April 28, 2011

Shiseido Co., Ltd.

Q&A for the Three Year Plan and the Operating Results for the Fiscal Year Ended March 2011 (Summary)

Q: How is the impact of the recent devastating earthquake and tsunami taken into account in the results forecasts for fiscal 2011? In addition, what impact on the forecasts do you expect from harmful reports related to the accident in the nuclear power station in Fukushima?

A: Because there are many retail stores that have suffered in the disaster and have not yet recovered, and because consumption trends remain uncertain, it is difficult to estimate the impact on sales. Nonetheless, we forecast sales remain unchanged year on year with a 2% decline in the first half of the year and a 2% rise in the second half of the year.

As for the harmful reports, it is still too early to gauge their impact in concrete terms. The impact varies depending on the country and region. For example, the number of tourists from China declined in Japan, but sales in China have not been affected noticeably. By actively sending promotional messages to overseas markets mainly through industry associations in Japan and overseas, we will stress the safety of Japanese products and our own products.

Q: What are the specific details of the upfront investment of ¥20 billion? Can you break it down by brand and country? How do you expect to manage costs for fiscal 2012?

A: The investment comprises ¥7 billion in Japan and ¥13 billion overseas. We expect to allocate funds mainly to advertising and marketing and the development of software for web marketing in Japan, while most of the investment overseas is expected to be made in China. We will shift human resources for beauty consultants and sales from Japan to China to effectively transfer the concept of omotenashi (hospitality) and sales capability, in addition to the launch of image advertising at the sales counter of department stores and in the prestige areas.

In fiscal 2012 and 2013, we will continue to examine effective cost management to achieve 6% growth in sales and 10% growth in operating income—these are the targets in our three year plan. We do not expect to increase costs without careful consideration.

Q: What impact will the upfront investment of ¥20 billion have on Shiseido's earnings from fiscal 2012? Will the ¥20 billion be fully utilized?

A: Under the plan, we aim to achieve returns with a sales CAGR of 6% and an operating margin of 10% between fiscal 2011 and 2013. We have to date been holding down marketing costs in Japan, given sluggish sales, but we will revitalize our activities by stepping up investments in the future. However, we will examine ways to use media and other issues, and will effectively manage marketing costs. We will strengthen our overseas operations mainly by focusing on China, and will compete by improving global counters and acquiring favorable locations. By making solid investments, we aim to achieve growth

from fiscal 2012 and beyond.

Q: Shouldn't investments be made in products in the low price range where sales are growing, instead of strengthening the store sales market, which is contracting?

A: Based on a Beauty Platform that plays a role of connecting the real and virtual world, we aim to create opportunities to meet new customers, particularly those in the younger generations. However, we do not believe that this will be sufficient to compensate for the sales slump in Japan. In fact, we think that it is important to examine existing businesses and improve manufacturing. In particular, we believe that the sluggish performance of the low and medium price ranges derive from the fact that customers have not been fully informed of the value of the products. In responding to this situation, we will go back to the starting point all along the value chain, including our store beauty consultants, and strive to improve value creation and communication.

We have also taken initiatives in relation to the low price-range products. We have successfully revamped the *SEA BREEZE* brand. We are also strengthening the *Senka* series in the overall Asian market. We think that we need to bolster *TSUBAKI* in a comprehensive manner.

Q: You have decided to maintain dividend payments of ¥50. What do you think is the appropriate dividend level from the perspective of cash flows and the balance sheet? What are the details of capital spending?

A: We have adopted a policy of maintaining an interest-bearing debt ratio of 35%. We believe that maintaining this level is essential for maintaining our credit rating of Single A. We recorded an interest-bearing liabilities ratio of 38% for the fiscal year ended March 2011, and so we will aim to improve the ratio going forward. Meanwhile, by achieving the targets of the three year plan, we believe a dividend payment of ¥50 is a possibility.

Capital investments are mainly made in the Ginza Future Plan in the area of tangible assets, and in software for new store sales business in the area of intangible assets.

Q: Please tell us about the size and the time frame of cutbacks in the inventory level at stores.

A: Our policy is to reduce inventories at stores by steadily increasing store sales. To achieve this, we must create competitive products. In addition, as adopted in *MAQUILLAGE*, we will boost the quality of our activities by improving communication, introducing new color ranges, renewing models, and retraining beauty consultants. If we take the inventory level at stores as at the end of September 2008, the time when Lehman Brothers collapsed, as 100, the level for the fiscal year ended March 2011 was between 94 and 95. We believe the inventory level in stores has already peaked.

Q: What do you expect sales in stores in fiscal 2011 in Japan?

A: We expect that shipments will remain flat while sales in stores will increase 2%. However, given uncertain factors such as a decline in the number of foreign visitors, particularly from China to Japan, and the measures taken by retail stores to reduce the use of electricity, we will determine the figures by taking into

account future trends.

Q: How do you expect the growth and profitability in China over the next three years? Will the profitability be lowered to a single digit?

A: We will maintain sales growth in the 10% range in China going forward. In response, we will invest to ensure growth. As we are not intending to sacrifice the high profitability, the margin will not drop into the single-digit range.

Q: Please explain the results of Bare Escentuals for fiscal 2010 and its outlook for fiscal 2011.

A: It performed as planned in fiscal 2010. In fiscal 2011, it continues to make steady progress, with the launch of a new skincare line in the United States. We expect that it will continue to perform consistently in the future. The results of Bare Escentuals were independently disclosed in the last fiscal year because it had only just been acquired. In principle, however, we do not disclose the results of individual companies.

Q: What are Shiseido's edge, attractive aspects, and weak points?

A: Shiseido's attractive aspects are the range of assets it possesses. We believe in particular that we can be proud of the quality of our human resources and products and our R&D capabilities. Our weak points are that we struggle to take the initiative for change and innovation, and tend to be over reliant on past successes. We think that we have been slow in developing web marketing so we need to be more innovative in our activities.