

November 1, 2011
Shiseido Co., Ltd.

Q&A for the Second Quarter of the Fiscal Year Ending March 31, 2012
(Summary)

Q) Could you provide us with a breakdown of the expenses of ¥3.5 billion that are going to be incurred now in the second half, and not in the first half as originally anticipated?

A) The major element of the expenses that have been delayed include advertising expenses for the domestic cosmetics business and expenses for Web marketing research.

Q) What is the outlook for the market from the next fiscal year? How will you respond to changes in the market environment? What will you do for online marketing?

A) We believe that the outlook for the domestic market is uncertain. Although the marketing environment is challenging in the current fiscal year, our activities, including the provision of valuable beauty information that had hitherto been hidden and careful explanations of the relationship between customers and seasons, produced results. The outlook for the next fiscal year is uncertain, but we will seek to increase sales through initiatives unique to us if the market environment is challenging. In Web marketing, which we are planning to launch next fiscal year, we will communicate information about our over-the-counter services to new customers, and will develop new business opportunities.

Q) Will you shift your marketing focus from developing a sought-after image to building brands that are closer to customers?

A) Brand value is the most important element in every aspect. We believe that brands need to have an overwhelming presence and to provide a sense of trust. We will continue to seek to increase brand value by communicating the value of products and the value of technologies in the background of the products through our beauty consultants in addition to television advertising.

Q) You revised the domestic sales forecast down ¥2 billion and the overseas sales forecast up ¥2 billion for the full year. Can you provide a breakdown?

A) Although domestic over-the-counter sales recovered in the second quarter, we believe

that the environment remains challenging. We have therefore revised our forecast down ¥2 billion. In contrast, we have revised our overseas sales forecast up ¥2 billion, given the strong performance mainly in China and the United States. We forecast that sales of our domestic sales subsidiary would fall 2% in the first half but would rise 2% in the second half. However, sales of our domestic subsidiary declined 3% in the first half, and so we have revised the forecast. We expect that sales will rise 1% in the second half and will slip 1% for the full year.

Q) What was sales growth overseas in the third quarter?

A) Sales growth rates in the Americas and Europe in the third quarter were in the upper single-digit range. Asia and Oceania, as well as China, recorded double-digit growth.

Q) Operating income seems to have declined in China in the first half. Are marketing investments producing results?

A) We actively renovated sales counters in China before launching major new products there. We are also promoting advertising. These initiatives, I believe, will certainly increase sales in the second half.

Q) How can you achieve an operating margin target of 10% in the Three-Year Plan?

A) As a key requirement to achieving an operating margin target of 10%, we will need to expand sales. In addition, we will cut costs by sourcing raw materials and store fixtures in China. We will also seek to curb personnel and other expenses in comparison with sales expansion.

Q) Could you explain the progress of additional investments of ¥20 billion and the relationship between investments and marketing costs?

A) We made additional investments of ¥1 billion in Japan and ¥8 billion overseas. We are planning to invest in Web marketing in Japan in the second half. We are making active investments in human resources overseas.

Q) Accounts receivable in cash flows declined. Did you change transaction types?

A) We did not change the terms and conditions of agreements. However, we are taking

small initiatives, such as changing accounts receivable to funds early.

Q) Did sales returns decline significantly?

A) If inventory at stores was 100 in September 2008, then it was down to 91 or 92 in September this year. The provision for sales returns declined. However, since the decline was roughly the same as a year ago, it did not have any positive effect on costs in the year-on-year comparison.

Q) How accurate do you think your sales forecasts are? How much do you expect over-the-counter sales will be in the second half?

A) I believe that we have closely examined sales forecasts so far. After becoming president, I have directly asked salespeople at all offices to promote Summer Proposals, which are beauty proposals for the season. Backed by head office, domestic sales subsidiary produced results with Summer Proposals. In the second half, the market is expected to decline slightly from a year ago. However, we are seeking to achieve over-the-counter sales on a par with the year-ago level by making beauty proposals for the autumn and winter and stepping up our activities.

Q) Why did selling, general, and administrative expenses fall in Japan?

A) Selling, general, and administrative expenses decreased ¥4 billion in Japan in the first half. Marketing costs, personnel expenses, and other expenses each fell more than ¥1 billion. Certain marketing costs and expenses for Web marketing research are now going to be incurred in the second half, and not in the first half as originally anticipated.

Q) Could you provide your operating income forecast for the next fiscal year?

A) Business confidence in Japan and overseas in the next fiscal year is uncertain, but we believe that there are many things that we can do in the circumstances. We are still discussing our operating income forecast and cannot provide specific figures at this stage. However, our target operating margin of 10% in the Three-Year Plan remains unchanged.