

July 31, 2012
Shiseido Co., Ltd.

Q&A for the First Quarter of the Fiscal Year Ending March 31, 2013 (Summary)

[Financial Results]

Q) You have revised your earnings forecasts for the current fiscal year. In the revised forecast, is Shiseido planning to make outlays as planned in the first half while cutting costs by 6 billion yen in the second half?

A) That is right. In the second half, we will manage costs efficiently to maintain the profit margin for the year.

Q) The full-year operating income forecast was kept on hold at 43.5 billion yen. To achieve this, you will cut costs by around 7 billion yen in the second half. Which SG&A expenses are you planning to cut?

A) We are unable to give detailed breakdowns, but it is necessary to streamline marketing costs and other expenses within selling, general, and administrative expenses.

Q) How will you allocate the amount of 20 billion yen you plan to raise by cost cutting to investment and profit?

A) Investment is essential for medium- and long-term growth. However, we will not invest without careful consideration. We will think about both investment and profit through a focus on the masstige market in Asia and Web marketing. Each division is working to develop details of their own plans on where to make investment.

Q) What is the reason for slumping store sales? What remedial measures will you take?

A) The main factor is poor sales in the mid range and at drugstores among other sales channels. There have been some positive signs in the current fiscal year, however, such as the emergence of some commercially successful items in the *MAQuillage* and *ELIXIR* lines. It is important to unfailingly communicate value to customers. Stores with beauty consultants generate good results. For drugstores, where self-selection is common, we will revamp the fixtures to produce selling spaces that make it easier for customers to choose and purchase items.

Q) The global market has no mid range. How do you see the sluggish mid- range market as a whole?

A) The high-end line of *clé de peau Beauté* and the low-end *INTEGRATE* line are strong. However, Japan is also at the heart of the mid-range market. We will step up efforts to develop value in the mid range to build up our presence in Japan.

Q) Domestic store sales in the April-June period are reported to have dropped by around 0 to 1%. What were the results of each sales channel?

A) At department stores and at drugstores, sales were up year on year. On the other hand, general merchandise stores (GMS) and specialty stores struggled.

Q) In China, Q2 sales are reported to have grown around 20%. What was the growth for the first half? Was it affected by the Chinese economic downturn?

A) In the first half of year, from January to June, sales increased by a percentage figure in the mid teens. The impact of the economic downturn was not particularly significant. The number of people using cosmetics is increasing and growth is being maintained.

Q) At the beginning of the fiscal year, it was explained that marketing costs would be increased. How were they used during the first quarter?

A) They were spent mainly on advertising the online business. Domestic marketing costs for the first quarter were more than several hundred million yen higher than in the same period a year earlier.

Q) Do you manage the line-specific profit and loss?

A) The profit and loss status varies depending on the line. We manage them in consideration of the overall balance.

[Structural Reform]

Q) You explained that the cost structural reform would cut costs by at least 20 billion yen a year. What is the specific time axis?

A) We are focusing on the next three fiscal years, specifically from fiscal 2014 to fiscal 2016. At the moment, costs are being assessed at all business divisions and staff divisions. In this fiscal year, part of the reform efforts will be moved forward. The effect of the reduction in the current and next fiscal years will be limited.

Q) What is the ideal cost structure for Shiseido?

A) A careful investigation is currently underway. We will be streamlining all expenses, including the cost of goods, labor costs, and marketing costs. In the structural reforms, we are looking at streamlining our head office, improving productivity, addressing rising labor costs in China, and other measures.

Q) When will you announce the details of the reform of your business structure?

A) It will be difficult to do so within this fiscal year. We aspire to do so in the first half of next fiscal year.

[Other]

Q) How do you perceive the current share price level? Please explain your stance on dividend payments amid the weak financial results.

A) The current share price reflects the market's evaluation of our activities and we see it as very severe. We will not only work to accomplish our plan but will also execute structural reforms to keep dividends at the current level.