

SHISEIDO CSR REPORT 2005

For people, for society, for beauty



SHISEIDO

CONTENTS

- 1 Table of Contents / Editing Policy
- 2 Corporate Ideals /
The Shiseido Way / The Shiseido Code
- 3 Commitment by Management
- 5 Company Outline / Overview of Business
- 6 Corporate Governance

Highlights

- 7 1. Shiseido CSR and the Future We Face
- 9 Women: Shiseido Leads the Way in Support for Women
- 10 Beauty: Philanthropic Activities for the Creation of Beauty in Daily Life
- 11 Cosmetics: Exploring the Power of Cosmetics
- 13 2. 3rd Discussion with Stakeholders:
What Must Shiseido Do towards Attaining a "Happy and Content Society"?

With Our Customers

- 15 Communicating with Customers
- 16 Beauty to Match the Individual

With Our Business Partners

- 17 Working with Suppliers on the Environment /
Expanding of CSR Activities to Suppliers
- 18 Supporting for Retail Clients—Shiseido Online

With Our Shareholders

- 19 Toward "Growth & Rapid Progress" / Stock Status
- 20 Fiscal 2004 Investor Relations Activity / Status of SRI Fund Inclusion

With Our Employees

- 21 Personnel Data / Respecting for Employee Diversity
- 23 Action Plan for Support of Education for the Next Generation /
Developing Employee Potential
- 24 The Active Role of Shiseido Beauty Consultants

With Our Society

- 25 Shiseido's Social Activities / New Social Activities
- 26 Welfare and Local Community Activities
- 27 Philanthropic Activities
- 28 Successful Aging Activities / Activities to Support Academic Research /
Shiseido Social Welfare Foundation

Shiseido Corporate Ethics

- 29 *The Shiseido Code*: The Basis for CSR Activities at Shiseido /
Corporate Ethics Activities Follow a PDCA Cycle
- 30 Code Leaders are Standard Bearers at Worksites /
Comprehensive Corporate Ethics Training / Corporate Ethics Help Line
- 31 Participating in the United Nations Global Compact /
Corporate Ethics Activities at Overseas Sites
- 32 Thorough Information Management

Environmental Protection

- 33 Environmental Policy and Activities at Shiseido
- 35 Environmental Goals and Fiscal 2004 Achievements
- 36 Environmental Management
- 37 Maintaining and Expanding Zero Emissions
- 39 Environmental Considerations for Products
- 40 Recycling of Used Glass Bottles
- 41 Communication
- 42 Third Party Evaluation

Editing Policy

To express the character and nature of Shiseido, the *Shiseido CSR Report 2005* was edited based on the following policies.

- The focus has been on clarifying the direction of Shiseido's corporate social responsibility by fostering a better understanding of the company's CSR activities.
- We have devised various ways to make the report easier to read, including reducing the number of pages compared to previous reports, offering supplemental content on our website, and making a greater effort to disclose relevant information.
- In order to raise the levels of objectivity, reliability and transparency 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 the *Sustainability Reporting Guidelines* (2002 edition) of the Global Reporting Initiative (GRI*) were used for reference.

*GRI is an NGO established in 1997 for developing globally applicable sustainability reporting guidelines not only for the environmental activities of companies but also for their economic and social activities.

○ Period covered

April 1, 2004 - March 31, 2005
(Included are some activities from immediately before or after the period covered.)

○ Range of activities covered

Financial and social-related data is derived from Shiseido and the 97 consolidated group companies and three 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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Corporate Ideals

Corporate Mission

We aim to identify new, richer sources of value and use them to create beauty in the lives and culture of those we serve.

Criteria for Corporate Activity

1. We seek to bring joy to our customers.
2. We are concerned with results, not procedures.
3. We share frankly with each other our real priorities.
4. We give free rein to our thoughts and boldly challenge conventional wisdom.
5. We act in the spirit of thankfulness.

The Shiseido Way

With Our Customers

Through the creation of 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 aims, we act in a spirit of sincere cooperation and mutual assistance.

With Our Shareholders

We aim to win the support of our shareholders by retaining earnings for future investments and paying dividends which come from sound business results, and to uphold their trust through transparent management practice.

With Our Employees

The individuals who make up our workforce—in all their diversity and creativity—are our most valuable corporate asset. We strive to promote their professional development and to evaluate them fairly. We recognize the importance of their personal satisfaction and well-being, and seek to grow together with them.

With Our Society

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

The Shiseido Code (Extract)

Chapter 1

1. We will always try to see things from our customers' perspective and do our best to research, 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 meets with our customers' satisfaction 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 enhance the brand value of the Shiseido Group.

Chapter 2

1. We respect all our business partners who share our aims, and aspire for coexistence with them.
2. We will always comply with the Anti-Trust Law and other relevant laws, and compete fairly.
3. We will not offer or accept such gifts or entertain or be entertained in such a manner that would call our fairness into question.

Chapter 3

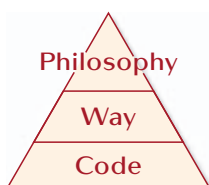
1. We will make good use of the Shiseido Group's assets to achieve good business results and generate profits.
2. We will maintain transparency in our corporate management and carry out proper accounting practices.
3. We will place importance on dialogue with our shareholders and investors to gain the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

Chapter 4

1. We will be considerate towards one another and respect each individual's way of thinking and point of view, so as to create a workplace in which everyone can work with a sense of vibrancy.
2. We will conduct business with integrity and strive to create new value, and to put forth our best efforts to promote self-development.
3. We will create a healthy and safe work environment.
4. We will manage information appropriately and treat confidential information with the greatest care.
5. We will distinguish between private and business affairs to create a pleasant work environment.

Chapter 5

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



Shiseido's Corporate Ideals, which are based upon the Five 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 a Peaceful, Safe and Happy Society

Fiscal 2005 was a year in which Shiseido entered a new chapter, focusing on growth and rapid progress. All Shiseido employees are beginning to pool their energy toward becoming a truly customer-oriented company.

Since its founding, Shiseido has been aiming “to create beauty in daily life” by turning the new values it discovers and creates into tangible products. In order for us to enjoy beauty in daily life, we need the right kind of environment. Today, however, people throughout the world are not satisfied with their living environments. War and conflict are ever present, while a whole range of other problems threaten the livelihoods of people everywhere. All of us who live in these times must take on these problems and strive to resolve them. We need a society in which everyone can feel secure. I strongly believe that we have a responsibility towards each other to build such a society. The sort of society Shiseido wishes for is a peaceful, safe and happy one.

To help people all over the world lead happy lives in peace and safety, and to be comforted or even energized through the use of makeup, we aim to create reliable products, assume our corporate responsibility in acting to protect the global environment, and look to enhance our contribution to society. As a company that conducts business on a global level, Shiseido’s ideal is to realize a peaceful, safe and happy society.

To that end, last September Shiseido joined the United Nations Global Compact. The Global Compact has

established 10 principles in the areas of human rights, labor, the environment and anti-corruption, with the aim of having companies bring about positive change in the world by observing and practicing these principles within their respective business areas. Specifically, Shiseido has made a promise to society that we will meet the requirements of the Global Compact, and continue to act as a good corporate citizen, by applying *The Shiseido Code* (Corporate Ethics and Behavior Standards).

Shiseido endeavors to carry out all of its corporate activities not only in the pursuit of financial goals, but also to provide satisfaction to customers and gain the firm trust of society. This involves both steadily putting into practice measures needed to fulfill our corporate social responsibility, along with implementing initiatives that only Shiseido is in a position to accomplish. While constantly seeking ways to carry out corporate activities that are advantageous to society, we will look to people, to society and to beauty as a means of attaining a peaceful, safe and happy society.

June 2005

Shinzo Maeda

President and CEO

Shiseido Company, Limited

前田新造

Company Outline

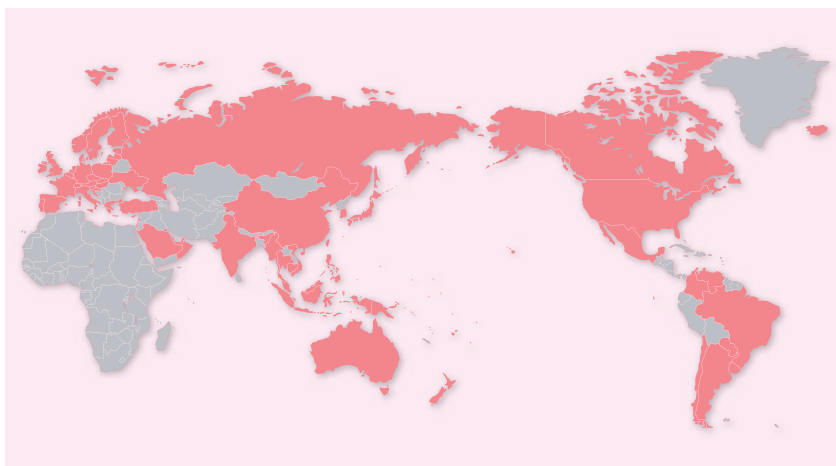
■ Name	Shiseido Company, Limited
■ Head Office	Ginza 7-5-5, Chuo-ku, Tokyo 104-0061
■ Telephone	+81-3-3572-5111
■ Founding	1872
■ Capitalization	¥64.5 billion, as of March 31, 2005
■ President and CEO	Shinzo Maeda
■ Net Sales	Consolidated: ¥639.8 billion, for the year ended March 31, 2005 Non-consolidated: ¥243.0 billion, for the year ended March 31, 2005
■ Number of Employees	3,180 (Group 24,184), for the year ended March 31, 2005 *Employees: Full-time employees and part-time employees contracted for a limited period, etc.
■ Shiseido Group	100 companies (included in consolidated report: 37 domestic, 60 overseas, 3 affiliated companies), as of March 31, 2005

Overview of Business

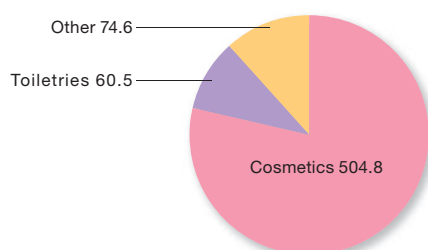
■ Cosmetics Business	
■ Toiletries Business	
■ Other Businesses	Salon Business Beauty Foods Business Pharmaceuticals Business Fine Chemicals Business Restaurant Business Boutique Business

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

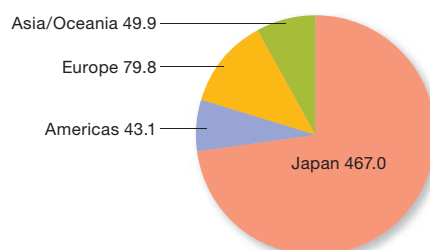
■ Overseas Bases	Overseas business sites: 70 countries Overseas manufacturing bases: 10 sites (China, France, New Zealand, Taiwan, U.S.) Overseas R&D bases: 6 sites (China, France, U.S.)
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■ **Consolidated Net Sales by Industry Segment**
(for the year ended March 31, 2005) Billion yen



■ **Consolidated Net Sales by Geographic Segment**
(for the year ended March 31, 2005) Billion yen



Corporate Governance

Shiseido is taking proactive steps to bolster its corporate governance 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 because it recognizes the importance of 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 seven directors, a structure that allows for swift decision-making, and formally meets once a month.

A corporate officer system has also been introduced to separate the decision-making and supervising functions of the Board of Directors from those of the corporate officers. Furthermore, in order to transfer authority to corporate officers and clarify their responsibilities, the Corporate Executive Officers Committee, which deliberates on and determines the execution of daily operations, has been established. The committee is chaired

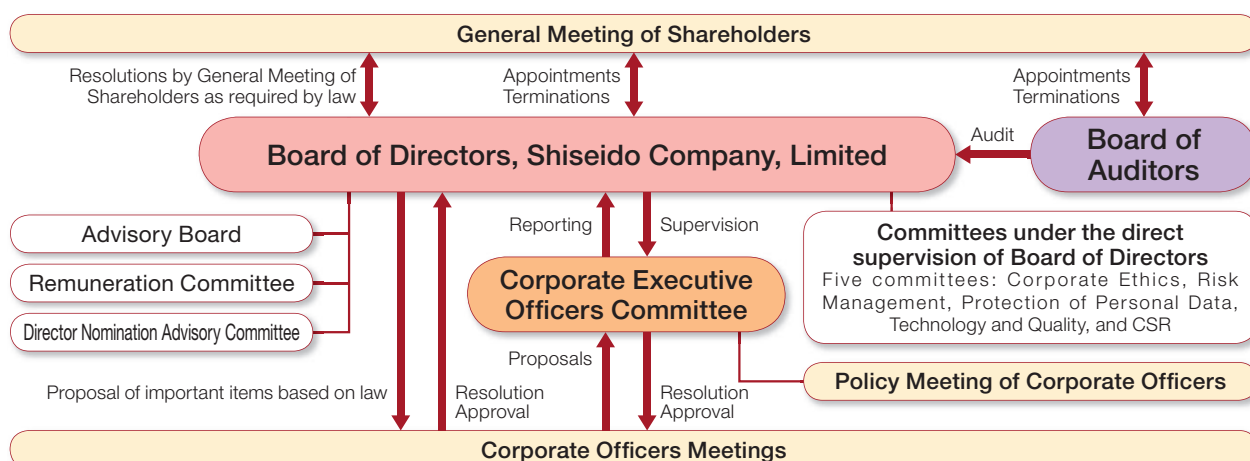
by the President, who is both the Chief Executive Officer (CEO) and Chief Operating Officer (COO).

The term of each director or officer is one year. Shiseido employs a corporate auditors system, with a Board of Auditors comprised of two full-time corporate auditors, and three external corporate auditors with no vested interest in the company. The corporate auditors, through attending Board of Directors Meetings and other important meetings, monitor the legality and appropriateness of the directors’ business actions.

Systems and Structures Unique to Shiseido

In addition to the above, an Advisory Board, composed of six prominent people from outside the company, and a Remuneration Committee, chaired by an external member, act as advisory bodies to the Board of Directors, and were established to improve the transparency and objectivity of Shiseido management. Furthermore, a Director Nomination Advisory Committee has been established in July 2005 to ensure sound and transparent management. The committee’s mission will include the selection of

candidates for President and new directors, auditors and corporate officers, and the formulation of rules for the promotion, demotion, and retirement of directors. Based on the belief that responsibility towards society is essential to sustainable development, a Corporate Ethics Committee, Committee for Protection of Personal Data, and CSR Committee have been set up under the direct supervision of the Board of Directors, and their respective activities are being energetically promoted.



Shiseido CSR and the Future We Face

“All things come from Mother Earth”—Shiseido was founded in Tokyo’s Ginza in 1872 as a modern Western-style pharmacy, taking its name from this expression praising the virtues of the sacred Earth, from which everything of value springs. In 1921, as its business expanded, the company adopted the Five Management Principles, a corporate motto that was to form the basis of the current CSR charter, our Corporate Behavior Declaration: *The Shiseido Way*. This code guides the activities of all our employees, acting as an important signpost in our work.

In what direction does this signpost point? What does the future hold in store for us? What will our relationship be with our stakeholders?

We clarify the direction Shiseido ought to follow and the role it should play, building upon the last 133 years of history and drawing upon what we have learned to date.

1

Towards a Sustainable Society

The Five Management Principles—quality first, coexistence and co-prosperity, respect for consumers, corporate stability, and corporate sincerity—capture the company’s designs for a sustainable society. Materials suppliers, wholesalers, retail outlets, customers, and society have all joined together with Shiseido, the manufacturer, in its undertaking to provide high-quality products and services to customers. This has been achieved through

the collaboration of everyone concerned and by showing consideration for one another, thus propelling us forward towards a society based on mutual trust.

The foundation of the Five Management Principles is the spirit of coexistence and co-prosperity. A society based on coexistence and co-prosperity, upheld by consideration and trust, is precisely the sort of sustainable society Shiseido seeks.

2

Shiseido’s Role in Society

The Earth has never been free of conflict. Moreover, three quarters of the world’s 6.5 billion people are suffering from poverty. We constantly ask ourselves: what can we do, and indeed what must we do, as a cosmetics manufacturer in order to build a sustainable society together with the rest of the world?

Over the past 133 years, Shiseido has added color to the history of women in Japan and throughout the world. Cosmetics impart brightness as well as maintain healthy and supple skin. In fact, the suppleness effect is not

limited to the skin. Picture a beauty seminar for seniors at welfare facilities—an old woman, her smile reflected in a mirror even though she is somewhat flustered by seeing an unfamiliar face. In this way, makeup contributes greatly to rejuvenating one’s emotional being.

Through the benefits of makeup—encouragement, healing, and peace of mind—we want to put smiles on the faces of as many people as possible and share in their happiness. In other words, Shiseido’s greatest role is to bring about as many smiles and as much happiness as it possibly can.

3

Shiseido's CSR Domain

CSR is not an entirely new concept for Shiseido. Improving the quality of our various operations, centered on the cosmetics business, is the cornerstone of our CSR activities. What is important here is not *what* we are improving, but *how* we are improving it. In addition to compliance with all laws and regulations, Shiseido's fundamental CSR activity domain encompasses all activities that involve taking the global environment and human rights into consideration, developing employee abilities to the full, and maintaining strong relationships with all relevant stakeholders while benefiting one another.

And there are other activities that should build upon

fundamental CSR activities. We think of these activities as being pursued selectively or strategically according to the company's particular traits and attributes, as well as its managerial resources. Shiseido's social contribution activities, which include philanthropic activities, fall within this domain. On top of this are the corporate activities of a leading-edge company that involve proposing new social ideas and new social values, and creating new markets. In other words, we view CSR activities as going beyond the concept of corporate responsibility, to include fulfilling our duty to and role in society.

4

CSR Keywords that Reflect Shiseido Values

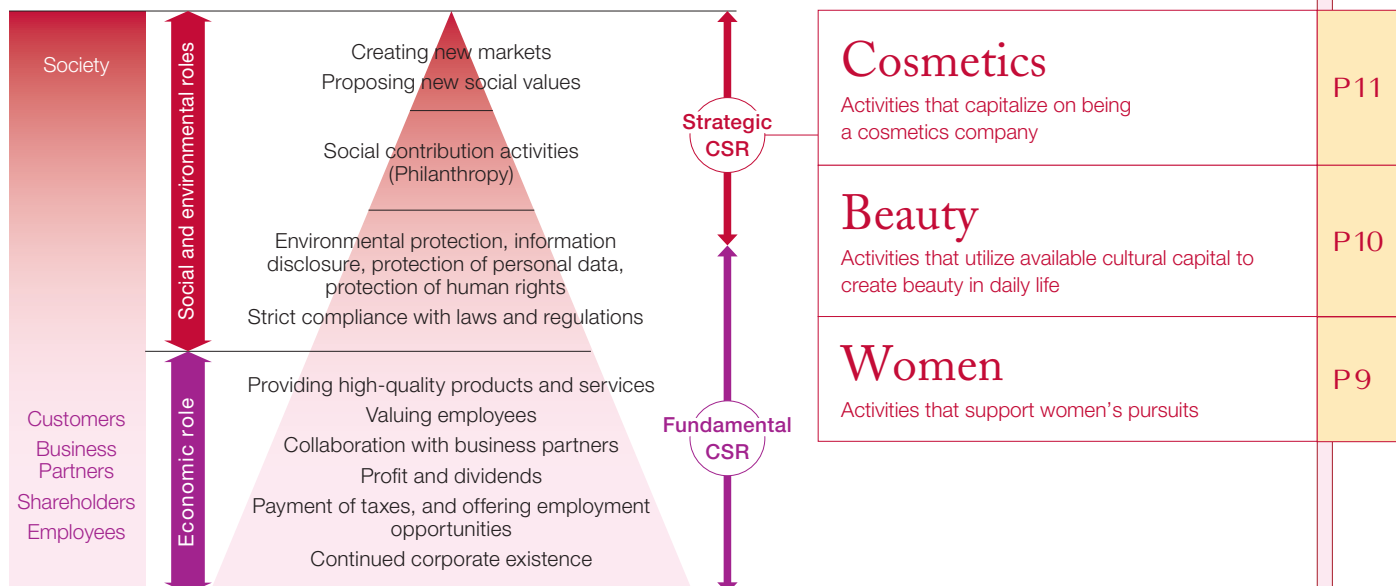
When considering CSR activities appropriate for Shiseido, three main points come to mind. First, the activities are based on the premise of being held desirable by customers and society. Second, the activities are meaningless unless carried out on an ongoing basis. Third, and most importantly, the activities must be a source of pride to employees.

In light of these three points, we can offer three keywords to substantiate Shiseido CSR activities. First of all, we cannot proceed without reference to our main business, "cosmetics." Hence, the first group of activities consists of those that capitalize on being a cosmetics company. Next are activities related to the "aesthetic sense" that

Shiseido has nurtured ever since its founding. This concept not only concerns the arts, but extends in fact to global environmental initiatives, corporate ethics, and even the style of management. The second group, therefore, involves activities that utilize available cultural capital to create beauty in daily life. The final keyword is "women," as it is women who comprise 70% of the Shiseido employees and 90% of our customers, leading us to undertake activities that support women's pursuits.

We will fervently undertake the initiatives associated with the three areas above since they constitute CSR activities that reflect Shiseido values and are widely sought by society.

■ Diagram of CSR domain



Shiseido Leads the Way in Support for Women



Women represent 90% of Shiseido customers, which makes them an extremely important group for our company. We are committed to supporting beauty, health and happiness in women's lives and this is reflected in one of our initiatives, Successful Aging, which refers to becoming increasingly attractive as a human being. This is Shiseido's message in support of enriching the lives of women.

1

Supporting Women in Society

1 Seminars on Successful Aging

Beauty consultants play a central role in hosting beauty seminars, which are held at the request of local communities, companies and organizations. They not only offer tips to women irrespective of their position in society—whether elderly, disabled or young adults beginning their working life—on how to use makeup to enhance the enjoyment of their lives, but they also allow participants to experience first-hand the 'healing power' of makeup.

During fiscal 2004, 111,196 women participated in 4,417 seminars held across Japan.

2 "wiwiw" program to support employees on parental leave



Shiseido's online wiwiw program provides employees on leave with support aimed at enhancing their parental life and developing skills to facilitate their return to work. As of April 2005, 83 companies have purchased and introduced the wiwiw system from Shiseido, with 1,511 people on parental leave utilizing the program.

Men are also invited to participate in this program.

2

Building Flexible Workplaces to Support Employees with Young Children

1 Helping to balance work and childbirth/childcare

It is natural for women to want to have children, and after giving birth, to want to pursue a challenging job while raising their child. Understanding this desire and helping to strike a balance between the two are vital components for revitalizing human resources, encouraging involvement by female employees, and fulfilling social responsibilities. Shiseido provides solid support to its employees throughout pregnancy, childbirth and childcare. During fiscal 2004, 111,196 women participated in 4,417 seminars held across Japan.

■ Comparison between Japanese laws and Shiseido's system

	Japanese Law	Shiseido's System
Parental leave	Available until the child becomes 1 year old (or 1 year and 6 months in some circumstances).	Available until the child turns 3 years old. Up to 5 years in total when used more than once. If an employee has already used up the 5 years, the program is available until his or her next child becomes 1 year old.
Childcare during work hours	(If the child is under 1 year old.) Two periods of at least 30 minutes can be requested each day.	Work hours can be reduced by up to 2 hours each day up until the time a child enters elementary school.
Nursing leave	Business owners must strive to introduce leave for parents to take care of children under 5 years old.	5 days of paid leave a year can be taken to take care of sick or injured children under 5 years old.

■ List of support initiatives unique to Shiseido

Childcare plan	A communication framework in place allows discussion with managers regarding childcare plans for the period from pregnancy through to returning to work.
Guidebooks to assist in balancing work and childcare or family care	Guidebooks on maternal welfare, systems for child and family care, and laws and regulations are distributed to all employees.
Short-term parental leave (paid)	The objective is to encourage men to become involved in childcare. Applies to one period of up to 2 weeks parental leave taken before the child turns 3 years old.
Reduction of work hours (unpaid)	Pregnant employees who wish to work shorter hours due to their physical condition may reduce work hours by up to 2 hours each day.
Maternity uniforms	Maternity uniforms will be introduced for pregnant beauty consultants from the second half of fiscal 2005.
Flexible benefit system—childcare subsidy (flat annual amount)	A subsidy of up to 6,000 yen/month for employees who leave their children at a daycare center and wish to receive assistance with fees.
Flexible benefit system—childcare subsidy (as required)	A subsidy in 4,000-yen units (limited to actual cost) for employees with children under grade 4 in elementary school who wish to receive assistance for extra childcare provided by babysitters, daycare centers.

Shiseido also runs a retail support group through which former employees fill in for beauty consultants who require time off to care for their children.

* See p. 21 for information on promoting the participation of young people and women in management.

Beauty Philanthropic Activities for the Creation of Beauty in Daily Life



Shiseido Gallery, 1934

Ever since its founding, Shiseido has been trying to create beauty in daily life. Shiseido believes that disseminating the intellectual and cultural assets it has cultivated and developed over the past 133 years is an important role that it should fulfill, through social activities in Japan and around the world. From Shiseido's position within the "cultural lifestyle industry," we see philanthropic activities (support of artistic and cultural activities) as going hand in hand with our main business.

1

Profile and Development of Shiseido's Philanthropic Activities

Shiseido's philanthropic activities can be traced back to 1919, when the Shiseido Gallery was opened. Carried out based on the premise of creating beauty in daily life, these activities center on support for the next generation of budding artists, who lean more towards innovation than tradition.

The Shiseido-sponsored Tsubakikai exhibition was established in 1947 to mark the reopening of the gallery after the war, and the exhibition continues to this day. Another exhibition sponsored by Shiseido, the Modern Art and Craft Exhibition, was inaugurated in 1975. This exhibit began as a gathering of artists of relative renown who were active in the world of crafts, but by the time the exhibition came to an end in 1995 it had been transformed into a panoramic exposition of works by national living treasures. This demonstrates the spirit of Shiseido's support for the arts and culture, which places emphasis on fostering new talent to play a major role in the future rather than focusing on major artists with established reputations.

Building on the traditions of the Modern Art and Craft Exhibition, a new series of expositions began in 2001 aiming for further creation of beauty in daily life. The "life/art" exhibition contemplates the effect the arts have upon people's lives and lifestyles by focusing our attention on the boundaries between crafts and contemporary art. We have so far explored the potential of this new genre, which cannot be categorized as either craft or art, on five occasions.



"life/art"—December 2004

2

Communicating Beauty through Shiseido's Own Aesthetic Sense and Appreciation of Beauty

The arts and culture spread as the ideas pass from one person to another. Shiseido assists this process in a variety of ways, making great use of its cultural assets.

The Art Documents Support Program by Shiseido (ADSP) has supported the production of catalogues for exhibitions which have been selected through public solicitation. The aim is to retain printed records of exhibitions by budding artists. The Hanatsubaki Award for Contemporary Poetry, meanwhile, is presented to the author of the most outstanding collection of poetry published during the year. Another

activity is Word Friday, an interactive discussion held every Friday in which guests invited from various fields reflect upon life, emotions and intellectual issues. Shiseido provides much of its support in collaboration with the Association for Corporate Support of the Arts. The Shiseido Art House, which exhibits works of art that the company has collected through its philanthropic activities, pursues additional cultural activities that encourage community participation, such as art classes and concerts for children and families. (See p. 27 for more information on philanthropic activities.)

Cosmetics Exploring the Power of Cosmetics

Cosmetics have a great deal of hidden potential. Cosmetics make us look good, but they also offer us peace of mind at times and provide enjoyment and encouragement in making ourselves beautiful at others. Shiseido draws out the power of cosmetics through endless research and development coupled with exhaustive safety measures.

1

Safe cosmetics for Even the Most Delicate Skin

I have suffered from atopic dermatitis ever since I was a child and I remember how I used to stay well away from the foods my dermatologist told me I shouldn't eat if it would ease the agony of my itchy skin even a little bit. I also had to be twice as careful about the safety of cosmetic products as other people. That led to me wanting to get involved in the development of cosmetics that even people with delicate skin could use, which in turn led me to knock on the door of the Shiseido Research Center. I have been verifying the safety of cosmetics for the 17 years since.

Shiseido has two research centers in Japan, as well as R&D facilities elsewhere in Asia, the U.S. and Europe. By bringing together the technologies and knowledge we have accumulated around the world, we are able to research and develop products that differ depending on such things as national identity, customs, culture, climate and legal restrictions (1).

An example of a product we created as a joint development effort with dermatologists is *d-Program*. I take pride in the fact that this product enjoys the same kind of trust among customers with sensitive skin as the trust I used to place in my doctor when I was a child with atopic dermatitis.

Ensuring product safety, taking into consideration every possibility, has been designated as a top priority in all R&D activities, with some 80 different tests carried out in the time between selection of raw materials and the decision to go ahead with commercial manufacturing (2). The effect of cosmetics on skin is mild, but due consideration to safety is required if they are to be used repeatedly over long periods of time. I am involved in conducting patch tests (applying samples directly to the skin with an occlusive patch and observing changes to the skin after a certain length of time) and usage tests, while always visualizing the large number of customers who will enjoy the benefits cosmetics offer.

Formulas designed and confirmed for safety by research centers are then sent to us for further rigorous testing so that our plants manufacture them correctly (3). It is only products that go through this entire process that ever make it to customers (4).

At Shiseido, we view the safety of our cosmetics as a matter of course, and up to now we have not made much of an effort to emphasize the theme of safety in our advertising. But I think it will be important for us now, in terms of building customer trust, to communicate our safety measures in clearly understandable terms. At the same time, we must constantly try to identify and pursue the highest levels of safety. My hope is that our work will lead to many more happy faces.

Miki Okamoto

Safety Research
Center

Safety and
Analysis Center





1. Before cosmetics are created...

It is important to know the skin properly before you can create safe cosmetic products that will meet customer expectations and resolve the skin problems afflicting them. Shiseido is conducting exhaustive research into the mechanisms of skin, incorporating cutting-edge technologies even outside the field of cosmetics (such as life science, dermatology, surface science, ergonomics, psychology, etc.) and undertaking joint research projects with dermatologists, universities and research institutes in Japan and overseas.

2. In cosmetics design at research centers...

Cosmetics are applied directly to the skin, which is precisely why Shiseido has a rigorous raw materials selection process. Materials are closely analyzed to see if they contain impurities or have the potential to adversely affect the skin and only the materials proven to be safe find their way into our formulas. Preservatives are sometimes added to maintain the quality of a product, in which case Shiseido makes the effort to ensure the safety of those ingredients and uses the minimal amounts necessary. We also conduct patch tests and dermatologist-supervised usage tests to further confirm the safety of our

products.

The major ingredients in cosmetics are water, oils, surface active agents (for maintaining mixed oil-water mediums), preservatives, antioxidants and stabilizers. (Please note that at this point in time detailed information regarding cosmetics ingredients is only disclosed on Shiseido's Japanese language website.)

3. In the manufacturing of cosmetics...

In addition to visual checks, products are tested in all manufacturing processes (weighing of raw materials, content production, filling of containers and final processing) under much stricter conditions than those under which they are expected to be actually used. Prior to shipment from the plant, specialized sensory experts inspect the products to confirm their condition, odor, color, and how they feel when applied. Only products that pass these inspections are shipped.

4. After delivery to customers...

Products from the same production batch as those delivered to customers are stored at the plant for over three years for continued confirmation of quality.

Safety evaluation of Shiseido products

With research and manufacture conducted in this manner, the products we deliver to customers are also viewed as safe by dermatologists. When visited by patients with suspected dermatitis (skin irritation) caused by cosmetics, dermatologists conduct patch tests with the product in question and its ingredients in order to thoroughly investigate the cause. If we tally the percentage of patch tests that tested positive per

manufacturer, we get a good idea of the safety level afforded by each manufacturer. A comparison of the percentage of positive patch tests for cosmetics manufacturers in Japan and overseas awarded the lowest percentage to Shiseido products.* We take this as recognition of our sincere efforts toward ensuring skin safety.

* Fujimoto et al., *Patch test results in 492 patients of suspected cosmetic dermatitis* (1996-2000), *Environ. Dermatol.*, 9, 53-62, 2002.

Compatibility Between Product Safety for Customers and Protection of Animals

Shiseido has been involved in the research and development of alternative methods to animal experimentation since 1981. Designing alternative safety experiments that do not use animals is an important corporate responsibility from the viewpoint of ensuring both product safety for customers and the protection of animals. Shiseido has reached beyond its own doors, taking a leading role in the establishment of experimentation standards for the industry through participation in a Ministry of Health, Labour and Welfare

scientific research group and an ongoing role in professional conferences. In order to fulfill our corporate responsibility, we began activities in 2004 that reach across company borders, joining up with Kao Corporation, for example, in developing alternative skin allergy experiments for standardization. Shiseido intends to carry on its leadership in the research of alternative methods to encourage further reductions in animal experimentation.

What Must Shiseido Do towards Attaining a “Happy and Content Society”?

Based on opinions received about the *Shiseido CSR Report 2004*, we held a discussion with a diverse range of stakeholders—representing customers, business partners, shareholders, international organizations and the general public—together with the heads of 10 head office departments regarding what Shiseido must do towards attaining a happy and content society and what was lacking in this respect. The following comments were made reflecting the various standpoints and perspectives of the different participants.

Date/time: February 21, 2005; 3:00 – 5:30 p.m.
Place: Shiseido Shiodome Office (Conference Room)
Details: 1. Outline of Shiseido and review of its CSR activities
2. Exchange of opinions
What must Shiseido do towards attaining a “happy and content society”?

Impressions of the *Shiseido CSR Report 2004*

First of all, some impressions of the report as a whole, from the standpoint of the general reader, were that care had been taken throughout to make it easy to read and that it was also good to get a glimpse of how the company works. Most people, however, would like to see more information on actual products rather than detailed data.

Meanwhile, from the perspective of investors, there was the feeling that brand value had not been fully utilized. They would like to see concrete figures regarding new value. NGOs and various relevant professionals, for their part, perceived a gap between awareness of the issue of sustainability and actual measures taken in this regard, and called for information to be quantified. There were also calls to fully disclose information on social and environmental activities carried out in Japan and around the world.

What is Expected of Shiseido in Helping to Build a “Happy and Content Society”

Shiseido’s aesthetic sense is an integral element of its main business and is a value that the company believes should be fully pursued. The participants responded to this with the opinion that the company’s structure needs to be strengthened, by bringing activities into line with the Corporate Ideals, if the company is to continue to fulfill its corporate social responsibility. Shiseido has to work out how to link beauty to CSR and efforts must be made to build up intangible fixed assets, such as brand value and research and development capabilities, which will translate into profits.

In terms of relations with consumers, suggestions were made regarding the manner in which to communicate with them, including the idea of sending information to a wider range of people than currently receive it, or having advertising that



Therapy Makeup services and personal appearance lectures, for instance, should be more aggressively publicized as they provide many people with a sense of confidence. The Eco Tree (see p. 39), too, has the potential to alter consumer behavior but unfortunately it doesn’t seem to have made many inroads among consumers. Shiseido’s participation in the United Nations Global Compact was also touched upon, but the company’s position on resolving global issues, such as sustainable development and the eradication of poverty, is barely conveyed.

includes added explanations about products, given that the company’s image has been well established through emotive advertisements that emphasize beauty.

It was also explained to participants that the reuse of glass cosmetics bottles, as part of Shiseido’s recycling activities, could prove difficult given the hygiene and safety concerns of some customers. The resulting comments called for aggressive measures, that environmental action is expected of companies and that consumers would surely come round if they could see Shiseido seizing the bull by the horns. Retail outlets should also be involved by placing collection boxes for bottles, such as those used for milk cartons at some Japanese supermarkets and convenience stores.

With respect to the theme of this year’s discussion, there



were calls for clear disclosure of information regarding support for female employees. It was noted that it would be more convincing to see specific reports on the proportion of managerial positions held by women and the number of people utilizing the parental leave system.

Other opinions called for Shiseido to take a proactive role in informing other companies about its innovative measures, such as its Code Leader* system and research and development of alternatives to animal experiments.

Comments were also made calling for activities related to culture and those which strike a chord with people, to communicate the pleasure of cosmetics to a wide range of people, men as well as women. Meanwhile, opinions were raised regarding the need for Shiseido, as a global company, to adopt a broader perspective towards CSR activities. For example, questions were raised regarding how exactly to define “society” and “happiness,” while others called for Shiseido to reach out to people in countries hit by poverty and disease where cosmetics are not even sold. Others suggested that the company could make use of the educational know-how it has developed in the fields of

beauty and fashion to assist developing nations to increase all-important educational opportunities for their citizens. It was also noted that perhaps the company needs to take a more active role in supporting women in the countries and regions in which it operates, in order to strengthen its global brand.

* Code Leaders: Standard bearers for *The Shiseido Code* who carry out educational activities at worksites.



Reaction to the Discussion with Stakeholders

Through spirited dialogue between stakeholders and the heads of Shiseido departments, focusing on what Shiseido must do to realize its Corporate Ideals of creating beauty in daily life, we looked to gain an awareness of society as it is today and to immediately correct any misconceptions there might be about Shiseido.

Based on the opinions put forward and in light of Shiseido's key phrase of a “happy and content society,” we are working hard to enhance our activities so that we can meet the expectations of all our stakeholders.

We will also aim to raise the quality of communication. The

Annual Report and *CSR Report* were originally undertaken separately, but starting this year we are compiling them so that stakeholders who read either one will be able to gain a solid overall understanding of Shiseido. At the same time, in conjunction with the company's website, we are providing effective disclosure of information to enhance the general quality of communication.

Finally, we will endeavor to engage in more proactive reporting of the company's initiatives and advance carefully chosen CSR activities that reflect the character of Shiseido, in such a way that draws the interest of other companies.

Participants in the Discussion with Stakeholders, and the 10 Head Office Department Representatives



Etsuko Akiba
Board of Directors
Nippon Association of
Consumer Specialists



Miyo Iwata
Senior Staff Writer
Lifestyle News
Department
Nihon Keizai
Shimbun, Inc.



Toshihiko Goto
Chair, Environmental
Auditing Research Group
Board of Directors
Global Reporting
Initiative Forum Japan



Koichiro Saito
Senior Analyst
Equity Research
Department (No.1)
Daiwa Institute of
Research Ltd.



Akio Nomura
Director
United Nations
Information Centre in
Tokyo



Rika Funabashi
Section Manager
Corporate
Philanthropy Office
Takashimaya
Company, Limited



**Kazumi
Murakami**
Customer
Representative

Head Office Departments:
The Customer Center, and the
Personnel, IR, Corporate Culture,
Technical, R&D Planning, Procurement,
Product Development, Sales
Promotion, CSR departments

Regular feedback from customers is shared with all Shiseido employees to be utilized for products and services, as we strive to help our customers realize their visions of beauty, well-being, and happiness. We also help individual customers attain greater beauty by actually observing their skin and then offering advice on beauty techniques to suit their own unique skin characteristics.

Communicating with Customers

Incorporating Customer Views into Products and Services

The Shiseido Customer Center uses a wide range of communication methods to collate opinions and field requests from customers, via the Head Office Customer Center¹ and Branch Office Customer Center.

Customer opinions are extremely valuable. They are uniformly managed using the company's information systems and are utilized in the development of Shiseido products and services.

Customer Information System "Voicenet C"

The valuable information received from customers is brought together and managed by the "Voicenet C" system, which all employees can access. This information is referred to constantly in the development of better products and services. Some 460,000 submissions are now entered into "Voicenet C" each year, including 230,000 through customer centers and 80,000 as "Customer's Voice" submissions entered into mobile terminals by beauty consultants (BCs) through direct contact with customers at

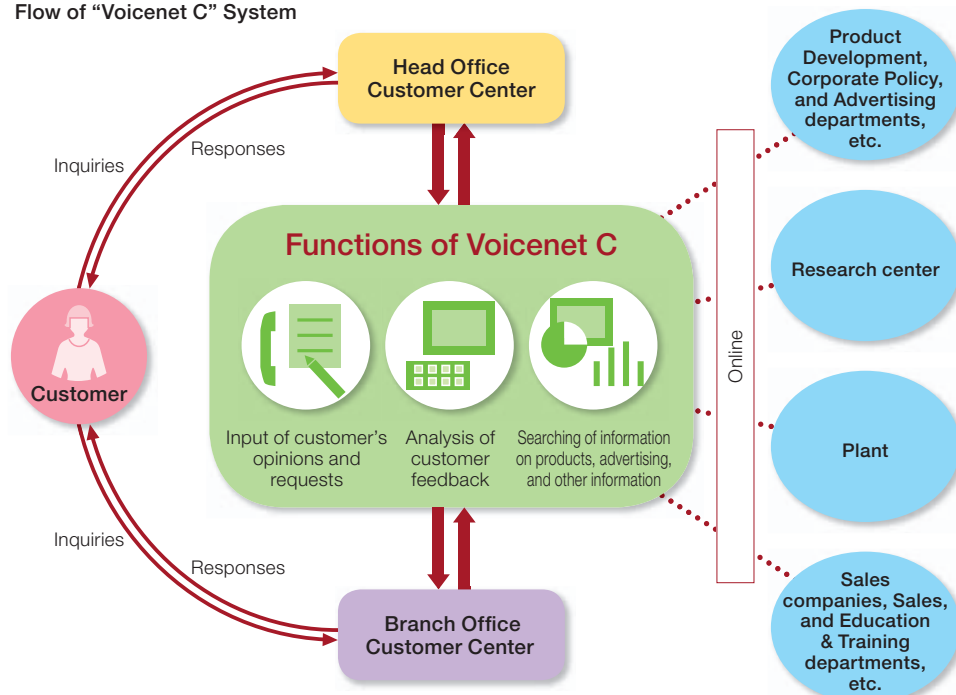
retail outlets.

Since 1988, BCs have been writing down opinions received at retail outlets on a form and relaying these opinions as "Customer's Voice" submissions to company head office. Starting in 2001, however, BCs have been transmitting the information via mobile terminals (i-mode), with the aim of hastening the sharing of information and the creation of measures within the company. This initiative has resulted in a quicker response to customer feedback.

1. Head Office Customer Center

Opened in 1968; fields inquiries and opinions via toll-free telephone, e-mail, postal mail and fax.
Call toll-free: 0120-81-4710
Hours of operation:
9:00 a.m. - 7:00 p.m.
(closed Sat, Sun & public holidays)

Flow of "Voicenet C" System



Customer Monitoring Program

Implemented in 2002, the Customer Monitoring Program provides education and training for such tasks as responding to telephone inquiries and analyzing data at the Customer Center, giving employees a better sense of customers than can only be acquired through information systems' data. So far, 1,700 employees from the Product Development, Research and Manufacturing departments, as well as from sales companies, have participated in the program.

Comments from participants

I was amazed by the large number of questions people asked about methods and steps for using products. All the branch's employees reaffirmed that they need to communicate very clearly with customers.

Ikuko Fujieda
Customer Relations Officer, Shiseido Kushiro Office

The program gave me an insight into our customers. I intend to use this in order to keep in mind the individual customer when engaging in product development.

Mika Ata
Marketing Department, FT Shiseido Co., Ltd.

Product design that reflects the customer feedback

Around 2000, a spate of incidents occurred in which shipped products were tampered with. Shiseido heard many comments regarding how people were apprehensive because there was no way of telling whether a product had been opened or not. So the company now employs packaging for all new skincare products that makes it clear whether a seal has been broken or not.



Use of tamper-proof case

Once the overlapping part of the top lid has been torn away, the lid can no longer be closed.

Beauty to Match the Individual

Shiseido Cosmetic Garden C—The Source for Beauty Information

Shiseido aims to satisfy the various beauty needs of individual customers, helping people discover their own distinct ways to be beautiful, and the Shiseido Cosmetic Garden C located in Omotesando, Tokyo does just that. Visitors can try out any number of Shiseido cosmetics on display and receive lessons on skincare according to their particular concerns. On weekends, makeup artists stage makeup presentations and offer beauty classes. About 100,000 visitors come here each year. The latest beauty methods on offer at Cosmetic Garden C are

communicated to retail outlets, reflecting visitor feedback, and are in turn offered to other customers throughout Japan.



5,400 attend Hot New Spring Makeup Seminar across Japan

Women who want to look their best share a deep interest in spring makeup. In February 2005, Shiseido staged Hot New Spring Makeup Seminars concurrently at 68 locations across Japan, providing lessons on skincare and makeup. The keen interest of the roughly 5,400 participants was clear from their expressions. Each year Shiseido holds more than 4,000 beauty seminars, which attract over 100,000 participants. These enjoyable activities, which familiarize customers with how to become more beautiful in ways that suit them best, also allow employees to sense the

enthusiasm customers possess towards beauty, as well as letting them experience the pleasure of assisting customers in this quest.



Other initiatives

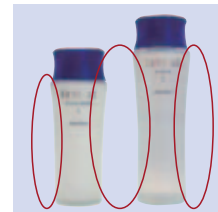
(1) Fine Rice

Shiseido developed *Fine Rice* jointly with two universities. The product allows individuals allergic to globulin, the protein found in rice, to enjoy eating rice without concerns about atopic dermatitis. In 1997, the Ministry of Health, Labour and Welfare approved the product as a Food for Specific Health Uses.



(2) Universal Design

Based on the ideal of providing easy-to-use products for as many people as possible, Shiseido has been promoting product development that incorporates the concept of universal design, reflecting considerations for such things as bottle design, ease of opening and closing, and easy-to-read writing.



(3) Providing information to the visually impaired

Since 1987, Shiseido has distributed quarterly audiotapes free of charge called "*Osharena Hitotoki*" (A Time for Beauty), which contain beauty-related information for the visually impaired, to 99 Braille libraries throughout Japan. Braille and large print booklets with beauty-related information, as well as Braille stickers to attach to cosmetics containers for easier recognition are also made available. In addition, Shiseido has added the *Listener's Cafe* to its website, which features the "*Osharena Hitotoki*" as well as information on topics that include skincare and makeup in a format compatible with text reading software.

(4) Therapy Makeup services

Therapy Makeup is an effective method in boosting the self-confidence of people with facial birthmarks or burns by using makeup to hide the blemishes naturally. Shiseido has developed a special product for Therapy Makeup, *Shiseido Perfect Cover*, and is undertaking other activities that help otherwise reclusive people to open up and put smiles back on their faces.



Working together to raise corporate and brand value, our retail clients, our suppliers and all our other like-minded business partners with whom we coexist join Shiseido in implementing CSR activities. Our objective is to meet the expectations of customers by providing them with new value backed by aesthetic sense.

Working with Suppliers on the Environment

Environmental action is the top priority for CSR activities conducted together with suppliers. Shiseido's suppliers of raw materials, perfume, packaging and sales promotion tools are partners in the creation of new value, and we have positioned the involvement of these suppliers in activities aimed at achieving close harmony with society as one of our Basic Procurement Policies.

In February 2001, Shiseido conducted a survey of its suppliers' environmental activities in line with the Green Procurement Standards. Based on the survey results, the company established and announced Seven Preconditions for Collaborating with Business Partners. Thanks to the efforts of suppliers, and the offering of support that included the establishment of consultation offices, as of April 2003 all

suppliers (of raw materials, etc.) to the six Shiseido plants and major suppliers of sales promotion tools had met the preconditions. In the meantime, suppliers also put forward ideas for environmental action. Shiseido has placed an emphasis on these partnerships and will continue to work together with suppliers to reduce its environmental impact.

Seven Preconditions for Collaborating with Business Partners

1. Establishment of environmental policies
2. Establishment of written guidelines for strict compliance with laws and regulations
3. Thorough management of PRTR¹ substances
4. Establishment of management rules for industrial waste disposal
5. Careful scrutiny of industrial waste disposal companies
6. Thorough management of industrial waste disposal manifests
7. Thorough management of PCB

1. PRTR

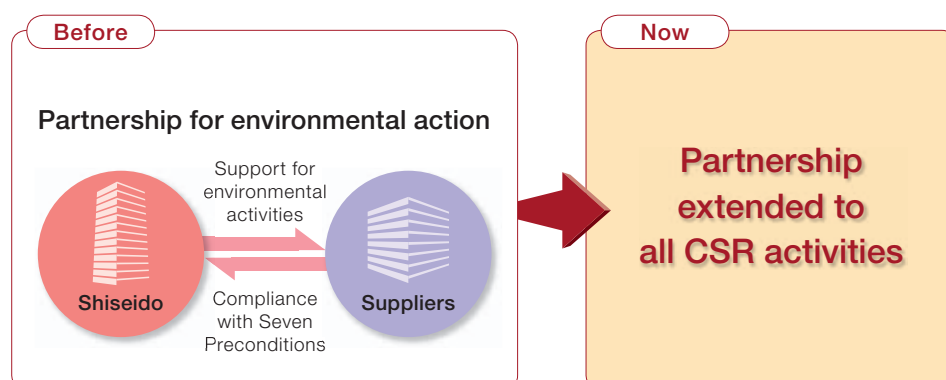
Pollutant Release and Transfer Register

A system requiring businesses to openly report data to the authorities on government-specified chemical substances.

Expanding of CSR Activities to Suppliers

Shiseido had previously worked together with suppliers in environmental initiatives, but starting in fiscal 2004 the scope was extended to include all CSR activities. The first step involved introducing Shiseido's CSR philosophy and activities, since the understanding from and collaboration with suppliers would be essential.

The company now plans to survey the CSR activities previously undertaken by suppliers, and based on its results, establish a Pledge for the Conducting of Business through discussion with suppliers that is similar to the one created for environmental activities.



Supporting for Retail Clients—Shiseido Online

The Shiseido Online network, linking together the company, its customers, and retail clients, is accessed through the SCOPE21 and Partner21 information terminals located in retail outlets². This network promotes mutual communication and allows the sharing of information among designated parties.

Customer and sales data for the Hanatsubaki Club, a membership club for loyal customers

of Shiseido cosmetics, is sent daily from these terminals at retail outlets and is input into Shiseido's customer database. By utilizing this information it has become possible to develop initiatives with a more accurate frame of reference, vis-à-vis customers.

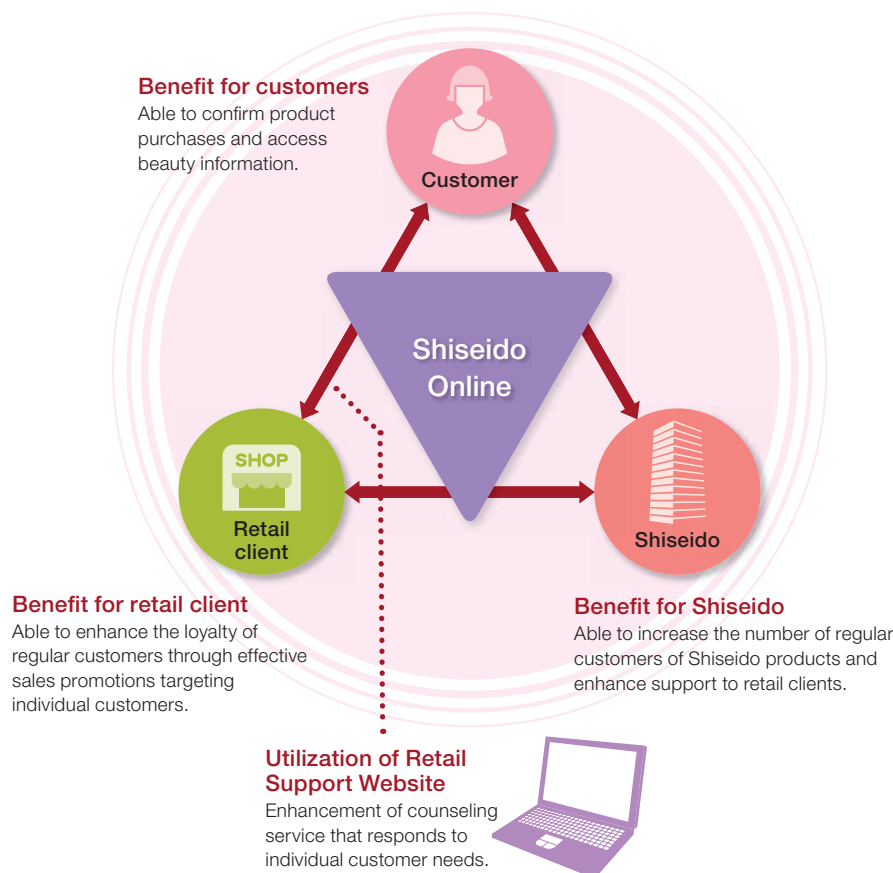
In addition, we now include an advisory service as part of a more complete service to customers by having retail clients utilize the Retail Support Website³.

2. Information terminals at retail outlets

POS (point-of-sale) terminals employed by 16,000 client outlets.

3. Retail Support Website

Retail clients participating in Shiseido Online can access the website from a PC within their own outlets. They are able to search and analyze information concerning Hanatsubaki Club members, as well as make use of customer-oriented communication features such as e-mail.



Example of utilization of Retail Support Website: YS Inui (Nara Prefecture)

Previously, we charted a full list of the purchases of individual customers and sent out direct mail based on that information. But through using the Retail Support Website, starting in April 2004, we have implemented activities that are even more detail oriented. As opposed to the former chart, which was prone to omissions during busy periods, the Retail Support Website records customer purchases accurately and its search function makes it easy to carry out searches with complex criteria. This enables us to send out customer-specific information.

E-mail is also an important tool for the Retail Support Website to strengthen ties with customers, and is used, for example, to provide follow-up information regarding how to correctly use purchased products or to send customers birthday greetings.



Store is located in a neighborhood shopping street

The Shiseido Way states: “We aim to win the support of our shareholders by retaining earnings for future investments and paying dividends which come from sound business results, and to uphold their trust through transparent management practice.” Shiseido will strive to realize this pledge through the Three-year Plan implemented in fiscal 2005, which aims to both improve growth potential and profitability and provide returns to shareholders. And by placing an emphasis on dialogue and the accurate and timely disclosure of information, we are looking to foster better communication with shareholders.

Toward “Growth & Advancement”

The Three-year Plan was implemented at the outset of fiscal 2005 under the theme of “Growth & Advancement.” Announcing that it will formulate and firmly execute a clear growth strategy, as well as push through

drastic structural reforms, so as to transform into a company with a solid profit structure, Shiseido aims to improve its operating income ratio and corporate value.

Three-year Plan

For more information on the Three-year Plan, please view the *Shiseido Annual Report*.

The Three-year Plan, implemented at the beginning of fiscal 2005, has the following three pillars: “domestic marketing reforms” and “accelerated expansion of business in China,” both intended to expand growth,

and “fundamental structural reforms” to expand profitability. The reforms are part of Shiseido’s efforts to increase corporate value and maximize total market value.

- **Domestic marketing reforms**

The central aim of the reforms is to refine our brands, which are valuable operational resources that link Shiseido to its customers. Through brand integration and focused allocation of marketing costs, we will establish broad and strong brands to represent each different category.

- **Accelerated expansion of business in China**

China is currently one of our top-priority markets, and we intend to direct our managerial resources into the Chinese market to aim for high growth. In addition to pursuing sales via channel-specific brand marketing, including the enhancement of advertising and sales promotions at department stores and the aggressive expansion of cosmetics specialty stores, we are also going to enter businesses other than cosmetics to accelerate expansion of the group as a whole.

- **Fundamental structural reforms**

We will scale down or withdraw from unprofitable businesses and brands and look to drastically reduce fixed costs, starting with lowering the cost of sales through the reorganization of plants, which is already underway. The aim is to maximize profitability while securing funds to invest for future growth.

Returning Profits to Shareholders

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 thinking, we have adopted a basic policy of appropriating cash-flow from operations primarily for use in strategic investments, paying stable dividends, and acquiring treasury stock.

We have established a “total return ratio,” which represents the amount of profits

returned to shareholders - the sum of dividends paid and share buybacks - as a proportion of consolidated net income and aim to maintain a total return ratio of 60% in the medium term. In the future, we intend to further increase the ratio of dividend payments to total return.

Dividends for fiscal 2004 increased 2 yen for the year to 24 yen per share. At present, dividends for fiscal 2005 are set to increase a further 6 yen for the year to total 30 yen per share.

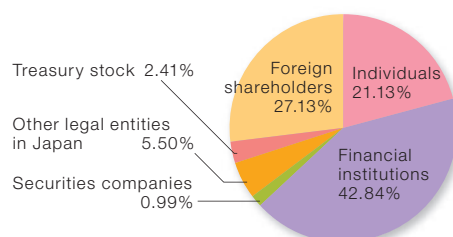
Stock Status (as of March 31, 2005)

● Total shares issued and outstanding

424,562,353 shares

(of which 10,244,908 shares are treasury stock)

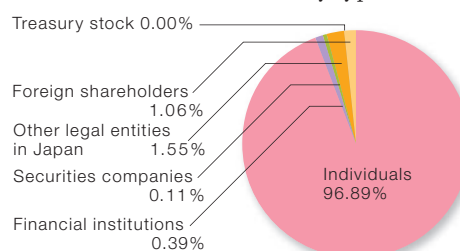
● Percentages of total shares held



● Number of shareholders

40,288

● Breakdown of shareholders by type



Please see the *Shiseido Annual Report* for details of the financial

1. Details of IR activities

Japan

- IR for analysts and institutional investors
- Financial results briefings (twice)
- Small meetings with top management (5 times)
- Investor meetings by IR Department (200 times)
- Plant tours (Kakegawa Plant, etc.)
- IR for individual investors
- Briefings for individual investors (15 times)
- Plant tours for sales staff from securities firms (7 times)

Overseas

- Small meetings with top management
- Europe (London, Frankfurt, Paris)
- U.S. (Boston, New York, San Francisco)
- Asia (Hong Kong)

Fiscal 2004 Investor Relations (IR) Activity¹

In order to further the understanding and trust of all shareholders, Shiseido is aiming to enhance communication by placing an emphasis on dialogue and the appropriate disclosure of information.

Status of SRI Fund Inclusion

Socially Responsible Investment (SRI) is investment that not only applies investing standards based on conventional financial analysis, but also considers whether or not a company is fulfilling its social responsibilities, in terms of societal and ethical aspects, as well as environmental initiatives. These social responsibilities involve measures that include legal compliance, employment issues,

human rights, consumer relations, and direct contributions to local communities and society in general.

Shiseido's CSR activities have been positively evaluated, and the below are some cases where Shiseido stock's inclusion has been confirmed. The company will augment its CSR activities further in response to shareholder expectations.

Asset Management Company	Fund Name	
UBS Global Asset Management	UBS (JPN) Equity Fund - Eco Japan "Dr. Eco"	As of March 15, 2005
Asahi Life Asset Management Co., Ltd.	Asahi Life SRI Fund "Asunohane"	As of September 21, 2004

CSR Shareholder Benefit Plan begins

Shiseido is introducing a CSR Shareholder Benefit Plan in fiscal 2005, as a shareholder benefit option. In addition to the currently offered preferentially priced products for shareholders, the new option will see the company contribute, on behalf of shareholders, an amount equal to

the value of the preferentially priced products (5,000 yen/person in 2005) via the Shiseido Social Contribution Club Hanatsubaki Fund, to the United Nations Development Fund for Women (UNIFEM) in order to help support women in developing countries.

Shiseido values people who work together and it is through individual employees exhibiting their abilities that we are able to provide stakeholders with beauty, well-being, enjoyment, and new value. All the activities we undertake with our employees are aimed at creating an organization filled with interesting and talented people.

Personnel Data

Composition of Personnel in the Shiseido Group (April 1, 2005)

		Male	Female	Total
Regular Employees	Managers	1,276	135	1,411
	General	1,587	2,043	3,630
	Sales	394	583	977
	Beauty consultants	11	6,526	6,537
Total		3,268	9,287	12,555
Non-regular Employees	Part-time	56	17	73
	Temporary	77	61	138
	Site-specific	784	1,599	2,383
	Limited-term contract			12,359
Total		4,185	10,964	27,508

Human Resources Plan (HRP)

In fiscal 2004, the option of voluntary retirement was offered to employees in an attempt to rectify an imbalance in human resources composition and to transform into a lean and dynamic company. All 1,364 applicants to this special early retirement plan were paid an age-based supplement on top of the usual retirement benefit and were offered assistance in finding new employment.

Respect for Employee Diversity

Gender-equal Activities

Shiseido promotes gender-equal activities as part of its personnel strategy to cultivate an organizational climate in which vitality is heightened for the sake of ongoing results.

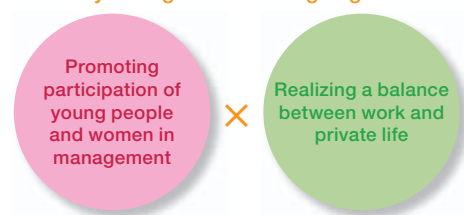
The objective, from the perspective of respect for employee diversity, is to heighten to their full extent the capabilities and morale of all employees, male and female, in order to vitalize the organization and contribute to company growth.

For phase one (fiscal 2005 - 2006) we have established four priority tasks that aim to achieve two goals: promoting participation of

young people and women in management, and realizing a balance between work and private life. We are engaged in a 20 point action plan that addresses these four priority tasks.

Phase One (fiscal 2005 - 2006)

Cultivate an organizational culture in which vitality is heightened for ongoing results



■ Promoting participation of young people and women in management

Ninety percent of Shiseido customers are women. And yet, women still account for only a small percentage of managers involved in the decision-making process. In order to be a "truly customer-oriented company" as the president has prescribed for fiscal 2005, the company needs to be able to offer products and services that appeal to the

emotions, values, and outlook on life held by women with varying lifestyles.

Shiseido can do this by fostering new leaders¹ from among its female employees who possess a customer's viewpoint. This will be essential if the company is to gain the support of a greater number of customers.

1. Leaders

The term "leaders" is a collective designation of posts, which is separate from the qualified managers under the company's ability-based grade system. It refers to people who bear the responsibility of motivating employees in order for the organization to accomplish its mission and objectives. There are two conditions for a leader, applicable throughout the company: they must have staff under their supervision and they must be evaluators of personnel.

■ Realizing a balance between work and private life

The balance between work and private life is a concept that greatly influences an employee's happiness. By engaging in efficient work practices, employees are able to create more time in which to enrich their private lives. They are able to gain access to information, ideas, and personal networks that would otherwise be unavailable through their jobs. And with employees from diverse backgrounds working together, the company is able to create new value, new products, and new services. Realizing a balance between

work and private life is also an extremely important concept for company growth as it is tied deeply to the process of nurturing people who can add to corporate value.



Representatives from each workplace (head office, plants, research centers, sales companies, affiliated companies and the Labor Union) help formulate concrete measures.

Priority Task 1

Cultivating a corporate culture—making the most of employee diversity to be a truly global company

● Strengthening in-house communication

- Encourage a change in awareness and behavior using “gender-equal tools,” including video and websites as well as in-house publications.
- Hold dialogues with various committees and individual sites/departments.

● Individual site/department activities

- Make gender-equal activities a companywide CSR theme for fiscal 2005, with individual sites/departments forming and implementing their own action plans.
- Share know-how on activities companywide.

Priority Task 2

Nurturing and promoting leaders, with an eye on a greater management role for young people and women

● Defining “leaders” and determining posts

- Establish a definition of “leader” (to be used from second half of fiscal 2005).
- Select leader posts and re-establish responsibilities, jurisdiction, and remuneration for each post.
- Formulate a plan for nurturing leaders among young people and women.

● Strengthening human resources development

- Expand Job Challenge and Free Agent (FA) programs (see p. 23 for details).
- Enhance personnel rotation for human resource development purposes.
- Strengthen education and training to nurture and support leaders.

Priority Task 3

Rethinking the way people work to aim for higher productivity

● Rethinking the way people work

- Study the issues involved in realizing a balance between work and private life and raising corporate competitiveness.
Issues: Long working hours, adoption of variable working styles (discretionary labor system, etc.), rethinking of committees and projects.

Priority Task 4

Helping balance work and childbirth/childcare² to hold on to top talent

● Creating a corporate culture

(see p. 9: guidebook distribution, childcare plans, introduction of new maternity uniforms, etc.)

● Stronger support to help strike a balance

(see p. 9: childcare system extended to part-time employees contracted for a limited period, new provision for nursing leave, etc.)

● Encouraging participation in childcare by male employees

(see p. 9: introduction of short-term parental leave, holding childcare seminars, etc.)

Fathers catching on to parental leave

I was the first man at Shiseido to take parental leave (August 16, 2004 – January 31, 2005). A number of factors contributed to my decision, including a promise I made to my wife when we got married, the existence of a company system to support a balance between work and childcare, and my boss saying to me “Why not try it? Give it your all!”

To tell the truth, I didn’t realize raising a child was so hard, and it was tough having to cope with the housekeeping all by myself. On the other hand,

being able to form closer bonds with my wife and child and coming to terms with being a parent are irreplaceable experiences, which I would not have had without the generous backing of my boss and colleagues.



Kentaro Yamanaka
Manufacturing Department
Osaka Plant
Shiseido Company, Limited

2. Usage of childcare system

The system is being used by some sites more than others, and raising usage among beauty consultants is a particular challenge. As a priority task for our gender-equal activities, Shiseido will continue to search for ways in which employees can balance work and childbirth/childcare.

■ Other initiatives

(1) Encouraging employment of people with disabilities

To promote educational activities and working environment improvements for both disabled and non-disabled employees alike, in fiscal 2003 Shiseido set up a project to support disabled employees to fully realize their potential. As of April 2005, disabled employees accounted for 2.33% of all Shiseido employees and 1.47% of all Shiseido Group employees. To exceed the 1.8% employment rate set by law, the Group established the goal of employing one or more disabled people at each location by the end of fiscal 2005.

(2) In-house childcare center

The “Kangaroo Shiodome” childcare center was opened in 2003 as one initiative to support a balance between work and childcare. Parents are able to focus on their work in the knowledge that their children are safe and sound and being well looked after.

(3) Labor-management partnership

The Shiseido Labor Union was set up in 1946. It enters collective agreements with the company and builds a relationship of trust. The union carries out a range of activities, including routine information exchange and meetings (30 times during fiscal 2004).

(4) Human rights awareness

Aspiring to cheerful, discrimination-free working environments, Shiseido holds human rights awareness seminars for all employees. The theme for fiscal 2005 is “Eliminating all kinds of harassment.”

(5) Sexual harassment prevention

Shiseido distributes guidebooks to all employees, and has set up counseling and consultation offices and appointed personnel to take responsibility for this as part of its comprehensive approach to prevent any form of sexual harassment.

(6) Approach to mental health

A *Mental Health Care Booklet* is distributed to all employees. Shiseido is promoting a mental health care support system, with in-house counselors and medical specialists available for consultation.

1. Job Challenge program

Program through which candidates apply for job positions advertised by departments/sites.

2. FA program

Program through which employees designate a departments/sites to which they can transfer if the person in charge considers them suitable.

3. Supervisor

The supervisor's role is to improve the level of specialized knowledge, skills, and courtesy required of beauty consultants, beauty staff, and retail client sales staff.

Action Plan for Support of Education for the Next Generation

In response to the Law for Measures to Support the Development of the Next Generation, which came into effect in July 2003, Shiseido formulated an action plan to cover 25 domestic consolidated and other group companies, regardless of the size of sites, and submitted them to local labor bureaus.

This action plan consists of 10 initiatives,

including the eight action plan initiatives under Priority Tasks 3 (Rethinking the way people work) and 4 (Helping balance work and childbirth/childcare) for the promotion of gender-equal activities (see p. 22), and two extra social contribution initiatives for the development of the next generation. The plan will be pursued over two years from fiscal 2005 to fiscal 2006.

Developing Employee Potential

Job Challenge and Free Agent Programs

Shiseido runs two recruitment programs as part of its efforts to vitalize the organization: the Job Challenge program¹ and the Free Agent (FA) program². In an attempt to promote further vitalization, the Job Challenge program was expanded in fiscal 2004 to cover a greater range of jobs, while applicant requirements for the FA program were relaxed and notification methods changed. The number of applications to both programs rose as a result.

Number of Job Challenge program applications and successful applicants

	Jobs	Applicants	Successful Applicants
FY2003	7	48	15
FY2004	7	56	19

Number of FA program applications and agreements reached

	Applicants (valid)	Agreements
FY2003	37 (30)	4
FY2004	56 (51)	8

Support Program for Establishment of Cosmetic Retail Outlets

In April 2003, Shiseido began providing support for the establishment of cosmetic retail outlets for employees with an affinity for cosmetics sales who aspire to run their own store or employees who wish to make an on-going contribution to society through the sale

of cosmetics. This initiative targets mainly beauty consultants (BCs) and is intended to open up new opportunities outside the company for employees with cosmetic sales experience, while at the same time expanding their aspirations and future possibilities.

I always dreamed of owning my own store...and now I've done it!

I was a sales department general manager when I heard about the program supporting the establishment of cosmetic retail outlets, and I didn't hesitate to put my name down. The problem was that, although I was good at sales and marketing, I completely lacked the confidence to actually manage a store. Shiseido's support program, however, gave me solid backing in that area so that I could focus on customer satisfaction. It is hard work running a store but I can't put into words the joy I felt when customers complimented the layout of my store and the services offered, which were the result of considerable deliberation. I'm now glad I took up the challenge.



Kiyomi Hatamura
(former beauty consultant ⇒ supervisor³
⇒ sales general manager)
"Hada Kobo Mellow"
(Iwate Prefecture; established April 2004)

The Active Role of Shiseido Beauty Consultants

The activities of Shiseido beauty consultants (BCs) go back 71 years, to the nine women who had the title “Miss Shiseido.” There are now 15,000 BCs active worldwide who represent the public face of Shiseido. These BCs play a major role in communicating

the power of cosmetics to people in every corner of the world, while at the same time enhancing customer trust through counseling and the introduction of beauty techniques and products to suit the individual.

Miss Shiseido—the Roots of Beauty Consultants

The origin of Shiseido BCs can be traced back to the debut of “Miss Shiseido” in 1934. Nine women selected as Miss Shiseido, from among the scores of applicants, were expected to be intelligent, modern, and elegant women making a splash at the forefront of society, rather than the conventional image of a “modest young lady.” After seven months of intensive training—covering not only beauty techniques, but also dermatology, the science of color, art and culture, vocal instruction, customer service,

and sales techniques—they engaged in specific initiatives in major cities nationwide. It was these Miss Shiseido activities that developed into the beauty consultation and activities at retail outlets carried out by the BCs today.



Improving Levels of Knowledge, Skills, and Courtesy

Shiseido BCs undergo intensive training to develop their knowledge and skills in skincare and makeup over a two-month period after joining the company. Training covers a wide range of topics, including studies related to the human body such as dermatology, and cosmetics-related studies such as the science of color, as well as the history and psychology of makeup, practical skills and product knowledge

relating to skincare and makeup, and customer service. Even after the training, BCs participate in study sessions at least once a month in order to obtain the latest product information and techniques. They are constantly trying to improve themselves through national training events held a few times each year and BC proficiency exams⁴ certified by the Minister of Health, Labour and Welfare.

Beauty Professionals Compete Against Each Other Every Four Years—Shiseido Global Beauty Consultant Contest

The inaugural Shiseido Global Beauty Consultant Contest 2004 was held in July 2004. The objective of the contest is to gather together BCs from all over the world to demonstrate their skills and knowledge, while raising the value of the Shiseido brand by promoting ties among BCs to increase motivation. No other company in the industry has ever staged a contest of this kind, in which BCs match their skills against others from around the world. The day of the contest saw 43 BCs (24 from Japan; 19 from overseas), who had won their respective regional block

competitions, using their wealth of experience to compete against each other. Awards were presented to 12 prizewinners, six each from Japan and overseas, and to winners of the Tom Pecheux⁵ Award (two overseas BCs).



4. BC proficiency exam

In 1998, Shiseido's independent in-house examination was certified by the Ministry of Health, Labour and Welfare as being conducive to the promotion of skills development.

5. Tom Pecheux

Creator of the *Shiseido The Makeup* international makeup brand. He is a renowned makeup artist for collections in Paris, Milan and New York and has established a strong following among foreign celebrities.

Shiseido views corporate social activities as an opportunity for companies to demonstrate the proprietary technology and knowledge they have accumulated since their establishment, and that they should be undertaken in the same spirit as other corporate activities. Shiseido is constantly thinking about what society needs and is pursuing social activities aimed at creating beauty in daily life in order to serve a large number of people in its own special way.

Shiseido's Social Activities

Shiseido actively embraces new technology 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 to a broad section of society the knowledge, technology, and culture it has cultivated through its very interaction with society.

Areas of social activities

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

Scope of social activities



New Social Activities

Shiseido Social Contribution Club Hanatsubaki Fund

In June 2005 the company set up the Shiseido Social Contribution Club Hanatsubaki Fund to expand the scope of its social activities together with stakeholders. Employees play a central role in the club, which provides support for philanthropic activities. It undertakes the following:

1. **Donations to support philanthropic organizations are deducted in 100-yen amounts from the salaries of employees who agree to support social contribution activities.** (The company also engages in a Matching Gift program to contribute the same amount provided by employees.)
2. **Employee participation as volunteers in support organization activities.**
3. **Collection of donations from employees for disaster victims.**

The aim is to let all Shiseido stakeholders participate in these activities. The first step invited participation of shareholders through the CSR Shareholder Benefit Plan, which was launched in June 2005 as a shareholder option whereby contributions are directed into the Hanatsubaki Fund. Furthermore, attendance fees for the Shiseido Forum to be held in October 2005 will also be donated to support organizations via the Hanatsubaki Fund, thus allowing indirect participation by customers.

Fiscal 2005 contribution recipients

United Nations Development Fund for Women, National Women's Shelter Network, Shiseido Social Welfare Foundation, Xeroderma Pigmentosum Society Japan, World Wildlife Fund (WWF)

Welfare and Local Community Activities

Site-specific Activities

■ Shiseido Liyuan Cosmetics Co., Ltd. (SLC)

In the Inner Mongolia Autonomous Region in China, there used to be children who could not attend school because of poverty and damage from drought and heavy snowfall. In 2001, SLC's labor union put out a call for assistance, which led to the opening of a Hope Primary School in the region thanks to the contributions of employees and the company itself. In 2002, the company called for assistance in the establishment of an elementary

school in the autonomous region of Tibet, donating money it collected to the region. The school opened in 2003. Today SLC continues to support the opening of new schools.



■ Kamakura Plant

The Kamakura Plant takes a proactive stance towards conducting plant tours, reflecting its aim to exist in harmony with the people of the local community. 10,838 people,

including local elementary school children, toured the plant in fiscal 2004, and during summer the plant's swimming pool and tennis courts are open to the public.

Disaster Relief Activities: Niigata Prefecture Chuetsu Earthquake & 2004 Indian Ocean Earthquake

After the Niigata Prefecture Chuetsu Earthquake of October 2004, Shiseido sent to the region a total of 56,454 items (worth 34.99 million yen), including dry shampoo, sanitary products for women, cold medication, and books. Seventy percent of company employees also responded to a call for donations, contributing a total 5.55 million yen that was then delivered to the Niigata Prefecture Emergency Taskforce Headquarters.

Shiseido responded to the December 2004 Indian Ocean Earthquake off the coast of Sumatra with 10 million yen in monetary donations via the Japanese Red Cross Society, as well as relief supplies in the form of 10,000 sanitary face masks distributed via agents in Indonesia, Malaysia and India, and 5,000 sanitary items for women distributed

via the Ministry of Health, Labour and Welfare. Donations collected from company employees, totaling 5.48 million yen, were also delivered to the Thai Red Cross Society via our Thai affiliate.



Support for Customers' Activities

In February 2005, Shiseido began offering support for people with xeroderma pigmentosum (XP). XP sufferers need to constantly apply sunscreen as the disease can lead to early development of cancer in parts of the body exposed to ultraviolet rays. The

company delivered a total 842 products to 49 XP patients who responded to an offer made through three NPOs across Japan. We intend to continue making such contributions in the future.

■ Other welfare and local community activities

(1) Matching Gift program

Shiseido donates products for the volunteer activities of current and former employees and their families. Matching donations were made to 253 facilities during fiscal 2004.

(2) Social Studies Days

Employees are allowed three days a year to "go to work" for society instead of the company, involving themselves in social contribution activities. The objective is for them to appreciate different values from coming in contact with society. In fiscal 2004, 35 employees took part in this activity.

1. Five special exhibitions program

Five special exhibitions were comprised of: "The 25th Anniversary Exhibition," "Tetsuro Komai Copperplate Prints," "Works from the Modern Art and Craft," "Works of Tsubaki-kai Japanese Artists," and "Prints/Watercolors/Drawings." There were around 30,000 visitors in fiscal 2004 (including visitors to the Shiseido Corporate Museum).

2. 22nd Hanatsubaki Award for Contemporary Poetry

The award, sponsored by *Hanatsubaki* magazine, went to Chuei Yagi for his collection *Kumo no Engawa* ("Cloud Verandah"), published in *Hanatsubaki*, December 2004. The selection committee was composed of Hiroshi Osada, Gozo Yoshimasu, Makoto Ooka and Junko Takahashi.

3. Seven special exhibitions

"Fifty years of the Tsubaki-kai," "Tsubaki-kai 2004," "life/art '04," "Jumonji Bishin: Water Falls," "Takehito Koganezawa: Dancing In Your Head," "Simryn Gill: Power Station," and "Laura Owens."

4. Fiscal 2004 exhibitions

"The Karakusa, Origin of Vital Beauty," "Man Ray, The Gift of His Vision," "Playing With 'Chi' Energy," "Ginza Photo Street 1930s/2004," "The World of Ayao Yamana: The Curvature of Modern Girls," "Luxe de Femmes—Exhibition of Vintage Bead Bags and Photographs by Lartique," and "Haru no Tsubaki." Visitors numbered some 85,000 in fiscal 2004.

■ Other cultural activities

• Word Friday

An interactive discussion held every Friday at Word Shiseido in the Tokyo Ginza Shiseido Building to help enrich our lives, emotional understanding and intellect. Word Friday was held 46 times in fiscal 2004, with a total of 2,541 participants.

Philanthropic Activities

Shiseido Art House/Shiseido Corporate Museum (Kakegawa City, Shizuoka Prefecture)

The Shiseido Art House exhibits works of art that Shiseido has collected through its support for art and culture. Five special exhibitions¹ were hosted during fiscal 2004. The Shiseido Corporate Museum, while introducing the history of the company's activities and culture, also endeavored to unveil and communicate company research through two issues of the journal *Eudermine*.



Hanatsubaki

Shiseido's cultural magazine *Hanatsubaki*, first published in 1937, took on a completely fresh look from the April 2005 issue with new regular installments and projects characterized by a more radical visual expression. The magazine is also sponsor of the Hanatsubaki

Award for Contemporary Poetry², which has now been presented on 22 occasions to date.



Shiseido Gallery

Opened in 1919, the Shiseido Gallery is Japan's oldest existing art gallery. In addition to the regular Tsubaki-kai and "life/art" exhibitions, seven special exhibitions³ were held during the year, including young artists introduced in private exhibitions. The gallery has welcomed 170,000 visitors since it reopened on the basement floor of the Tokyo Ginza Shiseido Building following renovations.



Takehito Koganezawa: "Dancing In Your Head"—August 2004

House of Shiseido

The House of Shiseido opened at the company's head office building in Tokyo's Ginza in April 2004. The facility was created to communicate Shiseido's history and future aspirations to a wide range of customers, and also to give something back to the Ginza area

where the company was founded and first flourished. Shiseido's cultural and intellectual assets are on public display at this location, and the facility also hosts exhibitions⁴ related to Shiseido and Ginza.



"Haru no Tsubaki" exhibition, March 2005

Successful Aging⁵ Activities

Forum on Successful Aging

Shiseido's Successful Aging activities support the lifestyles of people of all generations by communicating the knowledge and skills, which the company has acquired over the years that are needed to age gracefully. Since 1989, Shiseido has sponsored a forum every other year as a venue for teaching the basics of graceful aging and for providing

the latest in related research results. The company conducts research and provides information across a wide range of areas in an effort to promote the concept that years added on to a person's life deliver additional joy. The theme of the 9th forum, to be held in autumn 2005, is "color."

Activities to Support Academic Research

Symposiums and Seminars

In May 2004, Shiseido co-hosted a seminar entitled "Providing cosmetics guidance in consideration of patients' needs" as a side event to the Annual Meeting of the Japanese Dermatological Association. Three experts were invited to speak at the seminar about patients' feelings toward cosmetics and to discuss the extent to which dermatologists should

provide patients with cosmetics guidance.



Grants to Research Institutions in Fiscal 2004

Name	Description of Grant	Number and Size of Grant
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
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
Shiseido Science Research Grant	To support research related to science and engineering, cosmetic science, and dermatology	10 grants 10 million yen
Society grants	To subsidize academic conventions and research activities, centering mainly on dermatology-related societies	9 grants 1.1 million yen

Shiseido Social Welfare Foundation

The Shiseido Social Welfare Foundation was established in 1972 as a project commemorating the company's 100th anniversary. Its objective is to initiate social welfare projects as required by the times, adopting a global perspective on improving the welfare of children and of women, who place an indispensable role in raising the leaders of the next generation.

Four support activities⁶ were carried out during fiscal 2004 that looked to confront the deepening crisis facing parents and children.

Recently children are being increasingly deprived of communication with other

children and their parents, and as we hear more stories about parents who take out the stress of childrearing on their children through repeated abuse, parent-child relationships are facing an unprecedented deepening crisis. With this in mind, the foundation is pursuing activities within local communities in fiscal 2005 based on a concept of "closer communities." The foundation will also act as a point of contact for child support, as one of the support organizations assisted by the newly created Shiseido Social Contribution Club Hanatsubaki Fund (see p. 25) run by employees.

5. Successful Aging

Shiseido defines Successful Aging as accumulating years gracefully and becoming increasingly attractive as a human being.

■ Other Successful Aging activities

The company also organizes a graceful aging lecture, at which guest speakers and participants discuss ways to design one's own approach to aging, and offers information through publications.

6. Four fiscal 2004 activities

(1) Global training business

- Overseas training aimed at raising the skills of mid-level workers at child welfare facilities.
- Training in Japan for workers at child welfare facilities in Asia to acquire welfare-related skills.
- Support aimed at providing high-school student volunteers with cross-cultural experience at facilities in Asia.

(2) Training in Japan

- Support for training in Japan aimed at raising the expertise of workers at child welfare facilities.

(3) Local community activities

- Childcare seminars for providing information on raising children.

(4) Publishing

- *Mother and Child Wellbeing Around the World* brings together and disseminates child welfare information from around the globe, helping to improve child welfare in Japan.

■ Other activities

Shiseido Beauty Fund for the support of women entrepreneurs

The Shiseido Beauty Fund provides capital to women entrepreneurs and to venture capital companies conducting business related to the lifestyles of women with the eventual goal of going public. Support goes beyond capital to include proactive assistance through alliances with the Shiseido Group. As of April 2005, the fund has provided capital to six women entrepreneurs, of which 21LADY Co., Ltd. (President & CEO: Michiko Hirono) has already gone public.

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*¹ (see p. 2) is a set of specific corporate ethics and behavioral standards for realizing the Corporate Ideals and *The Shiseido Way* (Corporate Behavior Declaration) and 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.

The position of
The Shiseido Code

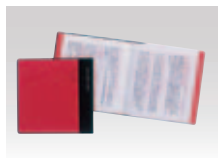


Corporate Ethics Activities Follow a PDCA Cycle

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. 30) at each domestic site and by Business Ethics Officers² (BEOs) at overseas sites to facilitate the implementation of *The Shiseido Code*. Shiseido conducts various educational activities, including comprehensive training programs, publication of the *Code Letter* educational magazine, regular updating of the Corporate Ethics Committee website intranet, and maintaining a corporate ethics video library. Corporate ethics activities are monitored through the Corporate Ethics Help Line,

Meetings with Code Leaders held at worksites, in which members of the Corporate Ethics Committee hold discussions with Code Leaders, and through corporate ethics awareness surveys. Third-party audits are performed by external legal advisors and the Corporate Ethics Committee also annually publishes the *Shiseido Corporate Ethics White Paper*, which is useful for reflecting on the year's activities and organizing future tasks. Any tasks or issues identified are reported to the Board of Directors, and presented as improvement requests and proposals to the relevant departments.

1. The Shiseido Code (Corporate Ethics and Behavior Standards)



Established in 1997 and fully revised in 2003.

2. Business Ethics Officer (BEO)

There were 37 BEOs as of May 2005.

PDCA cycle of Shiseido corporate ethics activities



Code Leaders are Standard Bearers at Worksites

The Code Leader system is one of the main features of Shiseido's corporate ethics activities. At present there are approximately 600 Code Leaders who are required to host at least one training session a year at their worksites, using materials provided by the Corporate Ethics Committee. They also plan and carry out their own original activities and report to the committee. Report contents appear in the *Shiseido Corporate Ethics White Paper*, serving as a reference for Code Leaders when preparing activity plans for the following year.

In order to tie Code Leaders' proposals into solutions for improvements, members of the Corporate Ethics Committee regularly

visit worksites throughout the country for Meetings with Code Leaders. The committee then reviews the upshot of those meetings and embarks on countermeasures.



Meeting with Code Leaders



Seventh *Shiseido Corporate Ethics White Paper* (2004)
(Published annually since 1998)

Example of Code Leader activity—Volunteer work to support women and children

Chapter 5 of *The Shiseido Code—With Our Society*—implores “Collaborating with Local Communities.” In August 2004, at the customer center, Code Leaders played a leading role in volunteer work donating clothes to four welfare institutions that offer support to women and children. Eighteen boxes of women's and children's clothes and small articles were collected, sorted, and packed by Code Leaders and roughly 10 other volunteers. As one participant commented, “The activity brought satisfaction to everyone involved.”



Sorting and packing donated clothes

Comprehensive Corporate Ethics Training

Shiseido requires all its directors and employees to take part in corporate ethics training at least once a year. There are four main types: (1) Training for newly appointed Code Leaders³; (2) Training based on job level⁴, from directors down; (3) Training for all employees at each site⁵; and (4) Training based on business area⁶ aimed at ensuring legal compliance. The company also has

people in charge at overseas sites undergo training once a year in an effort to mitigate the risks inherent in the globalization of corporate activities.



Training for people in charge of sales offices

Corporate Ethics Help Line

The Corporate Ethics Help Line is comprised of the in-house Shiseido Consultation Office⁷ and the Shiseido External Consultation Office located at a law firm. Besides distributing an Ethics Card to each employee, the Help Line is available for consultation on any work related matter, especially with respect to *The Shiseido Code*.

The Help Line responds quickly to any inquiry and handled 138 consultations during fiscal 2004 (418 consultations since 2000).



Ethics Card

3. Training for newly appointed Code Leaders

All newly appointed Code Leaders take part in an overnight group training program. The program, consisting of lectures and interactive-type training, aims to encourage ethical thinking among Code Leaders and provides them with the skills they will need to fulfill their duties.

4. Training based on job level

Separate training is held for people at different levels, from corporate officers to general managers of head office departments, affiliated company presidents, people in charge of sales offices, and new employees.

5. Training for all employees at each site

During fiscal 2004, Code Leaders spoke at worksites on “Information Management,” the theme for the year.

6. Training based on business area

Covers:

- Pharmaceutical Affairs Law
- Product Liability Law
- Patent Law
- Sales-related legislation, etc.

7. Shiseido Consultation Office

External consultants (industrial counselors) are available twice a week; specially-appointed managers take over at other times.

1. Global Compact

The Global Compact is an international initiative for businesses put forward by United Nations Secretary General Kofi Annan in 1999. By having businesses fulfill their roles as responsible corporate citizens, supporting 10 principles in the areas of human rights, labor, the environment, and anti-corruption, the Global Compact will allow the world to achieve sustainable development. As of April 2005, roughly 2,000 organizations worldwide and 33 Japanese organizations are taking part.

2. In-house newsletter of Taiwan Shiseido



Participating in the United Nations Global Compact

In September 2004, Shiseido joined the United Nations Global Compact¹, declaring that it would voluntarily fulfill its responsibility to international society as a good corporate citizen. The company moved to raise the social awareness of its employees through its in-house magazines

published in Japan and overseas, and also sought the cooperation of business partners by publicizing the decision in its public relations magazine. In the future, Shiseido will continue to promote activities that reflect a global perspective on its responsibilities and role in society.

The 10 principles of the United Nations Global Compact

Human Rights	Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights.
	Principle 2: Businesses should make sure they are not complicit in human rights abuses.
Labor	Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
	Principle 4: Businesses should uphold the elimination of all forms of forced and compulsory labor.
	Principle 5: Businesses should uphold the effective abolition of child labor.
	Principle 6: Businesses should uphold the elimination of discrimination in respect of employment and occupation.
Environment	Principle 7: Businesses should support a precautionary approach to environmental challenges.
	Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility.
	Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies.
Anti-corruption	Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

Corporate Ethics Activities at Overseas Sites

Versions of *The Shiseido Code* are established for each of Shiseido's overseas affiliates, where efforts led primarily by Business Ethics Officers (BEOs) seek to facilitate the implementation

of *The Shiseido Code*. Steps have been taken since March 2004 to completely revise each of the versions in the wake of law revisions and changes in the social environment.

Case Example: Taiwan Shiseido Co., Ltd.

Taiwan Shiseido's Corporate Ethics Committee has been meeting four times a year since its establishment in 2000. Through regular worksite meetings held by committee members, corporate ethics training programs, education via the in-house newsletter², and consultations, the committee is working to have all employees in the Taiwan Shiseido Group practice its version of *The Shiseido Code*.



The Shiseido Code of the Taiwan Shiseido Group; revised edition (2004) on left; original edition (2000) on right



Taiwan Shiseido's Corporate Ethics Committee

A guide to building trust

One story I heard recently concerned a BC who was carrying a copy of *The Shiseido Code* while visiting a chain store. When asked what it was by the chain store owner, the BC explained that it contained behavior standards for Taiwan Shiseido, advising all employees how to conduct themselves in order to win the trust of customers and business partners. The chain store owner was impressed, saying, "With standards like these, Taiwan Shiseido has proven it can be trusted." That story made me very happy indeed.

It convinced me that *The Shiseido Code* is effective in winning stakeholders' trust.



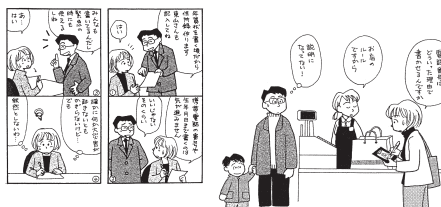
Lee Kuosin
Chairman
Corporate Ethics Committee
Vice President
Taiwan Shiseido Co., Ltd.

Thorough Information Management

Priority Activity Theme for Code Leaders

Every year, the Corporate Ethics Committee establishes a priority activity theme for Code Leaders and promotes related activities throughout the year. The theme for fiscal 2004 was “Information Management,” selected to coincide with full implementation of the Personal Data Protection Law³. Efforts were made through videos and the *Code Letter* educational magazine to heighten in-house awareness of the issue. In addition, training programs and activities were planned

intentionally to reflect selected sections of *The Shiseido Code* related to information management that matched the characteristics of each worksite.



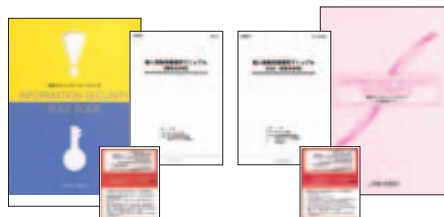
From *Code Letter*
“Mastering *The Shiseido Code* through Cartoons”

Strengthening the Framework for Protecting Personal Data

Shiseido acquired Privacy Mark⁴ certification in March 2004. Moreover, Shiseido Group companies are promoting full protection of personal data in line with the Personal Data Protection Law to set the minds of stakeholders at ease.

Specifically, companies distribute policy information, organization charts, manuals, and “compliance cards,” acting as reminders to protect personal data, as well as videos for use in training on how to handle and protect such data. All employees are obliged to undergo training at least once a year either at group

training sessions or through e-learning. In order to confirm that rules and procedures are properly followed, each site has a system in place for auditing the protection of personal data, leading to regular and continual improvements.



Manuals and cards related to personal data protection

Shiseido wins Business Ethics Corporate Effort Award

In November 2004, Shiseido won a Business Ethics Corporate Effort Award from the Business Ethics Research Center⁵. This marked Shiseido's second consecutive award after winning the Best Practice Award in 2002. The judges applauded Shiseido for revising its Code to reflect changes in the times, for its unique Code Leader system fostering corporate ethics throughout the company, for reviewing its activities through annual publication of the *Shiseido Corporate Ethics White Paper*, and for building a comprehensive framework for education and training.



Corporate ethics training video receives Silver Prize

“At Retail Outlets,” part one of the video “Take another look at yourself and your worksite,” won the Silver Prize in the Educational Division of the ITVA-Japan Contest 2004⁶. The video contains examples of incidents likely to occur at retail outlets and was prepared for the fiscal 2002 corporate ethics training at Shiseido worksites. The video addresses a range of problems that occur at outlets due to differing perspectives or lack of communication. The judges applauded the video for allowing “thinking time” at important junctures to stimulate discussion within departments and worksites.



3. Personal Data Protection Law

Fully implemented from April 2005, the Personal Data Protection Law aims to protect the rights and interests of individuals through a set of obligations for companies handling personal data.

4. Privacy Mark

The Japan Information Processing Development Corporation awards the Privacy Mark to businesses with systems in place for protecting personal data in conformity with guidelines set by the Ministry of Economy, Trade, and Industry.



5. Business Ethics Research Center

This is one of the few organizations in Japan specializing in promotion of business ethics education. The center is a place for industry and academia to collaborate on business ethics research and practice. The chairman of the center is Professor Emeritus Masakazu Mizutani of Kanagawa University.

6. ITVA-Japan Contest 2004

This is a business visual communication contest sponsored by ITVA-Japan (International Television Association), a United Nations certified NGO. The contest's judges evaluate entries for the quality of their visual imagery and how well they communicate their message.

Environmental Protection

■ Scope of input and output

Manufacturing: Eight domestic manufacturing sites (Shiseido Company, Limited. (Kamakura, Kakegawa, Itabashi, Osaka, Maizuru, and Kuki plants), Shiseido Beautech Co., Ltd., Mieux Products Co., Ltd.)

Branch offices: 78 branch offices and sales headquarters of Shiseido Sales Co., Ltd.

Head office: Shiodome, Ginza, Gotanda areas

Research centers: Shin Yokohama. Kanazawa Hakkei

■ Packaging material

Total number of containers, cases, caps, etc., used with products.

■ SO_x

Sulfur oxides (SO_x) are gases with a strong irritating odor generated during the combustion of heavy oil and coal; they cause acid rain.

■ NO_x

Nitrogen oxides (NO_x) are generated during the combustion of oil and gas. NO_x is one of the substances which causes photochemical smog.

■ COD

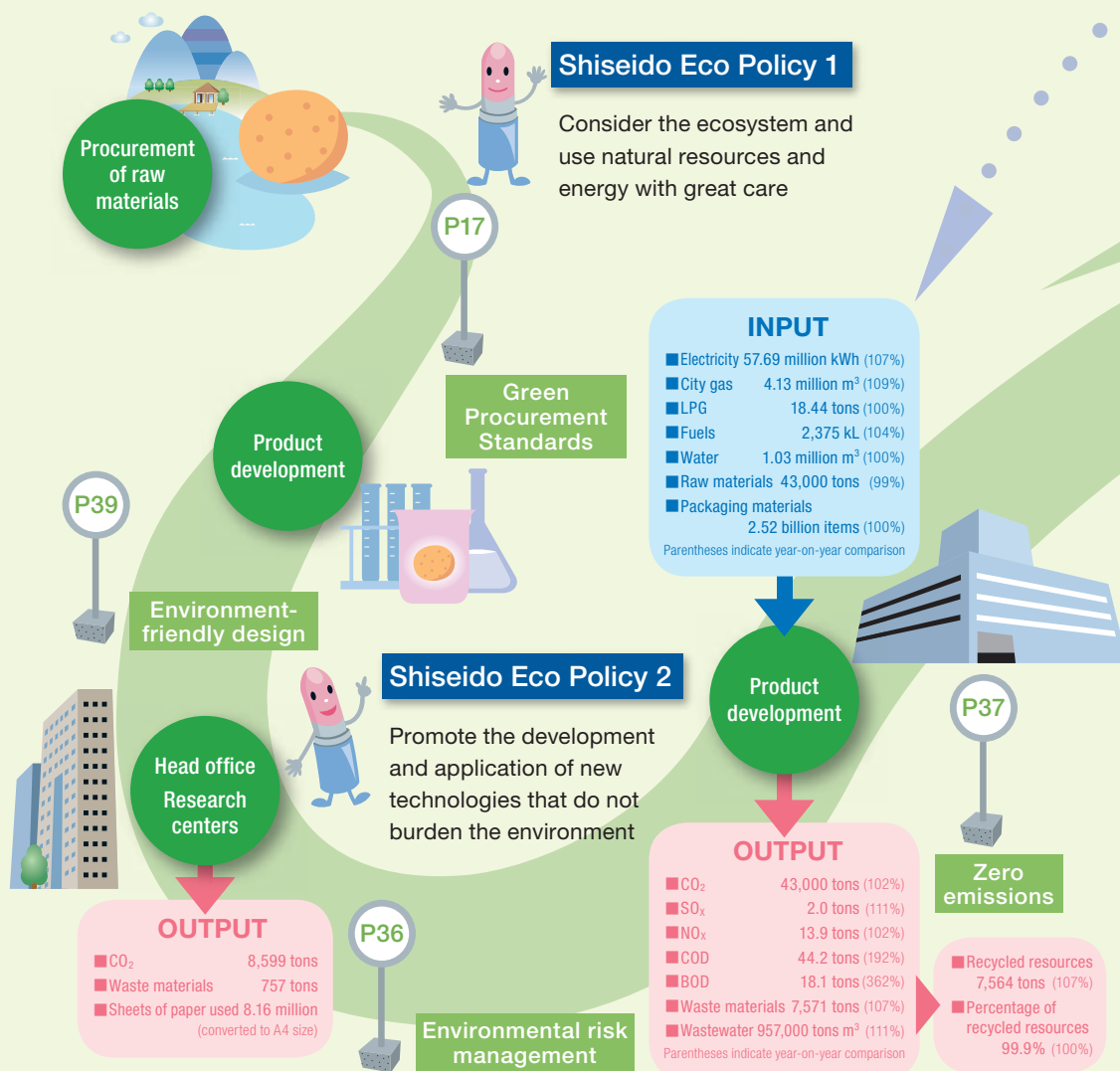
Chemical oxygen demand is the amount of oxygen needed to oxidize pollutants in water and other effluents. COD is used to estimate the amount of a pollutant in a sea area or a lake.

■ BOD

Biochemical oxygen demand is the amount of oxygen needed for biodegradation of pollutants (organic matter) in water. BOD is an index for measuring the level of pollution in rivers and streams.

Environmental Policy and Activities at Shiseido

Protection of the environment is an important social responsibility. In 1992, Shiseido established its environmental policy, the Shiseido Eco Policy, and has since promoted activities based on efforts to protect the global environment in all its business operations. The chart below presents an overall view of environmental activities and the impact of business activities on the environment.



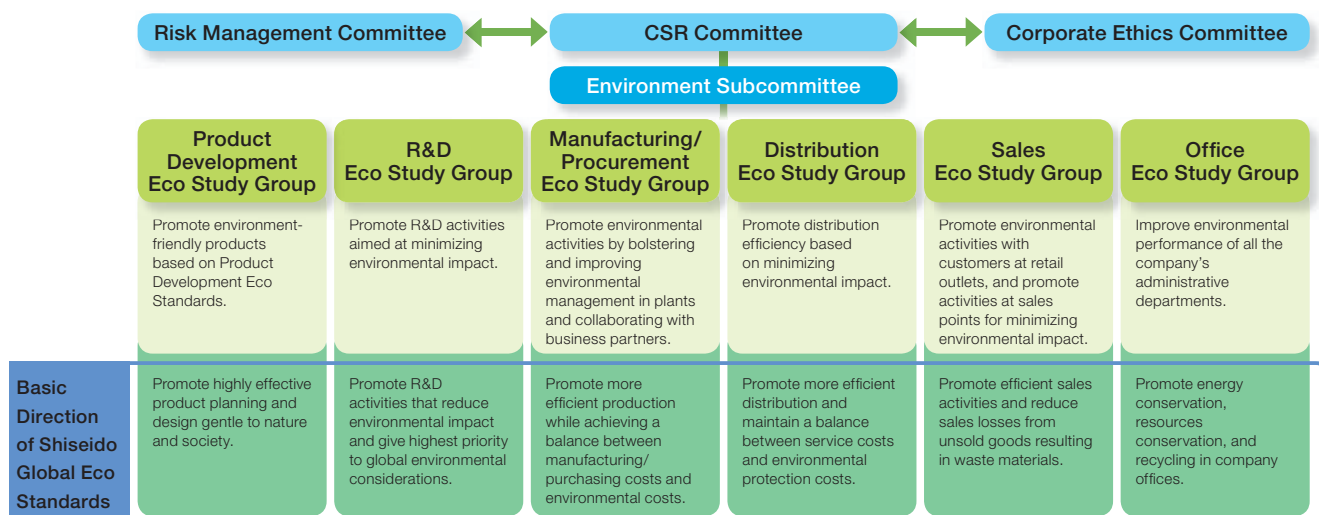
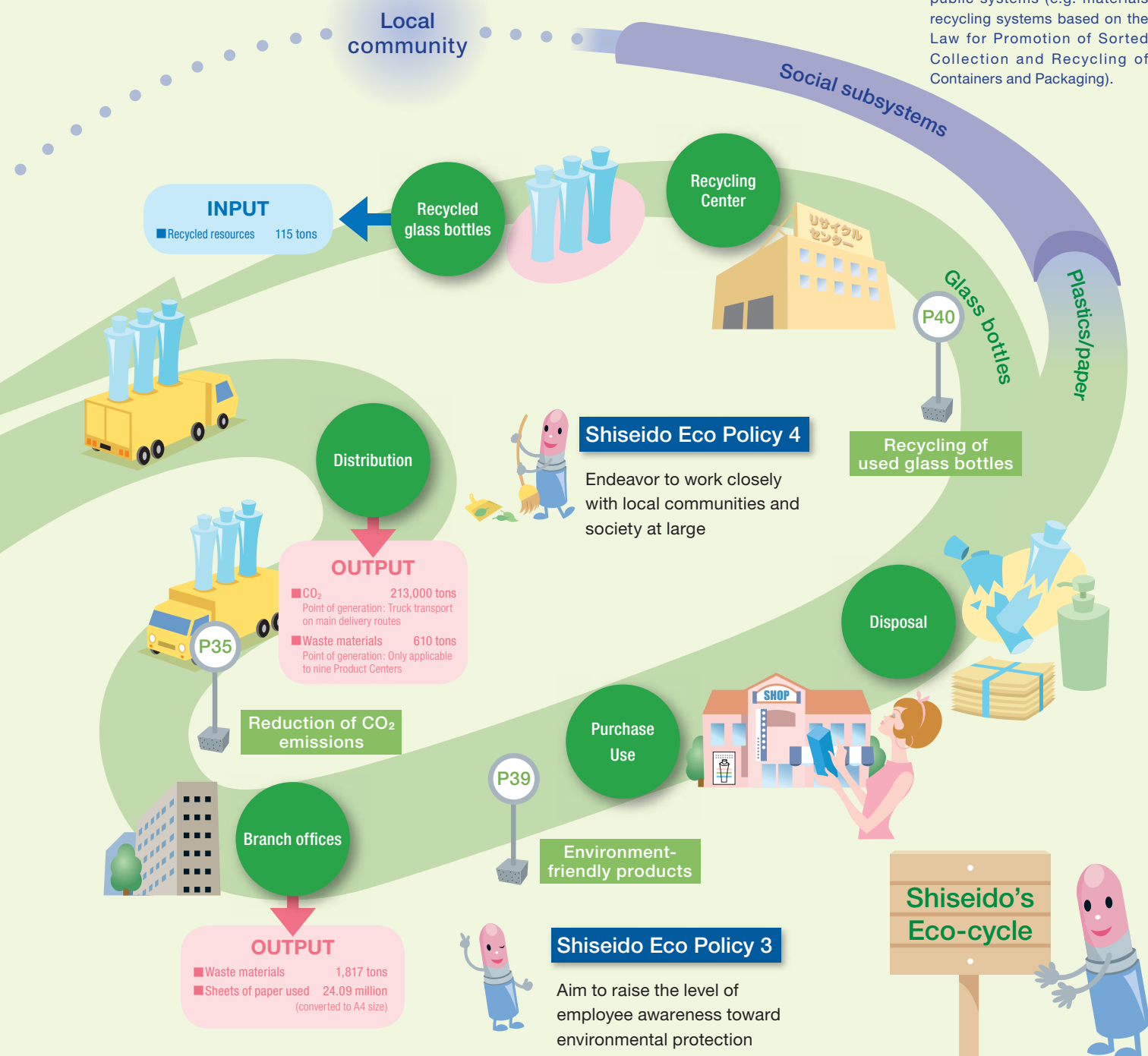
Framework for Promoting Shiseido Global Eco Standards and Environmental Management

In order to carry out environmental activities in line with the Shiseido Eco Policy in all the company's activities, Global Eco Standards have been set up as activity guidelines for each business domain. Environmental challenges are organized into six categories: product development; research and development; manufacturing and procurement; distribution; sales; and offices. Each category consists of a basic direction, design and action standards for clarifying the basic direction, and operational standards for putting

the design and action standards into practice.

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

Recycled raw materials are returned to Shiseido through public systems (e.g. materials recycling systems based on the Law for Promotion of Sorted Collection and Recycling of Containers and Packaging).



Environmental Goals and Fiscal 2004 Achievements

Action Category	Challenges	Fiscal 2004 Achievements	Fiscal 2005 Goals	Medium-term Goals
Basic direction: Strengthen environmental management				
Building an environmental management system	Strengthening the environmental management system	Shanghai Plant obtained ISO 14001 certification	Promotion of the environmental management system across the entire Shiseido Group	Enhancement of environmental management system covering the entire Shiseido Group, including overseas sites
Disposal of waste materials	Expansion of management scope	Expanded to cover 71 commissioned manufacturers in Japan	Expansion to include non-manufacturing sites overseas	Thorough management throughout the entire Shiseido Group and commissioned manufacturers
Chemical substances	Total safety in chemical substance management	Thorough management of MSDS (Material Safety Data Sheets)	Thorough management of newly introduced chemical substances	Safety ensured through thorough chemical substance management
	Prevention of leakages	Implemented emergency drills at all manufacturing facilities for preventing chemical substance leakages	Prevention of chemical substance leakages with thorough emergency training and drills	Prevention of chemical substance leakages across the entire Shiseido Group
Basic direction: Reduce environmental impact				
Products	Use of plant-based resins	Applied plant-based polylactide resins in the cosmetics business (cosmetics trays used in sales promotions)	Further development and effective use of plant-based polylactide resins	Further development and effective use of plant-based resins
Business partners	Support for environmental efforts of business partners	Expanded activities at all business partners based on Green Procurement Standards	Expansion of activities at new business partners based on Green Procurement Standards	Permeation of Green Procurement Standards throughout the operations of all business partners
Distribution	Efficient and environment-friendly transport and delivery	Gained understanding of volume of CO ₂ emissions during transport and delivery	Study of distribution system reforms for efficient transport and delivery	Distribution system reforms for efficient transport and delivery
Reduce, Reuse, Recycle (The 3 Rs)	Reduction of CO ₂ emissions	Emissions per unit of production were 149% compared to 1990 levels	Reduction of fixed energy consumption by consolidating domestic plants to raise manufacturing efficiency	Reduction of emissions per unit of production to 15% compared to 1990 levels by fiscal 2010
	Promotion of zero emissions	Eight facilities including the seven domestic Shiseido plants and head office of Shiseido maintained zero emissions	Maintain zero emissions at the eight domestic facilities	Maintain zero emissions and expand efforts to non-manufacturing sites
Basic direction: Strengthen environmental communication				
External communication	Environmental public relations	<ul style="list-style-type: none"> Published <i>CSR Report 2004</i> (The report won an Incentive Award in the Environmental Communication Awards 2004) Promoted dialogue with stakeholders (Discussion with Stakeholders: July 2004 and February 2005) 	<ul style="list-style-type: none"> Publication of <i>CSR Report 2005</i> Proactive disclosure of environmental information through enhancement of corporate website Promotion of dialogue with stakeholders 	<ul style="list-style-type: none"> Ongoing communication in each fiscal year Enhancement of information disclosure content
Internal communication	Promotion of environmental education	<ul style="list-style-type: none"> Implemented programs for raising environmental awareness of employees (Meeting for Reviewing <i>CSR Report</i>: December 2004; meeting solely for discussing environmental matters: March 2005) 	Environmental education for employees through introduction of Environmental e-Learning System	Firm establishment of environmental education at domestic business sites and promotion at overseas sites
Internal and external communication	Promotion of recycling of used glass cosmetics bottles	<ul style="list-style-type: none"> Established routes for collection from all business sites Volume of used glass cosmetics bottles collected: 115 tons 	Implementation of survey for determining perceptions toward participation in recycling of used glass cosmetics bottles	Continuous increase in level of participation in recycling of used glass cosmetics bottles
	Expansion of environmental volunteer activities	<ul style="list-style-type: none"> Sustained greening activities at domestic and overseas manufacturing sites Continued activities for promoting beautification and greening of areas around business sites 	Participation in environmental volunteer activities via in-house Shiseido Social Contribution Club	Ongoing encouragement of participation in environmental volunteer activities

1. Trends in CO₂ emissions

Data on CO₂ emission trends by fiscal year for Shiseido's six domestic cosmetics plants can be found at the following URL: www.shiseido.co.jp/e/eco

2. Small-lot manufacturing

In contrast to conventional large-volume manufacturing, small-lot manufacturing refers to cell manufacturing and tailored manufacturing.

3. Fixed energy

Energy consumed not related to changes in production volumes.

4. Main plants

Kamakura, Kakegawa, Osaka, and Kuki plants.

5. Energy-saving equipment

Equipment such as the cogeneration system installed in the Kuki Plant in fiscal 2001.

6. Kyoto Mechanisms

These are mechanisms whereby one country can sponsor CO₂ emissions reduction projects in another country and use the results to meet its own CO₂ emissions targets in line with the Kyoto Protocol.

Approach to Reduction of CO₂ Emissions

CO₂ emissions (per unit of production) from Shiseido's six domestic plants during fiscal 2004 were 149 against a relative value of 100 for fiscal 1990, or nine points worse than the previous year¹. While overall production volumes decreased with the company's shift to small-lot manufacturing² in order to reduce inventories, fixed energy consumption³ stayed level, causing the production unit index to worsen in line with lower volumes.

Total CO₂ emissions, however, have been trending between 37,000 and 40,000 tons over the past several years. Shiseido plans to consolidate its Maizuru and Itabashi plants (in 2006) and integrate manufacturing operations into its main plants⁴ in order to improve production efficiency. Subsequent

reductions in fixed energy consumption are expected and the company is anticipating a 3,000-ton reduction in CO₂ emissions by fiscal 2006 compared to fiscal 2004.

A further reduction of 1,000 tons by fiscal 2010 compared to fiscal 2004 is expected as a switch is made from heavy oil, which has a large impact on the environment, to less-impacting natural gas, and as energy-saving equipment⁵ is gradually installed in more plants.

Taking into consideration the Kyoto Mechanisms⁶ and other CO₂ reduction initiatives being promoted by the Japanese government, Shiseido is making an effort to achieve the reductions promised for the period 2008-2012 under the Kyoto Protocol and its own environmental goals set for 2010.

Environmental Management

Shiseido promotes environmental initiatives mainly through the Environment Subcommittee of the CSR Committee. Environmental management is carried out in Japan and overseas in line with the Shiseido Eco Policy, a set of basic environmental management policies. Each plant also has its unique environmental policies⁷. Shiseido also oversees environmental management for its 97 consolidated subsidiaries.

Environmental Management in Japan

Environmental Risk Management—Thorough Management and Reduction of Chemical Substances

Looking to reduce its use of chemical substances, Shiseido's basic policy is to do its utmost not to use substances listed in the Pollutant Release and Transfer Register (PRTR) by switching to other substances where technically feasible. In that context, the company is actively pursuing new cosmetic formulas through research and development of alternative technologies.

As a result, the amount of chemical substances handled since the PRTR Law came into effect in fiscal 2001 has decreased gradually each year. In fiscal 2004, only seven reportable chemical substances were used, with a total volume of 27.9 tons. That was a 30% reduction in the number of substances compared to fiscal 2001 and a 50% reduction in volume⁸. Shiseido will

continue proactive research and development of alternative technologies, switching over to these as much as possible.

Meanwhile, each manufacturing process undertakes the procurement, use, storage, and disposal of chemical substances according to its own standards. From the viewpoint of occupational health and safety, each plant and research center prepares a database of safety data for chemical substances, allowing workers to readily access safety information using a computer. This raises the level of safety when workers handle the substances and contributes to quicker responses in emergency situations. Plants required to submit reports⁹ in line with the PRTR Law¹⁰ do so every year.

Shizuoka Branch supports environmental PR activities—Publicizing recycling of used glass cosmetics bottles

Environmental activities conducted at the Shizuoka Branch used to be almost entirely related to reducing the amount of paper being used. Beginning with a program conducted jointly with the Kakegawa Plant to support retail outlets handling Shiseido products, however, changes appeared in the environmental awareness of the branch's employees.

As a part of that program, representatives from chain stores¹¹ were invited to tour the Cullet Center¹². Among the opinions voiced after touring the center, a common one was that although their outlets were cooperating in the collection of used glass cosmetics bottles, this was their first opportunity to see the results of recycling up close. They were reassured that Shiseido was doing positive things for the environment and said the company's activities

should be publicized more widely.

After that, the momentum of environmental activities at the Shizuoka Branch suddenly increased. It was decided, for example, to inform the wider society about recycling activities, one of the typical environmental activities of Shiseido. After discussing the subject with local media, the Shizuoka Branch placed an environmental advertisement in the local newspaper. Local television and radio stations also picked up on the story, widely publicizing Shiseido's recycling activities among the local populace. In the future, employees at the Shizuoka Branch are going to participate in activities for protecting woodlands and in local beautification projects, and will continue to publicize the company's recycling activities. Doing so will hopefully lead to greater customer loyalty to Shiseido products.



Scene from "Sore line!" interview by SBS TV



SBS Radio website



Text of environmental ad placed in Shizuoka Shimbun

Hideaki Tsuji (left)
General Manager
Planning and Management
Department
Shizuoka Branch,
Shiseido Sales Co., Ltd.

Atsuko Hara (right)
General Manager
Beauty Management
Department
Shiseido Sales Co., Ltd.

Scene from SBS Radio "Honobono Wide" interview

7. Unique environmental policies

To view environmental policies for each plant, please access:
www.shiseido.co.jp/e/eco

8. Administrative policies based on PRTR Law Achievements concerning PRTR substances that must be reported

Fiscal 2003

Seven reportable substances
Volume handled: 35.4 tons

Fiscal 2002

Eight reportable substances
Volume handled: 47.5 tons

Fiscal 2001

Ten reportable substances
Volume handled: 63.9 tons

For detailed data, please access:
www.shiseido.co.jp/e/eco

9. Plants required to submit reports

For PRTR Class I Chemical Substances, plants that annually handle one ton or more (0.5 tons or more for Specified Class I Designated Chemical Substances) must file a report. In fiscal 2004, five Shiseido plants had to report these substances: the Kakegawa, Osaka, Kuki, and Itabashi plants, and the Shiseido Beautech Plant.

10. PRTR Law

Effective from April 2001, the PRTR Law deals with measuring the volume of specified chemical substances being emitted into the environment and promoting improvements in substance management.

11. Chain store

Store contracted to sell Shiseido cosmetics.

12. Cullet Center

Glass recycling facility inside Kakegawa Plant.

■ Response to legal regulations

1) Environmental audits

Besides internal and external audits of plants in accordance with ISO 14001, the Technical Department at the Shiseido head office conducts comprehensive environmental, quality, and occupational health and safety audits of all business sites. During fiscal 2004, the Technical Department carried out such audits at 29 sites, including domestic plants, product centers, sales companies, and overseas plants.

2) PCB management

Because of its outstanding heat resistance and insulation properties, polychlorinated biphenyl was used extensively, for example in the manufacture of transformers. After its harmful qualities became known, however, its manufacture, import, and any new applications were prohibited. In order to promote disposal of PCB in line with the Waste Materials Disposal Law and the Law Concerning Special Measures to Promote Proper Disposal of PCB Waste, all 62 of Shiseido's business sites (plants, branch offices, distribution centers, research centers, head office) properly store and manage PCB waste materials and submit the necessary reports to the authorities.

1. Shanghai Zotos Citic Cosmetics Co., Ltd.

Shanghai Zotos Citic Cosmetics manufactures mid range products for export to countries in Asia. It also sells the same products domestically, thus giving it the dual functions of manufacturing and sales.

2. ISO 14001

Developed by the International Organization for Standardization (ISO), ISO 14001 is a set of international standards for environmental management. The standards stipulate the systems that should be put in place in order to continually reduce the environmental impact caused by an organization's activities. Seven of Shiseido Group's 12 domestic manufacturing sites and nine of its 10 overseas manufacturing sites have obtained ISO 14001 certification.

3. OHSAS 18001

OHSAS 18001 is a set of international standards for occupational health and safety management systems. The aim of the standards is to pinpoint the risks related to the occupational health and safety of employees, prepare countermeasures, carry them out, and reduce the possibility of health or safety problems occurring.

4. Background to obtaining certification

When Shanghai Zotos Citic Cosmetics began manufacturing in 1999, it conducted only assembly operations, i.e., the filling of containers. Preparations for obtaining ISO 9001 certification got under way in 2003 when integrated manufacturing operations commenced.

5. ISO 9001

ISO 9001 is a set of international standards developed by the ISO for quality management systems. It standardizes how an organization should carry out activities in order to provide quality assurance for products and enhance customer satisfaction.

6. Zero emissions

Zero emissions refer to the reusing or recycling of all waste materials. Sometimes, however, the overall environmental impact actually increases if all waste materials are reused or recycled, such as when waste materials must be transported long distances or when excessive chemical processing is required. Shiseido, therefore, defines zero emissions as 99.5% reuse or recycling of waste materials.

7. Industrial waste under special management

Industrial waste under special management refers to waste harmful or possibly harmful to the environment or to human health due to its toxic, contagious, or explosive nature.

Environmental Management Overseas

Case Example: Shanghai Zotos Citic Cosmetics Co., Ltd. (China)

In December 2004, Shanghai Zotos Citic Cosmetics¹ acquired ISO 14001² and OHSAS 18001³ certification⁴. Engaged in both manufacturing and sales, the entire company is required to work as one on environmental issues, together with sales personnel. China's infrastructure for recycling and other environmental measures is still in the process of development, however, making implementation of full-scale environmental measures difficult on the part of the company. The efforts applied to obtain certification, therefore, provided an opportunity for raising the level of environmental awareness among employees. Besides full participation in training

by employees, for example, an environmental quiz was held as a fun way to learn about protection of the environment. Shanghai Zotos Citic is currently seeking forklift and boiler operation qualifications for its employees and is carrying out management of hazardous items (storage conditions, emergency response manuals, etc.), as well as clearly indicating hazardous areas, all as part of its ongoing initiatives for comprehensive environmental, and occupational health and safety management.



Case Example: Shiseido International France S.A.S.

In July 2004, Shiseido International France (SIF) became the first cosmetics company in France to acquire ISO 9001⁵, ISO 14001, and OHSAS 18001 certification. It was also the first time for a company in the French cosmetics industry to be certified by the Association Française de l'Assurance Qualité (AFAQ; a French third party certification

body). SIF will continue its utmost efforts to promote the management of environmental as well as occupational health and safety matters.



Maintaining and Expanding Zero Emissions

Although all seven of Shiseido's domestic cosmetics manufacturing sites achieved zero emissions⁶ in fiscal 2003, zero emissions was not their final goal. Rather, the achievement was the starting point for a full launch into activities aimed at reducing waste materials. Shiseido believes it is important not only to maintain zero emissions at the domestic plants but also to achieve the same at non-manufacturing sites in Japan and at overseas sites, and to enhance the quality of those efforts.

Case Example: Kakegawa Plant

Towards Zero Emissions

The Kakegawa Plant achieved zero emissions status in September 2002. Its recycling rate in fiscal 2001 was 97.8%, and it disposed of 16 tons of waste as landfill (see graph on p. 38). In order to reach the 100% recycling target, from May 2002 buried waste was stockpiled temporarily at the plant, which quickly set

about finding recycling destinations for the different materials. A system for 100% recycling was finally established after locating a destination in Kyushu for heavy metals, which are designated as industrial waste under special management⁷. The Kakegawa Plant still separates its waste into 41 different categories.

Takegawa Plant Registered as Advanced Waste Reduction and Recycling Facility

In order to promote waste reduction and recycling, Takegawa City in Shizuoka Prefecture introduced a unique system for registering model facilities that are advanced in the field of waste reduction and recycling. The criteria for registration cover the need to separate waste into six or more categories, the percentage of waste reduced, the rate of recycling, reduction of raw garbage, and the use of recycled office products and other items. In

April 2004, the city applauded the Takegawa Plant for its efforts and the plant became the ninth model facility to be registered.



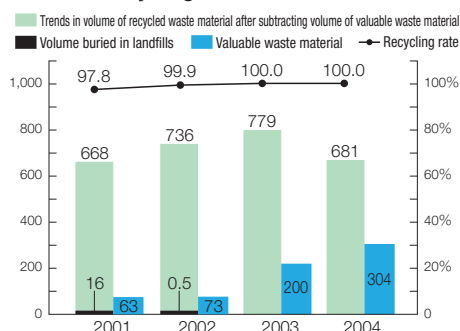
Model facility registration certificate

Enhancing the Quality of Zero Emissions

For the Takegawa Plant⁸, maintaining zero emissions is merely a transition point in its overall consideration of the global environment. The plant recognizes that besides regular recycling activities, it is also important to raise the value of waste materials to turn them into eligible resources and, in turn, facilitate their recycling. In addition to maintaining its zero emissions status, the plant is also preparing for an era in which a wide variety of industries will emerge and develop. It has already begun searching for ways to contribute to other industries by turning waste materials into valuable resources⁹ they can use. As a result of these efforts, the amount of valuable waste materials has increased each year, up a tremendous 481% in fiscal 2004 compared to fiscal 2001. The Takegawa Plant continues to make steady improvements, managing to reduce

the amount of waste materials for recycling, excluding valuable materials, by 7.4% in fiscal 2004 compared to fiscal 2002, and 12.6% compared to fiscal 2003, despite missing its goal of a 10% reduction relative to fiscal 2002. The plant will continue to promote efforts for turning waste materials into valuable resources, thus enhancing the quality of its zero emissions.

Trends in recycling volumes of waste materials



Activities at Research Centers

Expanding and Enhancing the Quality of Zero Emissions

The research centers in Shin Yokohama and Kanazawa Hakkei undertake creation of products, paying maximum consideration to both safety and the environment. Waste materials, for example, continue to be disposed of properly, accompanied from fiscal 2003 by additional numerical goals set for the total volume of waste materials and the recycling rate. In moving to achieve the goals, waste material management regulations were drawn up, rules on separate disposal of research-related and day-to-day office waste were clarified in chart form¹⁰, regulations were put in place for managing new and existing chemical substances,

and databases of safety datasheets for chemical substances and other materials were improved. These efforts to strengthen systems for waste material disposal¹¹ led to the research centers achieving zero emissions for office-related waste. The centers now aim to achieve zero emissions for industrial waste products and will also continue efforts to raise the quality of their recycling activities¹².

Trends in total volume of waste materials and recycling rate at research centers

Item	Recycling Rate/Total Amount		
	2002	2003	2004
Target	74% / 278 tons	75% / 300 tons	99% / 270 tons
Actual	55% / 322 tons	76% / 272 tons	99% / 267 tons

8. Products manufactured at Takegawa Plant

Cosmetics such as lotion, milky lotion, nail polish, hair-coloring, and foundation; pharmaceuticals such as *Hyalos* and *Ferzea*; fine chemicals such as bio-hyaluronic acid and column filler; and other items such as *Fine Rice*. Viewed even in terms of the overall Shiseido Group, the Takegawa Plant manufactures a wide spectrum of products and generates a large variety of waste products.

9. Turning waste materials into valuable resources

- Locate and enter contracts with recipients: iron, paper, chemical drums.
- Thoroughly separate waste materials to isolate those with value: removal of electric wiring and iron from office equipment, and breaking down of fiber drums into iron and paper.

10. Research and office related waste materia

Charts showing rules for separating waste materials



11. Strengthening systems for waste material disposal

Shredders for use with FDs, CDs, and DVDs; mobile shredder vehicles for on-demand shredding of important documents; contracts with waste disposal companies involved in the reuse and recycling of metals and gases in aerosol samplers, etc.

12. Raising the quality of recycling

Composting of garbage and fallen leaves; reuse of packaging materials; use of some shredded paper as packing material; thorough removal and separation of brand-marked sample products; on-site confirmation of proper disposal by waste disposal companies, etc.

Environmental Considerations for Products

Shiseido's Product Development, R&D, and Design departments work closely to incorporate environmental considerations into products through the selection of environment-friendly materials, the reduction of excessive packaging, and the design of easily recycled containers.

2005 Eco Tree

▼ Design for easy disassembly

(To facilitate the recycling of containers made of composite materials, a disassembly mechanism is employed to separate the metal parts from the glass and plastic.)



(To facilitate the recycling of containers made of composite materials, a disassembly mechanism is employed to separate the plastic parts in the shoulder area of aerosol products from the metal container.)



▼ Greater use of recyclable materials

(Improved film laminated paper)

clé de peau



▼ Recycled paper

uvwhite



▼ Recycled glass

naturals



▼ Recycled polyethylene

ELIXIR



▼ Plant-based resins

(Use of polylactide resins)

Cosmetics tray for sales promotion



▼ Kenaf

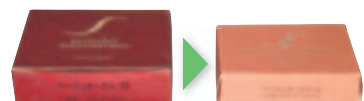
(Use of non-wood resources)

qiora



▼ Weight reduction

S



▼ Multiple environmental considerations

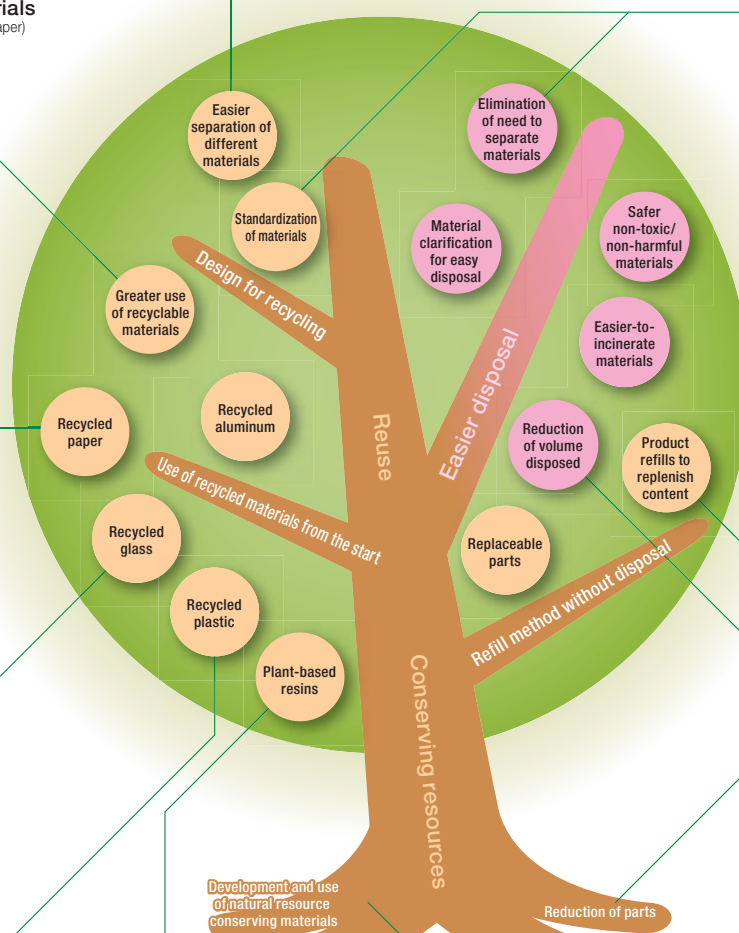
(Removed case dividers and plastic sheathing at the base of containers to help save resources)

d'cilà



▼ Refilling

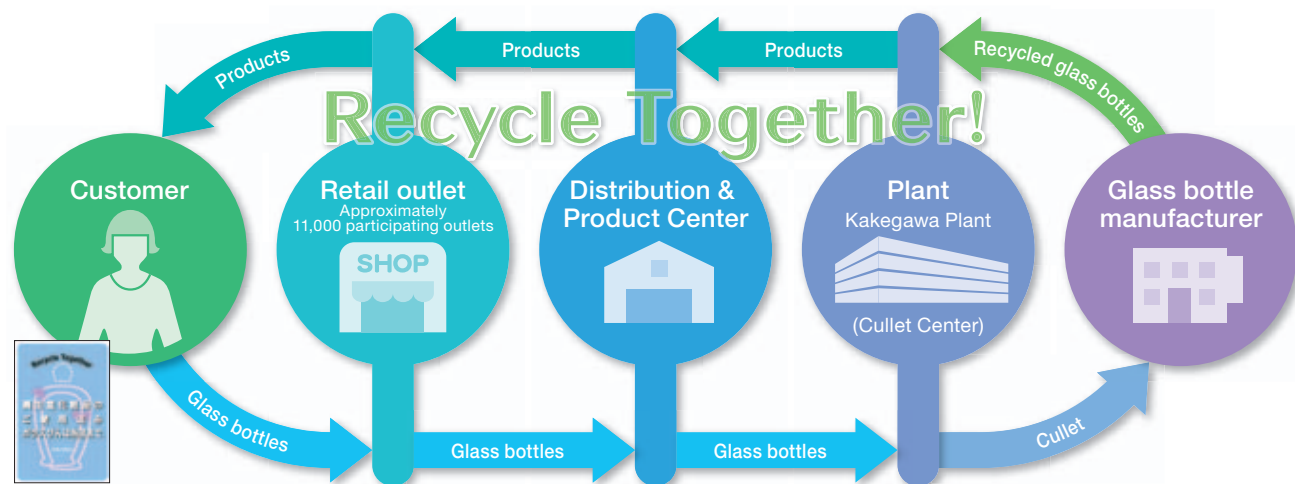
SUPER MILD



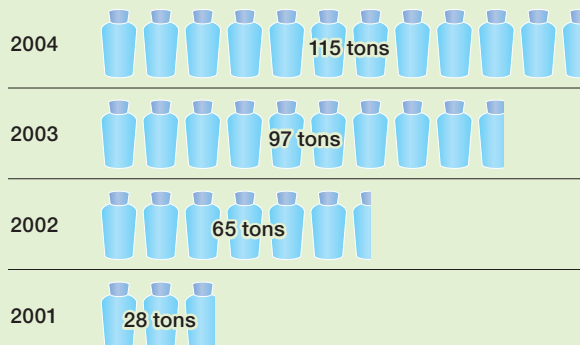
Recycling of Used Glass Bottles

Shiseido has been recycling used glass bottles throughout Japan since April 2001. This activity, called “Recycle Together,” aims to prevent waste by reusing limited resources. The company has worked closely with customers, retail outlets, and glass bottle manufacturers to put in place a system that facilitates recycling of used glass bottles.

System for Recycling Used Glass Bottles



Trends in volume collected



Processes until cullet is recycled as raw material



Comments from a retail outlet participating in the recycling initiative



In-store glass bottle collection box

At our store, we have a sense of mission to be responsible for the products our customers purchase, right to the very end, and that is why we collaborate with Shiseido in recycling used glass bottles. One way we do that is by preparing our own collection cards,

which we hand out to customers asking for their cooperation. We also provide information on collection to customers through flyers and direct mail, and to enlighten residents in the local community we include information on recycling in POP advertisements placed outside our store.

When used glass bottles are returned to us, we are always pleasantly reminded of the extent to which our customers value Shiseido products. The collection of used glass bottles also provides



POP advertising for glass bottle recycling



POP advertising outside store

an opportunity for further communication with our customers, and our posture of accepting responsibility right to the very end for the products we sell enables us to win their trust.

Akemi Sato
Store Owner
Tairadate Cosmetics Store
in Iwate Prefecture



1. Davlyn Industries, Inc.
Manufacturer of Shiseido cosmetics.

2. Composting equipment
Equipment that turns raw garbage into compost using microorganisms for high-speed decomposition and fermentation.

■ **Itabashi Plant participates in environmental exhibition**

The Itabashi Plant presented the glass bottle recycling system at the Third Open Environmental Fair hosted by Itabashi-ku, Tokyo (February 11-12, 2005).



■ **Website**

The CSR Report can be viewed on Shiseido's official website: www.shiseido.co.jp/e/eco/



(As of end of May 2005)

■ **Maizuru Fiesta**

The Maizuru Plant jointly sponsors a festival each year with its neighbor, Kirin Beverages Corporation, and sets up an area for informing visitors about its environmental activities. The festival in fiscal 2004 attracted 13,000 visitors. All profits from the festival are donated to social welfare facilities in Maizuru City.



3. Shiseido CSR Report 2004



Communication

Environmental communication is essential for fostering close ties with local communities and society at large, and for raising the environmental awareness of employees. Shiseido promotes activities closely rooted to the local communities at its domestic and overseas sites, and actively provides information on environmental protection through a wide range of platforms and media.

Communication with Local Communities

Highway Cleaning Activities in the U.S.

Employees at the East Windsor Plant of Shiseido America, Inc. and at Davlyn Industries, Inc.¹ have participated since 2003 in the Adopt-a-Highway program, cleaning up highways four times a year. Their contributions were recognized in 2004 when their company names were displayed on a sign along the adopted highway.



Sign along State Highway 32 in New Jersey



Adopt-a-Highway program website

Kamakura Plant Turns Raw Garbage into Compost

Since May 2004, the Kamakura Plant has been turning raw garbage generated on its premises into organic compost using related equipment² and has been presenting packages of compost gratis to plant visitors. The program is popular among visitors;

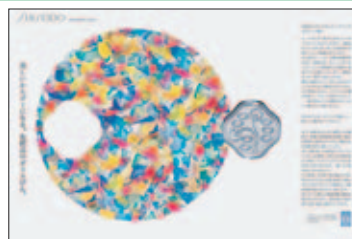
during fiscal 2004 about 2,280 kilograms (1,700 bags) of compost were handed out.



Environmental Communication

Environmental Advertising

In order to have as many people as possible appreciate the company's approach to the environment and the direction in which activities must head, Shiseido places environmental advertisements in newspapers, magazines, and other publications.



CSR Report Wins Environmental Communication Award

The *Shiseido CSR Report 2004*³ won an Incentive Award in the environmental report division of the Environmental Communication Awards 2004, hosted by the Global Environmental Forum and cosponsored by the Environment Ministry, Nihon Keizai Shimbun, Inc., and The Mainichi Newspapers.



Third Party Evaluation

Perspective

International NGO The Natural Step offers four system conditions* to define the basic principles for realizing a sustainable society. We view CSR measures as strategies developed for today based on looking backwards from a vision of future success in fulfilling these principles. This is a method we call “back-casting.” My comments on Shiseido’s CSR measures come from that perspective.

Sachiko Takami

Executive Director, Board of Directors
The Natural Step International, Japan



* Four system conditions for realizing a sustainable society
In a sustainable society, nature is not subject to systematically increasing:
1. concentrations of substances extracted from the Earth’s crust,
2. concentrations of substances produced by society,
3. degradation by physical means
and in that society...
4. people are not subject to conditions that systematically undermine their capacity to meet their needs.

Environment

Steps toward realizing a vision for success

- Shiseido has a record of steadily introducing anti-pollution measures, including the complete elimination of the use of chlorofluorocarbons (CFCs) in 1989, and the use of polyvinyl chloride in containers and packaging in 2000. Additionally, in 2003, all the company’s domestic cosmetics plants achieved a zero emissions status. Through these and other efforts, such as establishing a unique recycling system for used glass bottles, Shiseido has demonstrated its proactive approach to environmental matters.
- Besides its commitment to analyzing the safety of cosmetics products, Shiseido is playing a leading role in the research and development of alternative methods to animal experimentation. The company should be able to take on still greater challenges in the future.

Challenges for the future

- From a sustainability perspective, Shiseido needs to consider the effect cosmetics ingredients (oils, surface active agents, preservatives, antioxidants, and stabilizers) have on the natural world. Where there are cosmetics products containing substances foreign to nature and difficult to degrade, it is important that Shiseido strengthens its measures for switching to easily biodegradable substances, without impairing product function, quality, or safety with respect to human skin.
- In manufacturing and transport, Shiseido needs to switch its energy source to renewable fuels.

The above should be viewed as long-term goals that are to be pursued in cooperation with suppliers.

Society

Steps toward realizing a vision for success

- Shiseido sells cosmetics developed for people with sensitive skin.
- In order to promote gender-equal activities, Shiseido has set two goals: “promoting participation of young people and women in management” and “realizing a balance between work and private life.” To achieve those goals the company has established four priority tasks: “cultivating a corporate culture,” “nurturing and promoting leaders,” “rethinking the way people work,” and “helping balance work and childbirth/childcare.” Measures to achieve the goals and tasks, expressed in various action plans, are a necessary ingredient in the development of Shiseido’s management policies.
- It is wonderful that Shiseido has expressed its commitment as a global business by joining the United Nations Global Compact being advocated by United Nations Secretary General Kofi Annan.
- Shiseido also enthusiastically promotes philanthropic activities, such as holding beauty seminars at welfare facilities.
- Shiseido’s system under which about 600 Code Leaders act as standard bearers for the Shiseido Corporate Ethics and Behavior Standards is quite advanced.

Challenges for the future

- Japan lags considerably behind other advanced nations in the area of equality between the sexes with respect to the working environment. Therefore, it is important, first of all, for all employees to be aware of the substantial gap between reality and a company’s vision of future success. While employees may be able to take parental leave, for example, companies in Japan need only pay 30% of an employee’s salary while they are on leave, which is not enough to live on. Also, in order for employees to be able to balance a career and childcare over the long term, it is essential that local communities have nursery schools and after-school daycare centers where parents feel safe leaving their children. Some basic reforms are needed at the central government level in order to resolve such problems, but if Shiseido top management and employees recognize the issues, the company may be able to present the issues to society at large and take the first steps toward improvements.

Since women’s pursuits will continue to have a considerable influence on Shiseido’s growth, the company would do well to set high goals for promotion of gender-equal participation at work. Shiseido should take the lead in this area as a model company among Japanese businesses.