

October 31, 2012

Shiseido Co., Ltd.

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

Q) Operating income for the second half is quite high. How will you achieve this level?

A) The entire company is focused on achieving a recovery in domestic store sales. We will also overhaul our cost structure to achieve the operating income target.

Q) What are your forecasts for the full-year cash flows from operating activities and free cash flows?

A) Looking ahead in terms of cash flows from operating activities, we estimate operating income of 40 billion yen plus depreciation costs of 32.7 billion yen. We plan to invest 31.1 billion yen in plant and equipment, etc. so that free cash flows will likely be 40 billion yen plus a little more.

Q) In addition to cost structure reforms, what other initiatives do you plan to implement for achieving an operating margin of 8% in the next fiscal year?

A) In the domestic market, we will make full use of the arrangements shown in the new business model and, seek solid growth in drug store sales which now show signs of a solid turnaround. We will also bolster our presence in the elder customer segments. In overseas markets, although the situation in China, where the volume of sales is large, is uncertain, we expect an upswing in demand in the growth area of the masstige market in Asia, and we also plan to build a track record by accelerating growth in emerging countries. Moreover, earlier implementation of our reform of the business structure will contribute to achieving an operating margin of 8%.

Q) Is the sales target for the current fiscal year based on achieving an increase of 4% in the second half in the domestic market?

A) We are determined to achieve an increase of 4% by expanding domestic store sales. However, even if sales fall short of the plan, we will strive to achieve operating income of 40 billion yen by reviewing investment costs.

Q) The full-year overseas sales forecast was revised down 6 billion yen. Could you provide us with a breakdown?

A) Of the 6 billion yen, China accounts for 4 to 5 billion yen, and others account for 1 to 2 billion yen.

Q) What are your estimates for shipment sales in China for the second half and the full year?

A) We expect growth in the mid single digit range for the second half and growth of around 10% for the full fiscal year. Although shipment sales in China recorded a decline of more than 10% in September, the situation seems to be better in October. We are not optimistic about the future.

Q) Which items on the profit and loss statement are the targets for the cost reduction of 280 billion yen?

A) A wide range of costs are targeted in the cost structure reform, including marketing costs, depreciation, and raw materials. Labor costs are not included in the plan.

Q) What is your view on the management of profitability in the Chinese business?

A) Our sales plan with expected growth in the mid single digit range for the second half and expected growth of around 10% for the full fiscal year does not incorporate the issue of the Senkaku Islands because of the uncertainty surrounding the future outlook. We will deliver the planned profit margin for the current fiscal year by cutting costs through such means as restraint in sales promotions. From the next fiscal year onward, we will strive to achieve earnings, even in an uncertain sales environment, by adopting a more profitable cost structure under the initiatives led by China Business Team, which will review the entire cost structure.

Q) What is the reason for the turnaround in domestic sales in September?

A) The main factor is the strengthening of sales activities tailored to the situation of each retail company at drug stores, which comprise about 45% of domestic sales. The success of *AQUALABEL Special Gel Cream* was an outcome of these initiatives.

Q) You explained that Shiseido would focus on achieving consistent sales growth that matches market performance. What is the reason for setting a growth target of 4% for domestic sales in the second half, which is higher than expected market growth?

A) We are looking at building an earnings structure in which profitability is ensured even when there are fluctuations in the top line. We aim to achieve growth of 4% for domestic sales in the second half, particularly because we want to recover lost share.

Q) In the targets for cost cutting in the cost structure reform, what is the portion of fixed expenses? You seem to view the rise in labor costs as a problem. What ratio of personnel costs are you aiming at?

A) Personnel costs are not included in the targets for cost cutting in the cost structure reform. Currently, there is no specific target for this ratio. The management of personnel costs is included in the targets for our structural reforms. We are developing a plan that contains target ratios and will announce the plan around January.

Q) You mentioned “13 drug store chains” today. Is Shiseido’s share increasing in the stores of these chains? What is your view on the growth potential for shipments to these chains?

A) There is variability among the chains. In the first half, Shiseido achieved sales growth of 1-5% at drug stores of these chains. We think that our share is steadily increasing there, particularly in self-selection segments, and will seek to achieve further growth in the future. We will strengthen our initiatives for the foundation segments and also anticipate growth driven by the positive effects of watashi+.

Q) Shiseido failed to achieve the first half forecast, which was revised down in the first quarter. What kind of management are you implementing?

A) In terms of corporate governance, progress by business is monitored on a monthly basis, and follow ups are made in management meetings and by the board of directors. In terms of the results for the first half, we recognize that there is a problem in the planning of budgets, given that we have made downward revisions every three months.

Q) Will you keep the dividends at the current level, even if an extraordinary loss results from the structural reform?

A) We hope to keep dividends at the current level to ensure stability. We cannot comment on the impact of the structural reforms on dividends.

Q) Is there any possibility that Shiseido would withdraw from unprofitable business other than the cosmetics business?

A) We will review that possibility in light of not only profitability but the contribution each business makes to Shiseido's corporate value and brand strength.

Q) Did the Chinese business report deteriorating results in the third quarter (July to September)? What were the results in July and August?

A) Shipments in the third quarter (July to September) decreased about 10%, and the decline in September when anti-Japan demonstrations took place was greater than 10%.

(Note) Store sales in the third quarter before the anti-Japan demonstrations in September were consisting posting around double-digit growth. In October, the situation has gradually stabilized.