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First Quarter Results and Outlook for the Fiscal Year Ending March 31, 2011

Yasuhiko Harada

Director & Corporate Senior Executive Officer

SHISEIDO Co., Ltd.

July 29, 2010

- My name is Yasuhiko Harada and I am the Senior Managing Executive Officer of Shiseido.
- I will be describing our results for the first quarter ended June 30, 2010, and the outlook for the first half and full year ending March 31, 2011.

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First Quarter Results (Ended June 2010)

[Incl. Bare Escentuals] (¥ billion)

	Result	YoY % Change	Local Currency Basis	YoY Amount
Net Sales	145.8	+4.4%	+4.2%	+6.1
Domestic	87.3	-5.8%	-	-5.4
Overseas	58.5	+24.5%	+23.8%	+11.5
Operating Income	3.3	+56.8%	-	+1.2
Ordinary Income	3.2	+7.2%	-	+0.2
Extraordinary Income / Loss (net)	-3.2	*(-2.9)	-	-0.3
Net Income	-0.7	*(4.3)	-	-5.0

- Overseas Sales Ratio 40.1% (+6.5 pp)
- Operating Margin 2.3% (+0.8 pp)
- Exchange Rate: 1 US$ = ¥90.7 (-3%) 1 Euro = ¥125.6 (+3%) 1 RMB = ¥13.28 (-3%)

* (result of previous year)

- This is a summary of our profit & loss accounts. The results include those of slightly less than a month for Bare Escentuals, for which the acquisition was completed in March. I will first describe the results including those of Bare Escentuals.
- Consolidated net sales for the first quarter was ¥145.8 billion, an increase of 4.4% from the previous year. This was attributable to a substantial increase in overseas sales. In overseas markets, signs of recovery in the United States and Europe have become clearer since the fourth quarter of last year, and emerging markets, particularly China, continue to grow. Bare Escentuals has contributed to the sales. As a result, net sales were up 23.8% in local currency terms. Domestic sales, in contrast, fell 5. 8% given the continued decline in consumer confidence. The effect of foreign exchange fluctuations was minimal in the first quarter of this year.

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- Operating income increased 56.8% from the previous year, to ¥3.3 billion. Profit rose thanks to the larger margins from the growth in overseas sales and the efficient use of expenses.
- Ordinary income rose 7.2%, to ¥3.2 billion. Non-operating activities resulted in a loss due primarily to a decrease in interest earnings linked to lower interest rates and a foreign-exchange loss, resulting in a lower growth rate compared to operating income.
- The net result was a loss of ¥0.7 billion yen, resulting from extraordinary losses of ¥3.2 billion, including M&A-related expenses, a loss on the valuation of investments in securities, and application of the accounting standards for asset retirement obligations. While a tax reserve reversal of approximately ¥5 billion was recognized through technical procedures based on accounting rules last year, it has returned to normal this year.

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First Quarter Results (Ended June 2010)

[Excl. Bare Escentuals] (¥ billion)

	Result	YoY % Change	Local Currency Basis	YoY Amount
Net Sales	141.9	+1.6%	+1.2%	+2.2
Domestic	87.3	-5.8%	-	-5.4
Overseas	54.6	+16.1%	+15.2%	+7.6
Operating Income	4.2	+97.6%	-	+2.1
Ordinary Income	4.1	+36.5%	-	+1.1
Extraordinary Income / Loss (net)	-2.0	*(-2.9)	-	+0.9
Net Income	0.8	-82.0%	-	-3.5

- Overseas Sales Ratio 38.5% (+4.9 pp)
- Operating Margin 2.9% (+1.4 pp)
- Exchange Rate: 1 US$ = ¥90.7 (-3%) 1 Euro = ¥125.6 (+3%) 1 RMB = ¥13.28 (-3%)

* (result of previous year)

- Here you can see the sales and earnings excluding Bare Escentuals. Even without Bare Escentuals, our overseas business achieved an increase in revenues of 15.2% in local currency terms, to secure higher operating and ordinary income.

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Effect of Consolidating Bare Escentuals

(¥ billion)

	First Quarter	First Half	Annual	Note
Net Sales	+4.0	+16.0	+45.0	
Operating Income	-0.9	-4.0	-2.5	
Bare's Operating Income	1.0	4.0	12.5	
Inventory Market Valuation	-1.1	-5.0	-7.5	Arising only this year (for six months after acquisition)
Amortization of Sales rights	-0.4	-1.5	-3.5	Arising again next year and thereafter
Amortization of Goodwill	-0.4	-1.5	-4.0	Treatment based on Japan's accounting standards May no longer be amortized after next year

Note) The first quarter results are from March 8th to 31st, the first half results are from March 8th to June 30th, and the annual results are from March 8th to December 31st.

[Presentation of the results of Bare Escentuals by segment]

- By business: All included in "global businesses."
- By region: Included in each region in which the product is sold

- The effect of consolidating Bare Escentuals is summarized here.
- By consolidating the sales and earnings of Bare Escentuals for slightly less than a month, net sales for the first quarter increased by ¥4 billion. Despite the positive contribution of the operating income of Bare Escentuals itself, the increased cost of sales based on inventory revaluation and the amortization of sales rights and goodwill reduced the operating income by ¥0.9 billion.
- The expected effect of consolidating Bare Escentuals on the results of the first half and full year is presented here.

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Domestic Cosmetics Sales: by Division

(¥ billion)

Division	Result	YoY % Change
Cosmetics	69.6	-7.7%
Counseling	39.9	-7.7%
Self-Selection	20.3	-3.1%
Toiletries	9.4	-16.4%
Healthcare	3.4	-1.1%
Others	9.4	+12.8%
Total	82.5	-5.5%

Note) "Domestic professional" has been moved to "professional" in "Global Business" from this term. The year-on-year changes have been calculated after reclassifying the results of the previous year.

- The contraction of the over-the-counter cosmetics market continues, reflecting low consumer confidence.
- OTC sales (Counseling + Self-Selection) for the April – June period declined approximately 2-3%, indicating a slight easing of the contraction.

- I will describe the sales in each business segment. The domestic professional business has been moved to the "Global" business segment from this period, and the year-on-year changes have been calculated after reclassifying the results of the previous year.
- First, the total sales in the domestic cosmetics business segment resulted in a loss of 5.5%.
- Our shipping volume was below the level of last year, as retailers prioritized the sale of distribution inventory in April and May. Meanwhile, our OTC sales are estimated to be a loss of 2–3% for three months combined, suggesting a slight recovery from the loss of 4–5% in the fourth quarter of last year. The loss has been diminishing since May, to almost a full recovery to the level of last year by June. As for our products, we secured store space in negotiations with organized retailers for the spring merchandise replacement, and self-selection products such as the sunblock series, *Anessa*, and the deodorant, *AG+* sold relatively well, helped by the good weather in June. Meanwhile, the polarization into high-end and low-end products has continued, and the sale of counseling products in the mid-range proved difficult. Among toiletries, *TSUBAKI* has been struggling in the face of intensifying competition.

Global Business Sales: by Division (Jan-Mar 2010)

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(¥ billion)

Division	Result	YoY % Change	Local Currency
Cosmetics	52.0	+25.4%	+24.5%
Professional	9.1	+5.8%	+6.4%
Total	61.1	+22.0%	+21.4%

Note) "Domestic professional" has been moved to "professional" in "Global Business" from this term. The year-on-year changes have been calculated after reclassifying the results of the previous year.

* Year-on-year change in local currency excluding Bare Escentuals: +13.3%

[Reference]

Sales by Geographic Segment	Result	YoY % Change	Local Currency
Americas	15.7	+53.6%	+57.4%
Europe	19.1	+20.4%	+16.9%
Asia and Oceania	23.7	+13.3%	+12.7%
Total	58.5	+24.5%	+23.8%

* Year-on-year change in US currency excluding Bare Escentuals: +21.3%

- The overseas cosmetics market has been recovering and our regional sales have enjoyed double-digit growth.
- Increased sales in the Asia and Oceania region are led by China's double-digit growth.
- [Second quarter] Six-month total net sales maintain a high level of growth in various regions.

- Next, I will describe sales in our global business segment.
- The first quarter in the overseas market is between January and March. The year-on-year change in net sales in the global business was very positive, with an increase of 22.0% in yen terms and 21.4% when denominated in local currency, or 13.3% in terms of local currency excluding the effect of Bare Escentuals. Looking at individual regions, sales achieved double-digit growth in the Americas, Europe, and Asia and Oceania. The cosmetics market in the United States and Europe has shown signs of recovering since the fourth quarter of last year, in which we focused on the development and enhancement of the global brand Shiseido by introducing new product lines to increase our sales. The fragrance and travel retail segments, which correlate closely with business confidence, have also been recovering. In China, the exclusive brand for cosmetics specialty stores, Urara, generated good sales and the masstige segment also performed fairly well.
- While the second quarter of the overseas fiscal year has already ended, overseas sales as a whole for the first half continues to grow at a solid clip. The Bare Escentuals business has been progressing mostly in line with plans.

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Results of Cost of Sales / SG&A (First Quarter 2010)

(¥ billion)

	Result	% of Net Sales	% Change (+: improvement)	YoY Change (+: cost increase)
Cost of Sales	35.2	24.1%	-0.2%	+1.8
SG&A	107.3	73.6%	+1.0%	+3.1
Domestic	69.4	79.1%	-0.8%	-3.3
Overseas	37.9	65.3%	+1.9%	+6.4
Advertising & Selling	33.2	22.8%	+2.0%	-1.4
Personnel	39.5	27.1%	-0.8%	+2.8
Others	33.5	23.0%	+0.2%	+1.0
M&A-Related Depreciation Expenses	1.1	0.7%	-0.4%	+0.7

- The cost of sales ratio declined 0.2% from last year, to 24.1%. Of this result, the effect of the increased cost as a result of inventory revaluation associated with the acquisition of Bare Escentuals amounts to ¥1.1 billion. Without it, the result is 23.3%, an improvement of 0.6%.
- The SG&A to sales ratio improved by 1.0% to 73.6%. In terms of amount, the increase was ¥3.1 billion, of which ¥2.7 billion derived from the consolidation of Bare Escentuals.
- While SG&A expenses increased for personnel expenses and the expense for the amortization of intangible assets associated with the M&A, we sought to achieve efficient use of marketing costs and cost savings.

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Operating Income by Business Segment

(¥ billion)

	Result	YoY % Change	Operating Margin	YoY Change
Domestic Cosmetics	3.9	-8.1%	4.7%	-0.2 pp
Global	-1.1	-	-1.8%	+3.2 pp
Others	0.5	+22.8%	12.2%	+2.2 pp
Elimination	-0.0	-	-	-
Total	3.3	+56.8%	2.3%	+0.8 pp

Note) "Domestic professional" has been moved from "Domestic Cosmetic Business" to "professional" in "Global Business" from this term. The year-on-year changes have been calculated after reclassifying the results of the previous year.

- I will talk about the operating income by business segment.
- In the domestic cosmetics businesses, although we sought to make efficient use of costs, including marketing outlays, the savings did not match the loss from the reduced sales, and the net result was ¥3.9 billion, down 8.1% from the previous year.
- Operating results in the global business were a loss of ¥1.1 billion, of which the temporary cost increase and the effect of the amortization of sales rights and goodwill was a loss of ¥1.9 billion. The effect of the increased cost of sales from the inventory revaluation of Bare Escentuals will no longer be present from the next period, and goodwill amortization is likely to be discontinued based on the accounting rules in Japan. Because of this, we anticipate that the performance of Bare Escentuals will contribute to our operating income.

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Consolidated Balance Sheet

(¥ billion)

	June 2010	March 2010	Change from March 2010		
				BE only	Major Components
Current Assets	345.8	318.2	+27.5	+38.4	Funds on hand 20.7, inventory 13.5
Property, Plant & Equipment	137.6	132.8	+4.8	+6.0	
Intangible Assets	217.5	35.8	+181.7	+173.5	Goodwill 93.2, trademark rights 40.0, sales rights 40.3
Investment and Other Assets	111.7	288.6	-176.9	-177.4	Investment on other assets. Borrowings are internally eliminated.
Total Assets	812.6	775.4	+37.1	+40.5	
Interest-Bearing Debt	238.4	214.4	+23.9	-	
Deferred Tax Liabilities	35.2	3.4	+31.8	+31.1	Tax effect on sales rights , etc.
Other Liabilities	181.4	192.4	-11.0	+9.4	
Total Liabilities	455.0	410.2	+44.8	+40.5	
Net Assets	357.5	365.2	-7.7	-	
Total Liabilities and Net Assets	812.6	775.4	+37.1	+40.5	

- Our balance sheet is presented here. Major changes were caused by the acquisition of Bare Escentuals. "BE only" indicates the amount of the effect of the Bare Escentuals consolidation.
- As of the end of March, the stocks of Bare Escentuals were included in the "investments in securities" and loans from our subsidiaries to Bare Escentuals were also included in the balance sheet. At the end of the quarter under review the stocks of Bare Escentuals have been transferred to each corresponding asset type, such as goodwill, and the loans have been erased through consolidation.
- As for debts, ¥100 billion of short-term bridge loan has been converted to permanent finance consisting of long-term debt and corporate bonds.

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Outlook for the First Half Ending September 2010

(¥ billion)

	Outlook	YoY % Change	Local Currency	Change from 6/8
Net Sales	339.0	+6.8%	+8%	±0.0
Domestic	205.0	-1.3%	-	-4.0
Overseas	134.0	+22.3%	+27%	+4.0
Operating Income	17.5	-23.0%	-	±0.0
Ordinary Income	17.5	-26.1%	-	+1.0
Extraordinary Income / Loss (net)	-3.0	-	-	-1.0
Net Income	9.0	-49.4%	-	±0.0

- Overseas Sales Ratio 39.5%
- Operating Margin 5.2%
- Exchange Rate: 1 US$ = ¥90; 1 Euro = ¥120; 1 RMB = ¥13.5 (no change from the beginning of year)

- Here you can see our outlook for the first half of the current fiscal year. On June 8th, we announced our financial forecast, which included Bare Escentuals. This outlook is the modified version of that forecast.
- While net sales remained slightly sluggish in the domestic segment during the three months of the first quarter, the overseas business performed well and, overall, the result was generally in line with the plan. The forecast for domestic sales was reduced by ¥4 billion from the first estimate, to ¥205 billion. Our solid overseas business is expected to compensate for the decrease of domestic sales, by adding ¥4 billion to become ¥134 billion. Sales for the first half of the current fiscal year are therefore expected to total ¥339 billion, exactly as planned in the initial estimate.
- The outlook for operating income is as previously planned, namely ¥17.5 billion.
- Turning to ordinary income, given the fact that ¥1.2 billion of the M&A-related expenses expected as non-operating expenses in the previous plan will be treated as an extraordinary loss, ordinary income will rise ¥1 billion, to ¥17.5 billion, and extraordinary losses will be reduced by ¥1 billion, to ¥3 billion. There are no changes to the outlook for net income for the first half of the year.

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Outlook for Fiscal 2010

(¥ billion)

	Outlook	YoY % Change	Local Currency	Change from 6/8		
				H1	H2	Full Year
Net Sales	705.0	+9.4%	+11%	±0.0	±0.0	±0.0
Domestic	408.0	+0.3%	-	-4.0	±0.0	-4.0
Overseas	297.0	+25.0%	+30%	+4.0	±0.0	+4.0
Operating Income	50.5	+0.3%	-	±0.0	±0.0	±0.0
Ordinary Income	50.5	-1.9%	-	+1.0	±0.0	+1.0
Extraordinary Income / Loss (net)	-3.5	-	-	-1.0	±0.0	-1.0
Net Income	29.0	-13.9%	-	±0.0	±0.0	±0.0

- Overseas Sales Ratio 42.1%
- Operating Margin 7.2%
- Exchange Rate: Assumed to be the same level as the first half of the year

- This shows our outlook for the full 2010 fiscal year. There have been no changes made to the forecast for the second half of the year, and this reflects only the modification to the forecast for the first half.

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Key Future Issues

1. Domestic sales recovery
   - Efforts to combine selected channels and narrower lines

2. Overseas expansion
   - Maintain business growth in China.
   - Accelerate the entry into emerging markets. (Albania, Kosovo, and Macedonia)

3. Bare Escentuals
   - Sales at Isetan Shinjuku and Hankyu Umeda Flagship Store remain strong.
   - Open an outlet in Printemps Ginza. (10/15)

Outlet in Hankyu Umeda Flagship Store

- Lastly, I would like to talk about our future challenges.
- Although the domestic environment continues to pose a serious challenge to our sales, OTC sales are beginning to show slight, but positive signs of recovery. With this opportunity, we will be focusing on our efforts on joining selected channels and refined product lines, and turning hit products into long-selling items.
- Overseas, we will maintain the growth of our China business and accelerate our entry into new markets. To develop new markets, we have been advancing into the Republic of Albania, Kosovo, and Macedonia on the Balkan Peninsula since mid-July. With this initiative, we will have businesses established in 77 countries and regions across the globe.
- With respect to Bare Escentuals, a third outlet in Japan will open in Printemps Ginza on October 15. Sales at Isetan department store in Shinjuku and Hankyu Umeda Flagship Store, which are already open, have been quite strong. We have been receiving inquiries from many other stores and, although specific dates have yet to be determined, we have reached agreements with a number of department stores on the opening of our outlets.

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Key Future Issues

4. Response to the Asian masstige market: Introduction of the Senka Series

Launch Senka, a lotion made from moisturizing cream

- Senka: a strategic brand to be developed with combination between the low-end market in Japan and Asian masstige market.
- Improve cost efficiency by seeking economies of scale and achieve high functionality at low prices.
- Release in mid September in Japan.
  ⇨Introduce in Taiwan before the end of 2010 and then successively in other Asian countries from 2011.

- I would like to conclude by mentioning our response to the Asian masstige market.
- At our investor meeting in April, we announced that we would fully launch our Asian masstige strategy in the next three-year plan starting in fiscal 2011, and that part of the plan would be moved forward to the second half of the current fiscal year.
- As we announced in our news release today, we will be launching Senka, a lotion made from moisturizing cream, as the first of our strategic brands that combine approaches to the rapidly growing masstige market, primarily of the middle income group in Asia, with Japan's growing market for low-priced skincare products. We will seek economies of scale through a strategy of combining the Japanese and Asian markets to improve cost effectiveness and achieve high functionality at low prices.
- Senka will be launched first in Japan in September, and is planned be introduced in Taiwan before the end of 2010, and then one by one in other Asian countries from 2011.
- We will be expanding the line of skincare product under Senka, to strengthen the brand from now on.