January 31, 2014

Shiseido Co., Ltd.

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

[Results of Q3]

Q) I want to confirm the relationship between domestic shipments and store sales during Q3.

A) Total shipments of cosmetics grew 5% due to the enhancement of product lineups at stores in December in addition to a rebound from the shipment control in September. Store sales remained unchanged from the previous year. While sales at department stores and drugstores exceeded the level of the last year, sales at cosmetic specialty stores declined from the last year.

Q) What is the status of domestic and overseas SG&A expenses during Q3?

A) Marketing expenses in Japan remained unchanged from the previous year. Overseas marketing expenses slightly increased in yen terms, but decreased in local currency terms.

Q) What are the factors for increased profit in and outside Japan during Q3?

A) Major factors in Japan include a lower ratio of cost of sales due to a decreased allowance for sales returns and improved product mix and reduced expenses as a result of decreased marketing expenses and progress in cost structure reforms. Profit from overseas sales increased by 3.6 billion yen. This was a result of the efficient use of marketing and other expenses in addition to the weaker yen.

Q) What is the reason for the change in the amount of extraordinary losses from Q2 to Q3?

A) The primary reason is a decline of 1.7 billion yen in the provision for extraordinary losses used for the recovery of discontinued products, from 6.3 billion yen based on the store-level inventory estimated by the Company to 4.6 billion yen estimated based on the adjustment to the quantity and value of the products to be recovered from each store after the negotiation with them in November and December.

Q) Is there any change in the allowance for sales returns at the level of operating income?

A) We allocated 4 billion yen in Q2 for the recovery of lower ranked products, but withdrew 1.9 billion yen in Q3 based on the latest estimates. However, the outlook of a 4 billion-yen decrease in full-year operating income due to that recovery has not changed because we are still planning to recover certain other products and expect a decline in gross profit during Q4 for such recovery.

[Full-year outlook]

Q) The full-year outlook for overseas sales is 383 billion yen. What is the breakdown by region?

A) 117.5 billion yen in the Americas, 100 billion yen in Europe, and 165.5 billion yen in Asia / Oceania.

Q) I would like to know the full-year outlook for income by geographic area.

A) 16.5 billion yen in Japan and 23 billion yen overseas.

Q) What are the reasons for the expected reduction from the average year in operating income for Q4 of this fiscal year?

A) The reasons include substantial increased in marketing expenses in Japan to enhance sales for fiscal 2014, and an increase in marketing investment also in China from last year.

Q) Domestic sales are expected to decline in Q4. What is the impact of the recovery of store-level inventory?

A) Of the 4 billion yen scheduled for recovery in the second half of the fiscal year, 0.2 billion yen was recovered in Q3, leaving 3.8 billion yen as reduced sales due to the store-level inventory recovery in Q4. Apart from this, sales will only be slightly lower than last year. The last-minute surge in demand before the consumption tax hike is uncertain and so is not included in this outlook.

[In Japan]

Q) What is the status of domestic store sales in December?

A) Sales of the lines in the middle-price range were strong and counseling cosmetics exceeded last year, but sales of self-selection cosmetics declined from last year.

Q) What are the current domestic sales conditions in January?

A) We do not know for certain, but both shipments and store sales seem to be slightly exceeding the level of last year.

Q) What are the recent changes in the sales unit price and quantity in the domestic market?

A) Sales of products in the middle- to high-price range are strong, and we understand that unit prices have gradually been increasing. While it is difficult to estimate the last-minute surge before the consumption tax hike and the subsequent decline, we expect that the upward trend in unit prices will continue during fiscal 2014. We will continue our efforts to increase sales by improving our product lineup and modifying specialty store strategies.

[China]

Q) What is the status of store sales in China in Q4? What is your outlook for store sales during fiscal 2014?

A) Sales of *AUPRES* and *URARA* exceeded the level of last year, and sales of global brand *SHISEIDO* remained unchanged in Q4. The anti-Japanese sentiment still remains and difficult conditions continue, but we expect that sales will gradually recover during fiscal 2014.

Q) Some foreign-based manufacturers have been withdrawing from the Chinese market. What is your view on this?

A) China remains an important market for Shiseido. We will continue to make a careful distinction and concentration of products and work to increase sales and profitability. In addition to in-store sales, we will also focus on our e-commerce.

[Bare Escentuals]

Q) Bare Escentuals seems to have achieved increased sales in Q4. Is this trend likely to continue?

A) While the increased income in Q4 is largely attributable to seasonal factors such as holiday retail sales, we aim to restore the trend of increased sales by launching new products and strengthening infomercials during fiscal 2014.