

Q&A for the Fiscal Year Ended March 31, 2012 (Summary)

Q) What was the impact of the posting of an allowance for enhancing store-level inventory freshness control?

A) The impact was not very great, or less than 1 billion yen.

Q) What is a sustainable operating margin in China?

A) We will innovate with new counters and add beauty consultants in the prestige area and will invest in advertising for *TSUBAKI* in the masstige area. We would like to keep the operating margin of greater than 10%.

Q) Shiseido's sales continue to grow steadily in China, by mid-teen percentages, regardless of market trends. What do you think is the major difference in strategy between you and your competitors?

A) At department stores, we are bolstering the prestige area by introducing premium lines in *AUPRES*, the dedicated brand for China that is sold at about 1,000 stores, in addition to the *global brand SHISEIDO* and *clé de peau BEAUTÉ*. We have more than 5,000 specialty stores not only in urban areas but also in the interior, and these stores are a source of stable sales, which our competitors do not have.

Q) What was the inventory level at stores at the end of the fiscal year? Why did accounts receivable on the balance sheets increase? Did Bare Escentuals have a significant effect on the increase?

A) The inventory value at stores rose, reflecting a decline in shipments after the earthquake in March last year and an increase in seasonal goods for the spring and summer. Assuming store-level inventory at the end of September 2008 to be 100, then the inventory level in March this year is 95 to 96. We will continue to control inventory. The main factor of the increase in accounts receivable is the impact of the earthquake, and the Bare Escentuals effect was small.

Q) Are costs for beauty consultants included in general expenses or personnel expenses? Will the structure for beauty consultants change if Web marketing succeeds?

A) The costs for beauty consultants are included in personnel expenses. Web counseling has advantages in terms of efficiency. Web counseling allows us to provide counseling for customers nationwide from one place. Another advantage is that we can provide collective training for beauty consultants more easily. If sales through Web marketing increase, the employment patterns might change to include working at home. We expect that the number of beauty consultants will decline due to reductions in the number of people to be hired.

Q) What is the status of Beauty &Co.?

A) Beauty &Co. has just been launched, but many women have refreshed themselves through travel and hobbies. Collaboration with other companies is also performing well. A large number of people seem to have visited watashi+ through Beauty &Co.

Q) What are your criteria for determining whether your increased investments in marketing have succeeded or not? What steps will you take to increase not only sales of certain brands but also overall sales of domestic cosmetics? What are your criteria for China business?

A) Our priority for the current three-year plan is to increase sales of our top lines to get into a growth trajectory. In the harsh domestic competitive environment, we are considering CRM using the Web in addition to increasing investments in marketing. One of the criteria for the success of investments is that both over-the-counter sales and shipments are growing. As we have reduced the number of launches of new items in Japan, the quality of the activities of beauty consultants has changed, and customer evaluations of them has improved. We believe that we have struggled in the self-selection category because we were not able to communicate the value of our products to customers adequately. In fiscal 2012, we will seek to adequately communicate the value of our products and will sell self-selection products through general merchandise stores and drug stores, where large numbers of self-selection products are sold, in accordance with the characteristics of each client retailer. The competitive environment remains harsh in China, and we will invest in marketing, including advertising. Our criterion for the success of our investments is that we will achieve double-digit growth. We will maintain the current operating margin level for the time being.

Q) I have heard that the Brazilian market is unique, and cosmetics manufacturers for door-to-door sales are strong there. What is Shiseido's strategy for the market? What effects will the change in China's tariff rates have?

A) The Brazilian market is unique. Door-to-door sales thrive, and sales of hair care products and antiperspirants are large. Since recognition of natural cosmetics is high there, we expect that the bareMinerals brand, which we plan to launch there in June, will be well received. The change in China's tariff rates will be unlikely to have a significant impact.

Q) You anticipate that the domestic cosmetics market will grow 1% and that Shiseido will grow 3% in fiscal 2012. What are the reasons underlying these assumptions? What percentage increase in domestic marketing costs will be represented by investments for the new business model?

A) We are aiming to increase net sales to the pre-earthquake level by bolstering existing fields and starting a new business model. We plan to invest a large part of the additional domestic marketing costs, up to 3 billion yen, in Web marketing.

Q) What is the current situation of your overseas operations?

A) The first quarter of the fiscal year ending March 2013 has ended overseas. In all areas—the Americas, Europe, and Asia/Oceania—sales rose from a year ago. Sales in China continued to

grow.

Q) Your forecast of 1% growth in the domestic cosmetics market in fiscal 2012 is more optimistic than competitors' forecasts, isn't it? When will you achieve an operating margin of 10%? When will you undertake structural reforms?

A) Our forecast growth rate for the domestic cosmetics market is based on a recovery in the fourth quarter. We are considering structural reform using a top-down approach. We have a number of challenges to address, including the reform of our raw material procurement and production systems, considering global competitors' systems. We plan to start some of the reforms that we can execute in the current fiscal year.