

## Financial Section

# Six-Year Summary

	Millions of yen						Thousands of U.S. dollars
	1998	1997	1996	1995	1994	1993	1998
<b>For the Year:</b>							
Net sales . . . . .	<b>¥620,910</b>	¥588,572	¥560,821	¥540,361	¥549,178	¥561,548	<b>\$4,776,231</b>
Cost of sales . . . . .	<b>208,763</b>	197,803	183,887	169,164	173,441	175,116	<b>1,605,869</b>
Selling, general and administrative expenses . . . . .	<b>372,869</b>	347,871	339,922	344,707	345,712	353,742	<b>2,868,223</b>
Income from operations . . . . .	<b>39,278</b>	42,898	37,012	26,490	30,025	32,690	<b>302,139</b>
Net income . . . . .	<b>16,868</b>	19,152	17,507	11,382	14,668	13,289	<b>129,754</b>
<b>At Year-End:</b>							
Total current assets . . . . .	<b>340,507</b>	299,121	283,964	254,318	239,850	252,540	<b>2,619,285</b>
Total assets . . . . .	<b>626,435</b>	610,132	580,513	564,383	568,402	602,431	<b>4,818,731</b>
Total current liabilities . . . . .	<b>149,643</b>	161,868	188,189	151,417	160,402	204,719	<b>1,151,100</b>
Short-term debt . . . . .	<b>6,361</b>	13,736	50,055	18,986	29,244	65,267	<b>48,931</b>
Long-term debt . . . . .	<b>28,102</b>	27,911	2,551	33,546	33,179	32,969	<b>216,169</b>
Shareholders' equity . . . . .	<b>413,801</b>	388,145	357,861	346,190	338,819	327,637	<b>3,183,085</b>
<b>Per Share Data</b> (in yen and U.S. dollars):							
Net income . . . . .	<b>¥40.1</b>	¥47.5	¥43.7	¥28.4	¥36.7	¥33.7	<b>\$0.308</b>
Cash dividends . . . . .	<b>13.25</b>	12.5	12.5	12.5	11.0	11.0	<b>0.102</b>
Weighted average number of shares outstanding during the period (in thousands) . . . . .	<b>420,257</b>	403,236	400,215	400,215	400,215	394,868	
<b>Key Financial Ratios:</b>							
Operating profitability (%) . . . . .	<b>6.3</b>	7.3	6.6	4.9	5.5	5.8	
Return on sales (%) . . . . .	<b>2.7</b>	3.3	3.1	2.1	2.7	2.4	
Return on assets (%) . . . . .	<b>2.7</b>	3.2	3.1	2.0	2.5	2.2	
Return on equity (%) . . . . .	<b>4.2</b>	5.1	5.0	3.3	4.4	4.2	
Equity ratio (%) . . . . .	<b>66.1</b>	63.6	61.6	61.3	59.6	54.4	
Current ratio (times) . . . . .	<b>2.28</b>	1.85	1.51	1.68	1.50	1.23	
Debt / equity ratio (times) . . . . .	<b>0.08</b>	0.11	0.15	0.15	0.18	0.30	
Payout ratio (%) . . . . .	<b>33.3</b>	26.5	28.6	41.3	29.9	33.1	

Note: U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥130=US\$1, the approximate effective rate of exchange on March 31, 1998.

## Divisional Sales

	(and percentage of net sales)					Thousands of U.S. dollars
	Millions of yen					1998
	1998	1997	1996	1995	1994	
Cosmetics . . . . .	<b>¥457,333</b>	¥436,705	¥404,181	¥387,314	¥390,188	<b>\$3,517,946</b>
	<b>(73.7%)</b>	(74.2%)	(72.1%)	(71.7%)	(71.0%)	<b>(73.7%)</b>
Domestic . . . . .	<b>379,604</b>	377,141	359,997	353,056	359,402	<b>2,920,031</b>
Overseas . . . . .	<b>77,729</b>	59,564	44,184	34,258	30,786	<b>597,915</b>
Toiletries (Domestic) . . . . .	<b>99,310</b>	94,610	101,675	97,606	102,132	<b>763,923</b>
	<b>(16.0%)</b>	(16.1%)	(18.1%)	(18.1%)	(18.6%)	<b>(16.0%)</b>
Others: salon products, foodstuffs, pharmaceuticals and other products . . . . .	<b>64,267</b>	57,257	54,965	55,441	56,858	<b>494,362</b>
	<b>(10.3%)</b>	(9.7%)	(9.8%)	(10.2%)	(10.4%)	<b>(10.3%)</b>
Domestic . . . . .	<b>49,778</b>	52,272	48,717	49,416	50,433	<b>382,908</b>
Overseas . . . . .	<b>14,489</b>	4,985	6,248	6,025	6,425	<b>111,454</b>
Net sales . . . . .	<b>¥620,910</b>	¥588,572	¥560,821	¥540,361	¥549,178	<b>\$4,776,231</b>
	<b>(100.0%)</b>	(100.0%)	(100.0%)	(100.0%)	(100.0%)	<b>(100.0%)</b>
Overseas sales . . . . .	<b>¥ 92,218</b>	¥ 64,549	¥ 50,432	¥ 40,283	¥ 37,211	<b>\$ 709,369</b>

# Management's Discussion and Analysis

## Revenues and Earnings

In fiscal 1998, ended March 31, 1998, Shiseido Company, Limited, and its 61 consolidated subsidiaries reported net sales of ¥620.9 billion, up 5.5% from fiscal 1997.

In Japan, Shiseido worked to increase trust and mutual relationships with customers amid an operating environment characterized by over-cautious consumer attitudes and a deepening market recession. As a result, domestic sales grew 0.9%.

Overseas, Beauté Prestige International S.A., a French subsidiary handling fragrances, continued to steadily expand its business, and Shiseido-brand products performed solidly in Europe, the Americas and Asia. During the year, Taiwan Shiseido Co., Ltd., became a consolidated subsidiary, and the North American Professional (Hair Salon) Division of Helene Curtis Inc. in the United States, which the Company acquired in December 1996, contributed to sales throughout fiscal 1998. As a result, overseas sales jumped 42.9%, to ¥92.2 billion, and constituted 14.9% of net sales, up from 11.0% in fiscal 1997.

In cosmetics, the largest product category, sales were up in Japan thanks to aggressive marketing aimed at securing "customer benefit." Moreover, non-Shiseido brands again registered double-digit sales growth.

During the year, we established regional headquarters in Europe, the Americas and Asia, thereby strengthening our ties with each of those regions and enabling us to respond

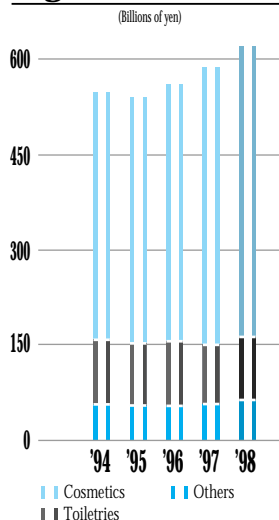
instantly to market fluctuations. Targeting middle-income earners in Asia, we also launched the Za line in Taiwan, Hong Kong, Thailand and elsewhere, thus generating new business in those markets. Accordingly, total domestic and overseas cosmetics sales grew 4.7%.

Sales of toiletries, which Shiseido markets only in Japan, were up 5.0%. This reflected the Company's efforts to develop and nurture products offering renewed value, as well as marketing activities from the user's perspective, such as by providing advice to retailers on seasonal and weekly lifestyles and customs. During the year, we built up our sales systems to widen the reach of our wholesale and retail networks, by reorganizing our front-line sales outlets and strengthening our sales planning capabilities.

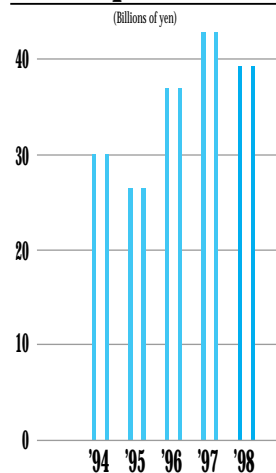
Sales of other products, including salon products, foodstuffs, fashion goods and pharmaceuticals, climbed 12.2%, owing mainly to contributions by the North American Professional (Hair Salon) Division of Helene Curtis Inc., as well as by Helene Curtis Japan Inc., which the Company acquired in May 1997.

Shiseido endeavored to raise productivity and reduce costs from the product design stage, and thus was able to limit cost of sales to 33.6% of net sales, approximately the same level as in the previous year. Selling, general and administrative (SG&A) expenses increased 7.2%, due to such factors as reinforced advertising in the self-selection market, as well as added advertising, promotional, personnel and other expenses from 12 newly consolidated subsidiaries.

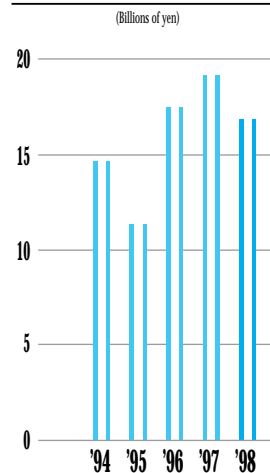
### Net Sales by Segment



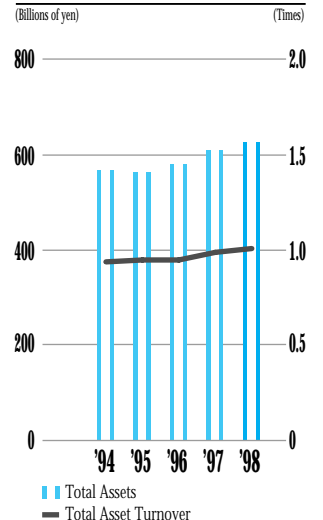
### Income from Operations



### Net Income



### Total Assets/ Total Asset Turnover



Income from operations decreased 8.4%, as the Company made active strategic investments for the future, domestic subsidiaries struggled in the face of depressed domestic consumption and newly established subsidiaries reported losses.

Shiseido reported ¥15.6 billion in net other expenses, stemming from a number of factors. First, the Company allocated ¥20.0 billion for restructuring expenses, with specific actions including the liquidation of SFC Co., Ltd., a finance subsidiary, and the withdrawal from the fitness club business by the planned closing of Shiseido Wellness Co., Ltd. Second, the Company posted losses on the devaluation of securities, stemming from the depressed Japanese stock market.

Due to restructuring, income taxes were down substantially compared with fiscal 1997's level. As a result, the decrease in net income was limited to 11.9%.

### Financial Position

In order to strengthen its business foundation for future growth, Shiseido and its consolidated subsidiaries made capital investments in research and production systems, as well as to strengthen employee training. Other investments included the acquisition of Helene Curtis Japan Inc. and the establishment of cosmetics corners in retail stores. As a result, total property, plant and equipment increased ¥19.8 billion, and intangible assets and deferred charges were up ¥5.9 billion.

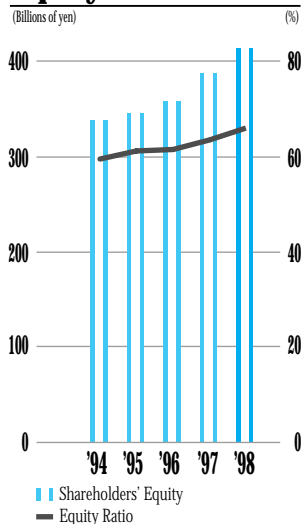
Capital investments were principally allocated to the purchase of a new research facility, the expansion of capacity at the Maizuru plant, the acquisition of a plant in North America and the construction of a staff training institute in Kanagawa Prefecture. All such investments were funded by proceeds from net income, depreciation and exercise of warrants.

Total investments and advances fell ¥49.0 billion, as liquid funds rose owing to the dissolution of a finance subsidiary as part of restructuring activities and to the transfer of investments in securities to cash equivalents.

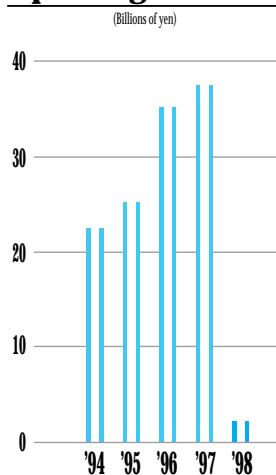
### Cash Flows

Cash and cash equivalents at the year-end were ¥119.4 billion, or ¥5.5 billion higher than a year earlier. Net cash provided by operating activities was ¥1.9 billion, down from the previous year-end owing to increases in receivables and inventories resulting from the inclusion of 12 companies in consolidated reporting, as well as to a decrease in accrued income taxes due to the restructuring of related businesses. Net cash provided by investing activities was ¥2.2 billion, up from net cash used for such activities in fiscal 1997, owing to the liquidation of investments in securities due to restructuring. Net cash provided by financing activities was ¥1.3 billion, down as a result of the decrease in proceeds from exercise of warrants.

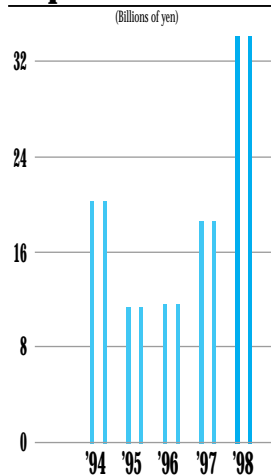
### Shareholders' Equity/ Equity Ratio



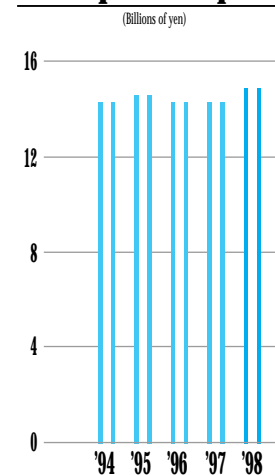
### Cash Flow from Operating Activities



### Capital Investment



### Research and Development Expense



# Consolidated Balance Sheets

Shiseido Company, Limited, and Subsidiaries  
March 31, 1998 and 1997

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	1998	1997	1998
<b>Current Assets:</b>			
Cash and time deposits . . . . .	¥ 54,955	¥ 56,875	\$ 422,731
Short-term investments in securities . . . . .	64,446	56,998	495,739
Notes and accounts receivable:			
Trade . . . . .	120,116	106,508	923,969
Unconsolidated subsidiaries and affiliates . . . . .	232	1,032	1,785
	<b>120,348</b>	107,540	<b>925,754</b>
Less: Allowance for doubtful accounts . . . . .	(1,886)	(1,655)	(14,508)
	<b>118,462</b>	105,885	<b>911,246</b>
Inventories (Note 4) . . . . .	71,337	60,521	548,746
Income taxes refundable . . . . .	10,126	—	77,892
Deferred income taxes . . . . .	13,182	11,270	101,400
Other current assets . . . . .	7,999	7,572	61,531
	<b>340,507</b>	299,121	<b>2,619,285</b>
<b>Investments and Advances:</b>			
Investments in securities . . . . .	42,472	83,848	326,708
Investments in and advances to unconsolidated subsidiaries and affiliates . . . . .	4,674	5,781	35,954
Other investments . . . . .	14,088	20,578	108,369
	<b>61,234</b>	110,207	<b>471,031</b>
<b>Property, Plant and Equipment, at Cost:</b>			
Buildings and structures . . . . .	148,783	141,339	1,144,485
Machinery and equipment . . . . .	142,462	129,136	1,095,861
	<b>291,245</b>	270,475	<b>2,240,346</b>
Less: Accumulated depreciation . . . . .	(200,282)	(190,886)	(1,540,631)
	<b>90,963</b>	79,589	<b>699,715</b>
Land . . . . .	67,384	60,305	518,339
Construction in progress . . . . .	7,264	5,929	55,877
	<b>165,611</b>	145,823	<b>1,273,931</b>
<b>Intangible Assets and Deferred Charges (Note 5) . . . . .</b>	<b>49,432</b>	43,556	<b>380,246</b>
<b>Difference between Investment Costs and Equity in Net Assets Acquired . . .</b>	<b>1,618</b>	471	<b>12,446</b>
<b>Adjustments on Foreign Currency Statement Translation . . . . .</b>	<b>8,033</b>	10,954	<b>61,792</b>
	<b>¥626,435</b>	¥610,132	<b>\$4,818,731</b>

The accompanying notes are an integral part of the statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	1998	1997	1998
<b>Current Liabilities:</b>			
Short-term bank loans . . . . .	¥ 6,361	¥ 13,736	\$ 48,931
Notes and accounts payable:			
Trade . . . . .	62,856	57,882	483,508
Unconsolidated subsidiaries and affiliates . . . . .	692	1,325	5,323
Other . . . . .	30,532	32,680	234,861
	<b>94,080</b>	91,887	<b>723,692</b>
Accrued income taxes . . . . .	5,039	14,825	38,762
Accrued expenses . . . . .	30,573	28,482	235,177
Other current liabilities . . . . .	13,590	12,938	104,538
Total current liabilities . . . . .	<b>149,643</b>	161,868	<b>1,151,100</b>
<b>Long-Term Liabilities:</b>			
Long-term debt (Note 6) . . . . .	28,102	27,911	216,169
Accrued retirement benefits . . . . .	2,175	1,843	16,731
Other long-term liabilities . . . . .	3,497	5,683	26,900
Total long-term liabilities . . . . .	<b>33,774</b>	35,437	<b>259,800</b>
Minority Interests in Consolidated Subsidiaries . . . . .	29,217	24,682	224,746
<b>Contingent Liabilities (Note 8)</b>			
<b>Shareholders' Equity:</b>			
Common stock, par value ¥50 per share; Authorized; 800,000,000 shares at March 31, 1998 and 1997 Issued; 423,373,080 shares and 412,467,515 shares at March 31, 1998 and 1997, respectively . . . . .	58,223	51,342	447,869
Additional paid-in capital . . . . .	57,488	49,124	442,216
Legal reserve . . . . .	13,100	10,885	100,769
Retained earnings . . . . .	284,990	276,794	2,192,231
Total shareholders' equity . . . . .	<b>413,801</b>	388,145	<b>3,183,085</b>
	<b>¥626,435</b>	¥610,132	<b>\$4,818,731</b>

# Consolidated Statements of Income

Shiseido Company, Limited, and Subsidiaries  
For the years ended March 31, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1998	1997	1996	1998
Net Sales . . . . .	<b>¥620,910</b>	¥588,572	¥560,821	<b>\$4,776,231</b>
Cost of Sales . . . . .	<b>208,763</b>	197,803	183,887	<b>1,605,869</b>
Gross profit . . . . .	<b>412,147</b>	390,769	376,934	<b>3,170,362</b>
Selling, General and Administrative Expenses . . . . .	<b>372,869</b>	347,871	339,922	<b>2,868,223</b>
Income from operations . . . . .	<b>39,278</b>	42,898	37,012	<b>302,139</b>
Other Income (Expenses):				
Interest and dividend income . . . . .	<b>5,095</b>	4,696	4,183	<b>39,192</b>
Interest expense . . . . .	<b>(520)</b>	(578)	(790)	<b>(4,000)</b>
Gain on sales of marketable securities . . . . .	<b>2,325</b>	1,263	1,351	<b>17,885</b>
Gain on sales of property and equipment . . . . .	<b>700</b>	941	1,234	<b>5,385</b>
Loss on write-down of securities . . . . .	<b>(2,328)</b>	(530)	(135)	<b>(17,908)</b>
Restructuring expenses . . . . .	<b>(19,950)</b>	(1,183)	—	<b>(153,462)</b>
Others, net . . . . .	<b>(884)</b>	445	(814)	<b>(6,800)</b>
	<b>(15,562)</b>	5,054	5,029	<b>(119,708)</b>
Income before income taxes . . . . .	<b>23,716</b>	47,952	42,041	<b>182,431</b>
Income Taxes . . . . .	<b>5,878</b>	29,290	25,357	<b>45,215</b>
	<b>17,838</b>	18,662	16,684	<b>137,216</b>
Minority Interests in Net Income of Consolidated Subsidiaries . . .	<b>(244)</b>	(357)	92	<b>(1,877)</b>
Amortization of Equity in Net Assets of Consolidated Subsidiaries over Investment Cost . . . . .	<b>(752)</b>	(11)	65	<b>(5,785)</b>
Equity in Earnings of Affiliates (Note 1 (4)) . . . . .	<b>26</b>	858	601	<b>200</b>
Adjustments on Foreign Currency Statement Translation (Note 2 (3)) . . . . .	<b>—</b>	—	65	<b>—</b>
Net income . . . . .	<b>¥ 16,868</b>	¥ 19,152	¥ 17,507	<b>\$ 129,754</b>
Per Share:		Yen		U.S. dollars (Note 3)
Net income, adjusted—primary . . . . .	<b>¥40.1</b>	¥47.5	¥43.7	<b>\$0.308</b>
—fully diluted . . . . .	<b>39.9</b>	47.3	—	<b>0.307</b>
Dividends . . . . .	<b>13.25</b>	12.5	12.5	<b>0.102</b>
Weighted Average Number of Shares (in thousands) . . . . .	<b>420,257</b>	403,236	400,215	<b>420,257</b>

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, 1998, 1997 and 1996

	Number of shares of common stock (thousands)	Millions of yen			
		Common stock	Capital surplus	Legal reserve	Retained earnings
<b>Balance as at March 31, 1995</b> . . . . .	400,215	¥43,241	¥40,988	¥10,811	¥251,150
Net income for the year ended March 31, 1996 . . . . .	—	—	—	—	17,507
Cash dividends . . . . .	—	—	—	—	(5,010)
Directors' and statutory auditors' bonuses . . . . .	—	—	—	—	(137)
Adjustments on foreign currency statement translation . . . . .	—	—	—	—	(689)
<b>Balance as at March 31, 1996</b> . . . . .	400,215	43,241	40,988	10,811	262,821
Net income for the year ended March 31, 1997 . . . . .	—	—	—	—	19,152
Transfer to legal reserve . . . . .	—	—	—	74	(74)
Cash dividends . . . . .	—	—	—	—	(5,000)
Directors' and statutory auditors' bonuses . . . . .	—	—	—	—	(138)
Increase due to change in an accounting policy followed by a Chinese subsidiary . . . . .	—	—	—	—	33
Exercise of warrants . . . . .	12,252	8,101	8,136	—	—
<b>Balance as at March 31, 1997</b> . . . . .	412,467	51,342	49,124	10,885	276,794
Net income for the year ended March 31, 1998 . . . . .	—	—	—	—	16,868
Transfer to legal reserve . . . . .	—	—	—	2,215	(2,215)
Cash dividends . . . . .	—	—	—	—	(5,221)
Directors' and statutory auditors' bonuses . . . . .	—	—	—	—	(137)
Increase due to exclusion of subsidiaries from application of consolidation . . . . .	—	—	—	—	702
Decrease due to additional consolidation of subsidiaries . . . . .	—	—	—	—	(1,801)
Exercise of warrants . . . . .	10,906	6,881	8,364	—	—
<b>Balance as at March 31, 1998</b> . . . . .	<b>423,373</b>	<b>¥58,223</b>	<b>¥57,488</b>	<b>¥13,100</b>	<b>¥284,990</b>

	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 3)			
		Common stock	Capital surplus	Legal reserve	Retained earnings
<b>Balance as at March 31, 1997</b> . . . . .	412,467	\$394,938	\$377,877	\$ 83,731	\$2,129,185
Net income for the year ended March 31, 1998 . . . . .	—	—	—	—	129,754
Transfer to legal reserve . . . . .	—	—	—	17,038	(17,038)
Cash dividends . . . . .	—	—	—	—	(40,162)
Directors' and statutory auditors' bonuses . . . . .	—	—	—	—	(1,054)
Increase due to exclusion of subsidiaries from application of consolidation . . . . .	—	—	—	—	5,400
Decrease due to additional consolidation of subsidiaries . . . . .	—	—	—	—	(13,854)
Exercise of warrants . . . . .	10,906	52,931	64,339	—	—
<b>Balance as at March 31, 1998</b> . . . . .	<b>423,373</b>	<b>\$447,869</b>	<b>\$442,216</b>	<b>\$100,769</b>	<b>\$2,192,231</b>

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, 1998, 1997 and 1996

	Millions of yen			Thousands of U.S. dollars (Note 3)
	1998	1997	1996	1998
<b>Cash Flows from Operating Activities:</b>				
Net income . . . . .	¥ 16,868	¥ 19,152	¥ 17,507	\$ 129,754
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation . . . . .	15,901	14,881	16,109	122,315
Amortization . . . . .	8,341	6,363	6,022	64,162
Minority interests in net income of consolidated subsidiaries . . . . .	244	357	(92)	1,877
Translation gains from forward exchange contracts . . . . .	(272)	(576)	(392)	(2,092)
Provision for accrued severance indemnities . . . . .	332	31	74	2,554
Equity in earnings of affiliates . . . . .	(26)	(858)	(601)	(200)
Gain on sales of equipment and property . . . . .	(700)	(941)	(1,234)	(5,385)
Changes in assets and liabilities:				
Increase in receivables . . . . .	(12,577)	(7,709)	(6,952)	(96,746)
Increase in inventories . . . . .	(10,816)	(3,444)	(683)	(83,200)
Increase in income taxes refundable . . . . .	(10,126)	—	—	(77,892)
Decrease (increase) in deferred income taxes . . . . .	(1,912)	1,942	1,418	(14,708)
Increase in other current assets . . . . .	(427)	(847)	(1,097)	(3,285)
Increase in payables . . . . .	2,193	622	7,539	16,869
Increase (decrease) in accrued income taxes . . . . .	(9,786)	713	1,820	(75,277)
Increase (decrease) in other current liabilities . . . . .	4,508	6,388	(3,591)	34,677
Other, net . . . . .	197	1,425	(636)	1,515
Net cash provided by operating activities . . . . .	1,942	37,499	35,211	14,938
<b>Cash Flows from Investing Activities:</b>				
Acquisition of property, plant and equipment . . . . .	(34,121)	(18,570)	(11,607)	(262,469)
Decrease (increase) in investments in securities . . . . .	32,483	(8,477)	(2,222)	249,869
Decrease in investments in and advances to unconsolidated subsidiaries and affiliates . . . . .	1,133	465	337	8,715
Proceeds from sales of property, plant and equipment . . . . .	2,725	3,087	2,734	20,962
Transfer of investments in securities to/(from) cash equivalents . . . . .	8,893	8,114	8,316	68,408
Increase in intangibles and deferred charges . . . . .	(13,465)	(16,613)	(4,905)	(103,577)
Decrease (increase) in other . . . . .	4,591	(3,535)	(596)	35,315
Net cash provided by (used for) investing activities . . . . .	2,239	(35,529)	(7,943)	17,223
<b>Cash Flows from Financing Activities:</b>				
Borrowings of long-term debt . . . . .	817	7	1,005	6,285
Repayment of long-term debt . . . . .	(626)	(128)	—	(4,815)
Proceeds from issue of bonds with warrants . . . . .	—	28,332	—	—
Proceeds from exercise of warrants . . . . .	13,752	16,237	—	105,785
Redemption of bonds . . . . .	—	(32,000)	—	—
Decrease in short-term loans . . . . .	(7,375)	(4,319)	(931)	(56,731)
Cash dividends . . . . .	(5,221)	(5,000)	(5,010)	(40,162)
Net cash provided by (used for) financing activities . . . . .	1,347	3,129	(4,936)	10,362
<b>Net Change in Cash and Cash Equivalents . . . . .</b>	<b>5,528</b>	<b>5,099</b>	<b>22,332</b>	<b>42,523</b>
<b>Cash and Cash Equivalents at Beginning of Year . . . . .</b>	<b>113,873</b>	<b>108,774</b>	<b>86,442</b>	<b>875,946</b>
<b>Cash and Cash Equivalents at End of Year . . . . .</b>	<b>¥119,401</b>	<b>¥113,873</b>	<b>¥108,774</b>	<b>\$918,469</b>

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

Shiseido Company, Limited (the "Company") has prepared its consolidated financial statements in accordance with accounting principles generally accepted in Japan.

The accompanying consolidated financial statements of the Company and its subsidiaries are essentially the translation into English of the original statements in Japanese language contained in the Securities Annual Report of the Company filed with the Ministry of Finance and the Stock Exchanges under the requirements of the securities and exchange regulations in Japan.

Accordingly, the information disclosed in the accompanying consolidated financial statements is derived from the

original text and the scope and nature of the information is limited to those disclosed therein. However, certain reclassifications or summarizations of accounts have been made to present the consolidated financial statements in a form which is more familiar to foreign readers.

### (2) Scope of Consolidation

The Company had 67 subsidiaries (majority-owned companies) as at March 31, 1998 (58 as at March 31, 1997). The consolidated financial statements include the accounts of the Company and 61 (52 for 1997) of its subsidiaries (the "Companies"). The major consolidated subsidiaries are listed below:

	Equity ownership percentage, including indirect ownership	Capital stock (thousands)
Osaka Shiseido Co., Ltd. . . . .	60.6%	¥315,000
Shiseido Kako Co., Ltd. . . . .	100.0	¥100,000
Shiseido Fine Toiletry Co., Ltd. . . . .	100.0	¥30,000
Shiseido Beautech Co., Ltd. . . . .	78.2	¥48,000
Shiseido Sales Co., Ltd. . . . .	63.5	¥1,590,264
Shiseido Cosmenity Co., Ltd. . . . .	100.0	¥150,250
Shiseido Cosmetics (America) Ltd. . . . .	100.0	\$15,000
Zotos International, Inc. . . . .	100.0	\$25,000
Shiseido Cosmetici (Italia) S.p.A. . . . .	100.0	Lit4,000,000

In the accompanying consolidated financial statements, the accounts of the 30 overseas subsidiaries and one domestic subsidiary at December 31, 1997 and for the year then ended were consolidated with the accounts of the Company at March 31, 1998 and for the year then ended, as they use a fiscal year ending on December 31 of each year.

The accounts of the remaining 6 subsidiaries have not been consolidated with the Companies by the following reasons:

- four subsidiaries . . . inactive and insignificant amount of total assets
- one subsidiary . . . . . owned temporarily
- one subsidiary . . . . . not recognized as a going-concern

### (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 difference between the cost of an investment and the amount of underlying equity in net assets of such subsidiary is deferred and amortized over a 5-year period on a straight-line basis, principally. If such amount is not material, it is directly charged/credited against income for the year.

Legal reserves of consolidated subsidiaries provided subsequent to the acquisition of such subsidiaries by the Company are included in retained earnings and are not shown separately in the consolidated financial statements.

### (4) Investments in Unconsolidated Subsidiaries and Affiliates

At March 31, 1998 and 1997, the Company had 6 affiliates (20% to 50% owned companies).

Among the investments in unconsolidated subsidiaries and affiliates, investments in 6 affiliates 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, 1998 and for the year then ended. The remaining investments in unconsolidated subsidiaries and affiliates are stated at cost.

## 2. Summary of Significant Accounting Policies

### (1) Recognition of Income Taxes

In the consolidated financial statements, the Companies have recognized tax effects on timing differences that arise from the consolidation of the accounts of the Companies. Such tax effects relate to the elimination of "unrealized intercompany profit" in year-end inventory remaining within the Companies and "Allowance for doubtful accounts" provided for against intercompany account receivables for allowed tax deductions.

In the accompanying Consolidated Financial Statements, the recognized tax effects are shown as "Deferred income taxes."

### (2) Foreign Currency Translation

Accounts receivable and payable denominated in foreign currencies due within one year are translated at the current exchange rate prevailing on the balance sheet dates. The resulting exchange gains or losses are included in the determination of net income of the relevant period.

Long-term receivables and payables and investments in and advances to unconsolidated subsidiaries and affiliates denominated in foreign currencies are translated at the historical exchange rates prevailing at the time such transactions were made.

Whenever material foreign exchange rate fluctuations occur, such long-term receivables and payables in such foreign currencies are translated exceptionally at the current exchange rate in order to recognize the significant effect of the change in yen value against foreign currencies.

### (3) Translation of Foreign Currency Financial Statements

#### (Accounts of Overseas Subsidiaries and Affiliates)

The translation of foreign currency financial statements of overseas consolidated subsidiaries into Japanese yen has been made by the method of translation prescribed by the statements issued by the Business Accounting Council (BAC) of Japan.

Until the year ended March 31, 1996, the translations of accounts in the foreign currency financial statements of the consolidated overseas subsidiaries into yen for consolidation purposes were made principally by applying the current exchange rate prevailing at the balance sheet date, except that Goodwill of Zotos was translated at the historical rates.

Pursuant to the recent amendment to the BAC method, with effect from the year ended March 31, 1997, the translations of foreign currency financial statements of overseas consolidated subsidiaries into Japanese yen are made by applying the current exchange rate prevailing at the balance sheet date, except that the common stock is translated at the historical rates. As a result of this change, "Income before income taxes" for the year ended March 31, 1996 would be increased by ¥69 million, according to the amounts which would have been reported under the amended method.

The translations of accounts in the foreign currency financial statements of the overseas affiliates into yen accounted for by the equity method are made principally by applying the exchange rate prevailing at the relevant balance sheet date of these affiliates.

In this connection, certain adjusting accounts must be set up in the consolidated balance sheets, consolidated statements of income and consolidated statements of shareholders' equity to enable balancing of debit and credit totals as well as the reconciliation of the beginning balance with the ending balance of retained earnings in translated yen amounts. Such adjusting account balances are shown as "Adjustments on Foreign Currency Statement Translation" in the accompanying Consolidated Financial Statements.

### (4) 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.

### (5) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation for property, plant and equipment held by the Company and domestic consolidated subsidiaries is computed primarily on the declining-balance 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. Depreciation of property, plant and equipment held by overseas consolidated subsidiaries is computed by the straight-line method.

The range of useful lives is summarized as follows:

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

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

### (6) Amortization

Research and development costs are charged to income as incurred.

Bond issue expenses are capitalized and amortized over a 3-year period on a straight-line basis.

Discounts on bond issues are deferred and amortized on a straight-line basis over a period up to the maturity of the relevant bond.

As for the amortization of intangible assets, see Note 5 below.

### (7) Valuation of Securities

Securities with market quotation (listed on stock exchanges) held by the Company are valued at the lower of cost or market. The other securities owned by the Company are valued at cost. Securities held by the consolidated subsidiaries are mainly valued at cost regardless of whether or not market quotation is available. In all cases, cost is determined by the moving average method.

Appropriate write-downs are recorded for investments in certain securities, the value of which has declined substantially and such impairments of the value are considered not to be temporary.

### (8) Accounting for Leases

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

### (9) Net Income and Dividends per Share

"Net income per share" of common stock is based upon the weighted average number of shares of common stock outstanding during each year, appropriately adjusted for subsequent stock-splits. In accordance with the amendments to the Japanese securities and exchange regulations, net income

per share adjusted for dilution (assuming full conversion of all convertible debentures and full exercise of all warrants of the Company outstanding with related reduction in interest expenses) has been disclosed from the fiscal year ended March 31, 1996.

Cash dividends per share shown for each year in the Consolidated Statements of Income represent dividends declared as applicable to the respective year (not adjusted for the effect of stock splits), rather than those paid in each year.

### (10) Accounting for the Consumption Tax

In Japan, the consumption tax is imposed at the flat rate of 5% (3% until March 31, 1997) 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.

## 3. United States Dollar Amounts

The accompanying consolidated financial statements are prepared in yen. The U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to U.S. dollars on a basis of ¥130=US\$1.

The inclusion of such U.S. dollar amounts is solely for convenience of the reader and is not intended to imply that yen amounts have been or could be converted, realized or settled in U.S. dollars at that or any other rate.

## 4. Inventories

Inventories held by the Companies as at March 31, 1998 and 1997, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Merchandise and products . . . . .	<b>¥49,940</b>	¥41,456	<b>\$384,154</b>
Raw materials . . . . .	<b>12,298</b>	10,538	<b>94,600</b>
Work in process . . . . .	<b>6,269</b>	4,969	<b>48,223</b>
Supplies . . . . .	<b>2,830</b>	3,558	<b>21,769</b>
	<b>¥71,337</b>	¥60,521	<b>\$548,746</b>

## 5. Intangible Assets and Deferred Charges

Intangible assets as at March 31, 1998 and 1997, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Goodwill of Zotos*	¥17,589	¥16,275	\$135,300
Trademark rights of Zotos*	400	1,361	3,077
Goodwill of Helene Curtis**	9,926	9,277	76,354
Trademark rights of Helene Curtis***	1,955	—	15,038
Deferred assets	1,621	2,517	12,469
Others	17,941	14,126	138,008
	<b>¥49,432</b>	<b>¥43,556</b>	<b>\$380,246</b>

\* The Company's wholly owned subsidiary incorporated in the U.S.A., Shiseido International Corporation ("SIC") acquired all the outstanding stock of Zotos International, Inc. ("Zotos") on September 1, 1988. In connection with this acquisition, goodwill and trademark rights in the amounts of ¥26,166 million and ¥9,603 million, respectively, were recognized and are being amortized over 40-year and 10-year periods, respectively, on a straight-line basis. During each of the years ended March 31, 1998 and 1997, ¥1,609 million (\$12,377 thousand) and ¥1,545 million was amortized to income, respectively.

\*\* Also, SIC acquired the North American Professional (Hair Salon) Division from Helene Curtis Inc. in December, 1996. In connection with this acquisition, goodwill in the amount of ¥9,290 million was recognized and is being amortized over a mainly 35-year period on a straight-line basis on the number of months mainly. During each of the years ended March 31, 1998 and 1997, ¥428 million (\$3,292 thousand) and ¥12 million was amortized to income, respectively.

\*\*\* The Company acquired Helene Curtis Japan Inc. from Unilever N.V. in May, 1997. In connection with this acquisition, trademark rights in the amount of ¥2,164 million were recognized and are being amortized over a 10-year period on a straight-line basis. During the year ended March 31, 1998, ¥209 million (\$1,607 thousand) was amortized to income.

## 6. Long-Term Debt

Long-term debt as at March 31, 1998 and 1997, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Long-term borrowings from banks and other financial institutions	¥ 2,621	¥ 2,430	\$ 20,161
0.875 percent Swiss franc bonds due May 8, 2000, with warrants (detachable)	25,481	25,481	196,008
	<b>¥28,102</b>	<b>¥27,911</b>	<b>\$216,169</b>

The current exercise prices per share and number of shares issuable upon full exercise of warrants described above are summarized as follows:

	Current exercise price	Fixed exchange rate used	Number of shares issuable upon full exercise (thousands)
Warrants attached to: 0.875 percent Swiss franc bonds due May 2000	¥1,261.0	SFr1=¥88.98	9,919

In connection with each issue of bonds with warrants, the Company has entered into a long-term forward exchange contract to hedge the repayment of the principal of the bonds. Accordingly, the principal amount of each issue of bonds is translated at the applicable forward exchange rate and the difference between the amount translated at the forward exchange contract rate and the amount translated at the historical exchange rate is deferred and amortized over a period from the date of concluding the forward exchange

contract to the date of settlement based on the number of months. The amounts amortized during the years ended March 31, 1998 and 1997, were ¥272 million (\$2,092 thousand), and ¥576 million, respectively.

The unamortized balance was included in "Other long-term liabilities" in an amount of ¥318 million (\$2,446 thousand) and in "Other current liabilities" in an amount of ¥272 million (\$2,092 thousand) in the accompanying consolidated balance sheets at March 31, 1998.

## 7. Retirement Plans and Severance Indemnities

The Company and its consolidated domestic subsidiaries have a funded pension program to cover the employees' retirement benefits. The amount of such retirement benefits is determined by reference to the latest rate of pay, length of service and conditions under which the retirements occur.

The "Accrued retirement benefits" account has been provided for periodic accrual of cost of the retirement benefits that are not covered by the funded pension program mentioned above. The balance of "Accrued retirement benefits" in the accompanying consolidated balance sheets represents 100%

of the liability the Company and its consolidated domestic subsidiaries would be required to pay by itself if all eligible employees voluntarily terminated employment at the respective balance sheet dates.

Effective in the fiscal year ended March 31, 1989, the funded pension program of the Company was amended, and thereby an additional portion of the retirement benefits on a voluntary retirement basis became payable out of the pension program. In connection therewith, the balance of "Accrued retirement benefits" that had been provided for the periodic

cost of such retirement benefits became excessive. Accordingly, the excess balance of the "Accrued retirement benefits" has been reversed into income on a straight-line basis over a period of 11 years.

The accumulated balance of fund assets of the pension program aggregated ¥121,805 million (\$936,962 thousand) at March 31, 1998.

The past service cost for the pension program arising from the amendment mentioned above is amortized over 20 years on a straight-line basis.

## 8. Contingent Liabilities

As at March 31, 1998, the Companies had contingent liabilities from guarantees of bank loans made by 2 affiliates in the aggregate amount of ¥447 million (\$3,438 thousand).

## 9. 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 which 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, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
As a lessee:			
The scheduled maturities of future lease rental payments on such lease contracts were as follows:			
Due within one year	¥ 3,303		\$25,408
Due over one year	7,158		55,061
	¥10,461	N/A	\$80,469
Lease rental expenses for the year	¥ 3,770	¥3,959	\$29,000
As a lessor:			
The scheduled maturities of future lease rental income on such lease contracts were as follows:			
Due within one year	¥ 254		\$ 1,954
Due over one year	708		5,446
	¥ 962	N/A	\$ 7,400
Lease rental income for the year	¥ 217	Nil	\$ 1,669

As a result of the amendment to the Consolidated Financial Statement Regulations, the disclosure of the scheduled maturities of future lease rental payments/income on finance

lease contracts as a lessee/lessor has become mandatory with effect from the year ended March 31, 1998.

## 10. Subsequent Event

Subsequent to March 31, 1998, the Company's Board of Directors, with the subsequent approval by shareholders on June 26, 1998, declared a cash dividend of ¥2,963 million

(\$22,792 thousand), equal to ¥7.0 per share, which was applicable to earnings of the year ended March 31, 1998, and payable to shareholders on the register on March 31, 1998.

## 11. 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 . . . Hair care, soaps, napkins and paper diapers

Others . . . . . Fashion goods, health food products, beauty salon products and pharmaceuticals

The segment information of the Company and subsidiaries for the three years ended March 31, 1998 is presented below:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Net sales:				
Cosmetics . . . . .	<b>¥457,333</b>	¥436,705	¥404,181	<b>\$3,517,946</b>
Toiletries . . . . .	<b>99,310</b>	94,610	101,675	<b>763,923</b>
Others . . . . .	<b>64,267</b>	57,257	54,965	<b>494,362</b>
	<b>620,910</b>	588,572	560,821	<b>4,776,231</b>
Operating income before unallocatable costs:				
Cosmetics . . . . .	<b>48,394</b>	49,213	46,102	<b>372,262</b>
Toiletries . . . . .	<b>250</b>	660	1,915	<b>1,923</b>
Others . . . . .	<b>(705)</b>	(829)	(3,404)	<b>(5,423)</b>
	<b>47,939</b>	49,044	44,613	<b>368,762</b>
Less: unallocatable operating expenses . . . . .	<b>(8,661)</b>	(6,146)	(7,601)	<b>(66,623)</b>
Operating income . . . . .	<b>¥ 39,278</b>	¥ 42,898	¥ 37,012	<b>\$ 302,139</b>
Total assets:				
Cosmetics . . . . .	<b>¥390,585</b>	¥352,191	¥321,008	<b>\$3,004,500</b>
Toiletries . . . . .	<b>84,875</b>	82,480	89,977	<b>652,885</b>
Others . . . . .	<b>120,896</b>	150,320	148,688	<b>929,969</b>
	<b>596,356</b>	584,991	559,673	<b>4,587,354</b>
Unallocatable or headquarters . . . . .	<b>30,079</b>	25,141	20,840	<b>231,377</b>
	<b>¥626,435</b>	¥610,132	¥580,513	<b>\$4,818,731</b>
Depreciation:				
Cosmetics . . . . .	<b>¥ 8,963</b>	¥ 7,677	¥ 8,251	<b>\$ 68,946</b>
Toiletries . . . . .	<b>3,103</b>	3,095	3,868	<b>23,869</b>
Others . . . . .	<b>6,064</b>	5,610	5,495	<b>46,646</b>
	<b>18,130</b>	16,382	17,614	<b>139,461</b>
Unallocatable or headquarters . . . . .	<b>64</b>	75	90	<b>493</b>
	<b>¥ 18,194</b>	¥ 16,457	¥ 17,704	<b>\$ 139,954</b>
Capital expenditure:				
Cosmetics . . . . .	<b>¥ 22,203</b>	¥ 9,036	¥ 7,156	<b>\$ 170,792</b>
Toiletries . . . . .	<b>2,816</b>	1,637	1,355	<b>21,662</b>
Others . . . . .	<b>9,842</b>	11,560	3,573	<b>75,708</b>
	<b>34,861</b>	22,233	12,084	<b>268,162</b>
Unallocatable or headquarters . . . . .	<b>120</b>	61	88	<b>923</b>
	<b>¥ 34,981</b>	¥ 22,294	¥ 12,172	<b>\$ 269,085</b>

As a result of the change on the accounting policy of translation of foreign currency financial statements (see Note 2 (3)), "Operating income in cosmetics division" for the year ended March 31, 1996, would be decreased by ¥28 million, "Total assets in cosmetics division" as at March 31, 1996, would be

decreased by ¥121 million and "Total assets in others division" as at March 31, 1996, would be decreased by ¥2,737 million, according to the amounts which would have been reported under the amended method.

(2) Information by Geographic Segment

Sales of the Companies classified by geographic area (inside and outside Japan) for the three years ended March 31, 1998 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Net sales:				
Domestic (inside Japan) . . . . .	<b>¥530,444</b>	¥529,316	¥514,839	<b>\$4,080,339</b>
Outside Japan				
North America . . . . .	<b>28,373</b>			<b>218,254</b>
Europe . . . . .	<b>43,671</b>			<b>335,931</b>
Asia, Oceania . . . . .	<b>18,422</b>			<b>141,707</b>
	<b>90,466</b>	59,256	45,982	<b>695,892</b>
	<b>620,910</b>	588,572	560,821	<b>4,776,231</b>
Operating income before unallocatable costs:				
Domestic (inside Japan) . . . . .	<b>40,594</b>	45,346	41,414	<b>312,262</b>
Outside Japan				
North America . . . . .	<b>2,012</b>			<b>15,477</b>
Europe . . . . .	<b>2,870</b>			<b>22,077</b>
Asia, Oceania . . . . .	<b>2,463</b>			<b>18,946</b>
	<b>7,345</b>	3,698	3,199	<b>56,500</b>
	<b>47,939</b>	49,044	44,613	<b>368,762</b>
Less: unallocatable operating expenses . . . . .	<b>(8,661)</b>	(6,146)	(7,601)	<b>(66,623)</b>
Operating income . . . . .	<b>¥ 39,278</b>	¥ 42,898	¥ 37,012	<b>\$ 302,139</b>
Total assets:				
Domestic (inside Japan) . . . . .	<b>¥485,070</b>	¥500,519	¥500,020	<b>\$ 3,731,308</b>
Outside Japan				
North America . . . . .	<b>54,979</b>			<b>422,915</b>
Europe . . . . .	<b>38,633</b>			<b>297,177</b>
Asia, Oceania . . . . .	<b>17,674</b>			<b>135,954</b>
	<b>111,286</b>	84,472	59,653	<b>856,046</b>
	<b>596,356</b>	584,991	559,673	<b>4,587,354</b>
Unallocatable or headquarters . . . . .	<b>30,079</b>	25,141	20,840	<b>231,377</b>
	<b>¥626,435</b>	¥610,132	¥580,513	<b>\$ 4,818,731</b>

As a result of the amendment to the Consolidated Financial Statement Regulations, the disclosure of information to each segment classified by principal nations or area has become mandatory with effect from the year ended March 31, 1998.

As a result of the change on the accounting policy of translation of foreign currency financial statements (see Note 2 (3)),

"Operating income in outside Japan area" for the year ended March 31, 1996, would be decreased by ¥28 million and "Total assets in outside Japan area" as at March 31, 1996, would be decreased by ¥2,859 million, according to the amounts which would have been reported under the amended method.

### (3) Export Sales and Sales by Overseas Subsidiaries

Export sales of the Companies (meaning the amounts of export made by the Company and its domestic subsidiaries plus the sales of overseas consolidated subsidiaries) for the three years ended March 31, 1998 are presented below:

	Millions of yen			Thousands of U.S. dollars
	1998	1997	1996	1998
Export sales and sales by overseas subsidiaries:				
America . . . . .	<b>¥29,078</b>			<b>\$223,677</b>
Europe . . . . .	<b>40,290</b>			<b>309,923</b>
Asia, Oceania . . . . .	<b>22,850</b>			<b>175,769</b>
Total . . . . .	<b>¥92,218</b>	¥64,549	¥50,432	<b>\$709,369</b>
Percentage of such sales against consolidated net sales	<b>14.9%</b>	11.0%	9.0%	<b>14.9%</b>

As a result of the amendment to the Consolidated Financial Statement Regulations, the disclosure of information about export sales classified by principal nations or area has become mandatory with effect from the year ended March 31, 1998.

### 12. Related Party Information

Material transactions of the Company with its related companies and individuals, excluding transactions with consolidated subsidiaries which are eliminated in the consolidated financial

statements and other than those disclosed elsewhere in these financial statements, for the three years ended March 31, 1998, were as follows:

Shiseido Honeycake Industries Co., Ltd.	Paid-in capital	¥90 million		
	Principal business	Production of cosmetics and toiletries		
	Equity ownership percentage by the Company	28.1%		
	Description of the Company's transactions	Purchase of products		
				Thousands of U.S. dollars
				1998
Volume of transactions made in the year ended March 31 . . . . .		Millions of yen		
		1997	1996	
Resulting account balances as at March 31	<b>¥2,430</b>	¥2,663	¥2,271	<b>\$18,692</b>
(Notes and accounts payable) . . . . .	<b>¥ 479</b>	¥ 732	¥ 332	<b>\$ 3,685</b>

Pierre Fabre Japon Co., Ltd.	Paid-in capital	¥100 million		
	Principal business	Sales and import of cosmetics		
	Equity ownership percentage by the Company	50.0%		
	Description of the Company's transactions	Purchase of products		
				Thousands of U.S. dollars
				1998
		Millions of yen		
		1997		
Volume of transactions made in the year ended March 31 . . . . .		<b>¥2,643</b>	¥2,801	<b>\$20,331</b>
Resulting account balances as at March 31				
(Accounts payable) . . . . .		<b>¥ 886</b>	¥ 858	<b>\$ 6,815</b>

The terms and conditions on the above transactions are the same as those of the arm's-length transactions.

# *Report of Independent Certified Public Accountants*

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To: The Board of Directors of  
Shiseido Company, Limited

We have audited the accompanying consolidated balance sheets of Shiseido Company, Limited and its subsidiaries as at March 31, 1998 and 1997, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended March 31, 1998, all expressed in Japanese 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 the auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit provides 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 at March 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended March 31, 1998, in conformity with generally accepted accounting principles in Japan, applied on consistent basis.

Tokyo, Japan  
June 26, 1998

Chuo Audit Corporation  
Independent Certified Public Accountants

# Directory

## SHISEIDO HEAD OFFICE

**Shiseido Company, Limited**  
7-5-5, Ginza, Chuo-ku,  
Tokyo 104-8010, Japan  
Tel: (03) 3572-5111  
Fax: (03) 3574-8380

URL:  
English Edition  
<http://www.shiseido.co.jp/e/>  
Japanese Edition  
<http://www.shiseido.co.jp/>

## DOMESTIC

Osaka Shiseido Co., Ltd.  
Shiseido Kako Co., Ltd.  
Shiseido Beautech Co., Ltd.  
Mieux Products Co., Ltd.  
IPSA Co., Ltd.  
Haramachi Paper Co., Ltd.  
Pierre Fabre Japon Co., Ltd.\*\*  
ETWAS Co., Ltd.  
Shiseido Fine Toiletry Co., Ltd.  
Shiseido Sales Co., Ltd.  
Shiseido Pharmaceutical Co., Ltd.  
Shiseido Logistics Company Ltd.  
The Ginza Co., Ltd.  
Shiseido Parlour Co., Ltd.  
Shiseido Beauty Salon Co., Ltd.  
Shiseido Real Estate Development Co., Ltd.  
Shiseido Wellness Co., Ltd.\*  
Mikawayama Co., Ltd.  
Shiseido Lease Co., Ltd.  
d'ici là Co., Ltd.  
Ettusais Co., Ltd.  
Shiseido Cosmenity Co., Ltd.  
Qi Salon cosmetics Co., Ltd.  
Shiseido Honeycake Industries  
Co., Ltd.\*\*  
Kyuryudo Art-Publishing Co., Ltd.\*\*  
CJP Co., Ltd.\*\*  
Amenity Goods Co., Ltd.  
Beauté Prestige International Japon,  
Co., Ltd.  
Ayura Laboratories Inc.  
Shiseido International Inc.  
Shiseido Information Network Co., Ltd.  
Shiseido Asia Pacific Co., Ltd.  
Shiseido City Co., Ltd.  
Helene Curtis Japan Inc.\*\*\*  
Irica Instruments Inc.  
Taishi Trading Co., Ltd.  
Inter Act Co., Ltd.\*  
Vivace Factory Co., Ltd.\*

## OVERSEAS

Shiseido International Corporation  
Zotos International, Inc.  
Davlyn Industries, Inc.  
Shiseido Cosmetics (America) Ltd.  
Shiseido America Inc.  
Shiseido of Hawaii, Inc.  
Shiseido Cosmetics (Italia) S.p.A.  
Shiseido Deutschland GmbH.  
Shiseido United Kingdom Co., Ltd.  
Carita S.A.  
Alma Coiffure S.A.  
Alma Esthetique E.U.R.L.  
Shiseido International Europe B.V.  
Shiseido Singapore Co., (Pte.) Ltd.  
Shiseido (Australia) Pty., Ltd.  
Shiseido (N.Z.) Ltd.  
Shiseido International France S.A.S.  
Beauté Prestige International S.A.  
Shiseido Philippines, Inc.\*  
Shiseido Thailand Co., Ltd.\*\*  
Shiseido France S.A.  
Taiwan Shiseido Co., Ltd.  
FLELIS International Inc.  
Shiseido Liyuan Cosmetics Co., Ltd.  
Beijing Huazhiyou Cosmetics Sales  
Center  
Les Salons du Palais Royal Shiseido  
S.A.  
Shiseido Canada Inc.  
Carita International S.A.  
Piidea Canada, Ltd.  
Beauté Prestige International S.p.A.  
Shiseido Korea Co., Ltd.  
Shiseido Europe S.A.  
SAHA Asia Pacific Co., Ltd.\*\*  
Beauté Prestige International S.A.\*  
Shanghai Zotos Citic Cosmetics  
Co., Ltd.\*

\* Unconsolidated subsidiary

\*\* Affiliate accounted for using the equity method

\*\*\* Helene Curtis Japan Inc. has changed its name to GENIC Corporation from April 1, 1998.

# Investor Information

As of March 31, 1998

## Fiscal Year-End

March 31

## Annual Meeting

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

## Common Shares Issued

423,373,080

## Number of Shareholders

29,338

## Stock Listings

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

## Transfer Agents for Common Stock

The Chuo Trust & Banking Co., Ltd.  
1-7-1, Kyobashi, Chuo-ku,  
Tokyo 104-0031, Japan

## American Depositary Receipts

Cusip No.: 824841407  
Ratio (ADR:ORD): 1:1  
Exchange: OTC (Over-the-Counter)  
Symbol: SSDOY  
Depository: 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)  
<http://www.bankofny.com/adr>

## Auditor

Chuo Audit Corporation

## For Further Information, Please Write to

Investor Relations Department  
Financial Division  
Shiseido Company, Limited  
7-5-5, Ginza, Chuo-ku,  
Tokyo 104-8010, Japan  
Fax: (03) 3289-1235

## Stock Price/Turnover of Common Stock

