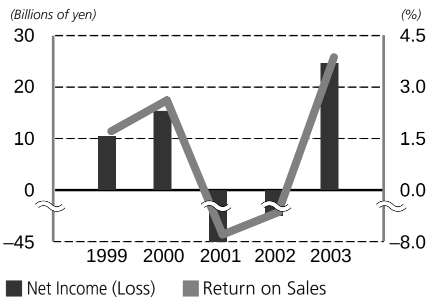
Six-Year Summary

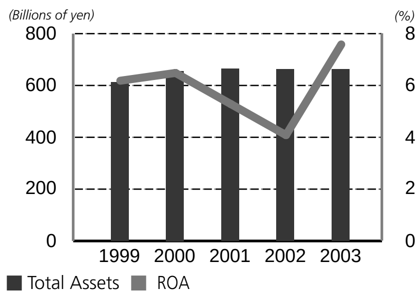
	1998	1999	2000	2001	2002	2003	2003
	Millions of yen						Thousands of U.S. dollars
For the Year:							
Net sales	¥620,910	¥604,295	¥596,643	¥595,152	¥589,962	¥621,250	$5,177,086
Cost of sales	208,763	203,380	196,760	202,510	200,194	212,963	1,774,698
Selling, general and administrative expenses	374,034	365,553	361,887	360,351	364,196	359,294	2,994,113
Income from operations	38,113	35,362	37,996	32,291	25,572	48,993	408,275
Net income (loss)	16,868	10,332	15,294	(45,092)	(22,768)	24,496	204,133
At Year-End:							
Total current assets	¥340,500	¥314,283	¥323,305	¥319,075	¥304,832	¥305,850	$2,548,754
Total assets	626,429	613,970	657,425	665,247	664,041	663,403	5,528,361
Total current liabilities	149,643	143,162	188,415	162,314	157,545	184,171	1,534,758
Short-term bank loans (incl. bonds redeemable within 1 year)	6,361	6,056	34,123	16,642	25,685	55,117	459,312
Long-term debt	28,102	30,138	6,021	50,544	72,485	44,291	369,092
Shareholders' equity	413,794	408,839	431,721	361,696	345,667	353,466	2,945,555
Per Share Data (in yen and U.S. dollars):							
Net income (loss)	¥40.1	¥24.5	¥36.7	¥ (106.8)	¥(54.6)	¥58.0	$0.48
Cash dividends	13.25	14.0	16.0	16.0	16.0	20.0	0.17
Weighted average number of shares outstanding during the period (in thousands)	420,181	420,877	416,752	422,097	416,708	419,580	
Key Financial Ratios:							
Operating profitability (%)	6.1	5.9	6.4	5.4	4.3	7.9	
Return on sales (%)	2.7	1.7	2.6	(7.6)	(3.9)	3.9	
Return on assets (%)	2.7	1.7	2.4	(6.8)	(3.4)	3.7	
Return on equity (%)	4.2	2.5	3.6	(11.4)	(6.4)	7.0	
Equity ratio (%)	66.1	66.6	65.7	54.4	52.1	53.3	
Current ratio (times)	2.28	2.20	1.72	1.97	1.93	1.66	
Debt/equity ratio (times)	0.08	0.09	0.09	0.19	0.28	0.28	
Payout ratio (%)	34.9	45.1	38.8	—	—	77.8	

Note: U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥120=US$1.
Return on assets = Net income (loss) / Total assets (Yearly average) x 100
Payout ratio is calculated by nonconsolidated figures.

Net Income (Loss)/Return on Sales

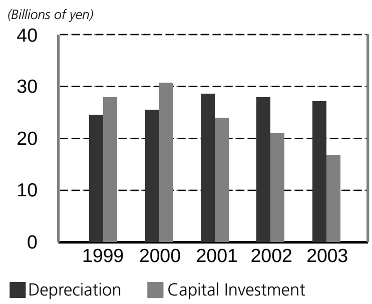


Total Assets/ROA



Note :
$$\text{Return on assets*} = \frac{\text{(Income from operations + Interest and dividend income)}}{\text{Total assets (Yearly average)}} \times 100$$

Depreciation/Capital Investment



Management's Discussion and Analysis

Revenue and Earnings

In the fiscal year ended March 31, 2003, Shiseido Company, Limited, and its 96 consolidated subsidiaries reported a net sales increase of 5.3%.

Domestic sales rose 2.1% owing to solid performances by the Company's cosmetics and toiletries divisions, both of which completed adjustments of distribution inventories. Overseas sales jumped 16.5% in yen terms and 10.6% on a local currency basis.

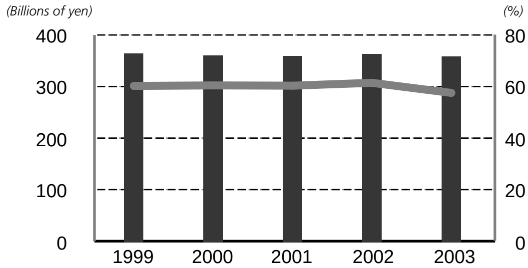
The cost of sales to net sales ratio climbed 0.3% point. This stemmed from a number of factors, such as a change in accounting standards in the United States that led to an increased cost of sales ratio. This has partly offset our efforts to reduce manufacturing costs such as integration of the back-office operations of the Company's cosmetics manufacturing plants in Japan in the second half, as well as partial overseas outsourcing of toiletries materials procurement.

The ratio of selling, general and administrative (SG&A) expenses to net sales improved 3.9% points. This was attributable to more efficient advertising and selling spending due to concentration of marketing on core product lines. As a result, income from operations increased nearly twofold.

Despite a write-down of financial assets associated with depressed stock markets, the Company reported a major return to profitability, with consolidated net income of ¥24.5 billion.

The figures for net sales, income from operations, and net income were all record-high amounts. The Company also achieved its return on equity (ROE) target of 7%.

Selling, General and Administrative Expenses/ Selling, General and Administrative Expenses to Net Sales



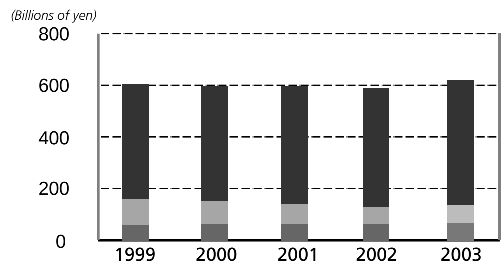
	1999	2000	2001	2002	2003
Selling, General and Administrative Expenses	¥366	¥362	¥360	¥364	¥359
Selling, General and Administrative Expenses to Net Sales	60.5%	60.7%	60.6%	61.7%	57.8%

Performance by Business Segment

Cosmetics: Domestic sales of cosmetics rose 2.1%. In the year under review, the Company continued working to rejuvenate its domestic cosmetics business, which has been the center of structural reforms. To this end, we concentrated on core product lines and actively promoted consultation-based sales targeting individual stores.

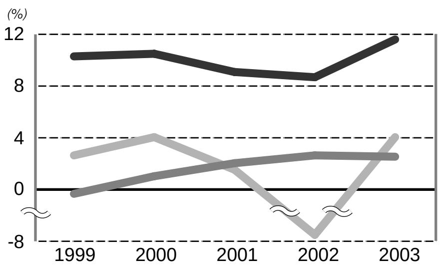
At the prestige end of the market, centering on counseling, sales of skincare products exceeded the preceding year's

Net Sales by Segment



	1999	2000	2001	2002	2003
Cosmetics	444	441	454	460	482
Toiletries	99	92	76	64	69
Others	61	64	65	66	70
Total	¥604	¥597	¥595	¥590	¥621

Operating Profitability by Category Segment



	1999	2000	2001	2002	2003
Cosmetics	10.2%	10.4%	9.0%	8.6%	11.5%
Toiletries	2.6	4.0	1.5	(7.0)	4.0
Others	(0.7)	1.0	2.0	2.6	2.5

level. We also scored a number of market "hits" with such products as Inicio Body Creator, an innovative body lotion.

In the "middle" market, centering on self-selection products, sales of both skincare and makeup lines were strong, while Ag+, a deodorant spray containing silver, became entrenched as a mainstay product. As a result, over-the-counter sales of cosmetics in Japan reached the previous year's level. The combination of healthy over-the-counter sales and completion of inventory adjustments by the sales subsidiary enabled the Company to increase sales of cosmetics in Japan.

Overseas sales of cosmetics were up 6.5% in local currency terms. Yen-based sales surged 12.6% with the help of the yen's depreciation. Mainstay skincare lines steadily expanded their share of overseas markets, while non-Shiseido-brands, such as fragrances of Beauté Prestige International S.A. and the Nars brand, also performed well.

Income from cosmetics operations jumped 40.6% thanks to increased domestic sales, lower manufacturing costs and greater efficiency of SG&A spending.

Toiletries: Sales of toiletries surged 8.2%. Unit prices continued to fall due to the ongoing severity of domestic market conditions. In response, the Company concentrated on key categories and brands in an effort to expand over-the-counter sales at retail stores. We also completed distribution inventory adjustments initiated in the previous fiscal year. These factors together helped increase sales of toiletries.

Income from toiletries operations amounted to ¥2.8 billion, marking a return to profitability for this segment. This recovery in earnings stemmed from increased sales, as well as reduced fixed costs associated with production and distribution.

Others: Domestic sales of other businesses declined 5.8%. Within this segment, sales of beauty salon products and health & beauty foods were down, as was revenue from our fashion goods and boutique businesses. Our beauty salon business suffered from a generally depressed market, in which sales of hair-coloring agents languished.

Overseas sales in this segment soared 47.2%. The performance of Zotos International Inc., a U.S. subsidiary, that accounts for practically all overseas sales in this segment, was affected by economic recession in the United States and a reorganization of wholesale distributors in the sector. However, the addition of the Joico brand, acquired in December 2001, provided a significant boost to sales in local-currency terms.

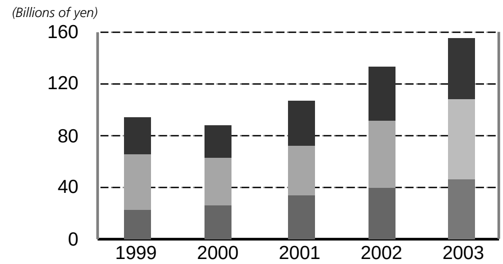
Income from other operations remained practically unchanged, owing to efforts to maintain profitability in the face of depressed domestic revenue.

Performance by Geographic Segment

In Japan, both revenue and earnings from our cosmetics and toiletries businesses increased.

Overseas sales were affected by slowdowns in the U.S. and European economies, as well as restrictions of imports into China. Nevertheless, sales in each overseas region registered double-digit growth, thanks in part to the yen's depreciation. Corresponding to the expansion of its overseas business, the Company continued investing aggressively overseas, but the increase in revenue more than compensated for such expenditures. The Company's operations in the Americas returned to profitability, and income from operations in Europe and Asia-Pacific also grew steadily.

Overseas Sales by Geographic Area



	1999	2000	2001	2002	2003
Americas	28	25	34	42	47
Europe	43	36	38	51	62
Asia/Oceania	23	26	34	39	46
Total	¥94	¥87	¥106	¥132	¥154

Financial Position

At March 31, 2003, Shiseido's current assets were ¥1.0 billion less than the previous year-end figure. Short-term investments in securities increase ¥11.9 billion due to greater reserves of cash and cash equivalents in line with our improved performance. Despite this rise, progressive structural reforms led to a ¥5.2 billion decline in notes and accounts receivable and a ¥4.0 billion fall in inventory. The inventory turnover ratio improved to 9.1 times from 7.3 times.

Investments and other assets rose ¥3.2 billion, largely due to new investments, which overcame valuation losses on securities and other investments.

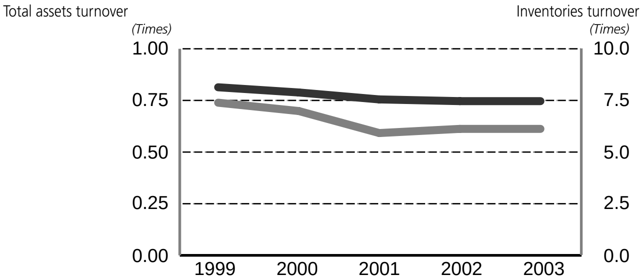
Current liabilities rose ¥26.6 billion. Despite a ¥9.6 billion fall in notes and accounts payable, accrued income taxes increased ¥8.1 billion owing to the Company's improved performance. Meanwhile, the current portion of long-term debt jumped ¥32.4 billion as the Company's first unsecured straight bond issue became due within one year.

Long-term liabilities fell ¥34.0 billion, mainly because a large portion of long-term debt—the first unsecured straight bond issue—became due within one year, as described earlier. Another factor was a ¥4.0 billion decline in the reserve for employees' retirement benefits.

Shiseido Co., Ltd. and its affiliates undertake fund-raising as necessary, usually in the form of bond issues and loans from financial institutions. To facilitate fund-raising in global capital markets, the Company has obtained credit ratings from Moody's Investors Service (Moody's) and Standard & Poor's (S&P). The short-long-term ratings, as of May 31, 2003, were A1/P-1 for Moody's and A/A-1 for S&P.

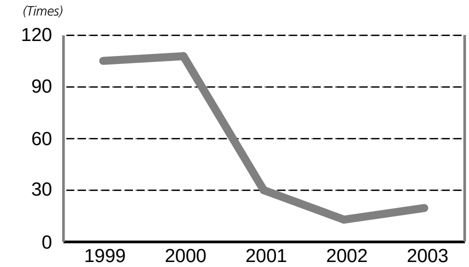
Total shareholders' equity increased ¥7.8 billion despite considerable outlays to return profits to shareholders, including ¥7.6 billion in payments of cash dividends and ¥6.7 in acquisition of treasury stock .

Total Assets Turnover / Inventories Turnover



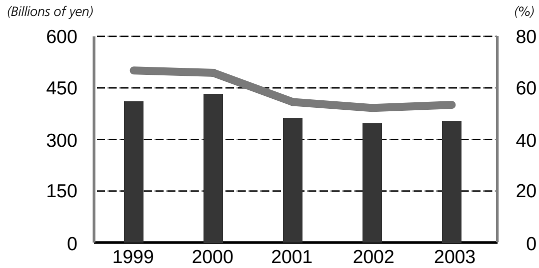
	1999	2000	2001	2002	2003
Total Assets Turnover	0.97	0.94	0.90	0.89	0.94
Inventories Turnover	8.81	8.33	7.06	7.30	9.09

Interest Coverage



	1999	2000	2001	2002	2003
Interest Coverage	104.48	107.18	29.91	12.9	19.6

Shareholders' Equity / Equity Ratio



	1999	2000	2001	2002	2003
Shareholders' Equity	¥409	¥432	¥362	¥346	¥354
Equity Ratio	66.6%	65.7%	54.4%	52.1%	53.3%

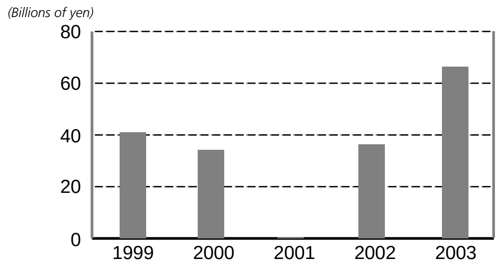
Cash Flows

Cash flows from operating activities amounted to ¥66.8 billion, owing mainly to ¥37.1 billion in income before taxes and ¥27.2 billion in depreciation.

Cash flows from investing activities totaled ¥44.0 billion. In addition to regular capital investments for the repair and upgrading of existing facilities, factors pushing cash flows down included ¥16.5 billion in net acquisition of investments in securities.

Cash flows from financing activities were ¥12.2 billion,

Cash Flows from Operating Activities



	1999	2000	2001	2002	2003
Cash Flows from Operating Activities	¥41.2	¥34.3	¥0.5	¥36.5	¥66.8

due largely to the payment of cash dividends and the acquisition of treasury stock.

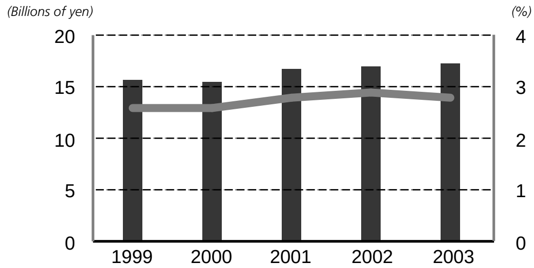
As a result, cash and cash equivalents at the end of the year amounted to ¥101.1 billion, or ¥10.8 billion higher than the previous year-end figure.

Research and Development

The Shiseido Group pursues R&D in cooperation with research entities in Japan and overseas. The Group's R&D activities are domestically concentrated at six research centers within two research complexes in Yokohama, Kanagawa Prefecture, as well as at two research facilities in Tokyo. In April 2002, Shiseido China Research Center Co., Ltd., commenced full-scale operation in Beijing, China, and began research into herbal and Chinese medicines.

In the fiscal year under review, the Shiseido Group's R&D expenditures amounted to ¥17.3 billion. This figure includes ¥9.3 billion for the cosmetics business, ¥1.0 billion for the toiletries business and ¥1.9 billion for other businesses as well as ¥5.1 billion for basic research, which cannot be allocated to specific business categories.

R & D Expenses
R & D Expenses to Net Sales



	1999	2000	2001	2002	2003
R & D Expenses	¥15.7	¥15.5	¥16.8	¥17.0	¥17.3
R & D Expenses to Net Sales	2.6%	2.6%	2.8%	2.9%	2.8%

Outlook

In the fiscal year ending March 31, 2004, Shiseido projects that its focus on the sales counter will increasingly assist its domestic cosmetics business. We expect to reap the benefits of reforms, including improved over-the-counter sales and streamlined production and logistical systems. In the year ahead, we will continue working to reorganize our cost structure and enhance overall spending efficiency. The Company also forecasts growth in overseas sales, especially in Asia. However, considerable expenses will be incurred as the Company centralizes its operations in the new Shiodome building. We also expect pension-related costs to increase.

Based on this environment, for the year, the Company forecasts a 3% gain in consolidated net sales to ¥640.0 billion (¥495.0 billion for cosmetics, ¥72.0 billion for toiletries and ¥73.0 billion for others). We expect income from operations to remain unchanged, at ¥49.0 billion, and we project net income of ¥25.0 billion. We plan to declare interim and year-end cash dividends of ¥11.00 per share each, for total annual dividends of ¥22.00 per share.

In the current fiscal year, we expect real domestic GDP to grow less than 0.5%. Based on the Ministry of Economy, Trade and Industry's statistics for cosmetics shipments, we estimate that demand for cosmetics products will move sideways or dip slightly below previous-year levels. Our forecasts are based on exchange rates of ¥115 per U.S. dollar, ¥120 per euro and ¥14 per Chinese yuan.

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

Consolidated Financial Statements

Consolidated Balance Sheets

Shiseido Company, Limited, and Subsidiaries—March 31, 2002 and 2003

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars (Note 1. (1))
Assets			
Current Assets:			
Cash and time deposits	¥ 35,049	¥ 35,679	$ 297,326
Short-term investments in securities (Note 3)	55,365	67,311	560,926
Notes and accounts receivable:			
Trade	108,525	103,335	861,124
Unconsolidated subsidiaries and affiliates	184	60	501
	108,709	103,395	861,625
Less: Allowance for doubtful accounts	(1,289)	(1,147)	(9,558)
	107,420	102,248	852,067
Inventories (Note 4)	70,341	66,360	553,001
Deferred tax assets (Note 8)	25,398	26,401	220,010
Other current assets	11,259	7,851	65,424
Total current assets	304,832	305,850	2,548,754
Investments and Advances:			
Investments in securities (Note 3)	38,398	45,709	380,911
Investments in and advances to unconsolidated subsidiaries and affiliates	4,379	2,361	19,676
Other investments	23,667	21,606	180,047
Total investments and advances	66,444	69,676	580,634
Property, Plant and Equipment, at Cost:			
Buildings and structures	173,714	176,466	1,470,553
Machinery and equipment	166,416	175,256	1,460,468
	340,130	351,722	2,931,021
Less: Accumulated depreciation	(229,429)	(243,762)	(2,031,350)
	110,701	107,960	899,671
Land	63,162	62,439	520,323
Construction in progress	4,123	1,256	10,465
Total property, plant and equipment	177,986	171,655	1,430,459
Intangible Assets and Deferred Charges (Note 5)	69,507	69,530	579,414
Difference between Investment Costs and Equity in Net Assets Acquired	857	1,960	16,332
Deferred Tax Assets (Note 8)	44,415	44,732	372,768
	¥664,041	¥663,403	$5,528,361

The accompanying notes are an integral part of the statements.

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars (Note 1. (1))
Liabilities and Shareholders' Equity			
Current Liabilities:			
Short-term bank loans	¥ 19,199	¥ 16,269	$ 135,576
Current portion of long-term debt (Note 6)	6,486	38,848	323,736
Notes and accounts payable:			
Trade	48,840	47,242	393,687
Unconsolidated subsidiaries and affiliates	1,413	1,288	10,730
Other	47,363	39,447	328,729
	97,616	87,977	733,146
Accrued income taxes	1,990	10,074	83,949
Accrued expenses	20,769	18,066	150,550
Deferred tax liabilities (Note 8)	188	149	1,245
Other current liabilities	11,297	12,788	106,556
Total current liabilities	157,545	184,171	1,534,758
Long-Term Liabilities:			
Long-term debt (Note 6)	72,485	44,291	369,092
Accrued retirement benefits (Note 7)	67,285	63,294	527,450
Deferred tax liabilities (Note 8)	4,899	2,740	22,837
Other long-term liabilities	3,879	4,179	34,819
Total long-term liabilities	148,548	114,504	954,198
Minority Interests in Consolidated Subsidiaries	12,281	11,262	93,850
Contingent Liabilities (Note 9)			
Shareholders' Equity:			
Common stock;			
Authorized: 784,561,000 shares at March 31, 2002 and 2003			
Issued: 424,562,353 shares at March 31, 2002 and 2003	64,507	64,507	537,556
Additional paid-in capital	70,258	70,258	585,484
Retained earnings	225,800	242,463	2,020,522
Unrealized losses on available-for-sale securities, net of tax	(1,755)	(2,504)	(20,866)
Adjustments on foreign currency statement translation	(10,512)	(11,926)	(99,378)
	348,298	362,798	3,023,318
Less: Treasury stock, at cost	(2,631)	(9,332)	(77,763)
Total shareholders' equity	345,667	353,466	2,945,555
	¥664,041	¥663,403	$5,528,361

Consolidated Statements of Income

Shiseido Company, Limited, and Subsidiaries—For the years ended March 31, 2001, 2002 and 2003

	2001	2002	2003	2003
	Millions of yen			Thousands of U.S. dollars (Note 1. (1))
Net Sales	¥595,152	¥589,962	¥621,250	$5,177,086
Cost of Sales	202,510	200,194	212,963	1,774,698
Gross profit	392,642	389,768	408,287	3,402,388
Selling, General and Administrative Expenses	360,351	364,196	359,294	2,994,113
Income from operations	32,291	25,572	48,993	408,275
Other Income (Expenses):				
Interest and dividend income	2,663	1,614	1,120	9,337
Interest expense	(1,169)	(2,104)	(2,551)	(21,256)
Gain on sales of marketable securities	2,109	413	336	2,803
Gain on sales of property and equipment	2,306	4,177	1,382	11,513
Loss on disposal of business	—	—	(473)	(3,942)
Exchange loss	(1,308)	—	(559)	(4,656)
Restructuring expenses	(8,718)	(464)	—	—
Net obligation at transition immediately expensed for retirement benefits (Note 2. (8))	(69,072)	—	—	—
Loss on disposal of inventories (Note 4)	—	(34,361)	—	—
Devaluation loss on inventories (Note 4)	—	(9,601)	—	—
Write-down of goodwill (Note 5)	(13,226)	—	—	—
Write-down of investments in securities and other investments	(1,606)	(12,775)	(8,870)	(73,921)
Equity in earnings of affiliates (Note 1. (4))	(540)	(498)	(922)	(7,681)
Others, net	(3,368)	(1,618)	(1,367)	(11,394)
	(91,929)	(55,217)	(11,904)	(99,197)
Income (loss) before income taxes	(59,638)	(29,645)	37,089	309,078
Income Taxes (Note 8)**:**				
Current	9,605	6,084	12,275	102,289
Deferred	(19,057)	(13,440)	(1,703)	(14,189)
	(9,452)	(7,356)	10,572	88,100
	(50,186)	(22,289)	26,517	220,978
Minority Interests in Net Income of Consolidated Subsidiaries	5,094	(479)	(2,021)	(16,845)
Net income (loss)	¥(45,092)	¥(22,768)	¥ 24,496	$ 204,133

	Yen			U.S. dollars (Note 1. (1))
Per Share (Note 2. (5))**:**				
Net income (loss), adjusted—primary	¥(106.8)	¥(54.6)	¥58.0	$0.48
—fully diluted	—	—	58.0	0.48
Dividends	16.0	16.0	20.0	0.17
Weighted Average Number of Shares (thousands)	422,097	416,708	419,580	

The accompanying notes are an integral part of the statements.

Consolidated Statements of Shareholders' Equity

Shiseido Company, Limited, and Subsidiaries—For the years ended March 31, 2001, 2002 and 2003

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized losses on available-for-sale securities	Adjustments on foreign currency statement translation	Treasury stock
	(thousands)	Millions of yen					
Balance as of March 31, 2000	415,119	¥58,963	¥58,387	¥314,377	¥ —	¥ —	¥ (6)
Net loss for the year ended March 31, 2001	—	—	—	(45,092)	—	—	—
Cash dividends	—	—	—	(7,117)	—	—	—
Directors' and statutory auditors' bonuses	—	—	—	(118)	—	—	—
Decrease due to additional consolidation of subsidiaries	—	—	—	(1)	—	—	—
Decrease due to exclusion of subsidiaries from application of consolidation	—	—	—	(10)	—	—	—
Other increase	—	—	—	811	—	—	—
Other decrease	—	—	—	(29)	—	—	—
Retirement of treasury stock	(6,012)	—	—	(7,451)	—	—	—
Exercise of warrants	8,726	5,506	6,692	—	—	—	—
Shares issued in exchange for the common stock of Osaka Shiseido Co., Ltd.	754	38	1,015	—	—	—	—
Cost of treasury stock (acquired) disposed of	—	—	—	—	—	—	(1)
Purchase for stock option plan	—	—	—	—	—	—	(2,601)
Unrealized losses on available-for-sale securities for the year	—	—	—	—	(3,352)	—	—
Foreign currency statement translation adjustments for the year	—	—	—	—	—	(18,315)	—
Balance as of March 31, 2001	418,587	64,507	66,094	255,370	(3,352)	(18,315)	(2,608)
Net loss for the year ended March 31, 2002	—	—	—	(22,768)	—	—	—
Cash dividends	—	—	—	(6,667)	—	—	—
Directors' and statutory auditors' bonuses	—	—	—	(104)	—	—	—
Decrease due to additional consolidation of subsidiaries	—	—	—	(3)	—	—	—
Other decrease	—	—	—	(28)	—	—	—
Shares issued in exchange for the common stock of Shiseido Sales Co., Ltd.	5,975	—	4,164	—	—	—	—
Cost of treasury stock (acquired) disposed of	—	—	—	—	—	—	(23)
Change in unrealized losses on available-for-sale securities	—	—	—	—	1,597	—	—
Change in foreign currency statement translation adjustments	—	—	—	—	—	7,803	—
Balance as of March 31, 2002	424,562	64,507	70,258	225,800	(1,755)	(10,512)	(2,631)
Net income for the year ended March 31, 2003	—	—	—	24,496	—	—	—
Cash dividends	—	—	—	(7,570)	—	—	—
Directors' and statutory auditors' bonuses	—	—	—	(62)	—	—	—
Decrease due to additional consolidation of subsidiaries	—	—	—	(131)	—	—	—
Other decrease	—	—	—	(63)	—	—	—
Loss on disposal of treasury stock	—	—	—	(7)	—	—	—
Cost of treasury stock (acquired) disposed of	—	—	—	—	—	—	(6,701)
Change in unrealized losses on available-for-sale securities	—	—	—	—	(749)	—	—
Change in foreign currency statement translation adjustments	—	—	—	—	—	(1,414)	—
Balance as of March 31, 2003	424,562	¥64,507	¥70,258	¥242,463	¥(2,504)	¥(11,926)	¥(9,332)

	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized losses on available-for-sale securities	Adjustments on foreign currency statement translation	Treasury stock
	(thousands)	Thousands of U.S. dollars(Note 1. (1))					
Balance as of March 31, 2002	424,562	$537,556	$585,484	$1,881,667	$(14,622)	$(87,596)	$(21,927)
Net income for the year ended March 31, 2003	—	—	—	204,133	—	—	—
Cash dividends	—	—	—	(63,087)	—	—	—
Directors' and statutory auditors' bonuses	—	—	—	(513)	—	—	—
Decrease due to additional consolidation of subsidiaries	—	—	—	(1,089)	—	—	—
Other decrease	—	—	—	(530)	—	—	—
Loss on disposal of treasury stock	—	—	—	(59)	—	—	—
Cost of treasury stock (acquired) disposed of	—	—	—	—	—	—	(55,836)
Change in unrealized losses on available-for-sale securities	—	—	—	—	(6,244)	—	—
Change in foreign currency statement translation adjustments	—	—	—	—	—	(11,782)	—
Balance as of March 31, 2003	424,562	$537,556	$585,484	$2,020,522	$(20,866)	$(99,378)	$(77,763)

The accompanying notes are an integral part of the statements.

Consolidated Statements of Cash Flows

Shiseido Company, Limited, and Subsidiaries—For the years ended March 31, 2001, 2002 and 2003

	2001	2002	2003	2003
		Millions of yen		Thousands of U.S. dollars (Note 1. (1))
Cash Flows from Operating Activities:				
Income (loss) before income taxes	¥(59,638)	¥(29,645)	¥37,089	$309,079
Depreciation	28,641	27,953	27,187	226,559
Loss on disposal of inventories	—	16,310	—	—
Devaluation loss on inventories	—	9,601	—	—
Write-down of goodwill	13,226	—	—	—
Write-down of land	5,651	—	—	—
Write-down of investments in securities and other investments	1,606	12,775	8,870	73,921
Increase (decrease) in accrued retirement benefits	66,229	(2,963)	(3,883)	(32,359)
Amortization of difference between investment costs and equity in net assets acquired	(729)	(724)	(1,078)	(8,984)
Increase (decrease) in provision for sales promotion costs	(1,614)	(4,504)	—	—
Interest and dividend income	(2,663)	(1,614)	(1,120)	(9,337)
Interest expenses	1,169	2,104	2,551	21,256
Equity in earnings of affiliates	540	498	922	7,681
Gain on sale of property, plant and equipment	(858)	(2,421)	(396)	(3,299)
(Increase) decrease in receivables	(12,636)	20,484	3,386	28,219
Increase in inventories	(11,466)	(2,879)	2,959	24,654
Increase (decrease) in payables	8,378	(6,855)	(9,409)	(78,406)
Other	(47)	(2,274)	2,868	23,897
	35,789	35,846	69,946	582,881
Receipt of interest and dividend income	2,872	2,043	1,136	9,469
Payment of interest expenses	(1,306)	(1,948)	(2,231)	(18,595)
(Payment) refund of income taxes	(36,880)	576	(2,003)	(16,690)
Cash flows from operating activities	475	36,517	66,848	557,065
Cash Flows from Investing Activities:				
Acquisition of securities	(7,498)	—	(4,456)	(37,133)
Proceeds from sale of securities	6,621	5,832	3,522	29,348
Acquisition of investments in securities	(20,905)	(12,891)	(26,552)	(221,271)
Proceeds from sale of investments in securities	41,009	10,660	10,012	83,436
Acquisition of property, plant and equipment	(25,194)	(22,561)	(17,783)	(148,194)
Proceeds from sale of property, plant and equipment	4,819	7,157	3,986	33,214
Acquisition of intangible assets	(15,143)	(3,352)	(4,246)	(35,381)
Acquisition of newly consolidated subsidiaries	(4,835)	(13,395)	—	—
Acquisition of shares of consolidated subsidiaries	(257)	(173)	(4,117)	(34,307)
Other	(5,256)	(4,045)	(4,415)	(36,784)
Cash flows from investing activities	(26,639)	(32,768)	(44,049)	(367,072)
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term bank loans	6,681	(975)	(4,418)	(36,818)
Proceeds from long-term debt	45,813	30,376	12,113	100,942
Repayment of long-term debt	(27,300)	(884)	(4,827)	(40,223)
Proceeds from exercise of warrants	11,003	—	—	—
Acquisition of treasury stocks	(2,602)	(23)	(6,707)	(55,895)
Retirement of treasury stocks	(7,451)	—	—	—
Payment of cash dividends	(7,108)	(6,665)	(7,568)	(63,069)
Payment of cash dividends to minority shareholders	(657)	(608)	(804)	(6,699)
Cash flows from financing activities	18,379	21,221	(12,211)	(101,762)
Exchange Difference of Cash and Cash Equivalents	879	2,449	222	1,848
Net Change in Cash and Cash Equivalents	(6,906)	27,419	10,810	90,079
Cash and Cash Equivalents at Beginning of Year	68,521	62,017	90,293	752,446
Increase in Cash and Cash Equivalents due to Additional Consolidation of Subsidiaries	402	857	0	1
Cash and Cash Equivalents at End of Year	¥62,017	¥90,293	¥101,103	$842,526

The accompanying notes are an integral part of the statements.

Notes to the Consolidated Financial Statements
Shiseido Company, Limited, and Subsidiaries

1. Basis of Presenting Consolidated Financial Statements
(1) Accounting Principles and Presentation
The accompanying consolidated financial statements have been prepared from the accounts maintained by Shiseido Company, Limited (the "Company"), and its consolidated subsidiaries (the "Companies") in accordance with the provisions set forth in the Japanese Commercial Code and other countries' regulations and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Accounting Standards.

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

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120 = US$1 has been used in translation. The inclusion of such amounts is not intended to imply that yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

(2) Scope of Consolidation
The Company had 99 subsidiaries as at March 31, 2003 (96 and 104 as at March 31, 2001 and 2002, respectively). The consolidated financial statements include the accounts of the Company and 96 (89 and 98 for 2001 and 2002, respectively) of its subsidiaries. The major consolidated subsidiaries are listed below:

	As at March 31, 2003	
	Equity ownership percentage, including indirect ownership	Capital stock (millions of yen / thousands of U.S. dollars)
Osaka Shiseido Co., Ltd.	100.0%	¥ 315
Shiseido Kako Co., Ltd.	100.0	¥ 100
FT Shiseido Co., Ltd.	100.0	¥ 11,230
Shiseido Sales Co., Ltd.	100.0	¥ 1,590
Shiseido FITIT Co., Ltd.	100.0	¥ 820
Shiseido International Corporation	100.0	$ 279,640

On April 1, 2003, Osaka Shiseido Co., Ltd., and Shiseido Kako Co., Ltd., merged with the Company.

The accounts of certain subsidiaries have been consolidated on the basis of their fiscal years ended three months or less prior to March 31.

The accounts of the remaining three subsidiaries have not been consolidated with the Companies due to the fact that they are inactive and their total assets, net sales, net income and retained earnings are insignificant to the consolidated total.

(3) Consolidation and Elimination
For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

The cost of investments in the common stock of consolidated subsidiaries is eliminated with the underlying equity in net assets of such subsidiaries. The material difference between the cost of an investment and the amount of underlying equity in net assets of such subsidiaries is deferred and amortized over a reasonable period up to 20 years on a straight-line basis.

(4) Investments in Unconsolidated Subsidiaries and Affiliates
At March 31, 2003, the Company had six affiliates (companies that are not subsidiaries and for which financial and operating or business decision making is influenced to a material degree by the Companies).

Investments in six affiliates (six for 2001 and 2002) are accounted for by the equity method, under which the Company's equity in net income of these affiliates is included in consolidated income with appropriate elimination of intercompany profit at March 31, 2003, and for the year then ended. Investments in three unconsolidated subsidiaries are stated at cost.

(5) Determining the Cost of the Acquired Subsidiaries at Acquisition of the Control
The assets and liabilities of subsidiaries are required to be remeasured at fair value as of the date of acquisition of the control.

The Company adopts "full fair value method" so that the full portion of the assets and liabilities of the subsidiaries is marked to fair value as of the date of acquisition of the control.

2. Summary of Significant Accounting Policies

(1) Inventories

Inventories held by the Company are valued at cost, which is determined by the average method.

Inventories held by the consolidated subsidiaries are valued at cost, which is determined principally by the last purchase price method.

(2) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment except for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) is mainly computed on the declining-balance method and depreciation of buildings is computed on the straight-line method, at rates based on the estimated useful lives of assets which are, in certain instances, shorter than those prescribed by the Japanese income tax laws.

The range of useful lives is summarized as follows:

Buildings and structures...................10 — 40 years
Machinery and equipment. ....primarily 6 — 7 years

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(3) Valuation of Securities

The Company and its domestic consolidated subsidiaries categorize their existing securities as available-for-sale. These securities are carried at fair values that are reasonably determinable based on current market quotes, with net unrealized gains and losses, net of related tax, reported separately in shareholders' equity. Realized gains or losses on securities sold are determined based mainly on the moving average method. If fair value is not available, securities are carried at cost, cost being determined mainly by moving average method.

Securities with remaining maturities of one year or less and securities that are recognized as cash equivalent are classified as “Short-term investments in securities” and non-current securities are included in “Investments in securities.”

(4) Accounting for Leases

Finance leases other than those that are deemed to transfer the ownership of the leased assets to lessees are mainly accounted for by the method similar to that applicable to ordinary operating leases.

(5) Net Income and Dividends per Share

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

Cash dividends per share shown for each year in the Consolidated Statements of Income represent dividends declared as applicable to the respective year, rather than those paid in each year.

(6) Accounting for the Consumption Tax

In Japan, the consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax imposed on the Companies’ domestic sales to customers is withheld by the Companies at the time of sale and is paid to the national government subsequently.

The Company excludes the consumption tax withheld upon sale and the consumption tax paid on the purchases of goods and services from the related amounts in the accompanying Consolidated Statements of Income. The consolidated subsidiaries primarily exclude the consumption tax in the related amounts in the accompanying Consolidated Statements of Income.

(7) Allowance for Doubtful Accounts

The Company and its domestic consolidated subsidiaries provide the allowance for doubtful accounts by the method that uses the percentage of its own actual bad debt loss against the balance of total receivables plus the amount of uncollectible receivables estimated on an individual basis. Overseas consolidated subsidiaries provide mainly for the amount of uncollectible receivables estimated on an individual basis.

(8) Accrued Retirement Benefits

Accrued retirement benefit is recognized based on the estimated actuarial present value of projected benefit obligation and the estimated fair value of plan assets.

Unrecognized prior service cost is amortized on a straight-line basis over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years). Unrecognized net actuarial gain or loss is mainly amortized from the immediately following year on a straight-line basis over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years).

The net obligation at transition of ¥69,072 million incurred by the Company and its domestic consolidated subsidiaries was immediately expensed for the year ended March 31, 2001.

(9) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated at the current exchange rate prevailing on the respective balance sheet dates and resulting exchange gains or losses are recognized in the determination of net income for the relevant period.

Investments in unconsolidated subsidiaries and affiliates denominated in foreign currencies are translated at the historical exchange rates prevailing at the time such transactions were made.

(10) Translation of Foreign Currency Financial Statements (Accounts of Overseas Subsidiaries and Affiliates)

The financial statements of overseas consolidated subsidiaries are translated into yen at the exchange rate prevailing at the respective balance sheet dates of those subsidiaries for assets and liabilities, and at the historical exchange rate for capital accounts and retained earnings. All income and expense accounts are translated at the average rate of exchange during the fiscal year of those subsidiaries. The resulting translation adjustments are allocated proportionately between the majority and minority interests, those applicable to the majority interest being shown separately in Shareholders' Equity as "Adjustments on foreign currency statement translation" and those appliciable to the minority interest being charged against "Minority Interests in Consolidated Subsidiaries".

(11) Provision for Sales Promotion Costs

Until the year ended March 31, 2001, the Company provided for sales promotion costs for products that had been distributed to and stayed at retailers. During the year ended March 31, 2002, the promotion policy was changed in line with the Company's structural reforms and the purpose of the activity is now to promote sales from the Company and its domestic sales subsidiary, thus making it no longer necessary to provide for expenditures in the future.

As at March 31, 2001, ¥4,504 million was provided and included in the accrued expenses account.

3. Securities

The acquisition cost, carrying amount, gross unrealized holding gains and gross unrealized holding losses for securities with fair value by security type at March 31, 2002 and 2003, were as follows:

Available-for-sale securities:

	2002			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
	Millions of yen			
Equity securities	¥19,317	¥19,339	¥2,419	¥2,397
Corporate debt securities	146	128	—	18
Others	13,887	10,907	1	2,981
	¥33,350	¥30,374	¥2,420	¥5,396

	2003			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
	Millions of yen			
Equity securities	¥13,475	¥13,337	¥1,223	¥1,361
Corporate debt securities	146	138	—	7
Others	22,156	18,132	18	4,043
	¥35,777	¥31,607	¥1,241	¥5,411

	2003			
	Cost	Carrying amount	Gross unrealized gains	Gross unrealized losses
	Thousands of U.S. dollars			
Equity securities	$112,291	$111,139	$10,189	$11,341
Corporate debt securities	1,213	1,151	—	62
Others	184,638	151,101	155	33,692
	$298,142	$263,391	$10,344	$45,095

The carrying amount of securities without fair value as at March 31, 2002, and 2003 is summarized as follows:

Available-for-sale securities:

	Carrying amount		
	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars
Unlisted equity securities	¥ 8,146	¥17,576	$146,469
Unlisted corporate debt securities	1,445	14	124
Others	53,798	63,822	531,853
	¥63,389	¥81,413	$678,446

Proceeds, gross realized gains and gross realized losses from the sale of available-for-sale securities in respect of the years ended March 31, 2002 and 2003, were as follows:

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars
Proceeds	¥16,742	¥20,015	$ 166,796
Gross realized gains	413	318	2,647
Gross realized losses	728	135	1,126

4. Inventories

Inventories held by the Companies as at March 31, 2002 and 2003, consisted of the following:

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars
Merchandise and products	¥45,009	¥41,551	$346,257
Raw materials	14,168	13,347	111,221
Work in process	4,848	4,120	34,337
Supplies	6,316	7,342	61,186
	¥70,341	¥66,360	$553,001

To comply with the revised Pharmaceutical Law and to follow a notice from the Ministry of Health, Labor and Welfare, the Companies recalled certain products and disposed of them, recording a loss totaling to ¥34,361 million for the year ended March 31, 2002.

In line with the Company's management reforms whereby supply chain management is expected to minimize the volume of inventories and keep superior salability of the products, the Company and its certain domestic subsidiaries devalued inventories that do not meet the criteria set under the new management policy.

5. Intangible Assets and Deferred Charges

Intangible assets as at March 31, 2002 and 2003, consisted of the following:

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars
Goodwill*	¥26,295	¥27,783	$231,525
Trademark rights**	21,473	20,225	168,538
Others	21,739	21,522	179,351
	¥69,507	¥69,530	$579,414

*Goodwill as at March 31, 2003 includes goodwill relating to the North American Professional Division from Helene Curtis, Inc. ("Helene Curtis"), the Professional Division from The Lamaur Corporation, the domestic trade rights of Shiseido's products from Takigawa Company, Ltd., the product and trade rights of partial brand goods from Bristol Myers Squib, Inc., and *Nars*, *Decléor*, *Sea Breeze* and *Joico* brands. The acquisition costs during each of the years ended March 31, 2002 and 2003 were ¥9,347 million and ¥4,391 million, respectively.

Goodwill is being amortized on a straight-line basis over a 5-year period in Japan and mainly over a 20-year period in other countries. Amortization costs were ¥1,441 million, ¥1,354 million and ¥1,096 million for the years ended March 31, 2001, 2002 and 2003, respectively. Goodwill relating to Zotos International, Inc. was revalued and a write-down of ¥13,226 million was charged to income for the year ended March 31, 2001.

**Trademark rights include acquired product lines from Helene Curtis, Bristol Myers Squib, Inc., and *Nars*, *Decléor*, *Sea Breeze* and *Joico* brands.

The acquisition costs during each of the years ended March 31, 2002 and 2003 were ¥4,911 million and ¥3 million, respectively.

Trademark rights are being amortized mainly over a 10-year period on a straight-line basis. Amortization costs of ¥838 million, ¥1,004 million and ¥808 million were charged to income for the years ended March 31, 2001, 2002 and 2003, respectively.

U.S. subsidiaries of the Company adopted the provisions of SFAS No.142, "Goodwill and Other Intangible Assets," as of January 1, 2002. Under SFAS No.142, goodwill and certain other intangible assets that are determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually. Prior to the adoption of SFAS No.142, goodwill and trademark rights were amortized on a straight-line basis and assessed for recoverability. The effect of this change was minimal.

6. Long-Term Debt

Long-term debt as at March 31, 2002 and 2003, consisted of the following:

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars
Long-term borrowings from banks and other financial institutions	¥ 7,624	¥ 8,037	$ 66,974
0.90% unsecured yen bonds due in October 2003	30,000	30,000	250,000
0.42% unsecured yen bonds due in January 2005	20,000	20,000	166,667
Euro Medium-Term Notes due 2003–2007*	21,347	25,102	209,187
	78,971	83,139	692,828
Less: portion due within one year	(6,486)	(38,848)	(323,736)
	¥72,485	¥44,291	$369,092

*These notes have been issued by Shiseido Europe S.A. and Shiseido International Corporation. The interest rates at March 31, 2003 ranged from 0.10% to 4.57%.

7. Pension Plans

The Company and its domestic consolidated subsidiaries have a contributory funded defined benefit pension program, which is pursuant to the Japanese Welfare Pension Insurance Law. Certain overseas consolidated subsidiaries also have funded defined benefit pension plans.

The following table sets forth a reconciliation of projected benefit obligations, plan assets, funded status of the pension benefit plans and net liability recognized in the accompanying balance sheets at March 31, 2002 and 2003:

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars
Projected benefit obligation	¥(238,384)	¥(280,307)	$(2,335,891)
Fair value of plan assets	154,844	140,029	1,166,906
Funded status of the plans	(83,540)	(140,278)	(1,168,985)
Unamortized net obligation at transition*	1,471	1,257	10,477
Unrecognized net actuarial (gain) or loss	38,491	97,020	808,495
Unrecognized prior service cost	(22,479)	(20,058)	(167,148)
Additional minimum liability*	(1,228)	(1,235)	(10,289)
Net liability recognized	¥ (67,285)	¥ (63,294)	$ (527,450)

The net periodic pension benefit cost for the years ended March 31, 2002 and 2003, included the following components:

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars
Service cost	¥13,164	¥11,466	$ 95,550
Interest cost	6,979	6,953	57,946
Expected return on plan assets	(6,151)	(6,138)	(51,151)
Amortization of net obligation at transition*	101	102	848
Amortization of net actuarial (gain) or loss	2,642	4,117	34,305
Amortization of prior service cost	(1,337)	(2,422)	(20,178)
	¥15,398	¥14,078	$117,320

*These are included in the accounts of an overseas consolidated subsidiary that have been prepared in accordance with local accounting standards.

The discount rate used to determine the actuarial present value of projected benefit obligations under the plan that covers employees of the Company and the domestic subsidiaries was 3.0% and 2.5% as of March 31, 2002 and 2003, respectively. The rate of expected return on plan assets was 4.0% as of March 31, 2002 and 2003. Attribution of pension benefit to each year of service of the employees is based on “benefit/years-of-service” approach, whereby the same amount of the benefit is attributed to each year.

8. Deferred Tax

Deferred tax assets and liabilities (both current and non-current) consisted of the following elements:

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars
Deferred tax assets:			
Depreciation	¥ 9,626	¥ 9,518	$ 79,315
Accrued expenses	3,014	2,575	21,456
Accrued enterprise tax	182	939	7,825
Accrued bonuses to employees	4,386	4,543	37,859
Inventories	9,617	6,093	50,772
Unrealized intercompany profit of inventory and fixed assets	619	7,440	61,998
Accrued retirement benefits	25,364	25,264	210,536
Tax losses carried forward	10,047	8,787	73,223
Write-down of investments in securities and other investments	5,336	8,586	71,552
Unrealized losses on available-for-sale securities	1,252	1,686	14,051
Other	4,888	3,322	27,692
	74,331	78,753	656,279
Allowance for valuation	(3,369)	(4,009)	(33,412)
	¥70,962	¥74,744	$622,867
Deferred tax liabilities:			
Special tax-purpose reserve	1,099	1,220	10,165
Depreciation	1,551	1,626	13,554
Goodwill and other intangible assets	2,396	3,132	26,098
Other	1,190	523	4,355
	¥ 6,236	¥ 6,501	$ 54,172

The reconciliation of the effective statutory tax rate to the actual rate is shown below:

	2002	2003
Effective statutory tax rate	41.0%	42.0%
Adjustments:		
Entertainment expenses and others that are not deductible permanently	(5.1)	1.6
Dividends income and others that are not taxable permanently	1.8	(0.5)
Temporary difference relating to consolidation adjustments	(2.4)	(14.8)
Allowance for valuation	(4.5)	0.9
Other factors	(6.0)	(0.7)
Actual tax rate	24.8%	28.5%

9. Contingent Liabilities

As at March 31, 2003, the Company was contingently liable for guarantees of loans from banks, which amounted to ¥44 million ($363 thousand).

10. Stock Option Plan

Tresury stock is made available for the purpose of the Company's stock option plan, which was approved by the shareholders on June 29, 2000, and covers directors and certain employees at the time of approval.

Options for 1,878,000 shares in total were granted and the transfer price per share is ¥1,396 and the options are exercisable as of July, 2002 and expire on June 30, 2005.

Under the Company's stock option plan approved by the shareholders on June 27, 2002, the Company granted stock options for 637,000 shares of common stock during the year ended March 31, 2003.

The following table summarizes information on the stock options outstanding as of March 31, 2003.

	Stock options granted on July 16, 2002	*Stock options granted on February 28, 2003*
Number of shares for options outstanding	578,000 *shares*	59,000 *shares*
Exercise price	¥1,669	¥1,512
Option term	*July* 1, 2004 — *June* 26, 2012	*April* 1, 2003 — *March* 31, 2006

11. Accounting for Leases

The Companies have various lease agreements whereby the Companies act both as a lessee and a lessor. Finance lease contracts (both as a lessee and as a lessor) other than those that are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method that is applicable to ordinary operating leases. Certain key information on such lease contracts of the Companies as a lessee and a lessor for the years ended March 31, 2002 and 2003, was as follows:

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars
As a lessee:			
The scheduled maturities of future lease rental payments on such lease contracts were as follows:			
Due within one year	¥ 5,099	¥ 4,860	$ 40,500
Due after one year	13,279	10,707	89,222
	¥18,378	¥15,567	$ 129,722
Lease rental expenses for the year	¥ 4,927	¥ 5,533	$ 46,105
Assumed depreciation	¥ 4,927	¥ 5,533	$ 46,105
Leased machinery and equipment:			
Assumed purchase cost	¥32,279	¥31,763	$ 264,691
Assumed accumulated depreciation	(13,901)	(16,196)	$(134,969)
Assumed net book value	¥18,378	¥15,567	$ 129,722

Assumed data as to purchase cost, accumulated depreciation, net book value of leased machinery and equipment include the portion of interest thereon.

Depreciation is based on the straight-line method over the lease term of the leased assets.

	2002	2003	2003
	Millions of yen		Thousands of U.S. dollars
As a lessor:			
The scheduled maturities of future lease rental income on such lease contracts were as follows:			
Due within one year	¥ 571	¥ 616	$ 5,133
Due after one year	1,579	2,335	19,463
	¥2,150	¥2,951	$ 24,596
Lease rental income for the year	¥ 669	¥ 743	$ 6,195
Depreciation	¥ 589	¥ 646	$ 5,387
Assumed interest income	¥ 101	¥ 118	$ 983
Leased machinery and equipment:			
Purchase cost	¥3,861	¥4,636	$ 38,633
Accumulated depreciation	(1,808)	(1,789)	(14,904)
Net book value	¥2,053	¥2,847	$ 23,729

12. Derivative Financial Instruments

In the normal course of business, the Company and its consolidated subsidiaries employ derivative financial instruments, including forward exchange contracts and foreign currency swap arrangements to manage their exposure to adverse fluctuations in foreign exchange rates relating to receivables, payables and short/long-term debt denominated in foreign currencies. The Company does not use derivatives for speculative or trading purposes.

The contract amount (notional principal amount), estimated fair value and unrealized gain / loss of the outstanding contracts at March 31, 2003, are summarized below:

	Millions of yen			
	Contract amount (notional principal amount)			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Currency swap contracts:				
To receive Yen/to pay U.S. dollar	¥5,491	¥5,491	¥(201)	¥(201)
To receive Yen/to pay Euro	8,749	5,227	(890)	(890)

	Thousands of U.S. dollars			
	Contract amount (notional principal amount)			
	Total	Settled over one year	Estimated fair value	Unrealized gain (loss)
Currency swap contracts:				
To receive Yen/to pay U.S. dollar	$45,762	$45,762	$(1,673)	$(1,673)
To receive Yen/to pay Euro	72,904	43,559	(7,420)	(7,420)

Derivatives that meet the criteria for hedges were excluded from the above table.

13. Segment Information

(1) Industry Segment Information

The Company and its subsidiaries operate principally in the following three industrial segments:

Cosmetics.......Women's and men's cosmetics
Toiletries.........Soaps, hair-care products, mass market cosmetics and napkins
Others............Beauty salon products, health and beauty foods, pharmaceuticals, fashion goods and fine chemicals

The industry segment information of the Companies for each of the three years in the period ended March 31, 2003, is presented below:

	2001	2002	2003	2003
	Millions of yen			Thousands of U.S. dollars
Net sales:				
Cosmetics	¥454,097	¥460,004	¥481,868	$4,015,566
Toiletries	76,424	63,976	69,216	576,805
Others	64,631	65,982	70,166	584,715
	¥595,152	¥589,962	¥621,250	5,177,086
Operating income (loss) before unallocatable costs:				
Cosmetics	¥ 41,447	¥ 39,885	¥ 56,065	$ 467,207
Toiletries	1,144	(4,554)	2,775	23,128
Others	2,297	2,966	2,931	24,422
	44,888	38,297	61,771	514,757
Less: unallocatable operating expenses	(12,597)	(12,725)	(12,778)	(106,482)
Operating income	¥ 32,291	¥ 25,572	¥ 48,993	$ 408,275
Total assets:				
Cosmetics	¥334,735	¥317,690	¥316,466	$2,637,215
Toiletries	64,106	48,940	42,622	355,189
Others	100,465	112,849	109,849	915,408
	499,306	479,479	468,937	3,907,812
Unallocatable or headquarters	165,941	184,562	194,466	1,620,549
	¥665,247	¥664,041	¥663,403	5,528,361
Depreciation:				
Cosmetics	¥ 13,292	¥ 13,160	¥ 12,720	105,998
Toiletries	3,319	2,925	2,670	22,251
Others	8,223	7,460	7,550	62,916
	24,834	23,545	22,940	191,165
Unallocatable or headquarters	50	46	52	435
	¥ 24,884	¥ 23,591	¥ 22,992	$ 191,600
Capital expenditure:				
Cosmetics	¥ 30,154	¥ 13,849	¥ 16,566	138,050
Toiletries	10,201	1,481	1,363	11,363
Others	14,729	21,402	9,588	79,902
	55,084	36,732	27,517	229,314
Unallocatable or headquarters	43	69	113	941
	¥ 55,127	¥ 36,801	¥ 27,630	$ 230,255

(2) Information by Geographic Segment

The geographic segment information of the Companies for each of the three years in the period ended March 31, 2003 is presented below:

	2001	2002	2003	2003
	Millions of yen			Thousands of U.S. dollars
Net sales:				
Domestic (inside Japan)	¥490,258	¥460,095	¥469,170	$3,909,755
Outside Japan:				
Americas	31,158	38,924	45,386	378,214
Europe	44,781	56,805	65,750	547,916
Asia, Oceania	28,955	34,138	40,944	341,201
	104,894	129,867	152,080	1,267,331
	¥595,152	¥589,962	¥621,250	$5,177,086
Operating income (loss) before unallocatable costs:				
Domestic (inside Japan)	¥38,201	¥ 33,379	¥ 52,725	$ 439,374
Outside Japan:				
Americas	2,221	(29)	2,226	18,546
Europe	1,284	1,582	2,149	17,909
Asia, Oceania	3,182	3,365	4,671	38,928
	6,687	4,918	9,046	75,383
	44,888	38,297	61,771	514,757
Less: unallocatable operating expenses	(12,597)	(12,725)	(12,778)	(106,482)
Operating income	¥ 32,291	¥ 25,572	¥ 48,993	$408,275
Total assets:				
Domestic (inside Japan)	¥363,773	¥308,147	¥293,608	$2,446,733
Outside Japan:				
Americas	49,957	78,874	69,049	575,406
Europe	56,655	57,501	70,164	584,703
Asia, Oceania	28,921	34,957	36,116	300,970
	135,533	171,332	175,329	1,461,079
	499,306	479,479	468,937	3,907,812
Unallocatable or headquarters	165,941	184,562	194,466	1,620,549
	¥665,247	¥664,041	¥663,403	$5,528,361

(3) Export Sales and Sales by Overseas Subsidiaries

Export sales of the Companies (meaning the amounts of exports made by the Company and its domestic subsidiaries plus the sales of overseas consolidated subsidiaries) for each of the three years in the period ended March 31, 2003, are presented below:

	2001	2002	2003	2003
	Millions of yen			Thousands of U.S. dollars
Export sales and sales by overseas subsidiaries:				
Americas	¥ 34,481	¥ 41,621	¥ 46,684	$ 389,038
Europe	38,155	51,329	61,677	513,971
Asia, Oceania	33,617	39,355	45,807	381,726
	¥106,253	¥132,305	¥154,168	$1,284,735
Percentage of such sales against consolidated net sales	17.9%	22.4%	24.8%	24.8%

14. Subsequent Event

(1) Subsequent to March 31, 2003, the Company's Board of Directors, with the subsequent approval by shareholders on June 27, 2003, declared a cash dividend of ¥4,183 million ($34,859 thousand), equal to ¥10.0 per share, which was applicable to earnings for the year ended March 31, 2003, and payable to shareholders on the register as of March 31, 2003.

(2) On June 27, 2003, the Shareholders authorized the Company to repurchase up to 10 millions shares of its outstanding common stock at market price for a total cost not to exceed ¥20 billions in the period from June 27, 2003, to the next annual meeting of the shareholders.

Report of Independent Accountants

The Board of Directors
Shiseido Company, Limited

We have audited the accompanying consolidated balance sheets of Shiseido Company, Limited and its subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 2003, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shiseido Company, Limited, and its subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2003, in conformity with accounting principles and practices generally accepted in Japan (see Note 1.(1)).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1.(1) to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

Tokyo, Japan
June 27, 2003

●Head Office
Shiseido Company, Limited
5-5, Ginza 7-chome, Chuo-ku,
Tokyo 104-0061, Japan
Tel: +81-3-3572-5111

●Foundation
September 17, 1872

●Establishment
June 24, 1927

●Capital
¥64,506,725,140

●Number of Employees
2,868 (25,202 for the Shiseido Group)

●For Further Information, Please Write to
Investor Relations Department,
Corporate Resources Division
Shiseido Company, Limited
6-2, Higashi-shinbashi 1-chome,
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Fax: +81-3-6218-5544

●Home Page
English Edition:
http://www.shiseido.co.jp/e/
Japanese Edition:
http://www.shiseido.co.jp/

●Fiscal Year-End
March 31

●Annual Meeting
The annual meeting of shareholders is normally held in June in Tokyo.

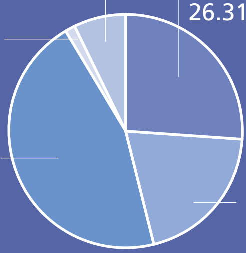
●Stock Listings
Common Stock:
Tokyo Stock Exchange
American Depositary Receipts:
U.S. Over-the-Counter

●Independent Certified Public Accountants
ChuoAoyama Audit Corporation

●Transfer Agent for Common Stock
The Chuo Mitsui Trust & Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku,
Tokyo 105-8574, Japan

●American Depositary Receipts
Cusip No.: 824841407
Ratio (ADR:ORD): 1:1
Exchange: OTC (Over-the-Counter)
Symbol: SSDOY
Depositary:
The Bank of New York
101 Barclay Street,
New York, NY 10286, U.S.A.
Tel: (212) 815-2042
U.S.toll free: (888) 269-2377
(888-BNY-ADRS)
Home page: http://www.adrbny.com

■ Composition of Shareholders



Stock Data

■Common Shares Issued and Outstanding: 424,562,353 / Number of Shareholders: 36,029 (As of March 31, 2003)

	4/02	5/02	6/02	7/02	8/02	9/02	10/02	11/02	12/02	1/03	2/03	3/03
Stock price:												
High (yen)	1,486	1,653	1,733	1,649	1,648	1,575	1,504	1,494	1,585	1,570	1,524	1,390
Low (yen)	1,338	1,412	1,507	1,510	1,521	1,409	1,310	1,326	1,427	1,429	1,365	1,162
Volume: (thousand shares)	25,203	39,681	34,270	40,060	25,512	23,411	23,920	33,109	32,282	21,319	21,808	28,674