April 30, 2009
Shiseido Co., Ltd.

Q&A for the Results for the Year Ended March 31, 2009 (Summary)

Q) How do you view the trends for the overall domestic cosmetics market in FY2009?

A) We expect the domestic over-the-counter cosmetics market to decline 2-3% year on year, as it did in FY2008. The market for high-end products will be a little more difficult than it was in the previous fiscal year. The market for mid-range items will be similar to the tough situation a year ago. The market will shift slightly towards low-end products.

Q) Why are sales in the Domestic Cosmetics segment expected to remain largely unchanged, although domestic sales are estimated to fall 2%?

A) One of the reasons are that sales of the subsidiary The Ginza, which were included in the Others segment until the previous fiscal year, are included in the Domestic Cosmetics segment in fiscal 2009, after The Ginza withdrew from the boutique business.

Q) Why does the sales plan for fiscal 2009 appear weighted to the latter half?

A) In domestic operations, sales in the first half are expected to decline in Counseling, Self-Selection, and Toiletries. However, we expect that sales will increase in virtually every segment in the second half. Sales for the first half of the previous fiscal year include sales for products delivered early for concentrated promotions. If we exclude those sales, I think the sales plan is well balanced.

Q) You said that you are going to refine your focus in Japan. What will you do with product fields and brands/lines that will be excluded?

A) In principle, our brand strategy remains unchanged. We plan to focus on 21 nurtured brands/lines, especially mega lines and relationship-building brands/lines. Given the difficult market circumstances, we will link channels and brands/lines and will narrow our focus in fiscal 2009.

Q) How will you provide for retailers the advantages and competitive edge earned through alliances with Shiseido in the Diamond Sales System?

A) We have sought to put the Diamond Sales System into action. The problem has been that agreements between the management of both parties have not been translated into action in the field. The reality is that while the Diamond Sales System appears to have been in operation, in fact it hasn't. We will focus on major store chains and will ensure that we create best practices by developing systems by account. We will apply those best practices to other accounts, even if competitors have already established similar systems.

Q) I understand that you are going to improve your information development and service capabilities. Could you describe the specific steps that you are going to take?

A) I believe that the ability to develop information depends on the ability to explain the differences between SHISEIDO and its competitors clearly and simply from the perspective of customers. Devising ways of providing information that enable customers to understand the advantages that we offer is not just the responsibility of the marketing and advertising divisions. We have introduced a brand manager system and we are actively encouraging collaboration between the marketing and R&D divisions. I believe this will produce results. The changes taking place to the approach adopted by beauty consultants, who play an important role in communicating value, is entering their second phase. We are considering the possibility of reconsolidating our service education and bolstering motivation by improving the work environment, such as by introducing a personnel system that clarifies career paths.

Q) What are the factors behind the reduction in domestic marketing costs? Please provide details of the decline in domestic expenses?

A) Since new lines and ranges were launched in fiscal 2008, initial costs will correspondingly decline in fiscal 2009. We expect a 2% fall in domestic sales, and some expenses will decline in association with that fall. We will cut physical distribution costs through outsourcing and we will streamline other indirect costs.

Q) The mail-order market is expanding. What is Shiseido's response to this trend?

A) We operate a mail-order business under the brand Soka-Mokka, through our subsidiary KINARI Inc. Sales in this business rose more than 30% year on year. We feel that we need to take bolder action to develop the mail-order business and we are considering our approach.

Q) How will you raise the funds needed for share buybacks and dividend payments?

A) We expect net income and depreciation to total around 30 billion yen in the non-consolidated outlook for fiscal 2009. Capital expenditures are likely to be a little less than 10 billion yen. As a result, free cash flow should be around 20 billion yen, almost equivalent to total dividends. However, since this will not be enough cash to acquire treasury stock, we will need to release some cash reserves. We had cash, time deposits and investments in securities worth 104.8 billion yen as of the end of March, while interest-bearing debt was around 62 billion yen. This gives us some leeway with cash in the consolidated budget. Since the breakdown of overseas earnings is increasing, I think we need to consider global cash management for the entire Group. For the time being, we will allot 5 billion yen in cash from the inclusion of a loss on valuation of listed shares in charges against revenue for the acquisition of treasury stock.