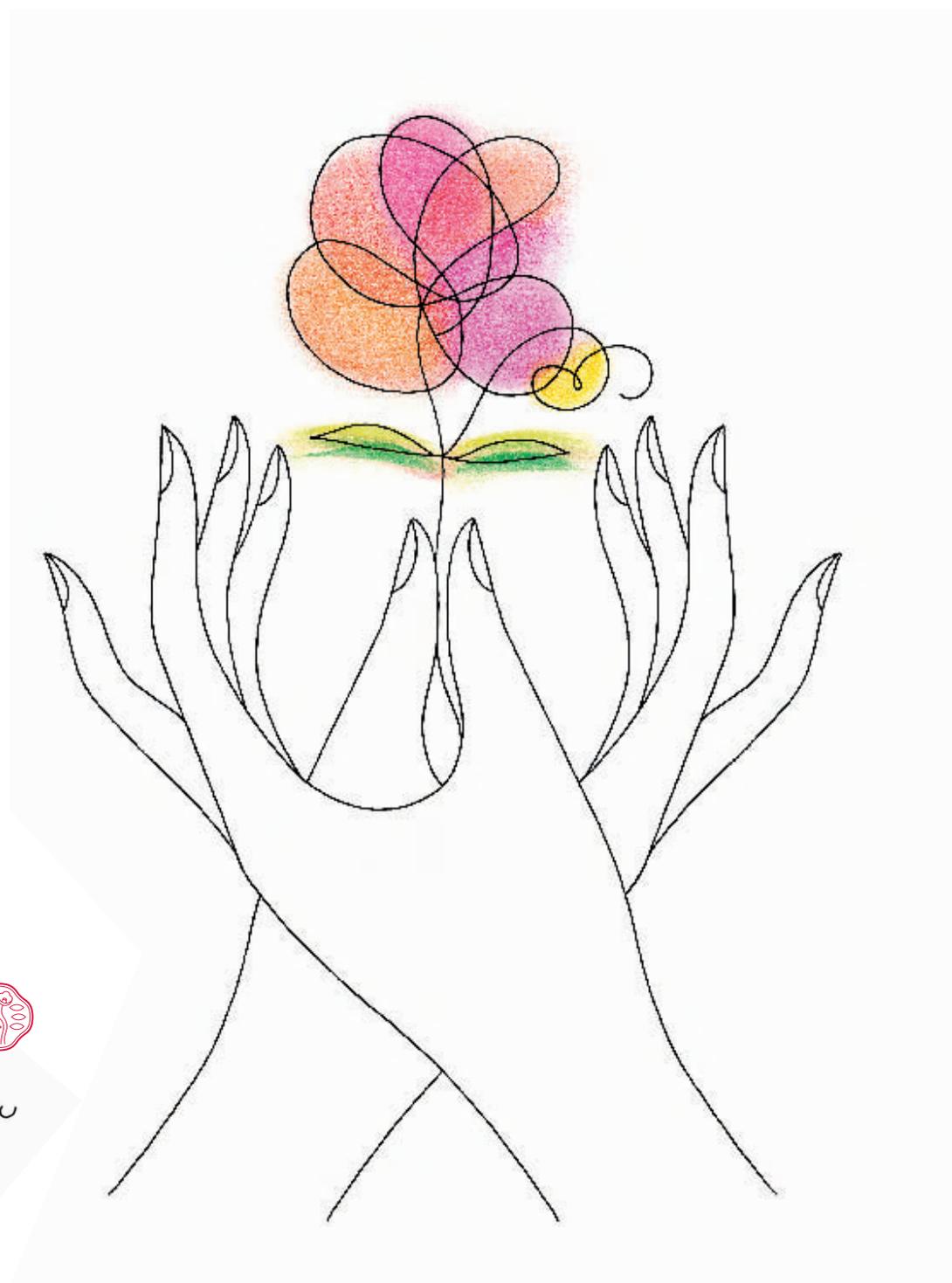


Shiseido CSR Report 2006

SHISEIDO



HANA
HIRAKU



Editing Policy

The Shiseido *CSR Report 2006* was edited based on the following policies to express the personality and character of Shiseido:

- To help readers understand Shiseido's unique character, we have set out to describe the philosophies underlying the Company's activities as well as its future directions in simple, clear terms.
- We have included the candid opinions of individuals involved in these activities to ensure that this report captures Shiseido's identity.
- In order to raise the levels of objectivity, transparency and reliability in this report, we have included a third party evaluation and information on Discussions with Stakeholders.
- Initiatives being carried out overseas have also been given prominence in this report in order to broaden information on the Group as a whole.
- The two publications *Environmental Reporting Guidelines* (2003 edition) of the Ministry of the Environment and *Sustainability Reporting Guidelines* (2002 edition) of the Global Reporting Initiative (GRI*) were used for reference.

*GRI(Global Reporting Initiative):

The Global Reporting Initiative is an international nonprofit organization that was founded in 1997 to create international Sustainability Reporting Guidelines covering not only the environmental but also the social and economic dimensions of corporate activity.

- This Report has been kept as brief as possible to facilitate easy reading. The Company has also actively worked to supplement the content of this Report by making additional information available on its website.

Shiseido CSR Report website
www.shiseido.co.jp/csrreport/

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Shiseido and the 97 consolidated group companies and
five affiliated companies. Data related to environmental
activities is derived from Shiseido and the 97
consolidated group companies plus one affiliated
company.



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of Shiseido Kaihatsu Co., Ltd., using recycled paper,
soybean oil-based ink, and waterless printing.

Corporate Ideals

Corporate Mission

We seek to identify new, richer sources of value and use them to create a beautiful lifestyle.

Criteria for Corporate Activity

1. We seek to bring satisfaction to our customers.
 2. We seek positive results through creative means.
 3. We encourage the open sharing of different points of view.
 4. We encourage innovative thinking and boldly pursue challenges.
 5. We act with appreciation in all of our activities.
-

The Shiseido Way

With Our Customers

Through the creation of products possessing true value and exceptional quality, we strive to help our customers realize their dreams of beauty, well-being and happiness.

With Our Business Partners

Joining forces with partners who share our goals, we act in a spirit of sincere cooperation and mutual assistance.

With Our Shareholders

We strive to win the support and trust of our shareholders through transparent management practices and sound business results achieved by high quality growth, enabling the retention of earnings for future investments and payment of dividends.

With Our Employees

The diversity and creativity of our employees makes them our most valuable corporate asset. We strive to promote their professional development and we evaluate them fairly. We recognize the importance of our employees' personal satisfaction and well-being, and seek to grow together with them.

With Our Society

We respect and obey all laws in regions in which we do business. Safety and preservation of the natural environment are among our highest priorities. In cooperation with local communities and in harmony with international society, we employ our cultural resources in creating a beautiful lifestyle.

The Shiseido Code (Extract)

Chapter 1 With Our Customers

1. We will always try to see things from our customers' perspective and do our best to research and develop, manufacture and sell products and services of excellence that can truly meet our customers' needs.
2. We will supply quality information to our customers.
3. We will act in a way that satisfies our customers and wins their trust.
4. We will actively seek our customers' opinions and comments and take them into consideration.
5. We will do our best to upgrade the brand value of the Shiseido Group.

Chapter 2 With Our Business Partners

1. We respect all our business partners who share our aims, and aspire for coexistence.
2. We will always comply with the Anti-Trust Law and other relevant laws, and compete fairly.
3. We will not give or take such gifts, nor entertain or be entertained in such a manner that may cause suspicion regarding our fairness.

Chapter 3 With Our Shareholders

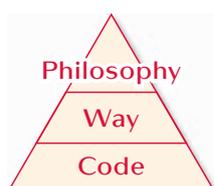
1. We will make good use of the Shiseido Group's assets to achieve good business results and yield profits.
2. We will maintain transparency in our corporate management and carry out proper accounting practices.
3. We will place importance on dialogue with our shareholders and investors to gain the trust of the capital market.
4. We will properly treat unreleased important information (insiders information).

Chapter 4 With Our Employees

1. We will identify ourselves with each other and will respect each individual's way of thinking and points of view so that everybody in the workplace may work to his or her fullest capability.
2. We will conduct business with integrity and strive to create new values, and to put forth our best efforts to promote self-development.
3. We will create a healthy and safe work environment and comply with labor standards.
4. We will manage information appropriately and will treat confidential information with greatest care.
5. We will distinguish between private and business affairs to create a pleasant work environment.

Chapter 5 With Our Society

1. We will respect and obey all laws and will respect local customers in all countries and regions.
2. We will preserve the global environment by obeying environmental laws and our own stringent environmental standards.
3. We will actively concern ourselves in society.



Shiseido's Corporate Ideals, which are based upon the Five Shiseido Management Principles formulated in 1921, establish what Shiseido can do in order to be useful to society. These Corporate Ideals are realized through *The Shiseido Way*, which declares to stakeholders the sort of corporate actions we will take. As a more concrete expression of *The Shiseido Way*, *The Shiseido Code* has been formulated as a set of corporate behavior standards, guiding the activities of each and every Shiseido employee.

Towards living “This moment.
This life. Beautifully.”



Shiseido was founded to make it possible to “live beautifully.” Our history up to the present day is the story of a variety of initiatives designed to help people live beautifully, and it remains our unchanging focus today. Yet looking out on the world, serious problems remain unsolved and make it difficult to live beautifully—among them regional environmental destruction, poverty, and disease. These problems are the product of our times, and they are ours to solve. We must consider what we can do, and what we must do, as a manufacturer of cosmetics. The question of how corporations can contribute to society at large is an important issue for our times, and a critical facet of our efforts to create a sustainable society.

In the CSR Report 2005, we described our approach to this question with the phrase “Towards a Peaceful, Safe and Happy Society.” Specifically, we declared our commitment to implementing initiatives required to fulfill the Company’s social responsibility (fundamental CSR) while at the same time aggressively pursuing steps for which Shiseido is uniquely suited (selective CSR).

Entrusting these initiatives to our corporate message of “This moment. This life. Beautifully.”, and promising to transform ourselves into a 100% customer-oriented company, Shiseido embarked on a new Three Year Plan.

When we set out on this Three Year Plan, I suggested we aspire to achieve “Three Dreams”: Rebirth as a 100% Customer-Oriented Company; Brighten Our Brand, a Valuable Management Resource; and Fill the Shiseido Organization

with People with Own Appeal. These Three Dreams can also be expressed as the goals of becoming a company that excites customers and inspires self-confidence, building a valuable brand that is trusted by consumers, and making possible both momentary and lifelong beauty for the people of the world, as well as for our employees. We are committed to making these Three Dreams reality during 2006, the second year of our Three Year Plan.

Our action goal of becoming a 100% customer-oriented company is shared by the entire worldwide Shiseido Group. Responding positively to the needs of people around the world who wish to live beautifully is the ideal stance for Shiseido as we pursue the global development of our business. Having joined the United Nations Global Compact in September 2004 as part of these initiatives, we are also proud to observe the ten principles on which that agreement is founded, including human rights, labor, the environment, and anti-corruption. We will continue to provide products and services such as cosmetics that facilitate health and beauty. And as we do so we will also seek over the long term to earn the love of people around the world, doing our best to ensure that every individual can enjoy “This moment. This life. Beautifully.”

June, 2006

Shinzo Maeda
President & CEO
Shiseido Company, Limited



Corporate Governance

Shiseido is taking proactive steps to bolster its corporate governance standards based on the recognition that the continued support of stakeholders who view it as a “company with value” leads to enhanced Shiseido corporate brand value.

Corporate Governance Policy

Shiseido is working to enhance its corporate governance standards based on its awareness of the importance of maximizing corporate and shareholder value, fulfilling its social responsibilities, and of accomplishing sustainable growth and development, to ensure the continued support of all stakeholders—customers, business partners, shareholders, employees, and society—who view Shiseido as a “company with value.”

Corporate Governance Structure

The Shiseido Board of Directors consists of nine directors, a structure that allows for swift decision-making, and formally meets once a month to discuss all significant matters.

A corporate executive officer system has also been introduced to separate the decision-making and supervising functions of the Board of Directors from the business execution functions of the corporate officers. Furthermore, the Corporate Executive Officers Committee, which acts as the final decision-making body regarding corporate officers' material issues, serves to transfer authority to corporate officers and clarify their responsibilities. The committee is chaired by Shiseido's President & Chief Executive Officer (CEO), who also serves as the Chief Operating Officer (COO). The term of each director or corporate officer is one year.

In addition, in 2006 the Company appointed two external Directors to incorporate outside perspectives into its management, and to further strengthen the Board's supervisory function in regard to business execution. By inviting two external Directors to serve on the Board, the Company is seeking to accelerate operational execution by allowing the Board to concentrate on decision-making of significant management matters and on its supervisory role, while at the same time, devolving a greater level of responsibility to corporate officers.

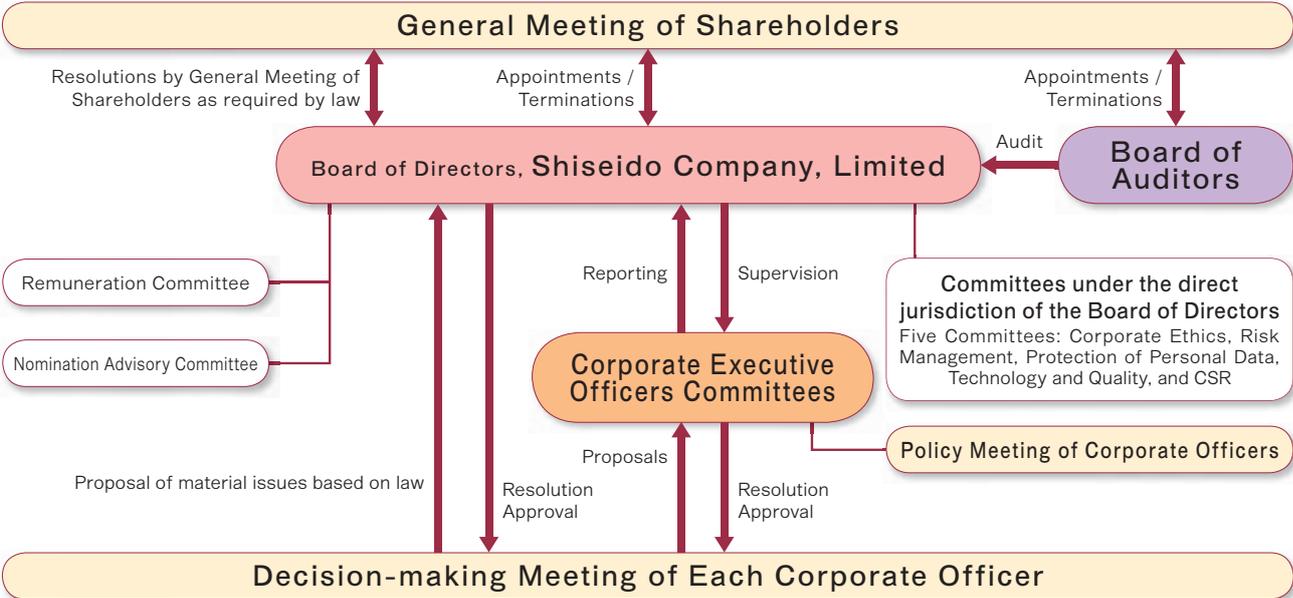
The Company's Board of Auditors consists of two standing Corporate Auditors and three External Corporate Auditors who have no vested interest in the Company. The Board of Auditors is charged with monitoring the legality and suitability of the Board of Directors' business performance by attending meetings of the Board of Directors and other important meetings.

Shiseido Systems and Structures

In promoting transparency and objectivity in management, Shiseido has created two committees to play an advisory role for the Board: a Remuneration Committee, charged with setting remuneration for the Company’s executives, and a Nomination Advisory Committee, charged with selecting candidates for directors and corporate officers. To maintain objectivity, both committees are chaired by external directors.

Based on a belief that the execution of our responsibilities to society is an essential component of sustainable development, we have also set up a CSR Committee to serve as a venue for the discussion of how we can best fulfill our social responsibility as a corporation; a Corporate Ethics Committee to ensure that the Company’s activities are just and lawful from both ethical and legal

perspectives; a Committee for Protection of Personal Data to see that personal information is protected throughout the company, prevent the unauthorized disclosure or use of personal information, and respond appropriately when such abuses occur; a Risk Management Committee to pursue a comprehensive risk management strategy that addresses all forms of assumed risks to which the Company is deemed to be exposed, including in overseas operations; and a Technology and Quality Committee to enhance frameworks associated with reducing technology-related risk and quality management. Staffed by members selected from throughout the organization, these five committees operate under the direct jurisdiction of the Board of Directors.



Remuneration Committee

In the year ended March 2006 the Remuneration Committee adopted a new compensation system that increases the component of executive compensation linked to the Company’s business performance, while decreasing the percentage of compensation that is fixed. The performance-linked component is calculated according to the extent to which actual performance meets the numerical targets approved by the Committee.

Nomination Advisory Committee

In addition to its duties nominating candidates for executive positions, the Nomination Advisory Committee has been building a new framework designed to enhance the capabilities of top management so that all executives can deliver a consistently high level of results. Measures included the establishment of term limits for corporate officers and the formulation of rules governing promotion, demotion, and retirement.

Internal Control

Based on our recognition that one of the directors' most important obligations is the design and operation of systems for promoting business practices that are fair, efficient, and legally compliant, the Board of Directors resolved to adopt the "Basic Policy for Internal Control Systems." This set of seven guidelines sets forth systems designed to ensure that the Company's activities are pursued in an appropriate

manner and that directors' duties are discharged in a way that is consistent with all relevant laws and regulations, as well as the provisions of the Company's articles of incorporation. Shiseido seeks to improve corporate value through the design and operation of these internal control systems.

Basic Policy for Internal Control Systems

- (1) Systems for ensuring that the duties of directors and their staff are discharged in a way that is consistent with relevant laws as well as the Company's charter; systems for ensuring that the Group's businesses are pursued in an appropriate manner.**

The disposition of important issues that affect the entire Company and Group shall be determined by the Board of Directors. The Chief Executive Officer shall periodically report on the status of the discharge of his or her duties to the Board of Directors. Directors and employees shall furnish reports on the status of their work when so requested by Corporate Auditors.

The Company shall promote corporate activities that are lawful and just by establishing Corporate Ideals, *The Shiseido Way* (a Corporate Behavior Declaration), and *The Shiseido Code* (Corporate Ethics and Code of Conduct: a summary of standards of behavior to be practiced by individual Group employees).

In addition to building a system for promoting corporate activities that are lawful and just throughout the Group by establishing a Corporate Ethics Committee that reports directly to the Board of Directors, the Company shall conduct regular compliance training.

The Company shall staff each of its worksites with a Code Leader whose role is to promote lawful and just corporate activities. Code Leaders shall report on the status of their efforts to the Corporate Ethics Committee.

The Company shall establish multiple reporting and consultation structures, including outside lawyers, with the goal of early discovery of and rectifying of behavior

in the Group that violates laws, provisions of its charter, and other rules and regulations.

The Company shall conduct internal audits of the entire Group to ensure that its business is conducted in an appropriate manner. The Directors and Corporate Auditors shall be notified of the results of internal audits.

- (2) Systems for ensuring the efficient discharge of directors' duties.**

The Company shall adopt a corporate officer system to ensure that its operations are managed in a rapid and efficient manner. In this way, the decision-making and supervisory role of directors shall be distinguished from the operational responsibilities of the corporate officers.

The Chief Executive Officer shall also act as the Chief Operating Officer to oversee the Group's overall operations to ensure that objectives are met. In addition to determining specific objectives in their individual areas of responsibility, corporate officers shall build systems for efficiently executing the Company's operations. A Corporate Executive Officers Committee comprised of corporate officers shall deliberate important issues related to the Group's operations in order to go through various aspects of those issues.

The Board of Directors and Corporate Executive Officers Committee shall verify progress toward meeting objectives and take steps to implement improvements as necessary.

- (3) Systems for preserving and managing information relating to the discharge of directors' duties.**

Important documents such as the Minutes of the Board of Directors and the Minutes of the Corporate

Executive Officers Committee shall be managed in accordance with internal Company regulations and shall be submitted immediately in the event that a director or a corporate auditor requests to see them.

Further, information relating to the discharge of the duties of directors and employees shall be managed in accordance with Company regulations such as the “Information Systems Management Regulations” and “Confidential Information Management Regulations.”

(4) Regulations related to managing the risk of loss and other systems.

The Company shall establish a Comprehensive Risk Management Committee reporting directly to the Board of Directors to oversee risk related to corporate activities across the Group. This committee shall sort out strategic risk and operational risk, and establish subcommittees to develop preventive measures as necessary.

The Company shall establish a response manual addressing potential emergencies. In the event of an emergency, the Company shall respond by organizing a Response Headquarters, Response Project, Response Team, or other grouping as dictated by the seriousness of the situation.

(5) Provisions related to staff requested by Corporate Auditors to aid in the discharge of their duties; provisions related to the independence of such staff from the Company's directors.

The Company shall establish and staff a Board of Auditors Staff Group for the purpose of aiding in the discharge of the duties of the Board of Auditors and

Corporate Auditors.

Board of Auditors Staff Group personnel policies shall be determined so as to reflect the opinions of the Corporate Auditors.

(6) Systems for reporting by directors and staff to Corporate Auditors; systems related to reporting to Corporate Auditors.

In addition to directors and staff reporting on the status of the discharge of their duties to Corporate Auditors through the Board of Directors and other important meetings, the results of audits undertaken by the Internal Auditing Department will also be reported.

In addition, reports on the status of Company operations and assets shall be furnished to Corporate Auditors on request.

(7) Other systems for ensuring the effective discharge of Corporate Auditors' duties.

Regular meetings shall be held to facilitate the exchange of opinions between the Chief Executive Officer and Corporate Auditors. In addition to holding liaison conferences between Corporate Auditors and the Accounting Auditors and the Internal Auditing Department when requested by Corporate Auditors, the Company shall maintain systems designed to ensure that Corporate Auditors can discharge their duties effectively, for example by ensuring the attendance of auditors at various meetings.

Shiseido Corporate Ethics

Shiseido's corporate ethics activities aim to establish the company as a distinctive presence, one that is of use to and needed by people worldwide, through strict compliance with laws and regulations and by raising the value of Shiseido Group brands.

The Shiseido Code: The basis for CSR Activities at Shiseido

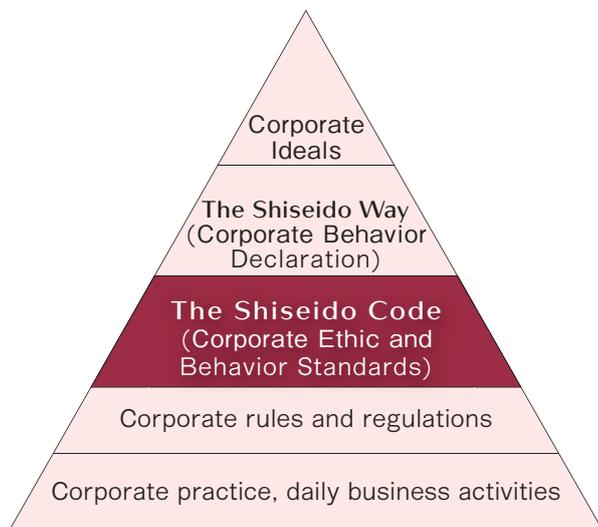
The Shiseido Code is a set of specific corporate ethics and behavioral standards for realizing the Corporate Ideals and *The Shiseido Way* (Corporate Behavior Declaration) forms the basis of Shiseido's CSR activities. It provides behavioral guidelines that every employee in the Shiseido Group should follow in order to strengthen the relationship of trust binding stakeholders to the company. The content of *The Shiseido Code* is disclosed to the public via the corporate website.

 For more information, visit <http://www.shiseido.co.jp/ideals/> (Japanese only)

■ *The Shiseido Code*



■ The Position of *The Shiseido Code*



Corporate Ethics Activities Follow a PDCA Cycle

The Corporate Ethics Committee, established in 1997, plays the central role in promoting Shiseido's corporate ethics activities, and is appointed by Code Leaders (see p.12) at each domestic site and by Business Ethics Officers (BEO's) (see p.13) at overseas sites to facilitate the implementation of *The Shiseido Code*. The Company intensified overseas activities in fiscal 2005 by launching meetings to exchange Shiseido code information and publishing an English edition of the *Shiseido Corporate Ethics White Paper* for the first time.

■ PDCA cycle of Shiseido corporate ethics activities



Code Leader Activities

Shiseido has placed about 600 Code Leaders in positions in all domestic divisions and worksites. Selected according to individual worksite characteristics regardless of position, gender, and age, these individuals create action plans for their worksites and conduct educational and training activities following the PDCA Cycle. The Company seeks to share information and utilize it in the formulation of action plans for the upcoming year by introducing examples of successful activities and annual reports on each worksite's initiatives in the *Code Letter* magazine (published quarterly) and the *Shiseido Corporate Ethics White Paper*. Ethics Committee members meet with Code Leaders from around Japan (seven times in 2005) to improve communication, identify workplace issues, and help create a better workplace.

Example of Code Leader activities: The Beauty Creation Center

In addition to workplace training and educational activities utilizing materials provided by the Office of the Corporate Ethics Committee, the Beauty Creation Center conducts its own training and educational activities using handmade materials that address the concerns of members, most of whom are Beauty Consultants. The Center is also actively involved in efforts to recycle products and makeup tools used in its work.



Training handouts

Corporate Ethics Training

To ensure that *The Shiseido Code* is followed at all levels of the organization, Shiseido requires all employees and directors to undergo corporate ethics training at least once each year.



Corporate ethics training for general managers of head office departments and affiliated company presidents

■ Four types of corporate ethics training

(1) Training for new Code Leaders (twice a year)

These overnight group training sessions combine lectures by Company and outside instructors with participatory programs.

(2) Position-specific training (once a year)

These programs target corporate officers, general managers of head office departments and affiliated company presidents, people in charge of sales offices, and new employees. Content includes an introduction to internal Company conditions as well as lectures by outside corporate ethics specialists and executives from other companies.

(3) Workplace-specific training for all employees (once a year)

Code Leaders serve as instructors to conduct these programs in their workplaces. The theme for 2005 was "Information Management".

(4) Training based on business area

These programs cover legislation related to sales, product liability, pharmaceuticals, patents, etc.

Compliance with Japan's Whistleblower Protection Act and Corporate Ethics Help Line

In order to comply with the Whistleblower Protection Act passed in April 2006 and ensure that any illegal acts in the Company are resolved internally before they become serious, the Company is providing training for people in charge and distributing pamphlets to all employees as part of an effort to promote widespread knowledge of two entities for reporting ethics concerns: the in-house Shiseido Consultation Office and the Shiseido External Consultation Office, which is located at a law firm. The Company also created and publicized to employees a new set of Shiseido Group Consultation Office Regulations setting forth an impartial means of investigating and resolving complaints and clearly prohibiting prejudicial treatment of whistleblowers (as well as individuals seeking advice). The Shiseido Consultation Office welcomes individuals seeking advice on a wide range of topics, relating not only to *The Shiseido Code* but also to the Company's business and operations in general. The Office worked to quickly resolve 142 inquiries in fiscal 2005, bringing the total since April 2000 to 560. The Company also revised its Ethics Card prior to the enactment of the Whistleblower Protection Act and distributed the new version to all employees, including temporary workers.

■ About the Shiseido Consultation Office ■ Ethics Card



Corporate Ethics Activities at Overseas Worksites

Since 1998, initiatives at overseas worksites to ensure full compliance have included the establishment and revision of an edition of *The Shiseido Code* for each of Shiseido's overseas affiliates. In addition, the Company is working to build a system for promoting ethical behavior, placing 36 Business Ethics Officers at affiliates to act as overseas equivalents of Japan's Code Leaders.

(1) Revising overseas editions of *The Shiseido Code* (editions for overseas affiliates)

By the end of fiscal 2004, the Company had completed revisions for 13 companies in 10 countries (located in Europe, Asia, Oceania, etc.). By the end of fiscal 2005, revised editions for an additional 17 companies in 4 countries were completed (North America, China, etc.).

(2) Corporate ethics training sessions for people in charge of overseas worksites

Group training sessions are conducted at least once each year. In fiscal 2005, two sessions were held in March and July.

(3) Overseas code information exchange meetings

The Company has scheduled new overseas code information exchange meetings. During fiscal 2005, meetings were held for the China region in July and for the Americas in March.

(4) Publication of the *Shiseido Corporate Ethics White Paper* (English edition)

A new edition of the *Shiseido Corporate Ethics White Paper* (English edition) was published in August 2005 and has been distributed to all overseas worksites.



Training session for people in charge of overseas worksites

■ *Shiseido Corporate Ethics White Paper* Japanese edition / English edition



Initiatives Related to the United Nations Global Compact

Shiseido announced that it was joining the United Nations Global Compact in September 2004. That decision has seen the Company work to raise awareness by distributing the Shiseido newsletter to domestic and overseas employees and through training and educational activities. We are also encouraging understanding by including related articles in a public relations magazine for customers. Other initiatives include the creation of the *Shiseido Group Supplier Code of Conduct* in March 2006 incorporating the principles of the Global Compact. In addition, the *CSR Report* is available for public viewing and downloading on the United Nations Global Compact website.



United Nations Global Compact

Proposed by United Nations Secretary General Kofi Annan in 1999, this program defines ten principles in the four areas of human rights, labor, the environment, and anti-corruption.

See page 30 for more information about the *Shiseido Group Supplier Code of Conduct*.

Protecting Personal Data

Data management is an important issue for companies. Shiseido addresses management of both confidential data and personal data on a companywide scale. Group companies develop protection structures and make use of confidential information in accordance with such rules, with head office taking the initiative in conducting training for all employees (twice yearly security training). Further, all domestic Japanese worksites are working to improve and enhance their handling of sensitive data by conducting personal data protection audits designed to ensure that rules are implemented and data utilized in an appropriate manner.



Privacy Mark

Shiseido Company, Limited, acquired Privacy Mark certification in March 2004 in recognition of the Company's protection of personal data. Group companies are also working diligently to meet the same demanding standard of protection.



Kiyoshi Kawasaki, Director: General Manager of Corporate Planning Department and Ms. Yukiko Furuya, Third Party Evaluator

Conversation with a Third Party Evaluator: Shiseido CSR Activities

**Three years ago, Shiseido began building its CSR framework.
Today, the Company is moving to integrate CSR and corporate management.**

Since establishing the CSR Department in fiscal 2004, Shiseido has sought to plan and implement CSR activities that reflect its unique character as expressed by the keywords “Cosmetics,” “Women,” and “Cultural Capital (Sense of Beauty)” through actions including publishing the *CSR Report* and joining the United Nations Global Compact. Then in April 2006 the CSR Group was created in the Corporate Planning Department and given a mandate to pursue the integration of CSR activities with the Company’s management strategies as a means of sharpening the focus and increasing the sophistication of those activities. Yukiko Furuya, chairperson of the Special Committee On Customer-oriented Management Systems and Third Party Evaluator for the *CSR Report 2006*, spoke with Kiyoshi Kawasaki, Director and General Manager of the Corporate Planning Department, about what kind of CSR activities the Company will pursue under this new framework.

Furuya: I think it can be said that at the root of CSR is the question, “What can companies do to help achieve the sustainable development of our society?” How is Shiseido addressing this theme?

Kawasaki: You can trace the origins of our approach to the Five Shiseido Management Principles that were established as an expression of our Company’s philosophy in 1921. These principles are Quality First, Coexistence and Co-prosperity, Respect for Consumers, Corporate Stability, and Sincerity. The most fundamental of these is Coexistence and Co-prosperity, and we believe that it is thanks to this principle that our Company has a

useful role to play in helping customers live beautiful and healthy lives through our relationships with chain stores. Also of importance is the principle of combining Eastern and Western approaches, a philosophy that saw its first expression when Shiseido founder Arinobu Fukuhara sought to combine the Japanese spirit with European and North American knowledge by integrating Western learning into classical Chinese studies.

So you can see that our Company has a history of considering how its activities can be of use to society, and that this history predates the term “CSR.” The drive to build a framework for pursuing these concerns began in earnest with the creation of the CSR Department in 2004.

Furuya: Shiseido's contributions to society through its business have been expressed as the keywords "Cosmetics," "Women," and "Cultural Capital (Sense of Beauty)."

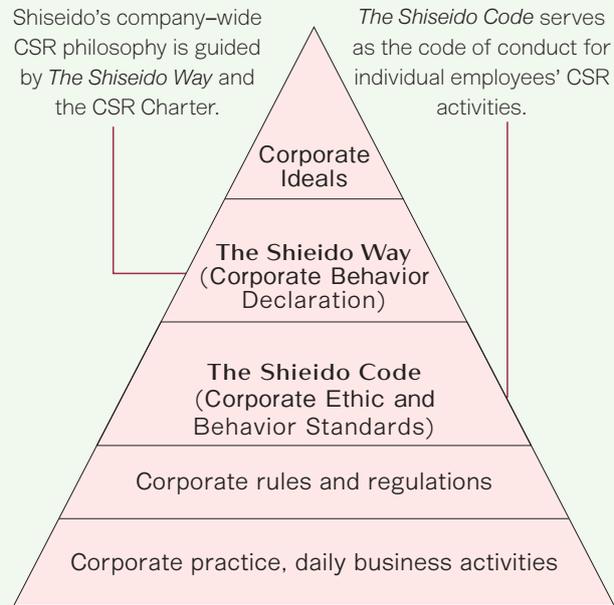
Kawasaki: During the first year following the creation of the CSR Department, we were very interested in formulating an approach that reflected Shiseido's unique character. This preference led us to take advantage of the Company's area of business by organizing our CSR activities around the concepts of "Cosmetics," "Women," and "Cultural Capital (Sense of Beauty)." Because we have always pursued human and social concerns in addition to purely economic ones, we were able to take advantage of the strengths deriving from our status as a cosmetics company to pursue philanthropic activities such as supporting the 90% of our customers who are women and creating beauty in daily life based on cultural capital. It was also during this year that we joined the United Nations Global Compact and began publishing the CSR Report.

Furuya: What types of social problems can be solved by companies? It seems that the CSR framework must address basic questions such as this.

Kawasaki: In Shiseido's case, during the CSR Department's second year we began creating specific mechanisms designed to address these kinds of basic issues. In an effort to assess our internal initiatives, we sorted through surveys by third party organizations and requirements for economic organizations to create a "Shiseido CSR Inventory" consisting of 250 items spanning 51 topics, and incorporating customers' and employees' evaluations of Company activities. The CSR Committee office verified the requirements and worked to address them in as timely a manner as possible. We are also involved in improving our organizational culture as a means of increasing worker motivation and are currently working to resolve related issues. Having laid the groundwork for future CSR activities and gained an internal consensus with the completion of these steps, we created the CSR Group in the Corporate Planning Department so that CSR could be integrated into the Company's management strategy starting in March 2006. What we're seeing now is that the wide-ranging CSR activities reflecting Shiseido's unique character that we have pursued until now are beginning to develop into a new type of CSR that is integrated into the management strategy itself.

Furuya: It's consumers that most want specifics on companies' CSR activities. For example, suppose we identify the need to "make products that meet customer needs." You could say that was a natural and obvious

■ Shiseido's CSR Philosophy



imperative for companies long before CSR came along. How is Shiseido going to delve into this requirement to implement "Coexistence and Co-prosperity" with its customers?

Kawasaki: Data from psychological research clearly shows that the act of applying cosmetics is useful in forming the self and ensuring emotional stability. I think that empowering customers to create a beautiful external appearance as well as a beautiful inner emotional life is important from the point of view of creating beauty in everyday life. While this doesn't lead directly to profit, I'd like to see it become part of our medium- to long-term approach. It is for this reason that, starting in fiscal 2006, we're adding four new activities to implement a 100% customer-oriented approach: first, developing and providing not only products but leading-edge total beauty based on the current state of new beauty and fashion; second, providing both the "hard" ("products") and "soft" ("services") means for improving quality of life through cosmetics, for example through instructions in makeup technique for developmentally challenged individuals; third, "Junior Activities" providing information about proper makeup and beauty techniques for young customers who are using cosmetics for the first time; and fourth, "Senior Activities" proposing a lifestyle for seniors that is vigorous and healthy on the inside as well as the outside. I'm looking forward to joining customers in pursuing these activities, which seek to realize the unique beauty of each individual.



Furuya: I have long thought that in the absence of an organizational mechanism for consumer participation, it is difficult to implement management that puts the customer first, no matter how much we may talk about that goal. It's important to think with the customer rather than imposing the company's logic on her.

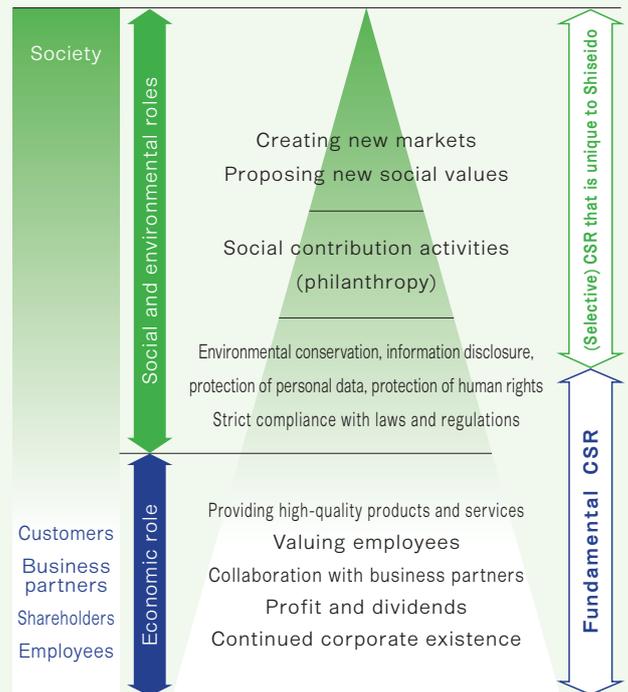
Kawasaki: Exactly. At Shiseido, we have been working to implement 100% customer-oriented sales as a more specific expression of our goal of focusing on the sales front, a concept we have been using for a while. Starting in 2006, we began asking customers to assess the performance of our Beauty Consultants (BCs), who interact with customers at retail outlets, through a "Customer Satisfaction Improvement Campaign" that asks customers to send in their impressions by postcard. If you read some of the postcards delivered to our offices, you'll find descriptions of tear-inducing gratitude. Opportunities like this have allowed us to get closer to our wonderful customers and BCs. This is extremely gratifying. It's where reform efforts to create a 100% customer-oriented organization start—asking how the sales staff who support the BCs can do their jobs better, how entire divisions can do their jobs better.

Furuya: When I buy a new cosmetic product, sometimes I find myself wanting to ask how to use it at the store. I hope Shiseido continues to improve communication at retail outlets. The success of any effective organizational reform designed to create a 100% customer-oriented company must depend on whether employees can develop a thoroughly customer-centric approach. It's important for employees throughout the company's departments—and not just those working at stores—to adopt a customer-oriented philosophy.

Kawasaki: In our industry, it's important to conduct business close to the consumer in order to emphasize the aspects of the business that lead to social stability and peace of mind, even if this entails some loss of efficiency in the immediate time frame. Doing business this way creates trust and ultimately leads to greater efficiency. This is why we're working to further develop specific CSR activities in areas where the customer is a more visible presence.

Furuya: I'm confident that Shiseido will continue to pursue CSR activities that earn the trust of consumers and all stakeholders.

■ Diagram of the CSR Domain Based on Shiseido's CSR Philosophy



Ms. Yukiko Furuya (Profile)

Permanent Director, Nippon Association of Consumer Specialists (NACS) / Special Chairperson, Consumer-oriented Management Systems (COMS) / Head, Compliance Management Workshop / Member, Ministry of Economy, Trade and Industry ISO/SR Domestic Response Committee / Senior Risk Consultant, Risk Managers and Consultants Association of Japan.

After graduating from the Chuo University Graduate School of Law and working at a law firm, Furuya served in the consumer and consumer administration divisions of a major door-to-door sales company. In 1997 she launched a management consulting business with a focus on customer satisfaction issues.

Customer-oriented CSR Activities

Shiseido's declaration of commitment to "This moment. This life. Beautifully." reflects our goal of becoming a 100% customer-oriented company capable of responding to consumers' desire to live beautifully.

Shiseido is dedicated to pursuing CSR activities that resonate with society at large through a variety of initiatives in the areas of "Cosmetics," "Women," and "Cultural Capital."



Unique Shiseido (Selective) CSR: Cosmetics

Initiatives in our core business of cosmetics are good examples of activities that reflect Shiseido's unique character and response to expectations from the breadth of society. Throughout our history we have pursued various beauty-related activities targeting customers and society, and we're committed to continuing to focus on and meet the challenges of our changing times and expectations of society.

Four new initiatives in the area of cosmetics

Starting in fiscal 2006, we started four initiatives designed to respond to the beauty of individual customers while implementing our goal of becoming a 100% customer-oriented company. These include developing state-of-the-art total beauty solutions and spreading related

information; providing "hard" (products) and "soft" (services) means for improving quality of life through cosmetics; conducting "Junior Activities" that provide information about proper makeup and beauty techniques for young customers who are trying cosmetics for the first time; and pursuing "Senior Activities" that promote an active lifestyle for senior citizens.



Therapy Makeup Activities

Cosmetics have been shown to be effective in encouraging a bright, optimistic outlook by addressing customers' concerns about their appearance (such as birthmarks, scars, etc.). Therapy makeup activities, part of "Activities to improve quality of life," are one way Shiseido leverages our specialist expertise. The SHISEIDO Social Beauty Care Center opened on June 21, 2006, at the Shiseido Building on Namikidori Avenue in Ginza. Its beauty therapists, expert in the use of makeup to relieve customers' concerns about their appearance, provide complimentary hands-on training to help individuals maximize their beauty. The Center also introduced a new foundation product for vitiligo and is expanding the scope of its activities to include stores that carry Shiseido products.



A procedure by beauty therapist Kimiko Oshiro

Beauty Seminars

Beauty Consultants from Shiseido offices throughout Japan conduct beauty seminars in response to requests from companies, schools, and other organizations, providing a chance to meet customers from around the country face to face. In addition to teaching participants how to apply cosmetics properly, the consultants provide ideas about how the use of makeup can be a richer, more enjoyable experience. Courses are available for handicapped individuals and senior citizens, and the program has also received attention in the medical and welfare communities. Shiseido personnel are able to meet 110,000 customers each year through these seminars. We also donate copies of *A Time for Beauty*, a compilation of beauty information published quarterly on cassette tape, to about 100 Braille libraries throughout Japan. The program, which attracts around 4,000 listeners each year, is also available for download on Shiseido's website.



Braille texts /
A Time for Beauty cassette tape



Shiseido Listener's Café (Shiseido Website)
(Japanese only)

Unique Shiseido (Selective) CSR: Women

As 90% of Shiseido's customers are women, our desire is to act as a support group for women so that their lives may be filled with beauty, health, and happiness.

Shiseido Social Contribution Club—Camellia Fund Supports Women

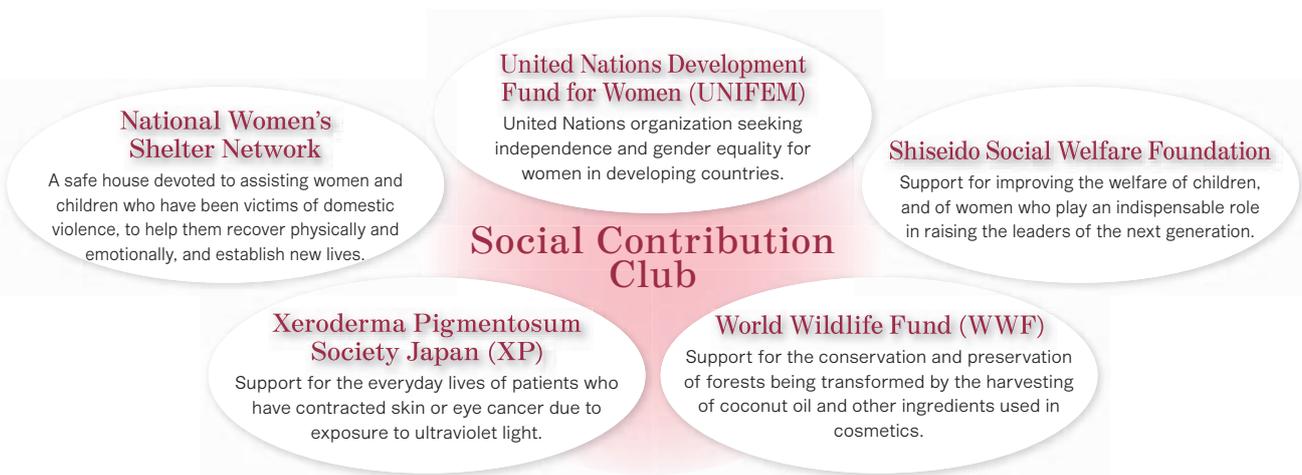
In July 2005, Shiseido set up the Shiseido Social Contribution Club—Camellia Fund, an employee organization designed to encourage social contributions, as a means of broadening the scope of employees social activities. The Club allows Shiseido Group employees who share its goals to contribute to the greater good by deducting regular contributions from their salaries, making one-time gifts and donations, and participating in volunteer activities. It also serves as a means of raising funds from employees for disaster relief. Program participation is spreading from employees to other stakeholder groups and now includes gifts from shareholders who elect to participate in the “Social Support Group Contribution” shareholder benefit program, as well as donations from ticket sales for Shiseido-sponsored seminars.

Because 90% of our customers and 70% of our employees are women, Shiseido elects to support groups that work to improve women's lives. In fiscal 2005 the fund contributed

to initiatives that support women's independence and autonomy, such as the Afghanistan Women's Center operated by the United Nations Development Fund for Women (UNIFEM). In Japan, through the National Women's Shelter Network Shiseido has also offered support for women having difficulty in establishing economic independence due to domestic violence.

■ Fiscal 2005 Assistance Initiatives

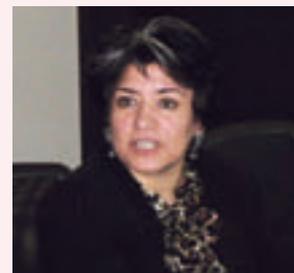
United Nations Development Fund for Women (UNIFEM)	Total contributions: ¥5,504,500 (Employees and other: ¥511,100; corporate matching: ¥343,400; shareholder benefit program contributions: ¥4,650,000)
National Women's Shelter Network	Total contributions: ¥411,800 (Employees and other: ¥253,400; corporate matching: ¥158,400)
Shiseido Social Welfare Foundation	Total contributions: ¥1,693,200 (Employees and other: ¥987,100; corporate matching: ¥706,100)
XP (Xeroderma Pigmentosum) Association Japan	Total contributions: ¥1,162,800 (Employees and other: ¥629,900; corporate matching: ¥532,900)
World Wildlife Fund (WWF)	Total contributions: ¥2,383,350 (Employees and other: ¥1,042,700; corporate matching: ¥842,700; Successful Aging Forum 2005 proceeds: ¥497,950)



COLUMN United Nations Development Fund for Women (UNIFEM) Initiatives

Homa Sabri from the United Nations Development Fund for Women (UNIFEM) Afghanistan Office visited Shiseido's Shiodome Office on February 9, 2006, to report on how a ¥4.8 million gift made by the Shiseido Social Contribution Club Hanatsubaki Fund is making a difference in the country.

Homa works as a United Nations employee on behalf of women and children in her native Afghanistan. In addition to reporting on the difficulties women face as they work to participate in society, she compared the country, where peace remains elusive following a long civil war, to a patient in a hospital, emphasizing that “if the treatment were to stop now, the patient's condition would worsen once more. Continued assistance is vital if the patient is to regain her health.”



Shiseido's Approach to Social Activities

Society, the foundation upon which our lives rest, is faced with numerous challenges, including war, poverty, and environmental problems. Shiseido believes that these problems must be resolved and a society created where all individuals can live with equality and in peace of mind. To build a "peaceful, safe and happy society," it is ever more important for corporations to play an active role. Shiseido, as a manufacturer of cosmetics, is committed to continuing to consider what we can do, and what we must do to achieve these goals.

Shiseido has added color to the lives of women around the world for 134 years. We seek to put smiles on the faces of as many people as possible through the benefits of cosmetics, including healing, encouragement, and relaxation. We wish to share in their joy and are committed to supporting activities designed to create happiness for the women of the world. In fiscal 2005, through the Shiseido Social Contribution Club Hanatsubaki Fund, we responded to interest shown by people involved with the Shiseido Group by flexibly broadening participation in the Fund to include shareholders and friends of the Company (past workers) in the shareholder benefit program. We look

forward to further expanding the scope of the Company's social activities to involve all stakeholders as well as overseas employees, as befits a global company such as Shiseido.

Activities to Assist Employees in Balancing Work and Parenthood

Shiseido provides assistance for employees so that they can balance the demands of work and parenthood through programs such as wiiwiw, an internet-based program to support employees on parental leave as they prepare to return to the workplace, and the Kangaroom Shiodome, a nursery school operated by Shiseido.

For more information about the wiiwiw program, visit <https://www.wiiwiw.com/> (Japanese only)

■ wiiwiw



■ Kangaroom



Unique Shiseido (Selective) CSR: Cultural Capital (Sense of Beauty)

Since our founding, Shiseido has created a new sense of beauty and culture, and we believe it is our mission to communicate this cultural capital, created over the course of our 134-year history, to Japan and the world through social activities. We remain committed to refining the Shiseido sense of beauty and actively spreading it throughout the world.

HOUSE OF SHISEIDO: the Cornerstone of Shiseido Culture

The HOUSE OF SHISEIDO, a facility devoted to communicating Shiseido's corporate culture, opened at the Company's head office building on the 7-chome block of Namikidori Avenue in Ginza on April 8, 2004, the 132nd anniversary of Shiseido's founding.

Conceived as a place of enjoyment and discovery for customers of all generations, the HOUSE OF SHISEIDO features a permanent exhibit of cosmetics, advertisements, and other materials related to cosmetics and Ginza collected by the Company over the years. Special exhibits have put the Company's sense of beauty on display before large numbers of visitors—a total of 150,000 in the facility's first two years up to April 2006—and earned recognition with the Mainichi Special Fashion Award.

During its third year, the HOUSE OF SHISEIDO is committed to publicizing the Company's aesthetic and intellectual assets and communicating its future aspirations for beauty to the general public.

■ Fiscal 2005 Events

	Theme	Artist	Event date
1.	TSUBAKI	Toko Adachi and Masayoshi Nakajo	March 31 – April 10
2.	THE CREATION: Guido Mocafico Photographs: THE FACE: The History of Shiseido Cosmetics for Men	Guido Mocafico	April 22 – May 29
3.	MASTERS OF LIGHT: PHOTOGRAPHIC WORKS OF SHINZO, NOBUTATSU, AND NOBUYOSHI FUKUHARA	Shinzo, Nobutatsu, and Nobuyoshi Fukuhara	June 14 – July 17
4.	SERGE LUTENS...	Serge Lutens	July 26 – September 18
5.	Passion and Action: abcd, a collection of art brut	ABCD Collection	September 27 – November 27
6.	THE ROSE ETERNAL - Timeless encounters in the photography of Miyako Ishiuchi	Miyako Ishiuchi	December 7 – January 29, 2006
7.	The forest of KARAKUSA – Tord Boontje and arabesque	Tord Boontje	February 7 – March 19, 2006



HOUSE OF SHISEIDO



SERGE LUTENS... (July 26 – September 18, 2005)

Fundamental CSR

Some of the most basic obligations of the corporation include working for the good of customers, respecting the diversity of employees, collaborating with business partners, protecting the confidentiality of personal information, and maintaining a safe and hygienic work environment. Shiseido is proud to focus the combined energies of the Company and Group on initiatives that address these obligations on a global scale through entities such as the Corporate Ethics Committee, Protecting Personal Data Committee, and Environmental Subcommittee.

Seeking to Become a 100% Customer-oriented Company

Since the founding of Shiseido, our spirit can be summarized as “working for the beauty of our customers.” Our unchanging desire has been to build a profound and long-term relationship of trust with society by

pleasing customers who use our products and inspiring in them a love of our company. Today we have returned to our origins as we seek to focus the goals of all Group businesses and departments, both overseas and domestic, on the concept of “customer joy.” Our tireless efforts to nurture a strong brand with broad customer support continue in factories, offices, and retail outlets.

Product Development

We value every opportunity to come into direct contact with the customer—whether by listening as they give voice to their wishes or providing our products for use on their skin. Seeing the joy on customers’ faces when they see how a prototype has enhanced their beauty inspires our work. We consistently build this joy into our products, working to develop cosmetics that earn customers’ affection over the long term.



Chie Hirose
Skincare Products
Marketing Unit, Head Office

Advertising

I work to maintain my own unique vision after absorbing as much information as possible, especially about products. My goal is to contribute a sparkling vision of hope that can shine forth moment by moment, while remaining sensitive to and accepting of the changing times in which we live.



Wakako Ishii
Advertising Creation
Department, Head Office

Research & Development

Products should feel comfortable to use while enhancing the customer’s beauty. And most important of all, they should be safe and give peace of mind. My goal each day at work is to remain mindful of customers’ requests while creating products that meet these standards and communicate our commitment to customers.



Eiko Matsuura
Skincare Product Research Center,
Research Center (Shin-Yokohama)

That Customers
May Live
“This Moment.
This Life.
Beautifully.”

Sales

I look forward to continuing to offer new solutions in my sales work so that our customer interactions and sales environments are focused on enabling customers to fully experience the joys of selecting and using cosmetics, and becoming more beautiful.



Noriko Nishikawa
Kinki Area Sales
Department (1)

Production

Working in production in the factory, for me the most important thing is to share an understanding with our customers through our products. As I work I envision customers growing more beautiful as they use our products, and this image spurs me to redouble my devotion to manufacturing cosmetics that inspire peace of mind.



Atsuko Nozaki
Production Department,
Kamakura Factory

Production

We put our hearts into manufacturing cosmetics, rigorously testing them, and shipping them as quickly as possible to customers in an effort to deliver not only a great product but also joy and excitement. In all of this it is our hope to create a lifelong bond of beauty with new customers who have not yet experienced our products.



Noriko Shintani
Technical Department,
Osaka Factory

Products That Inspire Peace of mind

Shiseido believes that cosmetics designed to enhance the beauty of people's skin should never undermine the peace of their hearts. We give the highest priority to our customers' safety and peace of mind in the hope that they will always be able to use our products with confidence.



Lifelong Beauty for All

Shiseido's cosmetics development process starts with intensive research into skin structure. Conducted in collaboration with Japanese and overseas dermatologists, universities, and other research institutions, this research incorporates state-of-the-art technology from a wide range of disciplines related to cosmetics (including the life sciences, dermatology, surface science, ergonomics, and psychology). We have chosen this approach because an accurate understanding of the skin is an important prerequisite to creating cosmetics that let customers address their skin concerns with satisfaction and peace of mind.

Because cosmetics must be applied directly to the skin, the design process begins with the careful selection of ingredients. Shiseido thoroughly investigates candidate ingredients for impurities or other substances that might adversely affect the skin, ultimately selecting only ingredients of unquestionable safety for use in products. Although we make use of preservatives when necessary, we do so only after ascertaining the safety of resulting formulations for the skin and working to minimize the quantities used. We also conduct patch tests and dermatologist-supervised trials to ensure that formulations are problem-free as products.

 **For more information on cosmetic ingredients, visit**
<http://www.shiseido.co.jp/anshin/> (Japanese only)

Production Initiatives to Ensure Safe Ingredients

After their safety has been verified, Shiseido formulations are manufactured according to strict product standards. In addition to visual inspections at every stage of the production process (the weighing of ingredients,

manufacture of contents, filling of containers, and product finishing), endurance testing subjects products to harsher conditions than are likely to be experienced during normal use. Immediately prior to shipment from our factories, sensory inspectors re-inspect the condition, smell, color, and feel of cosmetic products, and only products that pass the final test are shipped. Finally, we store cosmetic samples from each lot shipped at the factory for a period of three years for quality verification purposes.

Evaluation by Dermatologists

When treating patients with dermatitis (rash) suspected to have been caused by cosmetics, dermatologists attempt to track down the cause of the condition by conducting patch tests with the cosmetics used by the patient as well as their ingredients. Statistical data summarizing the rate of positive results for these patch tests for individual manufacturers can be viewed as an indicator of the effectiveness of different companies' safety assurance programs. A comparison of positive results from patch tests among Japanese and overseas manufacturers showed Shiseido products generate the lowest percentage of positive results*.

*From Fujimoto et al., "Patch Test Results in 492 Patients of Suspected Cosmetic Dermatitis (1996 to 2000)," *Environmental Dermatology*, Vol. 9, No. 53-62, 2002

Respect for Normalization

Hanatsubaki Factory

In January 2006, Shiseido established Hanatsubaki Factory, a special subsidiary staffed primarily by developmentally challenged individuals. Conceived as a dimension of the company's social responsibility, the new organization is the center of an aggressive effort to employ developmentally challenged persons, help them to realize their potential, and grow together. Thirteen developmentally challenged individuals work together with four regular employees processing and packaging cosmetics at one of three production lines located at the Sumida workplace, Kamakura Factory. These individuals work hard with the goal of applying their abilities to earning wages and establishing their own independence.

Hanatsubaki Factory has two defining characteristics. The first is that developmentally challenged and regular employees work together. This practice is a reflection of the importance with which Shiseido views normalization, an approach that says society should encourage individuals who are likely to experience unfavorable treatment—including the developmentally challenged and aged—to pursue their lives in the same way as society's other members. The second characteristic is the level of expectation with which developmentally challenged employees' capabilities are viewed. Our goal is to accelerate the growth of these employees' by taking advantage of their individual personalities and characteristics, to create an independent profit center within the company.

Supporting Employees During Pregnancy and Childbirth

Shiseido's Childcare Plan is designed to create a workplace environment where pregnant employees can work with peace of mind and support their return to work following childbirth. The program facilitates a smooth return to work by encouraging employees and their supervisors to communicate and share information from pregnancy to birth, maternal leave, and eventual return to work.

The Childcare Support Center was established in January 2006 in the Company's infirmary to provide additional support for the Childcare Plan. The Center welcomes questions and requests for advice by email and phone from employees who have concerns about pregnancy, childbirth, and childcare.

In addition, Shiseido introduced maternity wear for all Beauty Consultants working in retail outlets in February 2006. Two versions of the wear are available so that employees can choose from warm and cool materials based on their work environment.



Supporting Employees with Children

Shiseido has begun employing Kangaroo Staff to relieve employees during evening hours so they can take time off to care for their children. These additional staff help maintain retail outlets' ability to provide good customer service and eases the load placed on fellow workers when employees in beauty-related positions take time off for childcare. Based on the results of a pilot program that began at four worksites in December 2005, we plan to expand the initiative to facilities around Japan starting in October 2006.

In April 2005 we also added a two-week paid option to the parental leave system (previously unpaid and available for children up to three years old), primarily as a means of encouraging greater participation by male employees in childcare. Sixteen parents took advantage of this short-term paid parental leave program in fiscal 2005, and it is expected to provide substantial support for men raising children.



VOICE

Seiko Sakae

Medical Office,
Head Office

Using my own experience to give others advice on health

Since January 2006 the Childcare Support Center has been giving health-related advice to employees who are either pregnant or raising children. In my own experience, I thought it was reassuring to have somebody nearby who can answer those everyday questions. I've got a six-year-old son myself, so I'm looking forward to taking advantage of my own experience to help others overcome their concerns about how to succeed as both a worker and a parent.



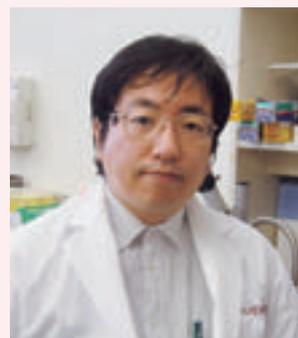
VOICE

Tatsuro Ideta

Life Science Research Center,
Research Center

The surprising speed of children's growth

Right after our second child was born, I took a month off under the short-term parental leave program to help with childcare and housework. During this time of living in close contact with our children 24 hours a day, what I experienced in particular was how fast they grow and develop. I came to see them as little bundles of limitless potential. Seeing their capabilities, I began to think that I too could learn new things and grow in the future. When I returned to work, I think I was better able to assign priorities and get work done in the limited time available.



Creating an Organizational Culture Conducive to CSR

Individual departments and worksites are striving to create an organizational culture based on themes selected as part of employee-centric activities promoting Shiseido's overall CSR program.

Activities at Individual Sites

Sites in Japan and around the world are taking the lead in creating an organization filled with interesting and talented people.

Product Creation Seminars

Designed for branch offices in distant locations whose employees find it difficult to visit factories, this program sends head office and factory employees on visits to regional facilities, where they share their commitment to manufacturing products with an emphasis on safety and peace of mind by allowing employees to try their hands at making lipstick and lotion and handling cosmetic ingredients. The employees who have taken part in the seminar are able to bring their new knowledge to bear in activities at retail outlets to create a 100% customer-oriented company. The program lets production workers increase their feeling of affinity for the products they manufacture by seeing what kind of people deliver those products to customers; at the same time, front-line sales staff can suggest products to customers with increased self-confidence as a result of experiencing how products are manufactured and talking with production workers.

During fiscal 2005, seminars were held at 21 branches, with a total of 610 retail clients and 870 Beauty Consultants participating. The program has been expanded to include activities at retail outlets where production and sales staff work together to communicate Shiseido's product creation philosophy, and the events have served to strengthen the bonds linking production, sales, and retail clients.



Encouraging Female Employees to Take the Initiative

Motivated by a belief that strengthening the development of female employees is good for both the employees and their workplace, Shiseido Sales Co., Ltd., previously the Kinki Area Sales Department (2), is working to enhance the ability of female employees to plan and propose new activities and initiatives.

The General Manager has asked female employees to propose new site activities, telling them, "Developing your

career means realizing your dreams. You've got to learn to think for yourselves and originate new ideas." With the support of the General Manager and team leaders, even employees with little experience in proposing activities have risen to the challenge, and five proposals by six female employees became reality in fiscal 2005. The benefits of these initiatives included making activities more customer-centric, female employees developing new perspectives and becoming more persuasive as a result of analyzing data and creating proposals, and expanded roles (influence) for women in the workplace.



Initiatives to Balance Work and Private Life

Shiseido's research centers are involved in a variety of activities that seek to maximize individual employees' capabilities by achieving the right balance between work and private life so that they can combine motivated work performance with a rich life away from the office.

One in five researchers have participated in time management seminars conducted by outside instructors, taking advantage of the experience to review the way they work. Company efforts to help employees with children balance work and childcare have included holding parties for employees with children at offices and with other companies, and establishing a day for workers to bring their children to the research center. In addition, an average of 10 women take advantage of the parental leave program each year at Shiseido's research centers (with an average of 1.5 leaves per individual) and three men took short-term parental leave in fiscal 2005, reflecting the development of an organizational culture that encourages men's participation in childrearing.



What Should Shiseido Do To Facilitate “This moment. This life. Beautifully.”?

Thirteen head office general managers held a dialog with eight stakeholders—including business partners, media, employees, and other individuals in a position to advise the Company—to address expectations of Shiseido’s CSR activities and the Company’s challenges in helping customers to live “This moment. This life. Beautifully.” Participants exchanged opinions from a range of perspectives.



Date/time: Tuesday, February 21, 2006; 2:00 to 5:00 p.m.
Place: Word Hall, Tokyo Ginza Shiseido Building
Agenda: 1. Description of Shiseido’s CSR activities
2. Discussion: “What should Shiseido do to facilitate ‘This moment. This life. Beautifully.’?”

Stakeholders’ Expectations and Wishes

This year’s discussion began with an exchange of views on gender. As 70% of Shiseido employees are women, the Company works hard to promote mutual participation by men and women. However, the small percentage of management positions occupied by women—about 10%—has prompted calls for the Company to be more proactive in promoting women to management and leadership positions. Stakeholders noted their desire for Shiseido to serve as an exemplary company where women play active roles, and urged the Company to approach the balance between women’s work and private lives from a long-term perspective that addresses not only childcare but also care of aged relatives, as is appropriate for a country like Japan where a lifelong relationship between employee and employer is the assumption. Other opinions focused on corporate culture, with panelists emphasizing the importance of a workplace culture where women can work long-term and calling on the Company to earn the sympathy of women.

Next, the discussion focused on CSR procurement and calls for global company activities, with topics including the establishment of a CSR procurement monitoring system and the need for a heightened awareness of whether labor standards governing child labor and forced labor based on the United Nations Global Compact are being observed throughout the supply chain. Many panelists cited the need to promote Japanese and Asian standards rather than just accepting European and American views if a truly global approach is to be achieved. Suggestions included taking advantage of Shiseido’s status as a company that has taken the lead in corporate ethics in

Japan to place a strategic emphasis on developing long-term CSR initiatives in the varied environment of Asia and working to communicate Japanese traditional values and culture to the world.

Improving corporate value emerged as another important theme. One panelist pointed to the need to create new value by letting the three keywords adopted to describe unique Shiseido CSR play a leading role, especially “Cultural Capital (Sense of Beauty)” and “Women.” Another noted the inadequacy of an approach that is limited to the perspective of gender, calling on the Company to make respect of diversity a more visible theme, including the employment of developmentally challenged individuals and care for the aged, and to include adequate accounting of such initiatives in the *CSR Report*. Another panelist expressed a desire for more involved collaboration with non-profit organizations as a means of gaining more favorable assessments of Company initiatives from shareholders, both domestic and foreign.

The discussion of ways to improve corporate value through the Company’s brand and products included questions of whether the Company was doing an adequate job of accurately communicating information about the Japanese worldview as embraced by contemporary women, as well as a suggestion that the Company should supply easily understood messages in the manner of charity products to make consumers aware of its initiatives. Another panelist explored how the Company could adopt the perspective of those customers, mentioning the idea that for women to be beautiful men should be beautiful, too, and suggesting that the Company provide some kind of support for today’s dropping birth rates and aging population.

What Is Required to Realize “This Moment. This Life. Beautifully.”?

In 2005, Shiseido adopted “This moment. This life. Beautifully.” as its corporate message and set out to transform itself into 100% customer-oriented company. What are customers expectations for Shiseido as they seek to live “This moment. This life. Beautifully.”?

Our stakeholders’ responses to this question ranged from a desire for the Company to adapt to today’s heightened awareness of beauty on the part of consumers by helping them pursue not only external but also a deeper emotional beauty, to a management perspective informed by the idea of cultural capital that calls for proposing a “Code of Beauty Conduct” based on Japanese tradition and culture for consumers, along with lifestyle and consumption suggestions designed to help consumers lead active, energetic lives.

One panelist expressed the desire that Shiseido embody a standard of beauty that would allow women to affirm their joy at being born as women, while another noted that people who work hard at something are beautiful and encouraged the Company to pursue a variety of plans for supporting graceful aging, whereby individuals can live life on their own terms in an environment that allows them to pursue their interests as they grow old.

Making the Most of Customer Feedback

This year’s dialog produced numerous suggestions on how the Company could pursue CSR initiatives that fit with its corporate ideals. A common thread in the discussion for every subject was the need to formulate specific objectives and plans in addition to statements of principle, and to always make information about results available to the public.

Shiseido has embarked on a medium- and long-term plan to fill 20% of the Company’s leadership positions with women by 2007, and we plan to make the results of this plan public as we implement it. In addition to working to maintain effective communication in the future, we are committed to pursuing Japanese-style CSR activities to which Shiseido is uniquely suited by actively creating new value that reflects expectations from both inside and outside our organization.

 For more information about stakeholder dialogs, visit
<http://www.shiseido.co.jp/e/eco/>

Participants (in alphabetical order)



Mitsuhiro Umezu, Ph.D.

Associate Professor, Keio University

If you look at cosmetics in the context of the concept of care, then beauty for Shiseido becomes the process of caring for “This moment. This life.” I look forward to more involved initiatives in the future.



Ryuko Konta

Editor in Chief, Hachette Fujingaho

The Company’s message of “This moment. This life. Beautifully.” is one that rings true in the heart of the individual. I found myself applauding the choice.



Yoshifumi Tajiri

Japan NPO Center Director/ Secretary General

Issues of compliance, the environment, and philanthropy are easier to understand when they are tied together into a single storyline based on corporate value.



Hiroyuki Tada

Japan for Sustainability Chief Executive

I hope Shiseido will take advantage of its emotional assets to mount a serious campaign to address lifestyle issues in terms of its message of “This moment. This life. Beautifully.”



Junichi Furusawa

SA800OPT/Corporate Citizenship Dept. of AEON Co., Ltd.

I believe supplier management is an important means of fulfilling Shiseido’s social responsibility as a global corporation in the business of selling women hopes and aspirations.



Mitsuko Horiuchi

Former Director, UN/ILO Office in Japan and Special Regional Advisor on Gender Issues, ILO

I hope Shiseido will approach beauty not only as external appearance but also from a more meaningful perspective. I’d like to see the company pursue the Japanese concept of beauty, and communicate it to the world.



Yumiko Matsudaira

Nikkei Business Publications, Inc., *ecomom* Producer

I think the question of whether Shiseido will continue to move forward together with women depends on whether it is at root a corporation with which women share a fundamental affinity.



Keiko Yamaguchi

Securities Analyst, Equity Research Department
Financial & Economic Research Center,
Nomura Securities Co., Ltd.

If Shiseido is going to pursue activities that begin at the retail outlet, I’d like to see an effort to improve the motivation of the Beauty Consultants who deal with customers there.

[Head Office departments] General Affairs Department, Corporate Culture Department, Public Relations Department, Technical Department, Personnel Department, R&D Planning Department, Investor Relations Department, Cosmetics Marketing Division, Consumer Information Center, Sales Promotion Department, Purchasing Department, International Planning Department, CSR Department
*Department names are accurate as of February 21, 2006.

Spreading New Value

Shiseido is committed to continuing to create new value and a beautiful lifestyle along with the stakeholders listed in *The Shiseido Way*—our customers, business partners, shareholders, employees, and society—as a means of working toward the achievement of a sustainable society.



With Our Customers

Our wishes for our customers' beauty, health, and happiness are shared by all employees and lie behind every product and service we offer.

We are proud to work with customers to realize the beauty of every individual.

Communicating with Customers

The Shiseido Consumer Center receives feedback from customers around Japan by email, toll-free call, and letter. This feedback is entered into the Company's customer information system and ultimately routed throughout the organization as part of a communications system that is capable of responding quickly and precisely.

Shiseido's Website

Shiseido's website advertises various Company activities and hosts information in response to customer desires and needs. The global website, which is available in ten languages including English and French, capped ten years of growth in 2005 by exceeding 20 million page views a month. With more than 800,000 Shiseido Net Members who receive benefits such as priority in registration for beauty seminars held by sales departments and sales branches nationwide, the website combines virtual online relationships with real communication activities.

 Shiseido website <http://www.shiseido.co.jp/>

 Shiseido global website <http://www.shiseido.co.jp/com/>

■ Shiseido website



■ Shiseido global website



Interactive Communications System (Chatterbox)

Chatterbox is used to hold online chat-style interviews to provide customers with a channel for communicating with employees. The system is also used in actual product development.



VOICE

Shoko Aoki Tokyo Metropolitan Area Sales Branch,
Shiseido Sales Co., Ltd.

I Love Seeing Customers' Smiling Faces

We hold skin-lightening and makeup seminars that are mainly attended by Net Members from Shiseido's website, together with interested customers who found us online. We teach them how their skin will always show results if they use our products consistently and properly, and we work hard to bring out each customer's unique beauty.



Customer Monitoring Program

This training program allows employees to experience analyzing data and taking calls at the Customer Center, to give them a better understanding of customers than it is possible to acquire from data alone.



Customer Center

The Shiseido Customer Center accepts inquiries in Japan by toll-free call, letter, and email. Call volume alone reaches more than 130,000 customer contacts annually on a range of subjects. These inquiries help us maintain an accurate understanding of our customers' needs, and the information gained from them is routed throughout the Company and used as feedback.

Customer Satisfaction Initiatives

In keeping with our goal of becoming a 100% customer-oriented company, Shiseido values contacts with customers and prioritizes activities focused on satisfying customers by enhancing their beauty.

Activities to Enhance Customer Satisfaction

Providing customer service training for Beauty Consultants is one of the ways Shiseido works to maximize customer satisfaction in the face-to-face setting of retail outlets.

Another activity designed to encourage feedback on the quality of service provided by Beauty Consultants is giving customers “Communications Cards” and asking them to mail in their responses to survey questions. Results are provided to individual Beauty Consultants and used to improve customer satisfaction by prompting reflection on activities, new realizations, and additional improvements in customer service.

In the year since these activities were introduced, Beauty Consultants have noted that they now think more about how customers can be satisfied and what they can do to please customers by enhancing their beauty. Others cited the importance of ongoing self-study, not for their own benefit, but rather as a means of exploring how to better serve customers.



Survey side of card

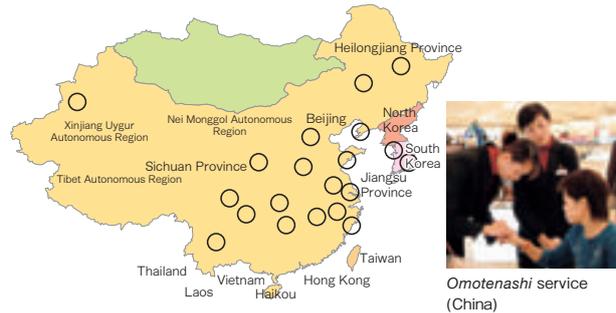
Message side of card

Field Training Team (FTT) Activities

Shiseido has organized Japanese Beauty Consultants into field training teams in order to bring its *Omotenashi* (hospitality) style of service to customers around the world. These teams travel to rapidly growing markets like China and Korea to provide on-the-job training at retail outlets for local Beauty Consultants and participate in activities conceived to communicate correct beauty techniques and knowledge to customers.

By overcoming the barriers of language and culture, FTT *Omotenashi* activities not only allow local Beauty Consultants to experience the joy of being thanked by customers, but also help them build relationships of trust with customers.

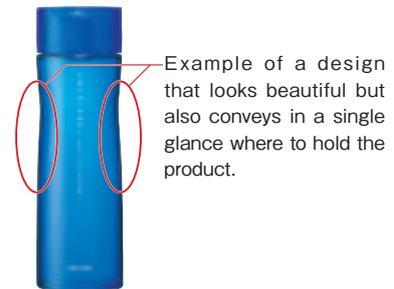
Regions in which FTTs are active



Omotenashi service (China)

Universal Design

Universal design takes into account the environments in which all kinds of people live. In 2005, Shiseido adopted the *Shiseido Universal Design Guidelines*, a set of 6 principles and 14 provisions based on expert theory and legislation and crafted to reflect the characteristics of our products. For example, the “intuitive design” provision defines an easy-to-use design as one that allows all users to intuitively understand where to hold the container and twist in order to open it. All product planning and design departments employ this approach during the product development process.



Example of a design that looks beautiful but also conveys in a single glance where to hold the product.

Products Inspired by Customer Suggestions

Incorporating customer feedback and suggestions into the product development process lets Shiseido create products that customers can enjoy safely and with peace of mind every time they use it.

Redesigning the Compact Mirror

Based on customer complaints that they couldn't see clearly when applying makeup, Shiseido enlarged the mirror integrated into compact makeup products to assist more careful and beautiful application by customers.



For more “With Our Customers” information, visit <http://www.shiseido.co.jp/e/eco/>

With Our Business Partners

Shiseido's CSR activities seek to create good partnerships with business partners such as retail clients and suppliers.

Corporate Ethics Activities Targeting Suppliers

Shiseido views suppliers of ingredients and perfumes used in the manufacture of our cosmetics as well as suppliers of packaging, promotional sales materials, and other products as partners in the creation of new value. The understanding and collaboration of business partners is a prerequisite for expanding the scope of CSR initiatives.

Shiseido has also worked with partners to address environmental problems. In February 2001, we conducted a survey of suppliers' environmental initiatives in accordance with Green Procurement Standards. Based on the results, we established *Seven Preconditions for Collaborating with Business Partners*, starting with the "Establishment of an Environmental Policy", and publicized them to suppliers.

In July 2004, we established a Business Partner Subcommittee under the Corporate Ethics Committee to examine how the scope of our initiatives could be expanded from a focus on the environment to encompass more general CSR activities. Then starting in March 2005 we began a survey of about 400 domestic and 200 overseas suppliers to assess the state of current practice. Based on the results of this survey and taking into account the United Nations Global Compact and examples of other pioneering companies' efforts, Shiseido established the *Shiseido Group Supplier Code of Conduct* in March 2006. These standards address areas such as legal compliance, labor (child labor, discrimination, safety and hygiene, etc.), protection of intellectual property and confidentiality, environmental conservation, and fair commercial transactions.

Starting in March 2006, Shiseido worksites in Japan and around the world are providing these standards to suppliers and working with them to increase corporate value.

Shiseido Group Supplier Code of Conduct



Procurement policy briefing (March 22, 2006)

Collaboration on Environmental Activities with Retail Clients

As an example of environmental activities befitting a cosmetics manufacturer, Shiseido has been encouraging customers, stores, and glass bottle manufacturers to participate in its recycling program for used cosmetic glass containers.

See page 43 for more information about the glass bottle recycling system.

INTERVIEW Sachiina (Tochigi Prefecture)

Cooperating on Efforts to Recycle Glass Bottles

Although customer reaction when we started participating in this recycling program was not as enthusiastic as it might have been, acceptance has gradually grown as we've continued to make steady progress in implementing it. Today our glass bottle recycling box takes about a week to fill up. The person in charge of our local government's drive to reduce waste (garbage collection) was pleased to hear about our recycling program.

Our store is working to help this program take root in our community. In addition to serving to ensure the continuity of the glass recycling program, our efforts—including providing customers with information about glass bottle recycling via direct mail and handing out one garbage bag for each bottle brought in—are helping to increase customers' environmental awareness. I believe that it is an opportunity to communicate with customers, and the program helps to build trust.



Glass bottle collection box and POP display inside store



Store owner Mr. Yasumichi Kawamata (center) with wife (left) and daughter (right)

For more "With Our Business Partners" information, visit <http://www.shiseido.co.jp/e/eco/>

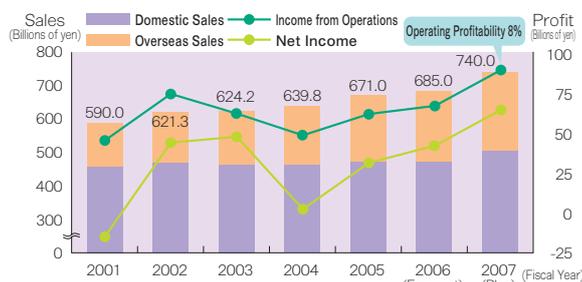
With Our Shareholders

In addition to seeking to maximize corporate and shareholder value through expanded growth and improved profitability, Shiseido is committed to enhancing communication with shareholders to gain their understanding and trust through timely and adequate information disclosures and dialogue.

Returning Value to Shareholders Through High-quality Growth

This year marks the second year of the Three-year Plan we adopted in fiscal 2005. The plan is being steadily implemented to place the Company on a profitable footing through the adoption of a clear growth strategy and the advancement of fundamental structural reforms. The current Three-year Plan is defined by three strategies: domestic marketing reforms, accelerated expansion of business in China (both for expanded growth), and fundamental structural reforms (for increased profitability). We are continuing to advance these strategies in fiscal 2006, specifically through initiatives such as the integration of our cosmetics and toiletries business divisions and reforms in our sales organization.

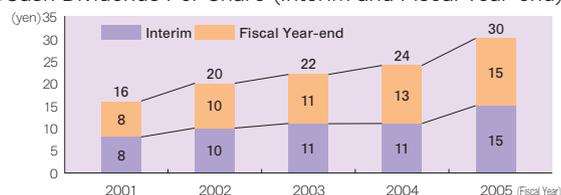
Overview of the Three-year Plan



Shiseido's "total shareholder return" policy aims to provide direct shareholder returns through dividends in addition to generating share price gains over the medium to long term. Based on this approach, we have adopted a basic policy of appropriating cash flow from operations primarily for use in strategic investments with potential for new growth, paying stable dividends, and acquiring treasury stock. We have established a total return ratio that represents the amount of profit returned to shareholders (the sum of dividends paid and share buybacks) as a proportion of consolidated net income, and aim for a total return ratio of 60% in the medium term. Currently, we intend to further increase the cash dividend portion of total return.

*For more information about Shiseido's Three-year Plan, see our *Annual Report* or visit the website listed at the bottom of the next page.

Cash Dividends Per Share (Interim and Fiscal Year-end)



Disclosing Company Information in a Timely and Adequate Manner

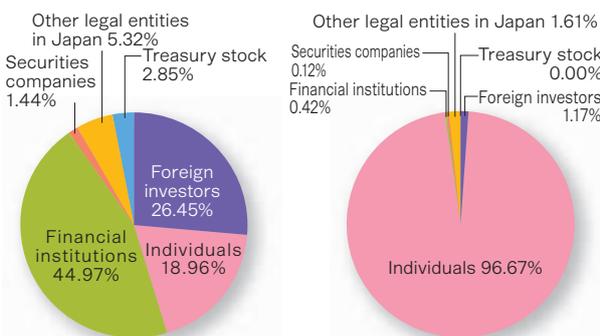
Shiseido considers the timely and adequate disclosure of company information to investors to be the foundation of a robust securities market. The Company works to ensure internal systems are capable of timely, accurate, and fair information disclosure from the perspective of investors, and it has taken an oath to the Tokyo Stock Exchange to maintain a forthright posture. In addition to conducting general shareholders' meetings, an important place of dialog with shareholders, in accordance with all applicable laws, the Company is also committed to the proactive pursuit of investor relations activities designed to maintain good relationships with investors and to observe laws and internal regulations related to insider trading.

Stock Status (as of March 31, 2006)

Total shares issued and outstanding 424,562,353 shares

Number of shareholders 37,148

Percentages of total shares held Breakdown of shareholders by type



*Totals may not add up due to rounding.

SRI Fund Inclusion

The Socially Responsible Investment (SRI) approach supplements the economic analysis that forms the basis of traditional investment standards with an assessment of the target company's social, ethical, and environmental activities. Based on favorable evaluations of its CSR activities, Shiseido has been included in several SRI funds, including the Daiwa SRI Fund (as of May 19, 2006). In addition to moving decisively to advance its Three-year Plan, the Company is committed to enhancing its CSR activities and meeting shareholder expectations.

Communicating with Shareholders

Shareholders' Meeting

Reflecting its belief that the General Shareholders' Meeting is a venue for active, two-way communication between the Company and its shareholders, Shiseido's management works to address as many shareholder questions and opinions as possible. This commitment to responsiveness is not limited to the content of the meetings but extends to efforts to provide clear and extensive documentation along with notices of convocation of shareholders' meetings. The Company also works to facilitate the exercise of shareholder rights by sending out notices of convocation well in advance of scheduled meetings, publishing meeting information on its website, and enabling the exercise of voting rights online.

Shareholder Beauty Forum

A Shareholder Beauty Forum is held following the conclusion of the shareholder's meeting to introduce shareholders to the Company's business activities and research results. In fiscal 2005, Beauty Creation Center General Manager (present: Vice-principal of Shiseido Beauty Academy) Masa Ohtake held the "Masa Ohtake Skincare Lecture & Makeup Demonstration 2005."



Shareholder Benefits

Every year Shiseido presents investors who hold at least 1,000 shares of company stock as of March 31 with a "Shiseido Original Gift Set" containing new and notable products. Shiseido launched a new program in fiscal 2005, in which shareholders can either opt to receive this gift set or elect to contribute to a social support group. In October 2005, ¥4.65 million from shareholders selecting the contribution option was donated through the Shiseido Social Contribution Club (Hanatsubaki Fund) to the Japanese national committee of the United Nations Development Fund for Women (UNIFEM). The funds will be used for purposes including those to buy learning materials for women's educational programs conducted by a women's center in Afghanistan.



UNIFEM donation ceremony

Proactive Investor Relations Initiatives

Reflecting its proactive approach to investor relations, Shiseido works both to disclose company information to shareholders and investors in a timely and adequate manner and to incorporate their opinions into the management of the Company. Our efforts to provide an extensive selection of information for investors in the "IR Information" section of Shiseido's website is an example of this commitment. Online resources include the "Financial Results Briefing," a clear and easy-to-understand explanation of financial results; "IR News," a collection of news releases for investors; and "General Meeting of Shareholders," a summary of sessions conducted at recent and past shareholders' meetings. In addition, an "IR Alert" email service is available to notify investors of website updates, enabling interested parties to obtain company information quickly and easily.

Twice yearly financial results briefings for analysts and institutional investors are attended by the Company's top management and provide an opportunity to communicate directly with shareholders and investors. Other initiatives include domestic and overseas investors' meetings and tours of factories and research centers. Working with brokerages, Shiseido has co-sponsored company briefings for private investors since fiscal 2001. In fiscal 2005, 1,200 private investors attended briefings in 7 cities throughout Japan. Also, we have started holding company information sessions for Shiseido's internet monitors since fiscal 2005.

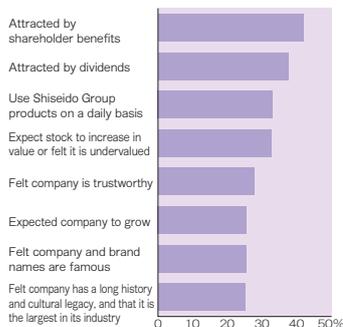


Company briefing for private investors

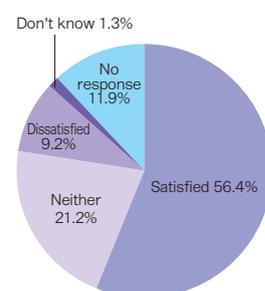
The Company also conducts regular institutional investor and shareholder surveys as part of an effort to reflect market opinions and enhance its IR activities.

Shareholder Survey Results

Reasons for purchasing Shiseido stock



Satisfaction with dividends



For more "With Our Shareholders" information, visit <http://www.shiseido.co.jp/e/ir/>

With Our Employees

Shiseido is striving to meet its goal of “filling the Shiseido organization with people with own appeal” by creating a work environment where all employees can realize their full potential.

Personnel Data

■ Composition of Personnel in the Shiseido Group (Domestic) (as of April 1, 2006)

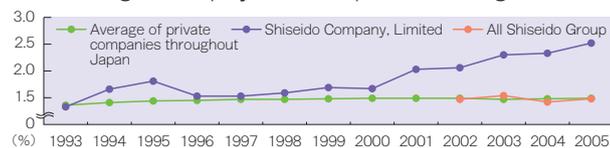
	Male	Female	Total
Managers	1,193	137	1,330
General	1,966	2,701	4,667
Beauty Consultants	9	6,542	6,551
Advisers	135	10	145
Part-time	43	17	60
Others	76	53	129
Temporary	792	1,533	2,325
Site-specific	1,046	1,613	2,659
Total	4,214	10,993	15,207
Limited-term contract			12,442
Total			27,649

■ Female Management Positions



* Leader ratio for 2006. Leaders are employees who manage staff, individuals, and organizations in order for the organization to accomplish its missions and objectives, and who are treated in keeping with their responsibilities.

■ Percentage of Employees with Special Challenges



Basic Approach to Human Resources Development

Shiseido’s basic approach to human resources development consists of four areas that create a mutually reinforcing cycle that facilitates employee growth: management by objectives; fair, achievement-based evaluation and treatment; training and education; and assignment of personnel based on capability, aptitude, and individual wishes. The diagram below groups these four areas to summarize this approach.

Our approach originates in management by objectives, a philosophy that consists of setting appropriate roles and objectives and motivating employees according to the required qualifications and personal characteristics. Next, a policy of fair, achievement-based evaluation and treatment leads to improvements in results, activities, and ability. Third, training and education seek to enhance job-related knowledge, awareness, and skills. Finally, a commitment to assign personnel based on ability, aptitude, and individual wishes, and with an understanding of future developmental potential, serves to increase employee motivation.

In addition to encouraging career development by increasing employee awareness of and providing appropriate opportunities for skill- and ability-building, the cycle defined by these four areas provides management with a systematic basis for employee development, including an appropriate division of workplace roles and other instruction. Based on this cycle, Shiseido is developing and implementing a companywide training program and plans to establish an organizational base for unified activities to promote independent skill development in October 2006.

Basic Approach to Human Resources Development



Respecting Diversity

The Shiseido Group employs about 250 individuals with developmental challenges. The Company's Personnel Department operates a project designed to help employees with developmental challenges realize their full potential. It arranges training and study courses, provides support equipment, and strengthens support systems with the goal of creating a hospitable and stimulating workplace environment for all employees – the physically and developmentally challenged and regular employees alike.

Among the many initiatives is the *Fureai* sign language course, which is held once or twice each month to create opportunities for more active communication with hearing-challenged employees. The class is currently attended by more than 20 participants. At affiliate Shiseido Astek Co., Ltd. hearing-challenged employees created "Shuwa-shuwado," a video-based sign language course that is broadcast on the company's LAN.

Training in Word, Excel, and PowerPoint is available for visually-challenged employees on special computers that generate audio output describing screen content.

The Company has also created a Disability Support Manual summarizing basic knowledge and approaches for dealing with different developmental challenges in order to ensure that all departments are capable of smoothly integrating physically and developmentally challenged employees into their workplaces.

COLUMN

School for Balancing Work and Personal Life for Dads

Shiseido strives to support male employees with children by creating opportunities for re-examining the way they work. Initiatives include the opening of the School for Balancing Work and Personal Life for Dads in February 2006 at the Kangaroom Shiodome, an on-site nursery school operated by the Company. About thirty father-and-son pairs from inside and outside the Company participated.

The two-and-a-half-hour program consisted of a picture book reading by a group of volunteer fathers followed by a lively group discussion among the fathers, with individuals involved in local childcare support services and employees who had taken parental leave describing their experiences. Participating fathers described the program as a valuable opportunity for fathers to share their concerns. They spoke of a new appreciation of the importance of family time, and trying to get home from work early at least once a week.



Mental Wellness Initiatives

At meetings of managers from branch companies around Japan and through Personnel Department training, Shiseido is working to create opportunities for the study of mental health issues. Courses by outside specialists and group discussions encourage an understanding of mental health issues as familiar workplace concerns that can affect all employees and focus on techniques employees can use to relieve their own stress, warning signs that may signal a lack of mental wellness on the part of a coworker, and ways to understand and help individuals dealing with such challenges.

With educational activities such as these increasing awareness of mental health issues inside the Company and leading to an increasing number of individuals seeking advice and counseling, Shiseido is working to strengthen support systems by increasing the number of days mental health counseling is available from two to five days a week.

At the same time, the Company is working to develop a concrete organizational basis for addressing mental health issues by launching a mental health project with participation by industrial physicians and Personnel Department staff, as well as developing guidelines for how to support employees on leave as they return to work, and providing follow-up care once they are back at their jobs.

COLUMN

Bring Your Kids to Work Day

Shiseido's Head Office and Shiodome Office held a "Bring Your Kids to Work Day" in August 2005 to encourage children's awareness of and interest in work, and to let them experience Shiseido's products for themselves. A total of 74 children and their guardians from Shiseido and co-sponsor Toppan Printing enjoyed a full day of activities, including exchanging business cards with employees around the office, eating lunch in the cafeteria, meeting, shaking hands, and receiving a gift of candies from the president, and enjoying a hands-on lesson in printing at the Printing Museum.

Children's view

I was surprised at how different my dad is at work and at home, but I was also happy to see him working hard.

Guardian's view

The event was a chance to start talking to my kids about what they want to do when they grow up.



With Our Society

Shiseido takes advantage of its proprietary knowledge and technology developed over the course of its history to pursue its social activities. These activities are based on an assessment of society's needs and are in keeping with the Company's goal of creating a beautiful lifestyle in order to bring joy to as many people as possible.

Shiseido's Social Activities

Shiseido actively embraces new technologies and ways of thinking and fuses them with its traditions to form a unique corporate culture. In collaboration with local communities and in harmony with the international community, the Company strives to communicate its knowledge, technology, and culture, based on its own cultural capital.

■ Areas of social activities

- Activities that help create beauty in daily life.
- Activities that utilize accumulated corporate assets (know-how, corporate culture, human resources).
- Activities that help resolve problems and meet the needs of the local community and society as a whole.

Scope of social activities



■ Grants to Research Institutions in Fiscal 2005

Name	Description of Grant	Fiscal 2005 Results	Start of Grant Period
Japanese Dermatological Association basic medical research grant (Shiseido donation)	To support basic medical research in the area of dermatology jointly with the Japanese Dermatological Association	12 grants 6 million yen	1967
The Japanese Society for Investigative Dermatology Fellowship Shiseido Award	To support basic research in dermatology jointly with the Japanese Society for Investigative Dermatology	2 grants 2 million yen	1998
Shiseido Science Research Grant	To support research related to science and engineering, cosmetic science, and dermatology	10 grants 10 million yen	2003
Society grants	To subsidize academic conventions and research activities, centering mainly on dermatology-related societies	12 grants 2.25million yen	—

Activities to Support Academic Research

In addition to continuing to support academic conferences in dermatology, Shiseido has supported research in science and engineering, dermatology, and the study of perfume for over 40 years ago. The Company helps to raise the level of research in these disciplines by publicizing the results of these investigations.

Shiseido also actively supports the development of the next generation of scientists and engineers by sending employees to teach courses in disciplines such as the study of perfume at pharmaceutical faculties and other university departments. During fiscal 2005, 11 employees from the Company's research and development departments taught at nine universities.



The winner of the Japanese Society for Investigative Dermatology Fellowship Shiseido Award presents his findings.

COLUMN Helping Fund a New Incorporated Medical Foundation

Shiseido contributed ¥170 million toward the founding of a new incorporated medical foundation (Camellia Club Medical Foundation Incorporated; Director: Dr. Yasumasa Ishibashi, Professor Emeritus at the University of Tokyo) dedicated to providing user-oriented medical care and improving the quality of life of patients.

The grant was used to open the Minami Aoyama Dermatology Skin Navi Clinic (see photograph) on November 12, 2005 (Healthy Skin Day). This pioneering facility has begun offering a unique treatment program where the medical treatment procedures of the healing process are actively disclosed to patients and monitored using instruments that measure skin characteristics. The treatments are performed in a relaxing setting that is designed to protect patient privacy.



Disaster Relief Activities

(Hurricane Katrina and the Kashmir Earthquake of 2005)

Shiseido contributed a total of ¥11 million to relief efforts in the wake of Hurricane Katrina in the southern United States, ¥2 million through Nippon Keidanren and ¥9 million through the Japanese Red Cross Society. Shiseido Group subsidiaries in the United States donated additional material support in the form of shampoo, rinse, and other products through the American National Red Cross and other groups. In addition, more than 6,000 employees responded to a call for donations by the Shiseido Social Contribution Club Hanatsubaki Fund. Their contribution of ¥3.2 million, together with ¥1.41 million from employees of Shiseido Group subsidiaries in the United States—a total of ¥4.61 million—was donated through Shiseido's United States affiliate to the American National Red Cross.

Although Shiseido does not conduct business in Pakistan, the Company sought to contribute to relief efforts following the Kashmir Earthquake on October 8, 2005, by making a humanitarian donation of ¥1 million along with employee contributions of ¥2.93 million to the Japan Platform through the Japanese Red Cross Society.



The American National Red Cross



The Japan Platform

Overseas Relief-directed Business Activities

Shiseido is involved in numerous overseas relief activities as it works to expand its business globally.

In Laos, to encourage the social independence of women who have experienced trouble finding employment due to inadequate educational opportunities, Shiseido created a program to dispatch barber and beautician specialists to a vocational school to help students master basic beautician skills. In Singapore, the Company participated in a campaign to eradicate breast cancer by purchasing pin badges for distribution to customers at promotional events from an association of breast cancer. In New Zealand, Beauty Consultants and other Shiseido staff regularly perform beauty procedures at seminars organized by the Cancer Society of New Zealand, and help fund other Cancer Society initiatives. The Company

also provides daily operational support including the storage of the Society's support supplies. In Hong Kong, Shiseido has begun supplementing financial support by cooperating with charitable groups. For example, working with business partners and the Company's Head Office in Japan, it cosponsored an event in February 2006 that was designed to communicate the importance of contributing to society. All donations collected at the event are being used to fund institutions such as the Senior University (a nursing home).



Laos: Activities supporting vocational education



Singapore: Products packaged with pin badges from an association fighting breast cancer



New Zealand: A support group pamphlet



Hong Kong: A charity event

COLUMN

Promoting Alternatives to Animal Experiments

Shiseido has been involved with the development of alternatives to animal experiments since 1981, when it identified the area as a socially important theme consistent with its commitment to the humane treatment of animals. The Company has developed a number of alternative methods for evaluating the safety of its cosmetics, and it has sought to encourage broad adoption of those methods by actively publicizing them at domestic and international scientific meetings and other venues. Its research has been recognized with 12 awards, the most for any company in Japan including the Golden Presentation Award and the Thesis Award at the 2005 Meeting of the Japanese Society for Alternative to Animal Experiments.

Recognizing the need to accelerate research into alternatives to animal experimentation, the Company has also collaborated with outside specialists to form a joint research group. The group presented the results of its research at a symposium that was cosponsored by the Japanese Society for Alternative to Animal Experiments, where it met with an enthusiastic reception. A leader in the field since its inception, the group has been actively involved with Ministry of Health, Labor and Welfare groups studying and developing alternatives to animal experimentation, and with evaluation research conducted by the Japanese Society for Alternative to Animal Experiments.

Shiseido is committed to contributing to society by working with government, academia, and private industry to develop and promote alternatives to animal experiments around the world.

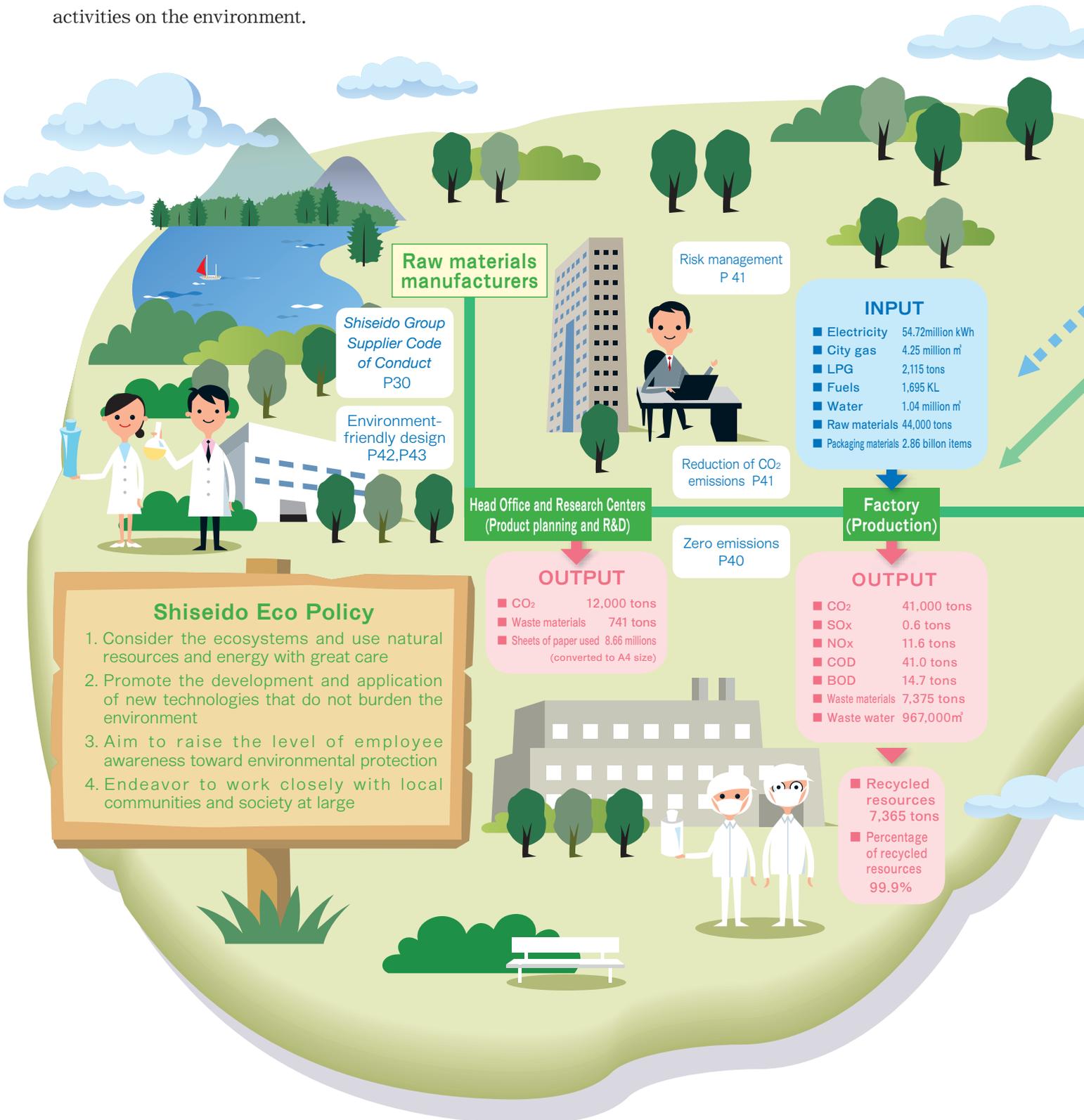


For more "With Our Society" information, visit

<http://www.shiseido.co.jp/e/eco/>

Initiatives for a Healthy Environment

Since its adoption in 1992 of the Shiseido Eco Policy, a set of guidelines detailing how environmental considerations should weigh on management decisions, the Company has worked to protect the environment in all of its business activities. The following diagram provides an overview of Shiseido's environmental activities and the impact of business activities on the environment.

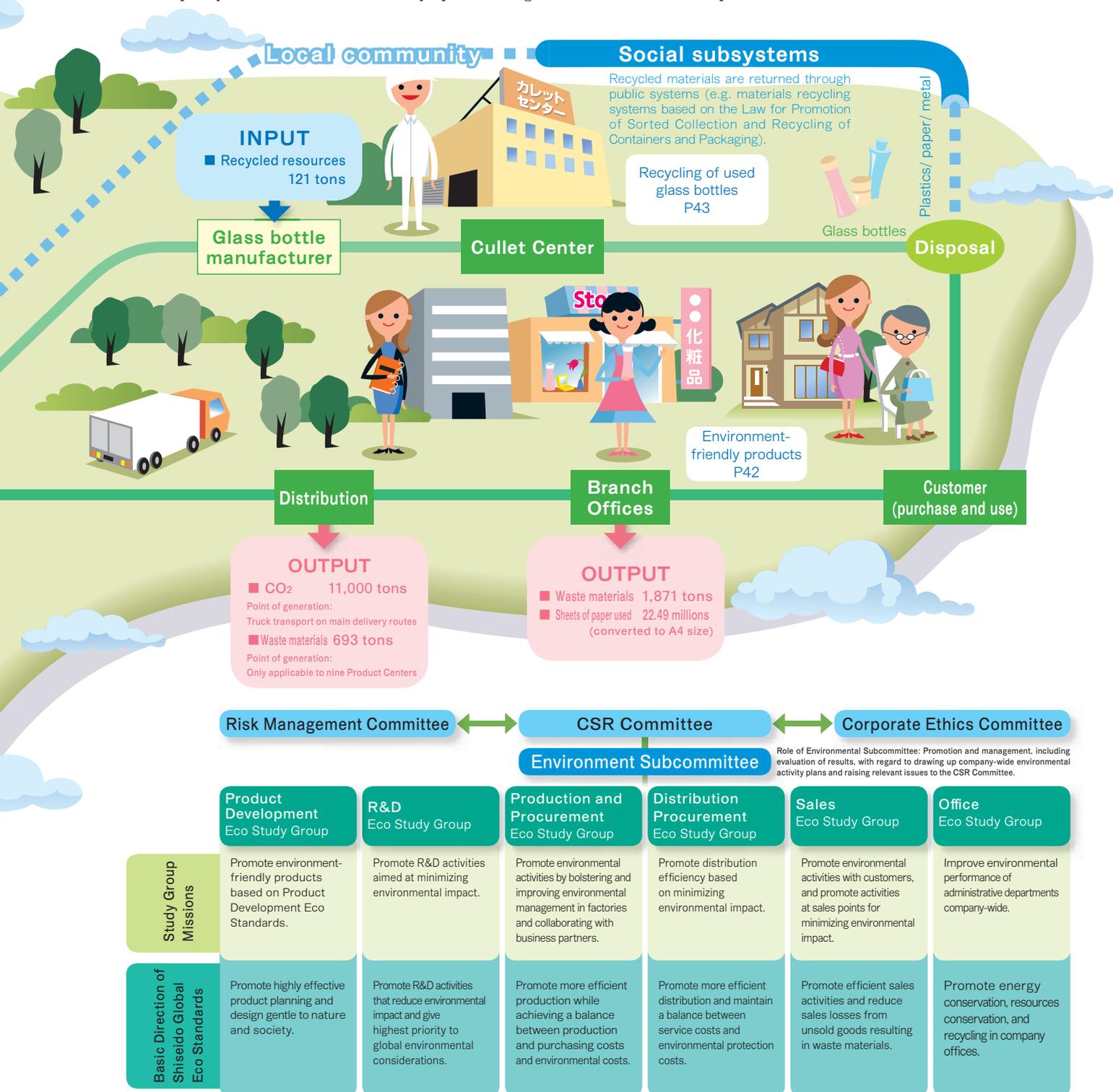


Framework for Promoting Shiseido Global Eco Standards and Environmental Management

Shiseido has established Global Eco Standards to serve as activity guidelines in each business domain to ensure that the Group's domestic and international operations promote environmental activities in keeping with the Shiseido Eco Policy. Responses to environmental challenges have been classified into six categories: product development; research and development; manufacturing and procurement; distribution; sales; and offices. Each category consists of a basic policy that is further clarified by specific design and

action standards.

Environmental management conducted along these lines is promoted primarily by the Environmental Subcommittee set up under the CSR Committee and by Eco Study Groups established for each business domain. Members of the Environmental Subcommittee and Eco Study Groups also work closely with the Risk Management Committee and the Corporate Ethics Committee on environmental risk and corporate ethics issues.



Environmental Goals and Fiscal 2005 Achievements

Basic Direction	Action Category	Challenges	Previous Initiatives	Fiscal 2005 Achievements	Fiscal 2006 Goals	Medium-term Goals
Strengthen environmental management	Building an environmental management system	Strengthening the environmental management system	<ul style="list-style-type: none"> Domestic and international worksites obtained ISO 14001 certification (8 domestic, 9 international worksites) Expanded system to include domestic non-manufacturing worksites 	<ul style="list-style-type: none"> Expanded system to include overseas non-manufacturing worksites 	<ul style="list-style-type: none"> Thorough management of entire Group 	<ul style="list-style-type: none"> Continued thorough management of entire Group
	Disposal of waste materials	Expansion of management scope	<ul style="list-style-type: none"> Expanded initiative to include all domestic worksites, raw material suppliers, and OEMs 	<ul style="list-style-type: none"> Expanded initiative to cover domestic external contracted warehouses Expanded initiative to cover overseas non-manufacturing worksites 	<ul style="list-style-type: none"> Thorough management of entire Group as well as raw materials suppliers, commissioned manufacturers, and commissioned storage vendors 	<ul style="list-style-type: none"> Continued thorough management of entire Group as well as raw materials suppliers, commissioned manufacturers, and commissioned storage vendors
	Chemical substances	Total safety in chemical substance management	<ul style="list-style-type: none"> Complied with Occupational Safety and Health Act and PRTR Act Created Material Safety Data Sheets (MSDS) 	<ul style="list-style-type: none"> Thorough MSDS management 	<ul style="list-style-type: none"> Thorough management, by integrating targeted chemical substances into new regulations 	<ul style="list-style-type: none"> Assurance of safety through thorough management of chemical substances
		Prevention of leaks	<ul style="list-style-type: none"> Conducted emergency drills for dealing with leaks of chemical substances at all manufacturing sites 	<ul style="list-style-type: none"> Conducted emergency drills for dealing with leaks of chemical substances at all manufacturing sites 	<ul style="list-style-type: none"> Prevention of leaks of chemical substances through emergency drills and training 	<ul style="list-style-type: none"> Prevention of leaks of chemical substances throughout entire Group
Reduce environmental impact	Products	Promotion of environmentally responsible products	<ul style="list-style-type: none"> Eliminated all use of CFC gasses Eliminated all use of PVCs in containers and packaging Promoted reductions in containers and packaging (refillable products) Transitioned to use of recycled materials Began using vegetable-based plastics in product retail trays 	<ul style="list-style-type: none"> Began using FSC-certified paper Investigated possible product applications of vegetable-based poly lactides 	<ul style="list-style-type: none"> Commercialization of vegetable-based plastic (polylactide) containers Expansion of use of refillable products Review of glass container viability Incorporation of a mechanism on aerosol products for releasing remaining gas Reduction in use of outer cartons; consideration of their elimination 	<ul style="list-style-type: none"> Continuing promotion of environmentally responsible products Reduction of plastic consumption per unit of production in toiletry products to 6% of fiscal 2004 levels by fiscal 2010
	Business partners	Support for environmental efforts of business partners	<ul style="list-style-type: none"> Conducted environmental survey of raw materials suppliers Established and implemented Green Procurement Standards Provided ISO 14001 certification know-how and held environmental symposia for business partners 	<ul style="list-style-type: none"> Conducted a survey designed to gauge raw material suppliers' environmental initiatives, legal compliance, and labor practices Formulated the <i>Shiseido Group Supplier Code of Conduct</i> 	<ul style="list-style-type: none"> Expansion of activities based on the <i>Shiseido Group Supplier Code of Conduct</i> 	<ul style="list-style-type: none"> Spread <i>Shiseido Group Supplier Code of Conduct</i> to business partners
	Distribution	Efficient and environment-friendly transport and delivery	<ul style="list-style-type: none"> Promoted recycling of packaging materials Reduced cardboard usage by introducing collapsible containers Promoted shift to modal transport Promoted joint delivery 	<ul style="list-style-type: none"> Promoted shift to modal transport (for Kawasaki to Hokkaido shipments) 	<ul style="list-style-type: none"> Creation of mechanisms for complying with the revised Energy Savings Act (as applies to shippers) Expansion of shift to modal transport (for Kobe to Hokkaido shipments) Expansion of joint delivery programs (in Shikoku) 	<ul style="list-style-type: none"> Additional streamlining of transport and delivery
	Reduce, Reuse, Recycle (the 3 Rs)	Reduction of CO ₂ emissions	<ul style="list-style-type: none"> Deployed cogeneration systems Deployed a range of energy-saving equipment 	<ul style="list-style-type: none"> Held emissions per unit of production to 139% of fiscal 1990 levels (a year-on-year reduction of 10 percentage points) 	<ul style="list-style-type: none"> Promotion of transition to more environment-friendly energies Accumulation of knowledge by participating in the Ministry of the Environment's domestic emissions trading scheme 	<ul style="list-style-type: none"> Reduction of emissions per unit of production to 15% of fiscal 1990 levels by fiscal 2010
		Promotion of zero emissions	<ul style="list-style-type: none"> Achieved zero emissions at 8 domestic cosmetics manufacturing sites and at Head Office 	<ul style="list-style-type: none"> Achieved zero emissions at research centers and Mieux Products 	<ul style="list-style-type: none"> Achieve zero emissions at three distribution facilities 	<ul style="list-style-type: none"> Maintain zero emissions and expand program to non-manufacturing worksites
		Promotion of used cosmetic bottles recycling	<ul style="list-style-type: none"> Expanded recycling program for glass bottles throughout Japan (started in April 2001) Promoted recycling program in the media Developed culet cleaning agent Provided a searchable online directory of participating stores Collected a total of 425 tons of used glass cosmetic bottles 	<ul style="list-style-type: none"> Conducted survey designed to gauge awareness of and participation in the glass cosmetic bottle recycling program (in Osaka, Fukuoka, and Niigata districts) Collected a total of 121 tons of used glass cosmetic bottles 	<ul style="list-style-type: none"> Improvement of participation in glass cosmetic bottle recycling program 	<ul style="list-style-type: none"> Continued improvement of participation in glass cosmetic bottle recycling program
Strengthen environmental communication	External communication	Environmental public relations	<ul style="list-style-type: none"> Publishing environmental reports since 1997 Participated in a variety of tradeshows and exhibits Placed ads in magazines Holding stakeholder dialogs since 2003 	<ul style="list-style-type: none"> Published <i>CSR Report 2005</i> Promoted dialog with stakeholders (held stakeholder dialog) 	<ul style="list-style-type: none"> Publication of <i>CSR Report 2006</i> Proactive disclosure of environmental information through enhancements to the corporate website Promotion of dialog with stakeholders 	<ul style="list-style-type: none"> Ongoing communication of fiscal year achievements Enhanced disclosure of information
		Expansion of environmental volunteer activities	<ul style="list-style-type: none"> Planted greenery at domestic and overseas manufacturing sites Promoted beautification and greening of areas around worksites 	<ul style="list-style-type: none"> Continued efforts to plant greenery at domestic and overseas manufacturing sites Continued promotion of beautification and greening of areas around worksites 	<ul style="list-style-type: none"> Participation in environmental volunteer activities through the Shiseido Social Contribution Club Hanatsubaki Fund 	<ul style="list-style-type: none"> Continued promotion of environmental volunteer activities
	Internal communication	Promotion of environmental education	<ul style="list-style-type: none"> Introduced employee education system Held meetings to discuss the <i>CSR Report</i> 	<ul style="list-style-type: none"> Held meetings devoted specifically to environmental issues 	<ul style="list-style-type: none"> Provided environmental education for employees by introducing Environmental e-Learning System 	<ul style="list-style-type: none"> Establishment of environmental awareness through continued environmental education Promotion of environmental education at overseas worksites

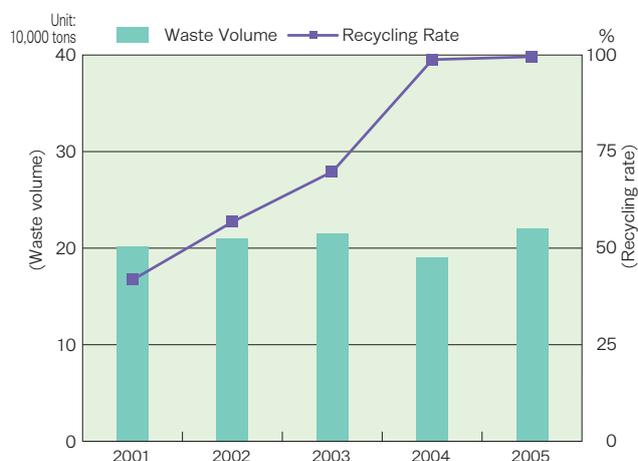
Recycling Initiatives

Research Center Initiatives

By 2004, Shiseido's research centers in Shin Yokohama and Kanazawa Hakkei were recycling 99% of their waste products. However, they were making little progress eliminating the final 1% due to the fact that their research and development work generates significant numbers of reagents that are legally classified as "industrial waste under special management," making recycling difficult. In order to achieve the goal of zero emissions, the centers created a categorized disposal system by classifying liquid industrial waste under special management into separate categories based on disposal process, and creating liquid waste classification manuals and procedures. The centers also worked to improve their recycling rate by assigning an individual at each laboratory with the responsibility for promoting zero emissions in that laboratory's daily operations by verifying proper disposal. Thanks to these efforts, the research centers met their goal of zero emissions in fiscal 2005.

The research centers are committed to protecting the environment through more intensive efforts to eliminate emissions, including by reducing waste volume and investigating the possibility of material recycling.

■ Research Center Waste Volume and Recycling Rate by Fiscal Year (Total of Shin Yokohama and Kanazawa Hakkei Facilities)

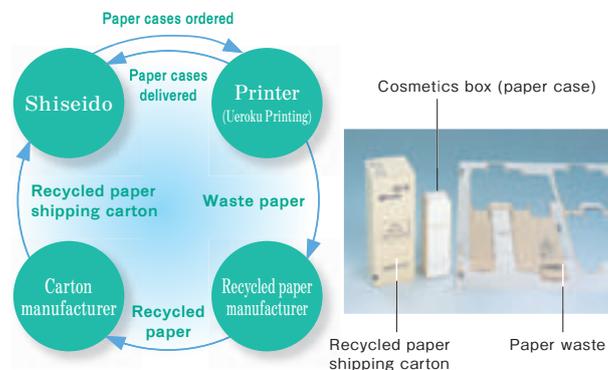


Initiatives with Business Partners

Shiseido shares the goal of a sustainable society with business partner Ueroku Printing (Ltd.) (Osaka Prefecture). The two companies have jointly developed a recycling system to reuse difficult-to-process paper waste generated during the production of the paper cases that serve as packaging for Shiseido cosmetics, using the scrap to manufacture shipping cartons. By enabling Shiseido to use difficult-to-process waste paper in this way, the system reduced the amount of waste incinerated and buried by Ueroku Printing by the equivalent of 315 tons in fiscal 2003, the year the system was introduced, and 257 tons in fiscal 2005. The adoption of the system by other companies has slashed the volume of incinerated and buried wastes generated by Ueroku's operations from 1,125 tons in fiscal

2002, prior to the introduction of the system, to just 22 tons in fiscal 2005. This success story typifies Shiseido's commitment to helping its business partners improve their recycling rates.

■ System for Recycling Difficult-to-Process Paper Waste



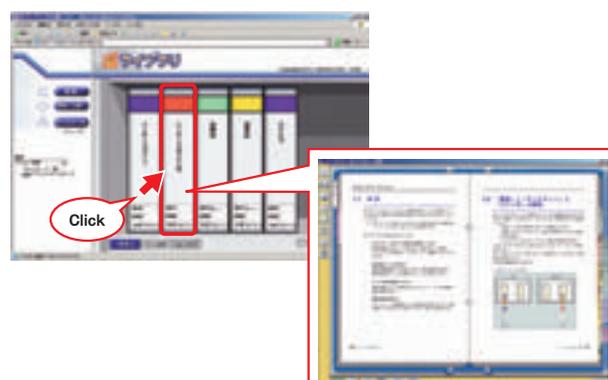
Initiatives to Reduce Resource Utilization

It has proven difficult to eliminate paper workflows in the cosmetics business due to the industry's extensive use of photographs and images. To address this challenge, Shiseido worked with PFU Limited and Celartem Technology Inc. to develop Virtual Archive: Raku-2 Library (DjVu Edition), a computer-based document storage and management solution that achieves 10:1 and higher compression rates with little image degradation. This system is serving as the basis for an aggressive drive to eliminate paper from Company workflows.

The Company has been working to deploy the system in its production operations, where about 4 million pages of factory-managed documents (10% of the total) were eliminated during fiscal 2005. The system has also been used to facilitate paperless meetings, underpinning steady progress toward the Company's goal of reducing resource utilization. By making it easier to perform chronological searches for technical and management documentation and enabling departments to immediately retrieve information as needed, the system has dramatically improved operational efficiency.

In keeping with its goal of promoting resource conservation outside its own field, Shiseido is encouraging widespread adoption of the Virtual Archive by responding proactively to inquiries from other industries and making associated knowledge available to other interested companies.

■ Virtual Archive: Raku-2 Library (DjVu Edition)



Initiatives to Prevent Global Warming

Initiatives to reduce carbon dioxide (CO₂) emissions

Environmental initiatives at Shiseido's factories are organized around the twin goals of promoting energy conservation and waste product recycling.

If fiscal 1990 emission levels are assigned a relative value of 100, fiscal 2005 CO₂ emissions associated with the use of electricity and fuel at the Company's six domestic factories* (measured per unit of production) declined 10 percentage points from the previous year's score of 149 to 139 due to reductions in fixed energy consumption achieved by a reorganization of key facilities designed to improve production efficiency, the deployment of energy-saving equipment, a transition from fuel oil to liquid natural gas (LNG), and an increase in production volumes. The Company posted a year-on-year decline in total emissions of about 1,600 tons.

Shiseido is committed to working to meet its environmental goals by intensifying efforts to transition to more environment-friendly fuels and deploy energy-saving equipment, and by examining the possibility of reducing CO₂ emissions using social mechanisms such as the Kyoto Protocol being promoted by the Japanese government.

*Six domestic factories: Kamakura, Kakegawa, Osaka, Kuki, Itabashi, and Maizuru



Environmental Risk Management

The Risk Management Committee plays the lead role in the Shiseido Group's efforts to address the issue of asbestos, working with concerned departments to tackle this social problem and its significant health ramifications.

The Company has conducted a survey to assess the use of sprayed asbestos insulation as well as asbestos content in other building materials at all Group worksites, company housing, and other structures in Japan and around the world. Where sprayed asbestos insulation has been discovered, the Company is moving to address the issue by having contractors remove or contain the offending materials. The Company maintains reliable records on asbestos found in other building materials so that proper measures can be taken in the event that the structures in questions are renovated or demolished.

Environmental Education Activities

Shiseido conducts a variety of environmental education activities designed to improve employee awareness of environmental issues. As part of its efforts to reduce the greenhouse gases that cause global warming, the Company promoted government-sponsored "Cool Biz" and "Warm Biz" programs at all of its domestic worksites. More than 70% of respondents (number of responses: 3,257) to a survey following the conclusion of these programs indicated that their individual awareness of environmental issues had increased along with that of their coworkers. Through these programs the Company successfully cut greenhouse gases, achieving a 7.6% year-on-year reduction in the carbon dioxide equivalent of Head Office (Shiodome and Ginza) and regional air conditioning electricity consumption.



■ "Cool Biz"
(July 1 to September 30, 2005)

A "Warm Biz" program was held from December 15, 2005, to March 31, 2006.

Shiseido also held Environmental Meetings for employees to share views on environmental issues in the Kanto and Kansai regions to improve environmental communication with employees (total attendance: 87). A Company contest to select a slogan expressing the need to prevent global warming for use in campaigns to increase awareness of environmental issues received more than 300 submissions.

■ Environmental Meeting at the Osaka Factory
(September 2, 2005)



Facility tour

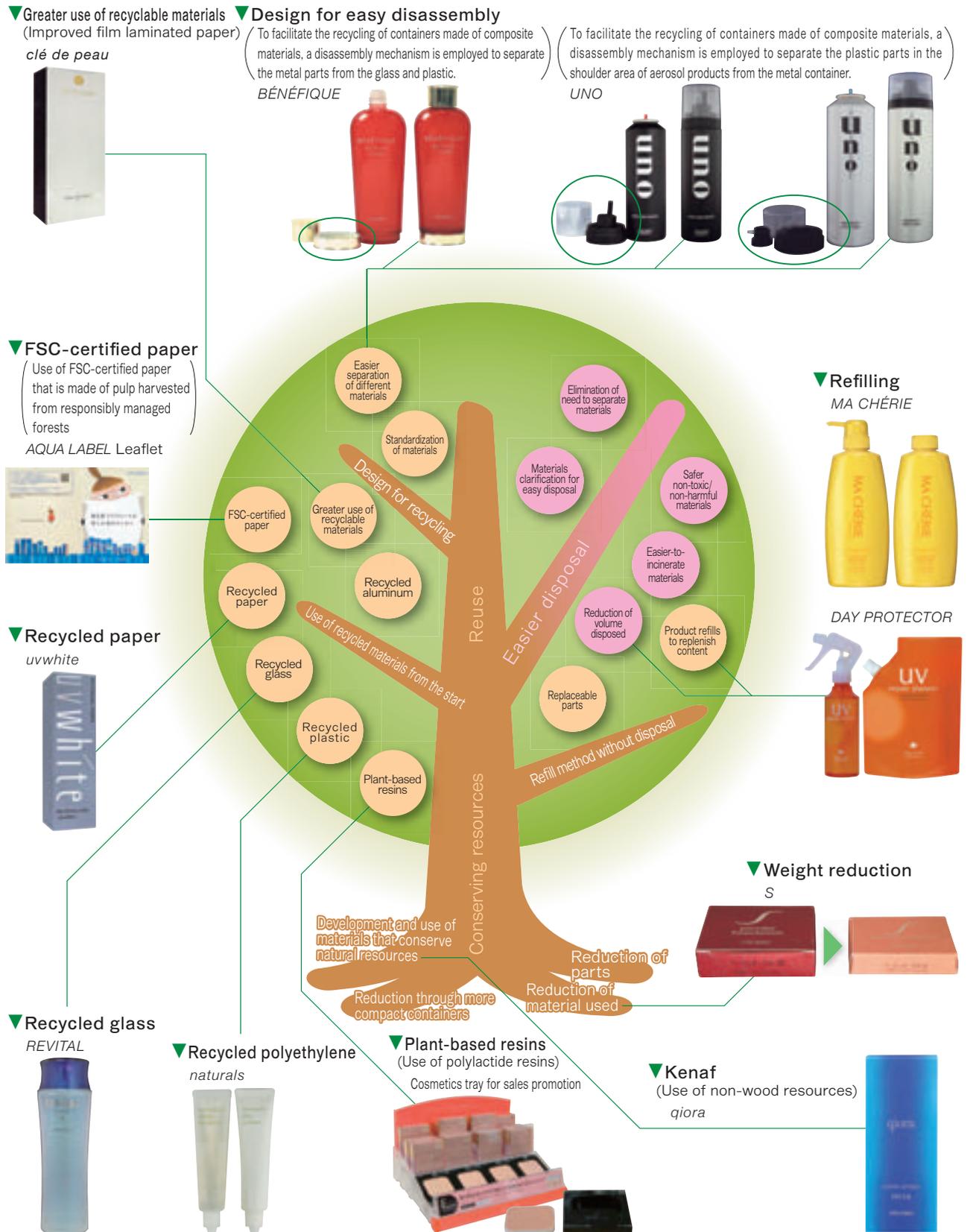


Group discussion

Environmental Considerations for Products

Shiseido's Product Development, Research and Development, and Design departments work closely to incorporate environmental considerations into products by selecting environment-friendly materials, reducing excessive packaging, and designing easily recycled containers.

2006 Eco Tree



Towards the Popularization and Expansion of Environment-friendly Technologies

Shiseido's initiatives to promote environmentally responsible product design and manufacturing include pioneering research in the commercialization of cosmetics containers made of polylactide. This biodegradable, vegetable-based plastic contains no fossil fuels and can be broken down into water and carbon dioxide by bacteria present in the soil. Joint research conducted with Toyota Motor Corporation has produced an advanced polylactide that combines high heat and impact resistance with excellent formability. The Company successfully employed the substance in promotional cosmetic trays in fiscal 2004 and plans to use it for plastic container inserts for an upcoming *Soka Mocka Powderly Foundation* product (scheduled for release in August 2006).

Next, Shiseido plans to undertake research with Unitika Ltd. into increasing the substance's ability to retain water as part of an effort to develop a cosmetic container made of an advanced polylactide that adds barrier (water retention)

properties to the above three characteristics. The new container will be used for *SHISEIDO MEN Hair Wax*.

Recognizing that the need to reduce the environmental impact of manufacturing on a global scale transcends individual companies, Shiseido is actively working to raise awareness of the versatility and importance of advanced polylactide plastics by encouraging other industries (food products, electronics, etc.) to take advantage of this technology.



Recycling Used Glass Bottles

Since it launched its glass cosmetic bottle recycling program in April 2001, Shiseido has been expanding the program throughout Japan which is now entering its sixth year in 2006. The Company has named this effort to recycle limited resources "Recycle Together!" as it creates and promotes resource recycling systems with customers, retail stores, and glass bottle manufacturers.

An example of one store's effort to cooperate with the program is described on page 30.

VOICE Masao Igarashi Manager, Cullet Center, Kakegawa Factory

Careful Work Ensures High-quality Cullet
 Making high-quality cullet requires workers to sort bottles and remove labels and stickers by hand. To ensure nothing is missed, the process includes three inspection steps. We apply ourselves to this work in the hope that more customers will participate in the recycling program.

System for Recycling Used Glass Bottles



Process until cullet is recycled as raw material for cosmetics glass bottles



Promoting Environmental Communication

Environmental Communication at the Kamakura Factory

Shiseido pursues local environmental communication initiatives at all of its worksites. Fiscal 2005 activities at the Kamakura Factory included inviting residents of neighboring condominium and apartment buildings to tour the facility as part of the Company's risk communication with community residents. During the tour, factory workers described facility environmental initiatives such as steps being taken to suppress noise and odors, an area of particular resident interest. Other activities included discussions with neighboring Shibaura Mechatronics Corporation and a joint effort to beautify nearby streams and rivers.



Communicating with residents of neighboring condominiums and apartments



Communicating with Shibaura Mechatronics Corporation

The factory's annual support of environmental education included inviting students from Kamakura Jogakuin Junior and Senior High School to visit its facility to learn about specific environmental initiatives and participate in creative thinking exercises.

Shiseido is committed to working toward mutual understanding with the communities in which it works, through proactive regional communication initiatives such as these.



Supporting education at Kamakura Jogakuin

Environmental Exhibits

Shiseido also encourages mutual communication by actively introducing its environmental activities at environmental exhibits and soliciting opinions from visitors.



Exhibiting environmentally responsible products at the Japan Packaging Contest and Good Packaging Exhibition held by the Japan Packaging Institute (October 26 to 28, 2005)



Participating in the 2005 "Bikkuri Top 100: Responsible Living Starts with Thinking about Waste" event (August 10 to 16, 2005)



Introducing environmental conservation activities at the Kiyasse Kuki Summer Trade Festival sponsored by Kuki City's Chamber of Commerce and Industry (July 30, 2005)

Environmental Advertising

In order to have as many people as possible appreciate its approach to the environment and the specific measures it undertakes, Shiseido places environmental advertisements in newspapers, magazines, and other print publications. The Company has also been publishing an annual environmental report since 1997 (as a sustainability report in 2003 and a CSR report since 2004). All previous reports are available online on Shiseido's website, along with a wealth of other environmental information in Japanese and English.

■ Environmental advertising



■ CSR Report website



For information on other Environmental Initiatives, visit
<http://www.shiseido.co.jp/e/eco/>

Third Party Evaluation Background

Shiseido established a CSR Group in the Corporate Planning Department to enable the Company to pursue CSR activities as an integral part of its management strategy, starting in fiscal 2006. Third party evaluator Yukiko Furuya talked with Kiyoshi Kawasaki, Director and General Manager of the Corporate Planning Department, in order to gain a more concrete understanding of the Company's environmental activities. She also participated in the Fourth Stakeholder Dialog in February 2006.

Shiseido asked Ms. Furuya to comment on this Report and its summary of the Company's CSR activities as it begins to transform itself into a 100% customer-oriented organization.

Third Party Evaluation



Yukiko Furuya

Permanent Director, Nippon Association Consumer Specialists (NACS) / Special Chairperson, Committee of Consumer-oriented Management Systems (COMS)

At COMS, Ms. Furuya is responsible for proposing specific consumer-oriented systems including principles and standards.

Notable Developments

- The Company's clear delineation of fundamental CSR activities that should be performed by all corporations and selective CSR activities that derive from its status as a cosmetics manufacturer; its action goal of becoming a 100% customer-oriented company; and its efforts to create an organizational culture conducive to the participation of all employees in these initiatives are worthy of praise because they lead to the fulfillment of CSR.
- Extensive initiatives in the areas of "Cosmetics," "Women," and "Cultural Capital" undertaken as selective CSR are praiseworthy as examples of activities for bringing about a sustainable society.
- Thanks to its customer-oriented focus, the *CSR Report 2006* does a good job of clearly communicating Shiseido's CSR initiatives. It maintains an approachable tone throughout by presenting the views of people who participated in activities.

Requests

- Fundamental CSR is presented primarily in terms of activities related to safety. I'd like to see more intensive fundamental CSR initiatives related to issues such as labeling and how the Company responds to product defects.
- I'd like to see the Company formulate specific objectives to express the concept of "customer-oriented" in a more concrete manner. Progress in meeting those objectives should be evaluated on an annual basis as a way of ensuring steady progress toward the goal of becoming a 100% customer-oriented company.
- The trust with which a CSR report is received depends more on the issuing company's disclosure of information relating to the interests of consumers and other stakeholders than on its publication of information in its own interest. For example, in addressing the Corporate Ethics Help Line and Customer Center, the Report discloses only the number of inquiries received. It would be helpful for the Company to include information about the nature of inquiries as well as action taken.
- Shiseido's membership in the United Nations Global Compact is admirable, and I look forward to seeing concrete measures to integrate the principles embodied by that agreement into the Company's business.

Response

Kiyoshi Kawasaki, Director and General Manager of the Corporate Planning Department

It is natural that CSR activities should have their origins in the corporate philosophy but develop to reflect society's wishes and expectations. I am grateful for Ms. Furuya's suggestions regarding the disclosure of information and the establishment of policies and objectives, and I look forward to working with various departments in the Company to address each of these concerns in an appropriate and considered manner. I believe this process is an important part of evaluating progress toward our goal of living "This Moment. This Life. Beautifully."

The Shiseido Group will continue not only to improve the *CSR Report* but also to more aggressively promote the CSR activities it describes. Throughout this process we are committed to listening to the voices of stakeholders at every stage as we determine which initiatives deserve greater application of Company resources.

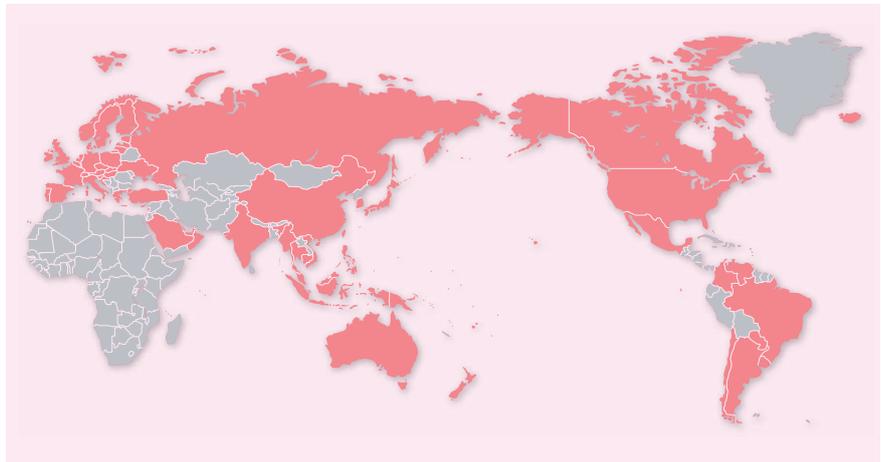
■ Name	Shiseido Company, Limited
■ Head Office	Ginza 7-5-5, Chuo-ku, Tokyo 104-0061
■ Telephone	+81-3-3572-5111
■ Established	1872
■ Capital	¥64.5 billion (as of March 31, 2006)
■ President and CEO	Shinzo Maeda
■ Net Sales	Consolidated: ¥671.0 billion (For the year ended March 31, 2006) Non-consolidated: ¥252.7 billion (For the year ended March 31, 2006)
■ Number of Employees	3,227 (Group 25,781) (as of March 31, 2006) *Excluding temporary staff (Employees: Full-time employees and part-time employees contracted for a limited period, etc.)
■ Shiseido Group	103 companies (included in consolidated report: 35 domestic, 63 overseas, 5 affiliated companies) (as of March 31, 2006)

*as of March 31, 2006

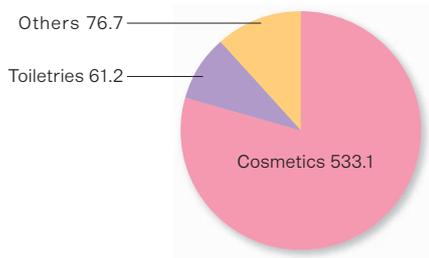
- **Cosmetics Business**
- **Toiletries Business**
- **Other Business**
 - Professional Business
 - Pharmaceuticals Business
 - Fine Chemicals Business
 - Health & Beauty Foods Business
 - and others

☞ Please refer to the following website for details on each business: www.shiseido.co.jp/com/

- **Overseas Bases**
 - Overseas business sites: 70 countries
 - Overseas manufacturing bases: 11 sites (China, France, New Zealand, Taiwan, U.S., and others)
 - Overseas R&D bases: 7 sites (China France, U.S., and others)



■ **Consolidated Net Sales by Industry Segment**
(For the year ended March 31, 2006)
(Billions of yen)



■ **Consolidated Net Sales by Geographic Segment**
(For the year ended March 31, 2006)
(Billions of yen)

