January 31, 2011
Shiseido Co., Ltd.

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

Q) Is the decline in the domestic distribution inventory level led by the Company or by requests from retailers?

A) We expect inventory to fall 5% at the end of March 2011 from the end of March 2010. If the inventory level at the end of September 2008 is 100, the level at the end of December last year was below 90. Structured retailers faced challenging situations to different degrees in terms of cash flows, and the decline in the distribution inventory level was partly in response to the request of retailers.

Q) As the competitors are launching low-priced products, will *Senka* be able to expand its shelf space?

A) *Senka* is competing for second place in the low end skincare product category although it currently has only one product. As refills are selling well, the number of regular customers is increasing steadily. With the addition of a new series, we expect *Senka* to occupy more space on the shelves.

Q) Earnings in the Global Business were weak until the third quarter. Where will you increase earnings in the fourth quarter? Are there any areas where earnings declined?

A) We have not closed accounts for the fourth quarter and do not yet have a figure for earnings for the quarter. However, sales doubled in the Americas and grew around 10% in Europe and Asia. The negative effect of the marking-to-market of inventory of Bare Escentuals ceased to exist in the third quarter. Bare Escentuals will add 2.5 billion yen to earnings in the fourth quarter.

Q) What does the downward revision mean? (Can we understand it as a positive revision that takes performance in the following fiscal years into consideration? Were you simply not able to achieve the target earnings by cutting costs?)

A) We will not be able to solve all problems for the next three years in the remaining three months but will reduce excessive distribution inventory steadily. We believe we have a clear direction.

Q) Could you describe the details of extraordinary loss in the earnings forecast?

A) We included the estimated effects of changes in the range of asset capitalization relating to promotional materials, including testers, samples, and leaflets, for uniform accounting in the Group. Expenses appropriated this time do not reflect deteriorated or obsolete assets but assets that will be used in future promotional activities.

Q) Could you describe sales in the China Business by channel?

A) The China Business achieved mid-teen percentage growth in 2010. Sales at department stores grew steadily, and sales at cosmetics specialty stores grew very sharply.

Q) As (domestic) over-the-counter sales were weak, you could reduce distribution inventory drastically. What are your views?

A) As I said earlier, we will reduce distribution inventory 5% year on year at the end of this fiscal year. Given that over-the-counter sales did not rise, we are facing a difficult situation. However, I would like you to understand that we are clearly reducing distribution inventory.

Q) You seem to be underperforming in the domestic market. Why do you think that is?

A) We are selling a larger volume of mid-range products compared with the competitors. The ratio of products that are not discounted is also larger than it is at competitors. However, we have taken steps to sell in the low-end market, including the launch of the strategic line *Senka*.

Q) I believe investing in low-end fields, which are growing, is good. Won't you terminate investment in fields that are not growing?

A) Considering the balance between prices and value, we will manufacture products that will give good value. *MAQUILLAGE* is an example. We will continue to enhance the line instead of promoting single items. We would like to dominate the market with innovative products in terms of technology, such as red permeating powder.

Q) Could you explain a 5.5 billion yen decline in the operating income forecast in detail? What was the effect of sales returns?

A) Compared with the previous full-year forecast, margins declined 7 billion yen, reflecting a fall in sales. An improvement in cost of sales fell 2 billion yen to 3 billion yen from 5 billion yen. On the other hand, the improvement in domestic marketing costs rose 3.5 billion yen from 3.0 billion yen to 6.5 billion yen. Sales returns fluctuated quarterly. We expect they will be reduced annually.

Q) Competition is intensifying in China. Will you be able to maintain your margins?

A) We have not closed accounts for FY2010 and do not know the profit margin. We believe we are maintaining the target margin.

Q) I doubt a 5% reduction in distribution inventory will be a solution and suspect that the effects of excessive distribution inventory will emerge in the first half of next fiscal year.

A) Since over-the-counter sales are continuing to decline, I understand your views that the reduction in distribution inventory will not be a solution. However, we see a clear direction in taking steps to reduce excessive distribution inventory and believe that we need to take action to increase over-the-counter sales. At this moment, I cannot comment clearly on our plan regarding this matter for the next fiscal year and beyond, and would like to leave it to your imagination.

Q) Will an increase in the number of months for provision for sales returns and change in experience assumptions for pension costs have a negative effect on results for next fiscal year?

A) We increased the number of months for the provision for sales returns two years ago and increased the number further for the term under review. We do not plan to reduce experience assumptions for pension costs, including the discount rate and expected rate of return.