

## Q&A for the Second Quarter of the Fiscal Year Ending March 31, 2011 (Summary)

### Q) What is the basic concept of the masstige business? What are Shiseido's competitive strengths?

A) We have developed our business in the prestige market based on three core values: richness, human science, and *omotenashi*. In the masstige market, we believe that marketing should directly connect our products and customers. Our overall business structure is that we use the SHISEIDO brand as a weapon in the prestige business, while we do not use the SHISEIDO brand in the masstige business to directly communicate the concepts of brands to customers. We will directly communicate the features and appeal of *Za*, *Majolica Majorca*, and *Senka*.

One of our competitive strengths is that we can emphasize our products using our technologies. It is also important to focus on collaboration with the retailers and to increase brand awareness early using mass advertising.

### Q) Could you tell us the details of the "double-digit growth" in the business in China?

A) We expect that our full-year sales growth rate percentage in China to be in the mid-teens. By channel, we will build our presence with a particular focus on *AUPRES* and the global brand SHISEIDO in the department store channel. *AUPRES* is sold at 870 stores in China, and the global brand SHISEIDO is available at 170 stores. We will continue to focus on brands suitable for the channel. The number of cosmetics specialty stores that sell our products has reached 5,000. We will concentrate on bolstering the quality of each store, thereby increasing same-store sales, and at the same time, we will develop new high-quality stores. We started to sell the new brand *DQ* in the drugstore channel, which we position as the third channel, in March, and we are accelerating the opening of new counters. We have counters in all provinces except the Tibet Autonomous Region and we are increasing the number of counters toward 600 in the first year. We also entered the salon business in March. We will introduce the Shiseido Professional and *JOICO* brands at high-end salons in Shanghai, Beijing, and Hangzhou.

### Q) Domestic business: When do you expect that declines in sales of *MAQUILLAGE* among mega lines will end?

A) In the *MAQUILLAGE* line, a pillar of make-up in the medium price range, enamel lipstick, which was launched this season, is selling well. We believe that increasing sales of the existing products is important. They have received high marks from many customers, and we are aiming to turn them into long-selling products by renewing them using our technology seeds. We recently held an event commemorating the fifth anniversary of *MAQUILLAGE*. We are also receiving reservations for limited-time products in the Christmas season from many customers. We will bolster the original concept of *MAQUILLAGE* thorough such measures.

On the other hand, sales of *INTEGRATE*, a line in the low price range, have been very strong

since the launch of its mineral foundation. With the addition of new products launched this autumn, we believe that the line will be very competitive against competing lines. We will focus on cultivating the two lines.

Q) China: Could you recount the facts about the tightening of pharmaceutical regulations. What will the effect of the tightening on sales be from next year. I understand the effect will be minor because the ratio of local production is high. Is that right?

A) Under the new pharmaceutical affairs law, the State Food and Drug Administration (SFDA) of China began to request the submission of technical data relating to new cosmetics materials, which had not previously been requested, in September 2009, and is screening and approving them. The SFDA added risk assessment in April 2010. Screening has been taking a bit longer since then, and permits for certain products have been delayed. We assume that competitors are facing the same situation.

All imported general cosmetics and “special-purpose” cosmetics (the equivalent of quasi drugs in Japan) are subject to screening, but of locally produced goods, only “special-purpose” cosmetics are subject to screening. It takes longer than before to acquire permits for imported products. The impact on us remains uncertain. Regardless, since we do business in China, we believe that we should follow the instructions of the Chinese authorities and deal with the situation in good faith. There has been little change in other approvals and licenses. About 20% of products sold in China are imported from Japan, and a large percentage includes new technology seeds, materials, or medical agents. The tightening of regulations will therefore have some adverse effects on those products. We will continue to strive to overcome the effects and to increase sales.

Q) What is the distribution inventory level at the end of the second quarter? What do you think an appropriate turnover (or an appropriate number of months) is?

A) The stock level in stores is declining. If the highest stock level in September 2008 is 100, the stock level at the end of the second quarter is 95 to 96. We expect the level will be about the same at the end of current fiscal year. We do not disclose an exact turnover and cannot say what the appropriate turnover is because the situation differs depending on the type of retailer. At any rate, we believe we need to lower the stock level.

Q) Will the weighting of premium product sales rise in China in the future? I expect that the Chinese cosmetics market will expand to the middle income group in the inland regions. Will Shiseido maintain its image by selling premium products strategically or increase the sales volume by focusing on products in the low and medium price ranges?

A) That is a very difficult question. We expect that the GDP growth rate will remain high and that income levels will rise. The weight of premium product sales in coastal regions is already the same as those in Europe and the United States. When the high income level spreads into large cities in the interior, the premium market will expand. Meanwhile, the number of people in the middle income group will increase, which will in turn expand sales and unit sales in the market, targeting the mass market.

The population of Japanese women is around 60 million. In contrast, the number of Chinese

people buying cosmetics is estimated to have reached 100 million. We expect that the number will rise to 200 million in 2015 and 400 million in 2020. The cosmetics market will expand accordingly.

Q) You said you will turn *cle de peau BEAUTE* into a global prestige brand. Where and when will you launch the renewed *cle de peau BEAUTE*?

A) We are introducing to overseas markets *cle de peau BEAUTE* products, which we are presently selling in Japan. Going forward, we will develop products for the global market from the value creation phase and will make the global brand SHISEIDO and *cle de peau BEAUTE* two major global brands.

Q) To what extent will you reduce marketing costs?

A) The ratio of marketing costs was 22.5% in the first half if we exclude effects of consolidating Bare Escentuals, and we will make that level a rough guide. Although we will need to spend heavily on marketing in our aggressive overseas operations, we will improve efficiency in domestic operations through alliances with other companies and a marketing mix that does not depend solely on television.

Q) Growth in Asia and Oceania seems to have slowed, with the sales growth rate declining to 8.2% in the first half, down from 12.7% in the first quarter. What are your views?

A) Since the effect of Lehman's fall was relatively small in Asia in the previous fiscal year, the year-on-year growth rate appears to be low. In addition, we had the adverse effects of the closing of unprofitable stores in South Korea and inventory adjustments at retailers in Taiwan. However, we do not believe that growth has slowed in the Asia and Oceania region as a whole. We are aiming to achieve double-digit growth for the full year.

Q) You said that, excluding the effect of consolidating Bare Escentuals, the COGS percentage improved 1.4 percentage points. Could you provide us with details?

A) The factors include a reduction in the provision for sales returns associated with a fall in the rate of returned goods unsold and an improvement in the cost rate due to an improvement in depreciation reserve relating to non-optimal inventory (collectively about one percentage point), a change in the product mix, and an overall cost reduction.