



(Translation)

September 14, 2011

[Reference]

Shiseido's Global Vision: China at the Helm of Broadbased Expansion Strategy

(September 14, 2011) Shiseido is committed to achieving comprehensive growth by drawing on the strategic assets and talents of its strategic portfolio. Guided by the four growth strategies announced as part of the current Three-Year Plan, Shiseido is positioning itself as a Global Mega-Brand with an acute focus on Asia and expanding in emerging markets.

China is a standing example of how the group can proactively capitalize on its resources with the entry of Bare Escentuals into Asia and launch of e-commerce business in September. For more detailed coverage of recent China growth activities, please see attached release.

Amid recent M&A movement in beauty and luxury markets, Shiseido has surfaced as a brand growth accelerator. With a priority on nurturing endorsers including Leslie Blodgett of Bare Escentuals and Francois Nars of *NARS*, Shiseido has achieved authentic brand growth by offering access to a global logistic and production network as well as world-leading R&D capabilities. While respecting original brand and corporate identities, the respective skills and assets of all partners are integrated on a global scale.

Global brand SHISEIDO

With the highest visibility and reach of the group, the global brand *SHISEIDO* is strongly advancing in two segments that are overachieving targets and broadly disseminating the brand's values, capability and identity: premium skincare and serum. In the US and Asia, the premium skincare market maintains double digit growth, reaching 30% in China alone, while serums remain a key first-purchase item that can communicate brand's unmatched technology.

- *Shiseido Future Solution LX* leads the charge for growing market share with further potential for SKU expansion.
- *Shiseido Future Solution Ultimate LX Regenerating Serum* marked the culmination of nearly a decade of research and skincare innovation with strong performance projections. Supported by the world-leading capability and achievements of Shiseido R&D, the line is viewed as a key driver of brand values and advanced technology.
- *Bio-Performance Super Corrective Serum* and *Shiseido White Lucent Intensive Spot Targeting Serum W* rose to top 10 sales rankings in the Shiseido lineup within one year. These star items are key in recruiting new customers, who elevate into repeat purchasers and then loyal customers.

Bare Escentuals

With *bareMinerals* from Bare Escentuals, Shiseido reaches a market segment not covered by other brands – entry prestige, natural makeup and skincare with a unique business model that fosters high brand loyalty and relationship



building expertise. Acquired in March 2010, Bare Escentuals has achieved increased sales and revenue as well as boosted Shiseido's share in the global market in just 18 months. The acquisition deepens Shiseido's reach to a new customer segment in the US and under the shared value of "Customer-First Strategy" helped develop a more diverse corporate culture receptive to different values and approaches. Global Multi Brand synergy has integrated the values and heritage of the two brands in various ways.

As executive chairman and brand ambassador, Leslie Blodgett is the a creative force behind product development and inspiration in securing customer relationships, and this role has remained untouched since Shiseido first considered the partnership.

- Leveraging Shiseido's global positioning, Bare Escentuals entry into the Hong Kong market this autumn is a symbolic first step onto the global stage with Shiseido (see China release).
- The first global campaign and beauty platform "Be a Force of Beauty" has launched and created broad media impact and buzz for the brand. Confirming the reputation for authenticity among women and strong customer trust, the campaign advocates the power of natural beauty. This accompanies the new makeup line "Ready," which introduces advanced color technology.
- Bare Escentuals skincare line drew on Shiseido R&D resources to formulate the brand extension, designed to help expand appeal in existing and new markets.
- Overall cost structure has also been improved by consolidating warehouse and supply chain systems.

NARS

Approaching 10 years since joining Shiseido, *NARS* is steadily increasing share and has maintained a strong identity throughout the partnership. The iconic brand is wholly identified by the vision of Francois Nars, who remains the driving creative force of the brand's identity and future direction.

Shiseido has been able to maximize the benefits of its R&D network to bolster the *NARS* brand over the last decade, including supporting the launch of the *NARS* skincare line. Equally, Shiseido was able to make use of *NARS'* best in class digital marketing capability, launching e-commerce in the US and expanding digital marketing initiatives. The brand's cutting edge image and exclusive distribution give the group prime placement and visibility in retail and cache with beauty insiders.

- US growth outperformed the market in the 1H 2011 and achieved the highest top 10 prestige makeup brand growth in the country.
- 2012 will see a major collaborative product launch with a 20th century icon, which will reset the standard of artistic creativity.
- The flagship boutique on Bleecker St. has drawn significant media attention and New York will see two more doors open within the next six months with plans for further regional expansion over the next two years.
- Entering Korea in 2010 was a measurable success, confirming the brand's confidence to go forward conquering one country at a time.



Beauté Prestige International (BPI)

Securing a strong presence in the prestige fragrance segment, BPI is a creative house that deftly evolves fashion identities to fragrances. The diverse brand portfolio is regularly energized by strategically releasing flank lines to excite sales and nurture the franchise, as seen with the impact of l'eau d'Issey *florale* on the *Issey Miyake* brand. Recent launches are reigniting the momentum of the house.

- *ELIE SAAB's Le Parfum* is the first fragrance launch after BPI signed with fashion house in 2009. Regionally tactical, the Elie Saab brand has a long reach into the Middle East and US markets, which have been growth opportunities for BPI.
- The launch of *Jean Paul Gaultier's Kokoriko* comes with ambitious expectations for the new major fragrance. *Kokoriko* debuts in France this autumn and will roll out in Europe in 1Q 2012 and a global release is to follow in 2013. Aiming to reach strong market position without disturbing the current ranking of *Le Male*, which has secured second rank in Europe and continues to grow in the US.

As a global multi-brand organization, Shiseido will continue to invest in established and new channels, including China, to build on the current growth momentum.



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Shiseido Develops New Businesses in China

Shiseido is developing new businesses in China, which is positioned to serve as a main growth engine under its current Three-Year Plan (April 2011 - March 2014) that began this fiscal year. In line with four growth strategies announced—Global Mega-Brand, Asian Breakthrough, New Frontier and Customer-First (see page 3 for further details)—Shiseido is working to facilitate new growth and achieve sustained double-digit growth in sales, exceeding the rate at which the Chinese cosmetics market is growing by strengthening the foundations of its businesses through such means as launching a new e-commerce service.

The information included in this news release was originally announced at the Shiseido China Business Strategy Conference held in Shanghai at 3:30 pm (4:30 JST) on September 14.

Introduction of E-Commerce Initiatives

As the number of Internet users continues to grow worldwide, Shiseido will commence full-fledged efforts to introduce e-commerce initiatives for the Chinese market to realize its New Frontier Strategy. The aim is to expand points of contact with new customers in addition to existing sales channels in China, which surpassed the United States as the country with the most Internet users in 2010. On September 15, Shiseido will launch a website for *PURE&MILD Soi*, a new series of products developed specifically for the Chinese mail-order market under its *PURE&MILD* brand, which is currently offered primarily at supermarkets, hypermarkets and cosmetics specialty stores. The new line of products (14 skincare products, 14 items, price range: RMB90 - RMB230), with environment-friendly features that include packaging (cases) made from bagasse paper*, targets young, post-80s consumers who prefer natural products and lead consumption in China.

The mail-order business goes beyond a shopping website, incorporating a new call center that will field customer inquiries, and an online counseling service that will allow professionally trained call center staff to propose products and beauty techniques that are optimized for the skin types and needs of individual customers. By accumulating information in a customer database for later analysis, Shiseido seeks to boost customer satisfaction.

*Bagasse paper: Non-wood paper made from fiber remaining after sugarcane is crushed in the production of sugar.

Developing the Bare Escentuals Brand in Hong Kong

The Global Mega-Brand Strategy is one of four growth strategies that seek to transform Shiseido into a Global Multiple Brands Company. It aims to have individual brands generating from ¥50 billion to ¥100 billion in sales by focusing on developing three brands in the prestige category: global brand *SHISEIDO*, *Clé de Peau Beauté* and *bareMinerals* from Bare Escentuals, Inc.



bareMinerals products will be sold through a Shiseido sales company (Shiseido Hong Kong Ltd.) for the first time as a synergy effect resulting from Shiseido's acquisition of the company in March 2010. Shiseido will hold an event to announce the products in Hong Kong on September 28 prior to launch at two department stores in the territory in October.

Introducing the *TSUBAKI* Global Mega-Brand in China

In the masstige category of its Global Mega-Brand Strategy, Shiseido is currently offering two brands: *Za*, a total skincare and makeup brand, and *SENKA*, a skincare brand. Shiseido will introduce the *TSUBAKI* hair care brand in December 2011 in an effort to expand a new product category in the masstige domain. Products currently being sold in Japan under the brand will be locally adapted to better meet the needs of Chinese women and made available at about 10,000 hypermarkets and drugstores. Shiseido will build a fourth production facility at Shanghai Zotos Citic Cosmetics Co., Ltd. to boost production of these *TSUBAKI* products.

Trialing a Collagen Drink

With the Chinese health food market experiencing dramatic growth, Shiseido is working toward the release of a collagen drink in the healthcare business as a new business domain. Recognizing that there is also high demand for such products in Japan, Shiseido is planning to conduct a trial with a beauty beverage formulated with collagen under its *PURE&MILD* brand for individuals seeking beautiful and resilient skin. The move is part of Shiseido's Asian Breakthrough Strategy, which seeks to enhance its presence and achieve future growth. Of the 8,000 stores that carry *PURE&MILD* brand products, the initiative will be implemented at 1,600 high-end shops able to offer customers counseling.

Shiseido will boost the presence of new and existing brands in China by prioritizing investment in these new initiatives. In the department store channel, Shiseido will increase the competitive edge and prestige of global brand *SHISEIDO*, *Clé de Peau Beauté* and *AUPRES*. In the cosmetics specialty store channel, which includes more than 5,000 retailers, Shiseido will seek to increase same-store sales by promoting the *URARA* brand and introducing *d'icilà*, a prestige brand designed for cosmetics specialty stores in Japan, at stores with leading sales figures.

In addition to these business development initiatives, Shiseido will proactively fulfill its role as a corporate citizen in Chinese society by continuing the CSR activities realized up until the present. These include the Shiseido Future Beauty Project, which was launched on the 30th anniversary of the start of its business in China; *SHISEIDO LIFE QUALITY MAKEUP*, which is directed toward individuals with significant skin concerns such as birthmarks and vitiligo through collaboration with Chinese dermatologists; and tree-planting activities.



Four Growth Strategies that Serve as Pillars of the Three-Year Plan

○ **Global Mega-Brand Strategy**

Shiseido is striving to become a Global Multiple Brands Company with individual brands generating from ¥50 billion to ¥100 billion in sales by focusing management resources from the perspectives of “distinction and concentration.” The plan calls for the development of a total of six global brands: global brand *SHISEIDO*, *Clé de Peau Beauté* and *bareMinerals* from *Bare Escentuals* in the prestige domain; *Za*, a total skincare and makeup brand; *SENKA*, a skincare brand; and the *TSUBAKI* hair care brand, as announced, in the masstige domain*.

*Masstige: A word coined from “mass” and “prestige.” Masstige products are positioned as more expensive than mass-produced products, but more moderately priced than prestige products.

○ **Asian Breakthrough Strategy**

Shiseido aims to expand its overall share in Asian markets, which are expected to become the world’s largest by 2020, by designating Asia as the most important area. First, in the key Japanese market, Shiseido seeks to secure growth in excess of the market growth rate by revamping its marketing and sales strategies. At the same time, Shiseido is strengthening the foundations of its business by pursuing prioritized activities in response to issues in respective Asian countries such as China, where it already enjoys an advantage.

○ **New Frontier Strategy**

Shiseido is making a full-scale entry into direct marketing in order to expand points of contact with customers in new sales channels. In Japan in particular, Shiseido will begin to aggressively pursue a new business model linking the Internet with existing stores in April 2012. In addition, Shiseido is continuously promoting entry into emerging country markets as a means of developing the next growth engine.

○ **Customer-First Strategy**

Shiseido is aiming to become No. 1 in terms of customer support worldwide by undertaking drastic reforms that involve the meticulous refinement of its manufacturing, sales and customer service activities to ensure that the customer is given top priority in all business processes.

Shiseido's 30-Year History of Business in China

While placing importance on the following three basic philosophies of entering overseas markets, Shiseido's China business will mark its 30-year milestone in 2011 since beginning business operations there. Shiseido's advances in the China market can be seen through taking a look at the past three decades.

1. **Emphasize Shiseido's originality**
2. **Make maximum use of local resources**
3. **Establish roots in the local community as a good corporate citizen**

A Decade of Building a Relationship of Trust through Technological Cooperation (1981-)



Hua Zi brand hair care products

In response to a request from the city of Beijing, Shiseido started sales of about 60 items including cosmetics and soap through nine large retail shops and hotels in Beijing, including the Friendship Store and the Beijing Hotel in 1981. However, purchasers were limited to foreigners residing in Beijing and certain Chinese, as most people were basically not accustomed to enjoying fashion and cosmetics at that time. Consequently, to realize the mutual “desire to create enriched and beautiful daily lives for Chinese people” by the city of Beijing and Shiseido, an agreement was executed to share production technology with a daily commodity factory in Beijing. This was the first technological cooperation as a Japanese cosmetics manufacturer and from the first such agreement with the city of Beijing in 1983 up to the fourth, Shiseido has developed many products, from shampoo and hair styling products to skincare and makeup products.

Shiseido also developed the *Hua Zi* brand and received numerous awards in China. Such technological cooperation with a local factory extending over approximately 10 years involved a completely different process compared with the approaches of European- and U.S.-based companies to the China market. Building relationships of trust over the long term thereby enabled Shiseido to lay a foundation to establish a joint venture company and expand in subsequent years.



Hua Zi brand makeup products



A Decade of Locally Rooted Operations by Establishing a Joint Venture Company (1991-)



AUPRES brand products manufactured locally for the first time via a joint venture company

The initial request from the city of Beijing to Shiseido was to focus on two tasks, namely, “sales of imported goods” and “local production.” Based on the mutual trust that evolved through long-term technological cooperation, in November 1991, Shiseido concluded an agreement to establish Shiseido Liyuan Cosmetics Co., Ltd. as a joint venture company for full-scale development, production and sales of prestige cosmetic products. Factory construction started the following year in 1992 and Shiseido was the first company to complete construction of a factory within the Beijing Economic Technological Zone set up by the city for the

first time. After conducting extensive research locally, the AUPRES brand created exclusively for the China market was successfully launched as a locally produced prestige brand to address the needs of Chinese women. AUPRES, meaning “beside” or “close to” in French, expresses Shiseido’s desire to “provide color and beauty to Chinese women’s daily lives by being close to them and become a product that will always be loved.” Competing for top share in respective department stores, AUPRES was selected as the official cosmetics for the Chinese athletes participating in the Sydney Olympics in 2000 and Athens Olympics in 2004, thereby becoming more widely recognized and well established as a national brand.

A Decade of Expanding Points of Contact with Customers (2001-)



URARA brand exclusively for cosmetics specialty stores

Shiseido’s China business expanded along with the nation’s economy, which has rapidly developed especially in coastal areas. Correspondingly, Shiseido built a factory in Shanghai in 1998. Moreover, Shiseido China Research Center Co., Ltd. was established in Beijing in 2001 for developing formulations, conducting consumer surveys and disseminating technical information. After strengthening its business foundation underpinned by the initial success of AUPRES, Shiseido thereafter concluded contracts from 2004 with cosmetics specialty stores primarily located inland, exclusively developed the URARA brand and commenced its cosmetics specialty

store business. As a result of undertaking steady efforts to increase the number of stores one by one, the cosmetics specialty store business has expanded with the number of stores that handle Shiseido products currently exceeding 5,000 throughout the country. Shiseido has thereby established a corporate brand image such that Shiseido products are



DQ brand for drugstore channel

SHISEIDO

considered to be “high quality,” “safe” and “reliable.” In addition to commencing sales of the *DQ* brand in drugstores, Shiseido also initiated full-scale development of professional hair care products for hair salons from 2010.

Through such means, Shiseido has managed to reach out to many customers by making inroads into the respective channels of department stores, cosmetics specialty stores, drugstores and hair salons, implementing brand expansion by channel and conducting marketing activities in these respective areas.

History of Shiseido China Business (Overview)

- 1981 Started import and sales of about 60 items through hotels and other stores in Beijing.
- 1983 Concluded the first Technological Cooperation Agreement with the city of Beijing and continued the agreement up to the fourth agreement in 1991.
- 1991 Established joint venture Shiseido Liyuan Cosmetics Co., Ltd. with the city of Beijing.
- 1993 Completed construction of Beijing Factory of Shiseido Liyuan Cosmetics Co., Ltd.
- 1994 Launched *AUPRES* brand exclusively for the China market.
- 1998 Established Shanghai Zotos CITIC Cosmetics Co., Ltd. by concluding a cooperative agreement with CITIC East China Group Co., Ltd.
- 1999 Completed construction of factory of Shanghai Zotos CITIC Cosmetics Co., Ltd.
- 2001 Established Shiseido China Research Center Co., Ltd. in Beijing.
- 2003 Established wholly owned subsidiary Shiseido China Co., Ltd. in Shanghai.
- 2004 Launched cosmetics specialty stores business.
- 2006 Launched *URARA* brand exclusively for cosmetics specialty stores.
- 2010 Launched *DQ* brand for drugstores and initiated full-scale development of the Professional Business for Luxury Hair Salons.
- 2011 Marked 30th anniversary since starting business operations in China and launched the Shiseido Future Beauty Project.



Poster announcing the Shiseido Future Beauty Project