

Results for First Three Quarters and Full-Year Outlook for Fiscal Year Ending March 2010

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In this document, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ from those anticipated in these statements.

● I will begin by discussing our performance for the first three quarters and our full-year forecast for the fiscal year ending March 2010.

Overview of Results for First Three Quarters of the Year Ending March 2010

(billion yen)

	Results	YoY change	Local currency	YoY amount
Net sales	464.6	-10.4%	-4.9%	-53.9
Domestic	301.8	-7.2%	-	-23.3
Overseas	162.8	-15.8%	-1.0%	-30.5
Operating income	32.6	-12.6%	-	-4.7
Ordinary income	33.5	-15.3%	-	-6.0
Net income	23.7	+11.2%	-	+2.4

-Overseas sales ratio 35.0% (-2.3pp)
 -Operating margin 7.0% (-0.2pp)
 -Exchange rates US\$: ¥94.9 (-10%) Euro: ¥129.4 (-20%) Chinese yuan: ¥13.89 (-8%)

● This page provides an overview of the profit and loss statement.

● Net sales for the first nine months stood at ¥464.6 billion, down 10.4% year on year. The domestic over-the-counter cosmetics market, which started to worsen from the second half of FY2008, showed no sign of recovery in the third quarter of the current fiscal year. Consequently, domestic sales declined 7.2%. The decline in overseas sales improved to minus 1.0%, excluding the effects of exchange rates, reflecting signs of a bottoming out in North American and European markets. However, overseas sales fell 15.8% in yen terms, because of the strong yen.

● Operating income declined 12.6% to ¥32.6 billion, attributable to a decrease in margins in association with the fall in sales. However, the decline in operating income shrank from the first half because of an improvement in the cost to sales ratio and a decrease in selling, general and administrative expenses.

● Ordinary income was down 15.3%, to ¥33.5 billion, but net income rose 11.2%, to ¥23.7 billion, reflecting an improvement in extraordinary gains and losses and a reduction in tax expenses.

● I will provide a more detailed breakdown of the cost of sales and selling, general and administrative expenses. Please turn to the next page.

Results for First Three Quarters of the Year Ending March 2010: Cost of Sales and SG&A

(billion yen)

	09/12 Results		YoY change (amount)	YoY % change	
		% of Net Sales			% pt. Change
Cost of Sales	114.0	24.6%	+0.1%	-14.0	-10.9%
S G & A	318.0	68.4%	-0.3%	-35.2	-10.0%

(Notes)

1. Positive figures for % point change denote decrease in expense.
2. Negative figures for YoY change (amount) and YoY % change denote decrease in costs.

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- The ratio of cost of sales improved 0.1 percentage points year on year in the first nine months. The ratio fell 2.5 percentage points in the third quarter.
- There are two primary reasons: (1) Solid sales of high-end products both in Japan and abroad in the third quarter and high growth in sales in China, (2) The provision for sales returns was reduced.
- The ratio of selling, general and administrative expenses rose 0.3 percentage points in the nine months, but the amount of SG&A fell ¥35.2 billion yen.
- The major reasons for the fall are a decrease in advertising and promotion expenses and reductions in other expenses. Advertising and promotion expenses fell, especially in Japan in the third quarter. This was a reaction to the unusually large marketing investment in the third quarter of the previous year, linked to the launch of the new line *Revital Granas* and new line *Elixir Prior*.
- I will next be describing sales by business segment. Please turn to the next page.

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Domestic Cosmetics Sales: By Division

Division	YoY % change	
	(Three-month from October through December)	
Cosmetics	-6.4%	(-3.7%)
Counseling	-4.7%	(+1.2%)
Self-selection	-7.7%	(-8.1%)
Toiletries	-11.0%	(-18.2%)
Professional	-8.7%	(-7.1%)
Healthcare	-2.1%	(+1.5%)
Non-Shiseido etc.	+2.5%	(+ 3.8%)
Total	-5.6%	(-3.0%)



- Consumer confidence declined again, and the over-the-counter market remained sluggish (estimated to have fallen down around 4% from October to December).

- Over-the-counter sales (counseling plus self-selection) of the Company from October through December declined 6% to 7%.

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- I will begin by describing sales in the domestic cosmetics segment.
- Total sales fell 5.6% year on year. As shown in the parentheses, sales were down 3.0% from October to December, which shows that the negative % change has been gradually narrowing.
- We assume that the growth rate in the over-the-counter cosmetics market was around -4% from October to December last year, as the decline in consumer confidence picked up again. The slowdown across the entire market accelerated as sales of skincare and makeup products in drug stores fell, after what had previously been a solid performance, from October to December. Over-the-counter sales of counseling and self-selection cosmetics of the Company were down 6% to 7% in total. In contrast, our total shipments in three segments—counseling, self-selection, and toiletries—declined only 3.7% over the quarter, reflecting the normalization of shipments as the level of in-store inventory at the end of September was reduced from a year ago through inventory adjustments.

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Domestic Cosmetics Sales: By Division

SHISEIDO

Division	YoY % change	(Three-month from October through December)	
Cosmetics	-6.4%	(-3.7%)	
Counseling	-4.7%	(+1.2%)	
Self-selection	-7.7%	(-8.1%)	
Toiletries	-11.0%	(-18.2%)	
Professional	-8.7%	(-7.1%)	
Healthcare	-2.1%	(+1.5%)	
Non-Shiseido etc.	+2.5%	(+ 3.8%)	
Total	-5.6%	(-3.0%)	



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- There were positive signs in certain lines. In the counseling segment, sales of *Revital Granas*, to which new items have been added, were solid. In the self-selection segment, sales of *Uno Fog Bar* remained strong. Overall, however, sales of mid-priced and low-end products remained weak. Sales of toiletries were disappointing, attributable to intensifying competition in the hair care market.
- By channel, in drug stores, a major battlefield for mid-range and low-end products, we continued to struggle, while we continued to do well in about 600 Power Shops in the voluntary chain store channel and prioritized department stores.

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Overseas Cosmetics Sales: By Division (From January through September 2009)

SHISEIDO

Division	YoY change	Local currency	(Three-month from July through September)
Cosmetics	-14.4%	+1.0%	(+ 5.5%)
Professional	-25.1%	-13.2%	(-2.1%)
Total	-15.8%	-0.9%	(+ 4.5%)

(For reference)

Sales by Geographic Segment	YoY change	Local currency	(Three-month from July through September)
Americas	-17.8%	-7.1%	(-0.6%)
Europe	-24.2%	-5.8%	(+0.4%)
Asia/Oceania	- 7.9%	+6.1%	(+11.6%)
Total	-15.8%	-1.0%	(+4.6%)



- Sales increased in all three areas from July through September.
 - Sales of Shiseido brand products were strong in each country, given the launch of Future Solution LX and other factors.
 - Sales grew steadily in Asia, especially in China.

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- Let me now turn to the overseas cosmetics segment.
- Overseas sales fell 0.9% year on year in local currency terms from January through September, but rose 4.5% in the three months from July. Sales grew year on year for the second consecutive quarter, after the second quarter from April to June, when sales rose 2.8%, showing strong resiliency. Sales have been improving in all three areas. *Shiseido Future Solution LX*, a top-end skincare line launched in September last year, made a good start in each country and has been a major factor. Double-digit growth was posted again in Asia and Oceania, getting back on track, thanks in large part to China, where growth exceeded 10%.
- The fourth quarter has already ended overseas. We forecast that total overseas sales in the three areas will grow more than 10% in local currency terms in the three months from October, the result of intensive promotions towards the year-end shopping season as emerging markets continued to expand and more and more advanced markets bottomed out.

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Operating Income by Business Segment

(billion yen)

	Nine-month results	YoY amount (third quarter)		Operating margin (third quarter)
Domestic Cosmetics	30.1	+3.1	(+6.5)	10.1% (10.0%)
Overseas Cosmetics	1.1	-7.5	(- 0.1)	0.7% (0.1%)
Others	1.3	-0.1	(+0.0)	10.6% (13.1%)
Elimination	0.1	-0.2	(-0.0)	-
Total	32.6	-4.7	(+6.5)	7.0% (6.7%)

- Although sales declined from October through December, earnings from domestic cosmetics improved, reflecting an improvement in the cost rate, marketing costs in the year-ago period in association with the launches of new brands, and cost cutting.

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- Let's now look at operating income by business segment.
- Operating income fell both in Japan and overseas in the first half, but operating income in the domestic cosmetics segment rose in the third quarter.
- Operating income in the domestic cosmetics business was higher in the third quarter, for two main reasons: an improvement in the cost to sales ratio, reflecting a favorable change to the product mix given solid sales of high-end cosmetics and a reduction in the provision for sales returns, and a reduction in selling, general and administrative expenses, reflecting intensive marketing outlays for new lines and series in the same period of the previous fiscal year, as well as cost-cutting efforts.
- Although sales in the overseas cosmetics business increased in local currency terms, operating income remained at low levels because of the effects of a strong yen in the Asia and Oceania area, which import a comparatively high percentage of their goods from Japan.

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Full-Year Outlook for the Year Ending March 2010

(billion yen)

	Outlook	YoY change	Local currency	Difference from previous forecast
Net sales	650	-5.8%	-	0
Domestic	413	-3.6%	-	0
Overseas	237	-9.5%	+3%	0
Operating income	50	+0.2%	-	0
Ordinary income	51	-2.0%	-	0
Net income	31	+60.0%	-	0

-Overseas sales ratio 36.5%(-1.5pp)

-Operating margin 7.7% (+0.5pp)

-Exchange rates US\$: ¥93.6 (-10%) Euro: ¥130.2 (-15%) Chinese yuan: ¥13.70 (-8%)

-Dividend Annual dividend to be ¥50 per share as initially planned

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- I would now like to turn to our full-year outlook.
- As shown in the table, we have not changed our forecast announced on October 29. Although domestic sales growth rate remained below our full-year forecast until the third quarter, income is in line with expectations. Moreover, we are planning to regain lost ground by launching a number of promising new products in Japan in the fourth quarter.
- Despite a fall in the margin caused by the decrease in sales and the continued effects of a strong yen, we expect to post operating income of ¥50 billion, on a par with a year ago, through the efficient use of our marketing outlays by exhaustive distinction and concentration and the effort of cost-cutting. The operating margin will be 7.7%. Anticipating an improvement in extraordinary gains and losses and a reduction in tax expense, we forecast that net income will rise 60% year on year, to ¥31 billion.
- We plan to pay an annual dividend of ¥50 per share, as initially planned.

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Fourth-Quarter Outlook for the Year Ending March 2010

(billion yen)

	Outlook	YoY change	Local currency
Net sales	185.4	+7.9%	-
Domestic	111.2	+7.8%	-
Overseas	74.2	+8.1%	+14%
Operating income	17.4	+37.9%	-
Ordinary income	17.5	+39.9%	-
Net income	7.3	(-19)*	-

*4Q results in FY2008

Exchange rates US\$: ¥89.7 (-7%) Euro: ¥132.7 (+5%) Chinese yuan: ¥13.10 (-7%)

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- Let me now explain key points in our fourth-quarter outlook.
- Since the fourth quarter has already ended overseas, there will be no major differences in forecasts for overseas operations. The major point therefore lies in the forecast of domestic sales. We now expect that domestic sales will rise 7.8% year on year in the fourth quarter, based on the assumption that over-the-counter sales of counseling and self-selection cosmetics will remain on a par with the year-ago result. Although the forecast is a jump from the trends until the third quarter, we will attempt to achieve it.
- We have been focusing on specific brands/lines and stores by channel in this fiscal year and have produced some results in Power Shops in the voluntary chain store channel and department stores. We will continue the initiative in the fourth quarter and will meanwhile bolster action for the drug store channel, creating counters for senior citizens and improving the quality of inventory. New innovative products are selling even in difficult circumstances. We plan to launch a number of new attractive products, with the potential to lead to the creation of new counters, on a large scale. Specifically, we will launch *Uno Fog Bar* refills and *Maquillage* point makeups in January, *Elixir White*, *Haku* Skin-brightening Mask, and new *Ma Cherie* in February, and *In and On*, a new beauty line for internal and external beauty care, and a new series of *TSUBAKI* line in March. We will also introduce an *Aqualabel* skin-brightening series in February and will sell it at a vastly expanded number of convenience stores.

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Fourth-Quarter Outlook for the Year Ending March 2010

(billion yen)

	Outlook	YoY change	Local currency
Net sales	185.4	+7.9%	-
Domestic	111.2	+7.8%	-
Overseas	74.2	+8.1%	+14%
Operating income	17.4	+37.9%	-
Ordinary income	17.5	+39.9%	-
Net income	7.3	(-19)*	-

*4Q results in FY2008

Exchange rates US\$: ¥89.7 (-7%) Euro: ¥132.7 (+5%) Chinese yuan: ¥13.10 (-7%)

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- The level of in-store inventory declined further at the end of December compared with September. We are aiming to increase in-store inventory at the conclusion of the fiscal year to a level higher than at the end of September while expanding selling space. Given the difference in in-store inventory and low shipment levels (down 9% year on year) a year ago when the pressure to adjust inventory increased, we expect that the growth rate in domestic sales will be high.
- We anticipate that operating income will rise 38% year on year, primarily reflecting increases in the margin associated with higher sales.
- We plan to temporarily increase in-store inventory at the end of the fiscal year. We believe that the increase will revitalize stores from April, by selling space and improving inventory quality.

Acquisition of Bare Escentuals

The tender offer began on January 25.

The effect on results for the year ending March 2010 will be minor.

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- Finally, I would like to provide you with some information on the acquisition of Bare Escentuals, a U.S. company.
- We announced the acquisition of Bare Escentuals on January 15.
- The tender offer started on January 25. We expect the tender offer to be open for 30 business days, subject to possible extensions and a subsequent offer period.
- Since the tender offer has not been completed and uncertain factors are remaining, we have not included costs related to it in our forecast for the fiscal year ending March 31, 2010. We will disclose a forecast reflecting the effect of the costs after the completion of the tender offer, if necessary. The effect on the results for the fiscal year will be minor.
- This concludes my presentation.