

SHISEIDO Co., Ltd.

Results

for Year Ended March 2013

Outlook

for Year Ending March 2014

2013-4-26

SHISEIDO Co., Ltd.
Representative Director,
Chairman, President & CEO**Shinzo Maeda**

In this document, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause actual results and achievements to differ from those anticipated in these statements.

- My name is Shinzo Maeda, Chairman and President of Shiseido.
- Before we begin, I would like to talk a little about the change of our president. When our previous president, Mr. Suekawa, asked to resign due to health concerns and the stress indirectly caused by our declining business performance, I strongly felt that I was just as responsible for our disappointing performance, so at first I steadfastly refused to be reinstated as president.
- However, the Independent Directors unanimously agreed that I could discharge my management responsibilities by concurrently serving as president until the next president is appointed, so, after giving it considerable thought, I have decided to carry out my responsibilities.
- My biggest mission is to pave the way for us to get back on a growth track in a short period of time, and to do this, I will have to clear the business obstacles to our growth and keep pushing tough reforms without “off-limits” and without hesitating to overturn the decisions I made in the past.

Today's Topics

SHISEIDO

1

**Results
for Fiscal Year 2012**

2

**Outlook
for Fiscal Year 2013**

- Now, I will review our business results for fiscal 2012 and explain our outlook for fiscal 2013, including those reforms I just mentioned.
- I will begin with our results for fiscal 2012.

FY2012 Results

SHISEIDO

(Billion yen)	Results	YoY % Change	Local Currency	YoY Amount	Change from the value announced in January
Net Sales	677.7	-0.7%	+0.1%	-4.7	-2.3
Domestic	373.3	-1.8%	-1.8%	-6.7	-2.7
Overseas	304.5	+0.7%	+2.4%	+2.1	+0.5
Operating Income	26.0	-33.4%	-32.1%	-13.1	+1.5
Ordinary Income	28.4	-28.0%	-	-11.0	+2.9
Extraordinary Income/Loss	-34.8	(-0.5)	-	-34.4	-27.8
Net Income/Loss	-14.7	(14.5)	-	-29.2	-25.2

The figure in parentheses is the amount in the previous fiscal year.

- Overseas Sales Ratio **44.9% (+0.6%)**
- Operating Margin **3.8% (-1.9%)**
- Exchange Rate **1 US\$ = ¥79.8 (-0%), 1 Euro = ¥102.6 (-8%), 1 RMB = ¥12.7 (+3%)**

- Net sales decreased by 0.7% year on year, to 677.7 billion yen. Net sales in Japan fell 1.8% year on year, as we were unable to make up for weak in the first half of the year, despite achieving almost the same level of sales as last year in the second half. Our overseas sales were significantly affected by the anti-Japanese sentiment that broke out in China in mid-September, and as a result, growth was 2.4% in local currency terms and 0.7% in yen.
- Operating income fell 33.4% year on year, to 26 billion yen, reflecting a smaller gross profit margin based on lower sales and a higher COGS ratio, an increase in the expenses for labor, and the increase in depreciation of our sales counter at overseas stores.
- As an extraordinary loss, we incurred structural reform expenses due to the integration of our production and R&D bases and, as we announced the day before yesterday, we reported an impairment loss of 28.6 billion yen from the intangible fixed assets of Bare Escentuals, which resulted in a net loss of 14.7 billion yen.

FY2012 Results: Bare Escentuals

SHISEIDO

Results

- Achieved growth and profitability, but expanding the retail business has taken longer than initially expected
- Expansion into China was frozen
- These factors contributed to lower than expected results.

- The long-term plan was reviewed in April 2013.
- An impairment test was conducted, and an impairment loss was posted in FY2012.

Due to the net loss,
the directors of Shiseido will not receive any bonuses, and corporate officers' bonuses will be reduced, for FY2012.

- Bare Escentuals has maintained growth and profitability since the March 2010 acquisition and has gradually been producing a synergistic effect within the group. However, sales have remained lower than expected mainly due to the North American direct-to-consumer business reporting below actual sales against time of acquisition, the North American retail business having taken longer than initially envisioned to grow sales, and the withdrawal of plans to enter the China market due to regulatory issues.
- We recognized a risk of not meeting the sales target for FY2013 considering the widening gap between the actual and target sales results in the fourth quarter FY2012 (October to December 2012) and the first quarter FY2013 (January to March 2013). We concluded that we need to expand marketing investments to achieve sustainable growth, and thus, revised our long-term plan and conducted an impairment test again in April. As a result, Shiseido decided to book a loss for FY2012.

FY2012 Results: Bare Essentials

SHISEIDO

Results

- Achieved growth and profitability, but expanding the retail business has taken longer than initially expected
- Expansion into China was frozen
- These factors contributed to lower than expected results.

- The long-term plan was reviewed in April 2013.
- An impairment test was conducted, and an impairment loss was posted in FY2012.

Due to the net loss,
the directors of Shiseido will not receive any bonuses, and corporate officers' bonuses will be reduced, for FY2012.

- Due to the net loss in FY2012, no bonuses will be paid to directors, and bonuses for corporate officers who are not directors will be significantly reduced.
We are planning a further cut in executive compensation for FY2013.

Today's Topics

SHISEIDO

1

Results
for Fiscal Year 2012

2

Outlook
for Fiscal Year 2013

- Next, we will look at the outlook for fiscal 2013. I will start with the initiatives we took in 2013.

Medium-Term Management Policy

SHISEIDO

A global player representing Asia with its origins in Japan

Improving profitability

Growth strategies

Overcoming business challenges that are blocking growth

Reform of cost structure

Reform of business structure

Comprehensive cost cutting

Reallocation
of investments

Distinction and Concentration

To make strong fields stronger
To make big fields bigger
To make profitable fields more profitable

Enhancing our strengths

Boosting our absolute value

Enhancing organizational capabilities

Improving profitability

Strengthening our marketing capabilities

- For our management reform, which starts in fiscal 2013, we have decided to make substantial changes to our growth scenario without changing our medium- to long-term goal of becoming a global player representing Asia with its origins in Japan.
- In the past, we have provided customers at all levels with products from a number of our brands through our various channels around the world. This type of marketing, which targets all directions, resulted in the decentralization of important management resources such as people, goods, and money. An insufficient level of concentration and thoroughness led to a lack of capacity at each level and reduced our ability to respond to the changes demanded by our stakeholders. As a result, we have become less competitive and are losing customer support.

Medium-Term Management Policy

SHISEIDO

A global player representing Asia with its origins in Japan

Improving profitability

Growth strategies

Overcoming business challenges that are blocking growth

Reform of cost structure

Reform of business structure

Comprehensive cost cutting

Reallocation
of investments

Distinction and Concentration

To make strong fields stronger
To make big fields bigger
To make profitable fields more profitable

Enhancing our strengths

Boosting our absolute value

Enhancing organizational capabilities

Improving profitability

Strengthening our marketing capabilities

- To ensure that we get back on a growth track, we need to gain more support from our customers and beat the competition. The point, after all, is to enhance our strength. Sometimes we can become driven and consumed by unimportant competition, or tend to spend a lot of energy and management resources on small things where we find weaknesses or problems we can't ignore.
- However, we believe that increasing and providing the unique overall value that we have nurtured over the years—in other words, extensively developing and improving Shiseido's distinctive strengths—will ultimately help increase our competitiveness.

Thorough Distinction and Concentration

SHISEIDO

To make strong fields stronger

To make big fields bigger

To make more profits in profitable fields

- To achieve this, thorough distinction and concentration become important, and we must narrow down the fields we focus on and increase our production efficiency.

In these, we will achieve steady growth by concentrating on making our strong fields stronger, to make big fields bigger, and make more profits in profitable fields in all of our businesses, business models, brands, geographical areas, and counter activities and then by reallocating our resources in these segments.

As a result, we will identify and clearly distinguish those areas we don't need to spend much of our resources on and the areas we should withdraw from.

Prevailing in Three Markets

SHISEIDO

(1)

Japan,

where over-the-counter sales are gradually recovering

(2)

China,

where we have overcome the most difficult situation

(3)

Bare Escentuals in the US,

where we review our long-term plan and will make more investments to achieve growth again

- Based on these, we will concentrate on rebuilding our businesses in roughly three segments. The first is Japan, where our struggling retail sales are beginning to recover; the second is China, where we have been freed from our extreme difficulties; and the third is Bare Escentuals in the United States, where we plan to revise our long-term plan and quickly increase our investment in its regeneration.

Japan: Prestige Segment

SHISEIDO

Department stores

Cosmetics specialty stores



Global brand SHISEIDO

clé de peau Beauté

BENEFIQUE

Announcing a new cosmetic specialty store concept

- Putting together a comprehensive plan, including a new vision for cosmetic specialty stores, a store enhancement plan, and a support system from FY2014

- Our first area is Japan. We have a strategy we are adopting globally, namely to significantly strengthen our “prestige market” segment. This segment represents the strengths of Shiseido’s most robust business, where Shiseido’s distinctive value is most effective. Japan in particular is an essential market for our future growth, and is presently benefiting from the policies being implemented by the government led by new prime minister Abe.
- The primary channel in this prestige segment consists of department stores and cosmetic specialty stores, and we will be focusing on clé de peau Beauté as a common line shared by all retailers,, our global brand SHISEIDO at department stores, and BENEFIQUE at cosmetic specialty stores. In this segment, we will enhance our beauty consultant activities, of which are part of our strengths, and increase customer loyalty through the high value-added counseling we excel at.

Japan: Prestige Segment

SHISEIDO

Department stores

Cosmetics specialty stores



Global brand SHISEIDO



clé de peau Beauté



BENEFIQUE

Announcing a new cosmetic specialty store concept

- Putting together a comprehensive plan, including a new vision for cosmetic specialty stores, a store enhancement plan, and a support system from FY2014

- Particularly with respect to cosmetic speciality stores, we will announce our “new voluntary chain store concept” at the Super PS Conference 2013 on May 14, as this year marks the 90th anniversary of the chain store system, start building new bonds between cosmetic specialty stores and Shiseido, and strive to increase our influence in the minds of chain store operators.
- We are not planning on reducing the number of beauty consultants we employ, since our first priority is to maximize the use of their abilities to further improve our strengths.

Japan: Low- to Medium-Priced Segment

SHISEIDO

Major retailers
(drug stores, general merchandise stores)



ELIXIR



MAQuillAGE



Fullmake
Washable Base

Establishing a new company specializing
in supporting retailers

We will dramatically improve our proposals for product variety and shelf-space allocation, and will develop an overwhelming ability to present products at stores.

- Meanwhile, major retailers are beginning to break free from the prolonged deflation, and consumption is gradually recovering. Therefore, we plan to bolster ELIXIR and MAQuillAGE, our major lines in the mid-priced range, and our other unique specialty-function products such as Fullmake Washable Base in the lower price range, to increase the number of customers and raise our earnings.
- This year we will also establish a new company specializing in retail support and enhance our alliance with a data service company to dramatically improve our proposals for product variety and shelf-space allocation, which have been lagging behind the competition, and substantially increase our in-store presentation capacity.

Japan: Initiatives for the Senior Market

SHISEIDO



- Launching new products in key lines in the prestige market
- Developing new mainstay lines for the senior market
- Beauty consultants providing counseling service in a spirit of Omotenashi (hospitality)

- In addition, we will intensively improve our responses to important markets. This is the “senior market,” which has been getting very big due to the rapid aging of the population.
- Since consumers are beginning to regain confidence, partly because of the effects of the new administrative policies, the consumption of high-end products, led by old customers, is expected to continue to grow.
- Considering that this gives us the opportunity to show our strengths more than ever, we plan to increase the regular users of our products in this generation, who are more selective in their purchases than younger customers are. We will do this by positioning new products for targeted lines described before, developing a symbolic new line in the marketing system described later, taking advantage of our unparalleled, highly refined technical standards, and providing customers with Omotenashi hospitable services and advice through our beauty consultants, who promote the features of our products

Japan: Advancing a New Business Model

Total number of members in FY2012: 6.87 million

- Beauty & Co. and watashi+ have each brought in over 1 million new members.

Memberships of Hanatsubaki Club, watashi+, and Beauty & Co.



Beauty&Co.

watashi+

4.65 million

1.14 million

1.07 million

Expanding the total number of members at bricks-and-mortar stores and websites to 10 million

15

- Finally, I will discuss the evolution of our new business models. Each of these new business models, “Beauty & Co.” and “watashi+,” which were introduced in fiscal 2012, each led more than one million customers to register to become members in the first year. This helped increase the number of members at both bricks-and-mortar and online stores, totaling 6,870,000 at the end of fiscal 2012.
- Since our customers will obviously be the ones supporting our growth, we are planning to increase customer membership to 10 million through, for example, our cooperative efforts with major retailers to firmly establish a foundation for a sales recovery as well as using data on customers’ purchases and the accumulated data on their beauty preferences and skin types for early innovations in product development, marketing, and R&D to achieve customer-based products.

Japan: Developing the Foundations for a Sales Recovery

Our strength

When the head office, the sales subsidiary, and the storefront focus on one thing together, we will always have a competitive edge.

The head office and the sales subsidiary will be united to determine simple initiatives and to prepare an environment where we can focus on these initiatives and execute them.

- Refine our focus on lines and channels.
- Develop a simple and clear action plan specifying initiatives to take.

Expanding opportunities to meet new customers and strengthening ties with them

- In this way, we will use the power of our team, uniting the group from our head office to our sales subsidiaries by narrowing down our domestic product lines and channel activities, clarifying and simplifying them, and improving our ability to take action for each project. This is also one of our inherent strengths. Using this strength, we will aim to increase our market share by enhancing our relationships with regular customers and increasing opportunities to attract new customers and tighten bonds with them.

China

SHISEIDO

- Our performance in the Chinese market is recovering gradually in 2013 from the challenging situation last year.
- The Chinese market is a challenging one. However, as the number of users of cosmetics is expected to expand to 330 million, it is attractive.

Narrow down the brands in which we will strengthen investment.

Narrow down the areas on which we will focus.

Review the steps to take each fiscal year.

- Next is China. Since the beginning of 2013, the Chinese market has broken free of the extremely difficult situation caused by the anti-Japanese sentiment that began in the fall of last year, and store sales has begun to recover, though not yet fully.
- Although this is a difficult market, exposed to risks such as political problems, as in this case, and the recent Influenza A (H1N1) outbreak, the cosmetics market is expected to grow to include 330 million people, and remains one of the most attractive markets in the world.
- It is not an exaggeration to say that for the past three decades Shiseido has continued to strengthen its brand in China, and we must, by all means necessary, further improve this brand power to make it a powerful tool. While honoring our origins, we will narrow down those brands in which we plan to increase our investment to solidify the trust we have built up with our Chinese customers, and identify “intensive development areas” in view of our strong sales influence in all China’s autonomous regions, which we have already entered, reviewing these each year and working on them on step by step.

China: Targeted Brands

SHISEIDO

Brands in which we will strengthen investment in FY2013



AUPRES



URARA

From FY2015 we will focus on other brands one after another, including global brand **SHISEIDO** and **Za**, one brand each year.

- First, the specific brands to be improved in fiscal 2013 will be, at department stores, AUPRES, which is supported by many women as a “national Chinese brand” and, in cosmetic specialty stores, URARA, a very profitable national Chinese brand. Both are major Chinese product brands that are not directly under Shiseido’s name, so they are not susceptible to anti-Japanese sentiment.
- Starting fiscal 2015, we will increase the number of brands we focus on in each fiscal year, from our global brand SHISEIDO to our masstige brand Za, while continuing to concentrate on each of them.

China: Area Strategy

SHISEIDO

Areas on which we will focus in FY2013

Main provinces that are the cores of the northern and southern parts of the coastal areas

By FY2016, when the next three-year plan will end

Expand the focus areas to six provinces that account for 30% of total sales in China.

Promote sales of *AUPRES* and *URARA* in 217 cities with populations of over 1 million.

- Regarding our area strategy, we plan to develop a priority strategy that will target both the provinces as areas and cities as points. In fiscal 2013, we will select one province each from the northern and southern coasts of China, which are large enough to play a core role and haven't been affected as much by anti-Japanese sentiment. We will intensively strengthen our sales and marketing capacity in these provinces.

From fiscal 2014 until the end of our next three-year plan, we will expand our areas of concentration to the six major provinces, which currently comprise about 30% of overall sales in China, and accelerate store openings for both department stores and cosmetic specialty stores.

- As a result, we will increase our offering of *AUPRES* and *URARA* in 217 cities with an urban population of one million or more by fiscal 2016, and add a further 62 cities by fiscal 2020.

China: Area Strategy

SHISEIDO

Areas on which we will focus in FY2013

Main provinces that are the cores of the northern and southern parts of the coastal areas

By FY2016, when the next three-year plan will end

Expand the focus areas to six provinces that account for 30% of total sales in China.

Promote sales of *AUPRES* and *URARA* in 217 cities with populations of over 1 million.

- Regarding the two provinces we will start working on in this fiscal year, we will begin to review our sales system so we can strengthen it, aiming to build a robust sales organization in the future while taking into account the country's characteristics as a vast land. A decade after the chain store system was introduced in China, we will finally move to the next stage.

China: Increasing Profitability

SHISEIDO

Investment resources generated through reform of the cost structure

Allocating them in a balanced manner to intensive investments in key brands and areas for growth and to initiatives to achieve an improvement in profitability

Achieving growth

Achieving a double-digit operating margin again in FY2013

Expanding the operating margin and earnings

- Although our profitability fell sharply in fiscal 2012 as a result of the anti-Japanese demonstrations, we have already started structural reforms. The funds generated from these structural reforms will be allocated in a balanced manner toward concentrated investment in the brands and areas mentioned earlier and improving our profitability. This will help our growth in China exceed that of the market and rising labor costs, and in fiscal 2013 we plan to first regain our double-digit operating profits and then increase this rate each year thereafter to grow our earnings.

Developing Operations in Priority Markets Following China

SHISEIDO

Subsidiaries already established

Sales through a local distributor

A representative office set up



Russia



Brazil



Indonesia



India

Developing operations promptly, allocating resources in order of priority

- As exemplified by the recent anti-Japanese movement, China is susceptible to rapid changes in its business environment. Therefore, we will steadily develop the overseas business bases that will follow China—such as Russia, where we are already operating a subsidiary and making progress; Brazil, where strong growth is expected; Indonesia, where we are currently conducting business through an agency; and India, where we have established a representative office by investing funds in these countries.

Bare Escentuals: Achievements and Challenges after the Acquisition

Achievements

- Enhanced synergy through integration with Shiseido production, distribution, and back-office systems in the Americas
- Leveraging Shiseido's sales infrastructure outside the United States
- Collaboration in R&D and product development, including for a skincare line

Challenges

- To grow the DTC as well as retail business which represents a larger market size
- Froze expansion into China

Reviewed the long-term plan and posted an impairment loss.

- I will now move on to talk about Bare Escentuals. During the three years since acquisition, Bare Escentuals has made continuous effort to create a strong business infrastructure by integrating and strengthening functions of Shiseido's manufacturing and logistics bases and back-office divisions in the Americas, utilize Shiseido's sales infrastructure outside the US and promote measures in the areas of R&D and product development, which already are showing progress.
- Meanwhile, since 2011, Bare Escentuals has invested into the direct-to-consumer business alongside significant investments to strengthen the retail business, which represents a larger market size, mainly via TV advertising in the US. However, retail business results were below expectation and with the additional influence of freezing the launch in China, Shiseido decided to book impairment this time.

Bare Escentuals: Initiatives in FY2013

SHISEIDO

- Shifting our focus from investment in TV commercials to consumer-facing promotions, ex. sampling
- Focusing on developing products with originality and communicating with customers



North America DTC Business	North America Retail Business	Overseas Business
Strengthen DTC through QVC and infomercials	Prioritize strengthening existing stores	Focus on UK and Japan markets

We expect a decline in sales and profit for FY2013, however from FY2014 we aim to reinvorgate the Bare Escentuals.

- In 2013, Bare Escentuals will return to its origin which is “customers”. In the North American retail business, in order to leverage the increased brand awareness that was achieved through investment in TV campaigns, we will focus investments toward store-based and customer-facing activities such as sampling and in-store promotions. At the same time, Bare Escentuals will focus on developing innovative products and communicating with customers, evolving both communication and product strategies.
- Furthermore, Bare Escentuals will put top priority on reinforcing sales at existing stores rather than expanding new doors and areas through 2013-4. At the same time, Bare Escentuals will rebuild the basis for future growth by reinforcing field support initiatives in order to expand in-store activities.
- In terms of the North American direct-to-consumer business, Bare Escentuals will reinforce both QVC and infomercials in order to increase synergy between direct-to-consumer business and retail business. In other words, Bare Escentuals will return to its unique business model in order to leverage its core strengths.

Bare Escentuals: Initiatives in FY2013

SHISEIDO

- Shifting our focus from investment in TV commercials to consumer-facing promotions, ex. sampling
- Focusing on developing products with originality and communicating with customers



North America DTC Business	North America Retail Business	Overseas Business
Strengthen DTC through QVC and informercials	Prioritize strengthening existing stores	Focus on UK and Japan markets

We expect a decline in sales and profit for FY2013, however from FY2014 we aim to reinvorgate the Bare Escentuals.

- Regarding our international operations, Bare Escentuals has already entered approximately 30 markets; however, for now we will concentrate on the pillar UK and Japan markets where we have put into place our unique business model of retail and direct-to-consumer channel mix, which is the model in place in North America.
- In FY2013, we expect a decrease in revenue due to our current sales situation. We will also expect lower profit in order to position ourselves to be able to increase investments toward securing growth from FY2014 and beyond. We look to how NARS achieved growth after undergoing impairment and Shiseido remains committed to making Bare Escentuals shine even brighter.

Structural Reform

SHI/SEIDO

Reform of cost structure

Comparison with targeted costs in FY2011

FY2013	A reduction of ¥7bn (previous announcement)
	The reduction increasing to ¥11.5bn
FY2014	An accumulated cost reduction of ¥20bn or more

Reform of business structure

Global integration of functions

FY2012	The Americas
From now	Information systems and distribution infrastructure to be integrated in Europe

- Integration of functions in the operating base to be completed in each area
- Global integration of functions to be completed and a system for Group-wide flexible strategic investment to be established

- Next, I will talk about our structural reforms. Regarding the structural reform of our costs, first, in fiscal 2013, we are expecting to increase our economic benefits, from the 7 billion yen that was formerly announced last time to 11.5 billion yen, and in fiscal 2014, a cost-cutting benefit of more than cumulative 20 billion yen.
- Regarding the structural reform of our business, the integration of our production and R&D bases, the strengthening of our human resources, and the personnel cost management that were announced in January have been progressing as forecast. We are also working on reducing labor costs and shifting to an organizational climate that is challenging yet rewarding through ongoing system reforms and improvement initiatives. Both structural reforms have been implemented as planned.

Structural Reform

SHISEIDO

Reform of cost structure		Reform of business structure	
Comparison with targeted costs in FY2011		Global integration of functions	
FY2013	A reduction of ¥7bn (previous announcement)	FY2012	The Americas
	The reduction increasing to ¥11.5bn	From now	Information systems and distribution infrastructure to be integrated in Europe
FY2014	An accumulated cost reduction of ¥20bn or more	<ul style="list-style-type: none"> ● Integration of functions in the operating base to be completed in each area ● Global integration of functions to be completed and a system for Group-wide flexible strategic investment to be established 	

- Next, regarding our global functional integration, we will be integrating our information systems and logistics infrastructures in the European region after doing this in the American region, which started in fiscal 2012. This will complete the functional integration of our business infrastructures in each region, and we will establish a system that will allow us to implement flexible strategies for the entire group.

Structural Reform: Initiatives in FY2013

SHISEIDO

Improving level of market inventory

Seeking an essential solution, that is, building a system that will prevent excessive stock

Improving underperforming businesses

Implementing revitalization plans and at the same time considering selling off and withdrawal to focus on our strengths

Overcoming business challenges that are blocking growth before executing the next three-year plan for growth, which will start in FY2014

- In fiscal 2013, we will work on the ongoing issue of store inventory and improving our unprofitable and low-profit businesses, which are considered to be the final issue in our structural reforms that still remains this year.
- First, our store inventory has been gradually decreasing in recent years; however, our inventory ratio remains high due to the drop in store sales. In addressing this store inventory issue, the most important task is to build a “mechanism of never stocking up again,” and we will work to resolve this essential problem in fiscal 2013.
- Regarding our unprofitable or low-profit businesses, we will work on recovery plans, led by each company and business, determine their condition, the feasibility of the plans, and the future potential of these businesses. In addition, we will resolve the issue of businesses that are not really necessary for the Shiseido group even if they maintain some profitability, by considering whether they need to be continued or whether they can be sold or closed, while concentrating on our fields of strength.

Structural Reform: Initiatives in FY2013

SHISEIDO

Improving level of market inventory

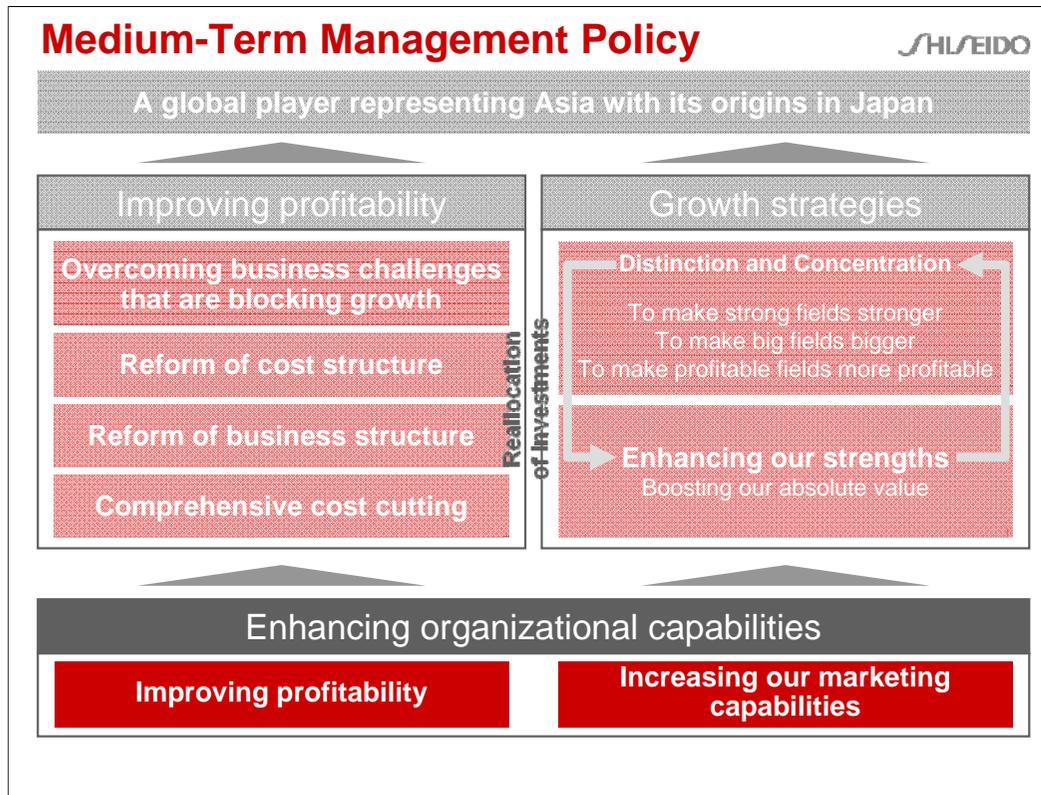
Seeking an essential solution, that is, building a system that will prevent excessive stock

Improving underperforming businesses

Implementing revitalization plans and at the same time considering selling off and withdrawal to focus on our strengths

Overcoming business challenges that are blocking growth before executing the next three-year plan for growth, which will start in FY2014

- Following the reform of Bare Escentuals for regeneration in fiscal 2012, we will clear the business obstacles to our growth through these efforts in fiscal 2013 before beginning our next three-year plan for achieving growth, which will begin in fiscal 2014.



- We have asked Mr. Masahiko Uotani, a former president of Coca-Cola Japan, who contributed to a number of hit products, and now president of Brand Vision Inc., to be our outside Chief Marketing Advisor to help us realize the growth strategies I have described, and we have started to strengthen our major lines and improve the marketing capacity of the entire organization, both in and outside Japan.
- In addition, to be reborn as a company with high profitability, we will start using the department-based cost accounting system developed by Kyocera Corporation, adopted by Japan Airlines, and adjusted for our purposes. By eagerly learning from the success of other companies and applying this knowledge to our company like this, we will pursue reform to become an organization in which each group voluntarily competes in profitability and continues to increase this level.

FY2013 Outlook

SHISEIDO

(Billion yen)	Results	YoY % Change	Local Currency	YoY Amount
Net Sales	710.0	+4.8%	+0.6%	+32.3
Domestic	376.0	+0.7%	+0.7%	+2.7
Overseas	334.0	+9.7%	+0.4%	+29.5
Operating Income	38.0	+45.9%	—	+12.0
Ordinary Income	38.0	+33.8%	—	+9.6
Extraordinary Income/Loss	-1.0	(-34.8)	—	+33.8
Net Income	20.0	(-14.7)	—	+34.7

The figure in parentheses is the amount in the previous fiscal year.

- Overseas Sales Ratio **47.0% (+2.1%)**
- Operating Margin **5.4% (+1.6%)**
- Exchange Rate **1 US\$ = ¥85 (+6%), 1 Euro = ¥115 (+12%), 1 RMB = ¥14.0 (+10%)**

- Next, we will look at our full-year outlook for fiscal 2013, which is an important year for paving the way for our growth. Net sales are expected to increase 4.8% (0.6% in local currency) compared to last year, to 710 billion yen (equivalent to 683.1 billion yen in local currency). We plan to increase sales by 0.7% in Japan and 9.7% overseas (0.4% in local currencies).
- Operating income is expected to increase by 45.9%, to 38 billion yen, due to a substantial investment in the necessary areas for growth from fiscal 2014, despite higher margins from increased sales and the benefit of the cost-based structural reform. Our operating margin is expected to be 5.4%, up 1.6% from fiscal 2012. We estimate our net income to be 20 billion yen.

Shareholder Return

SHISEIDO

Dividend per share	FY2012	FY2013
Interim	Actual: 25 yen	Decline to 10 yen
Year-end	25 yen as planned	Decline to 10 yen
Annual	50 yen	Planned to be 20 yen

- Finally, our returns to shareholders will be a year-end dividend of 25 yen per share as initially planned, or an annual dividend of 50 yen per share, taking into account the fact that we discovered a final loss in fiscal 2012 due to the goodwill impairment loss for Bare Escentuals after the March 31 record date.
- Meanwhile, dividends for fiscal 2013 will be reduced to 10 yen per share for both interim and year-end dividends, totaling 20 yen for the fiscal year.

Change in Shareholder Return

SHISEIDO

Dividend policy

A consolidated payout ratio of 40% and stable dividends in the medium term

- From FY2010 to FY2012, we emphasized stability and paid dividends that exceeded net income for three consecutive years.
- Funds to repay borrowings and retained earnings declined.

We decided to reduce dividends, giving priority to meeting capital needs for growth and reinforcing the operating foundations.

- We decided on 20 yen, based on a 40% payout ratio.
- In FY2013, we will secure 20 yen, our forecast, even if earnings change.
- We aim to return to growth and increase earnings after FY2013 as quickly as possible to enable us to pay higher dividends.
- We plan to cut executive compensation.

- Our consolidated dividend payout ratio target of 40% and stable payment of dividends lie at the heart of our dividend policy and, with an emphasis on stability, paid dividends exceeded net income for the three consecutive years from fiscal 2010 to 2012. As a result, however, our funds for investment in growth and debt repayment were reduced, and even our retained earnings, which would normally be a source of future dividends, have gradually decreased.
- We repeatedly discussed whether and how much dividends should be reduced. We have ultimately come to the decision to cut our dividends this time to prioritize the strengthening of our business foundation in preparation for our capital requirements for future growth, including counter investments in China, business expansion in Brazil, India, Indonesia, and other emerging countries, and unfinished structural reforms, particularly in Japan.

Change in Shareholder Return

SHI/SEIDO

Dividend policy

A consolidated payout ratio of 40% and stable dividends in the medium term

- From FY2010 to FY2012, we emphasized stability and paid dividends that exceeded net income for three consecutive years.
- Funds to repay borrowings and retained earnings declined.

We decided to reduce dividends, giving priority to meeting capital needs for growth and reinforcing the operating foundations.

- We decided on 20 yen, based on a 40% payout ratio.
- In FY2013, we will secure 20 yen, our forecast, even if earnings change.
- We aim to return to growth and increase earnings after FY2013 as quickly as possible to enable us to pay higher dividends.
- We plan to cut executive compensation.

- The expected dividend of 20 yen follows our policy of a consolidated dividend payout ratio of 40%, more than half of which is allocated to investment, which has been established to ensure our growth. We will aim for high shareholder returns in fiscal 2014 by getting ourselves back on a growth track and increasing our profit level at an early stage. Net income may vary depending on the details of the structural reforms to be implemented in the future; however, we will strive to maintain our expected dividend of 20 yen.
- We plan to reduce executive compensation in fiscal 2013 following the cuts in fiscal 2012. We sincerely ask for your understanding, as we are taking severe steps by reducing the annual bonus and stock options of the representative director by approximately 40% and that of other directors by 20%, and by having the president renounce part of his fixed compensation.

This moment. This life. Beautifully.



- As I have described so far, since the end of fiscal 2012 we have been working to resolve our business issues, and plan to push our comprehensive reforms through in fiscal 2013 to resolve all the problems we have been facing. Through these efforts, we will ensure that as many measures as possible are planned and promptly implemented so that we can make this year the beginning of our growth, and literally pave our way for our growth for the next three years.

Another important mission of mine is to appoint my successor as soon as possible and ensure that all these missions are taken over. While the time given to me is limited, we are determined to do everything we can to achieve the goals I have just presented in the next year. We plan to totally devote ourselves to these reforms to gain the trust of our stakeholders, and therefore sincerely ask for your understanding and cooperation.

Financial Results for FY2013

Apr 26th, 2013

Yoshinori Nishimura
Director , Corporate Officer
Shiseido Co., Ltd.

Consolidated Results

SHISEIDO

(Billion yen)	13/3 Results		12/3 Results		YoY % Change	Local Currency
		% of Net Sales		% of Net Sales		
Net sales	677.7	100%	682.4	100%	-0.7%	+0.1%
Domestic	373.3	55.1%	380.0	55.7%	-1.8%	-1.8%
Overseas	304.5	44.9%	302.4	44.3%	+0.7%	+2.4%
Operating Income	26.0	3.8%	39.1	5.7%	-33.4%	-32.1%
Ordinary Income	28.4	4.2%	39.4	5.8%	-28.0%	
Extraordinary Income / Loss (net)	-34.8	-5.2%	-0.5	-0.1%	—	
Tax Expenses	8.2	1.2%	24.4	3.6%	-66.3%	
Net Income	-14.7	-2.2%	14.5	2.1%	—	
EBITDA *	61.5	9.1%	77.0	11.3%	-20.2%	

*EBITDA excluding loss on goodwill: 32.9 billion yen

US\$1 = ¥79.8(-0.0%) €1 = ¥102.6(-7.6%) 1RMB = ¥12.7(+2.6%)

Sales by Reportable Segment

SHISEIDO

(Billion yen)	13/3 Result		12/3 Result		YoY % Change	Local Currency
		% of Net Sales		% of Net Sales		
Domestic Cosmetics	345.9	51.0%	353.8	51.8%	-2.2%	-2.2%
Global Business	322.3	47.6%	319.7	46.9%	+0.8%	+2.5%
Others	9.5	1.4%	8.9	1.3%	+6.5%	+6.5%
Total	677.7	100%	682.4	100%	-0.7%	+0.1%

Domestic Cosmetics Sales by Reportable Segment

SHISEIDO

(Billion yen)		13/3 Result		12/3 Result		YoY Amount	YoY % Change
			% of Net Sales		% of Net Sales		
	Counseling	176.2	26.0%	181.4	26.6%	-5.2	-2.9%
	Self-selection	80.7	11.9%	77.9	11.4%	+2.8	+3.6%
	Toiletries	39.2	5.8%	45.1	6.6%	-6.0	-13.3%
	Cosmetics	296.1	43.7%	304.5	44.6%	-8.4	-2.8%
	Healthcare	14.9	2.2%	14.9	2.2%	-0.1	-0.5%
	Others	34.9	5.1%	34.4	5.0%	+0.5	+1.6%
	Domestic Cosmetics	345.9	51.0%	353.8	51.8%	-7.9	-2.2%

Global Business Sales by Reportable Segment



		13/3 Result		12/3 Result		YoY Amount	YoY % Change	Local Currency
		(Billion yen)	% of Net Sales		% of Net Sales			
	Cosmetics	280.3	41.4%	278.2	40.8%	+2.1	+0.8%	+2.4%
	Professional	42.1	6.2%	41.5	6.1%	+0.6	+1.4%	+2.9%
	Global Business	322.3	47.6%	319.7	46.9%	+2.7	+0.8%	+2.5%

Sales by Geographic Segment

SHISEIDO

(Billion yen)	13/3 Result		12/3 Result		YoY Amount	YoY % Change	Local Currency
		% of Net Sales		% of Net Sales			
Japan	373.3	55.1%	380.0	55.7%	-6.7	-1.8%	-1.8%
Americas	93.0	13.7%	90.5	13.3%	+2.5	+2.8%	+3.4%
Europe	79.1	11.7%	82.2	12.0%	-3.1	-3.8%	+3.2%
Asia/ Oceania	132.4	19.5%	129.7	19.0%	+2.7	+2.0%	+1.3%
(China)	90.7	13.4%	89.1	13.1%	+1.6	+1.8%	-0.2%
Overseas	304.5	44.9%	302.4	44.3%	+2.1	+0.7%	+2.4%
Total	677.7	100%	682.4	100%	-4.7	-0.7%	+0.1%

Cost of Sales/ SG&A

(Billion yen)	13/3 Result			12/3 Result		YoY Increase /Decrease +:cost cut	YoY % Change
		% of Net Sales	% pt. Change +:decrease		% of Net Sales		
Cost of Sales	166.8	24.6%	-0.7%	163.0	23.9%	-3.8	+2.3%
SG&A	484.9	71.6%	-1.2%	480.3	70.4%	-4.6	+1.0%
(Domestic)	281.5	75.9%	-0.4%	285.3	75.5%	+3.7	-1.3%
(Overseas)	203.4	66.3%	-2.3%	195.0	64.0%	-8.4	+4.3%
Advertising & Selling	159.0	23.5%	+0.0%	160.3	23.5%	+1.3	-0.8%
Personnel	167.7	24.7%	-0.8%	163.3	23.9%	-4.4	+2.7%
Others	149.1	22.0%	-0.4%	147.6	21.6%	-1.6	+1.1%
M&A-related Amortization Cost	9.1	1.4%	-0.0%	9.1	1.4%	+0	-0.3%

Operating Income by Reportable Segment

		(Billion yen)	13/3 Result	12/3 Result	YoY Amount	YoY % Change
Domestic Cosmetics	Operating Income	27.5	29.5	-2.0	-6.6%	
	OP Margin	7.9%	8.3%	-0.4 ppt		
Global Business	Operating Income before Amortization	5.7	17.2	-11.5	-67.1%	
	Operating Income	-3.3	8.2	-11.5	-	
	OP Margin	-1.0%	2.6%	-3.6 ppt		
Others	Operating Income	2.0	1.4	+0.6	+42.3%	
	OP Margin	13.4%	9.9%	+3.5 ppt		
Elimination	Operating Income	-0.1	0.1	-0.2	-	
Total	Operating Income before Amortization	35.1	48.2	-13.1	-27.2%	
	Operating Income	26.0	39.1	-13.1	-33.4%	
	OP Margin	3.8%	5.7%	-1.9 ppt		

Other Income and Extraordinary Income

Other Income / Expenses

(Billion yen)	13/3 Result	12/3 Result	YoY Amount
Interest Income	0.7	0.7	-0.0
Interest Expense	-1.8	-1.8	+0.0
Net Interest Income and Expense	-1.1	-1.1	-0.0
Foreign Exchange Gain/Loss	1.1	-0.6	+1.7
Dividends Received	0.6	0.8	-0.2
Others	1.7	1.2	+0.6
Total	2.4	0.3	+2.1

* 1 : BE stands for Bare Escentual.

* 2 : RC stands for Shiseido Research Center at Kanazawa Hakkei.

Extraordinary Income / Losses

(Billion yen)	13/3 Result	12/3 Result	YoY Amount
BE*1 Intangible Fixed Assets	-28.6	-	-28.6
Others (such as. BE stores)	-0.5	-0.1	-0.4
Impairment Losses	-29.1	-0.1	-29.0
Related to Closure of Kamakura Factory	-3.2	-	-3.2
Related to Closure of the RC*2	-2.5	-	-2.5
Structural Reform Expenses	-5.7	-	-5.7
Gain / Loss on Sales, Disposal of Property Plant and Equipment	-0.0	-0.1	+0.1
Gain / Loss on Sales, Writedown of Investment Securities	+0.1	-0.3	+0.4
Total	+34.8	-0.5	-34.4

Net Income and Comprehensive Income

SHISEIDO

(Billion yen)	13/3 Result	12/3 Result	YoY Amount
Income before Income Taxes	-6.4	38.9	-45.4
Tax Expenses (Tax rate)	6.3 (-)	21.9 (56.2%)	+15.6
Minority Interests in Earning of Consolidated Subsidiaries	2.0	2.5	+0.6
Net Income	-14.7	14.5	-29.2
Comprehensive Income	20.5	5.5	+15.0

Consolidated Balance Sheets

(Billion yen)	13/3	Change from 2012/3		
			Excluding Foreign Currency Exchange	Foreign Currency Exchange
Total Current Assets	332.7	+17.5	-3.1	+20.5
Cash Deposits and Securities	91.3	-2.6	-8.4	+5.8
Notes & Accounts Receivable	118.2	+5.4	-1.7	+7.1
Inventories	84.6	+12.7	+6.5	+6.2
Total Fixed Assets	382.7	-22.8	-43.3	+20.5
Property Plant and Equipment	127.8	-2.0	-7.0	+5.0
Intangible Assets	150.7	-23.0	-37.1	+14.1
Investments and Other Assets	104.2	+2.2	+0.8	+1.3
Total Assets	715.4	-5.3	-46.4	+41.0

US1\$ = ¥86.6 1€ = ¥114.7 1RMB = ¥13.9 (2012/12)
 US1\$ = ¥77.7 1€ = ¥100.7 1RMB = ¥12.3 (2011/12)

(Billion yen)	13/3	Change from 2012/3		
			Excluding Foreign Currency Exchange	Foreign Currency Exchange
Total Liabilities	411.6	-5.3	-17.2	+11.8
Notes & Accounts Payable	43.5	-4.8	-6.8	+2.0
Other Payables	39.6	-4.6	-5.3	+0.7
Interest-bearing Debt	184.7	-0.5	-1.6	+1.2
Total Net Assets	303.7	+0.0	-29.2	+29.2
Shareholders' Equity	322.6	-34.0	-	-
Other Comprehensive Income	-35.0	+31.1	-	-
Minority Interests	15.3	+2.8	-	-
Total Liabilities and Net Assets	715.4	-5.3	-46.4	+41.0

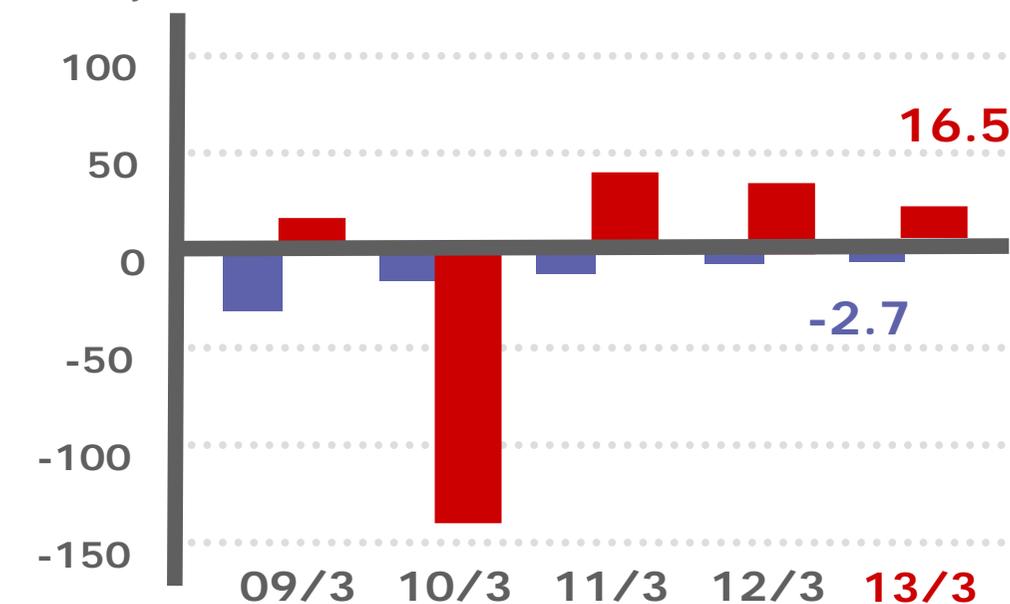
*NOTE : Major account title only
 Equity Ratio: 40.2%, Interest-bearing Debt Ratio: 37.8%

Consolidated Cash Flows



(Billion yen)

(Billion yen)



Cash Flows from Operating Activities 42.0

Cash Flows from Investing Activities -25.5

Free Cash Flows 16.5

Cash Flows from Financing Activities -24.7

Effect of Exchange Rate Changes on Cash and Cash Equivalents 5.5

Consolidated Cash Flows -2.7

■ Consolidated Cash Flows
■ Free Cash Flows

SHISEIDO

This moment. This life. Beautifully. 

Supplemental Data CAPEX/ Depreciation

(Billion yen)	13/3 Result	12/3 Result	YoY Amount Change	YoY % Change	14/3 Estimate	YoY Amount Change	YoY % Change
Investment in Plant and Equipment etc. *	28.3	34.3	-6.0	-18%	33.3	+5.0	+18%
Property Plant and Equipment	17.9	21.6	-3.7	-17%	22.9	+5.0	+28%
Intangible Assets etc.	10.4	12.7	-2.3	-18%	10.4	+0.0	+0%
Depreciation	32.0	30.6	+1.4	+4%	32.9	+0.8	+3%
Property Plant and Equipment	17.2	17.5	-0.3	-1%	18.6	+1.4	+8%
Intangible Assets etc.	14.9	13.3	+1.6	+12%	14.2	-0.6	-4%
R&D Expenses	13.7	14.7	-1.0	-7%	14.2	+0.5	+4%
Advertising Expenses	47.6	49.3	-1.7	-3%	39.9	-7.7	-16%

Supplemental Data SG&A -Breakdown by Domestic/Overseas



(Billion yen)		13/3	12/3	YoY Increase /Decrease +:cost cut	YoY % Change
Domestic		85.3	87.5	+2.2	-2.5%
Overseas		73.7	72.8	-1.0	+1.3%
Advertising & Selling		159.0	160.3	+1.3	-0.8%
Domestic		109.5	108.7	-0.8	+0.7%
Overseas		58.2	54.6	-3.6	+6.6%
Personnel		167.7	163.3	-4.4	+2.7%
Domestic		86.6	88.9	+2.3	-2.6%
Overseas		62.6	58.7	-3.9	+6.6%
Others		149.1	147.6	-1.6	+1.1%
Domestic		0.1	0.1	+0.0	-0.0%
Overseas		8.9	9.0	+0.0	-0.3%
M&A-related Amortization Cost		9.1	9.1	+0.0	-0.3%
Domestic		281.5	285.3	+3.7	-1.3%
Overseas		203.4	195.0	-8.4	+4.3%
Total		484.9	480.3	-4.6	+1.0%

Supplemental Data
Market Growth Rate (% , Shiseido Estimates)



		Outlook for 14/3	13/3
Domestic	Japan	Low single-digit growth	Flat
Overseas	Americas	Mid single-digit growth	Mid single-digit Growth
	Europe	Slight decrease	Slight decrease
	Asia/ Oceania	Mid single-digit growth	Mid single-digit growth