

July 31, 2013

Shiseido Co., Ltd.

Q&A for the First Quarter of the Fiscal Year Ending March 31, 2014 (Summary)

[Q1 Results]

Q) What are the operating income figures by geographic area?

A) Income in Japan stood at 4.5 billion yen and overseas income at 2.3 billion yen, of which 0.2 billion yen was made in the Americas, 1.0 billion yen in Europe and 1.1 billion yen in Asia and Oceania.

Q) For the first quarter, operating income increased 9.9 billion yen. What is the breakdown of this increase and what was behind it?

A) The gross margin rose 9.5 billion yen, and an increase of 0.4 billion yen resulted from reductions in selling, general, and administrative expenses. The income growth is due not only to the decrease in personnel costs and other expenses but also to the postponement of marketing costs from the first quarter to the second quarter.

[Forecasts for the First Half and for the Full Year]

Q) In what regions are expenses carried over from the first half to the second half?

A) This carry over of cost is expected to occur in overseas marketing expenses, mainly in China and in Europe. For your information, in Japan, some marketing costs are moved down from the first quarter to the second quarter but that makes no change to the total figure for the first half.

Q) Was the upward revision to the full-year forecast due to the foreign exchange effect?

A) The forecast was revised upward in view of the impact of the foreign exchange rate. On a local currency basis, the forecast is almost as anticipated at the beginning of fiscal year.

Q) The outlook for the second half is based on the assumption that the yen will be stronger. What if they are estimated using the current foreign currency rate?

A) The second half forecast announced in April may look conservative now, but we have not revised it as the foreign exchange market is uncertain. We will revise it depending on the circumstances prevailing at the time of the interim results.

Q) What will happen to dividends if the full-year net income is higher than forecast?

A) Minor income changes will not affect the dividends, but in the event of a major change, we might have to consider revising the dividend.

Q) What are sales by geographic area according to the revised full-year forecast?

A) Near half of the 17 billion yen upward revision to sales from the initial forecast is expected in the Americas and the remainder in Europe and in Asia and Oceania.

Q) What will be the impact of a change of one yen against the dollar, the euro and the RMB on earnings?

A) A change of one yen against the dollar, the euro and the RMB would induce a sales change of roughly 1 billion yen, 0.8 billion yen and 6 billion yen respectively. The change in operating income will be around 10% of the sales change.

Q) Will the bonus be increased if the first half results are higher than planned?

A) The annual bonus amount is determined by the level of achievement of the planned results in the preceding fiscal year. So, the results for the first half of this fiscal year will not help increase the bonus in the second half.

[Domestic Business]

Q) For the first quarter, domestic store sales are reported to have grown slightly. What are the trends by sales channels?

A) An upward trend was seen with regard to drugstores and department stores, a flat trend regarding general merchandising stores (GMS), and a downward trend regarding cosmetics specialty stores. Among the cosmetics specialty stores that we are focusing on, which account for half of total sales, attained almost the same store sales as in the same period a year earlier.

Q) What were the sales trends by price range for the first quarter in Japan?

A) Sales were flat in the high and low price ranges, while they were on the rise in the mid-price range.

Q) What are domestic store sales in July?

A) We still do not have details, but the trend is similar to that in May and June. They managed to reach the level attained a year earlier but no outstanding growth is observed in July. Self-selection cosmetics are reported to be strong.

Q) What is the new business approach for cosmetic specialty stores? Will it produce any effect for the second-half?

A) We are currently making preparations in a bid to launch it in FY2014. We are not planning to

introduce any measure specific to specialty stores in the second half of the current fiscal year.

Q) Do Shiseido's cosmetic products contain rhododendrol? Has there been any case of skin trouble caused by any skin brightening product to users?

A) Shiseido does not use rhododendrol. We pay special attention to product safety and our products can be used without anxiety. No medical doctor has affirmed or commented on any causal relationship between our skin brightening products and skin troubles such as white blotches. Not only skin brightening cosmetic products but all kinds of cosmetic products in general may possibly cause skin problems depending on the season or on users' skin conditions and physical condition, and some users do make claims. We pay particular attention to initial actions when responding to complaints. For example, our personnel in the relevant branch office contact the user in question. We have so far had no major problem.

Q) Point-of-sales data suggest some growth in sales of Shiseido's skin brightening products. What increase was achieved?

A) Our mainstay skin brightening lines of *HAKU* and *ELIXIR WHITE* have been brisk since the first quarter. Their sales showed mid single-digit growth. A similar trend has been observed in July. We have no idea whether it is due to the voluntary recall of cosmetic products containing rhododendrol.

[China]

Q) What are store sales in China like?

A) Throughout the first half, the trend is that the figure will fall below the level attained in the same period a year earlier. It is difficult to say that sales have rallied completely. There are still adverse impacts of the anti-Japan sentiment.

Q) Cumulative total sales in China for the first half is expected to fall to the mid single-digit range. Is that also true of income?

A) Not necessarily.

Q) The competition seems to be intense in China. What will you do in the second half to achieve a sales turnaround?

A) For the second half, we controlled shipments to reduce market inventories. Although the anti-Japan sentiment lingers, there will be some rebound in the second half from the same period in the preceding fiscal year. We will push ahead with the strategy of concentrating on specific brands and areas in an attempt to attain a gradual recovery.

Q) What is your outlook for future results in China?

A) According to our plan, double-digit growth is envisioned for the second half and mid single-digit growth for the full year.

[Other]

Q) What are the situations in the Americas and in Europe in the second quarter?

A) For the Americas, the sales decline of Bare Escentuals was as we had expected, whereas the *global brand SHISEIDO* and *NARS* proved quite strong. In Europe, we struggled in the first quarter and we see signs of a turnaround in the second quarter, when sales rebounded to a positive level in Germany and Italy and BPI made a positive contribution.

Q) What is the impact of the Ginza Building reconstruction on costs?

A) The cost will rise by several hundred million yen for fiscal years 2013 and 2014, and we anticipate a slide in costs for FY2015 and later years. In any case, the project is of such a small scale that it will have no major impact on our financial results.