April 26, 2013

Shiseido Co., Ltd.

Q&A for the Fiscal Year Ended March 31, 2013 (Summary)

Q) Approximately how many employees are retiring as a result of the changes to the early retirement incentive plan announced in January this year? And approximately how much of a cost saving can the Company make as a result?

A) We cannot give details about the number of people retiring or the effect this will have. The change was to normalize personnel programs and measures that were somewhat excessive by abolishing the early retirement incentive plan.

Q) Describe the ideal cost structure.

A) It is important to see how much we can cut the cost of sales. As regards the other costs under SG&A expenses, the effect of cost cutting is evident. Meanwhile, to cut total labor costs, it is necessary to radically redesign personnel programs, although this takes time. We are not planning on reducing the number of beauty consultants we employ; we will provide support to enable them to increase their productivity and improve their level of proficiency as professionals.

Q) What is your FY2013 sales forecast for China?

A) FY2012 was difficult, especially in the 4th quarter. However, in FY2013, we forecast high single-digit growth on a full-year basis. China's cosmetics market is expected to grow at a rate of GDP plus 1-2%, in other words, 9-10%, and Shiseido aims to secure double-digit growth surpassing market growth from FY2014. We aim to restore the operating margin to double digits in FY2013 and to increase it year by year after that.

Q) Please explain the rationale for lowering your dividend despite the recovery of profits in FY2013

A) We regret the impact of this on our existing shareholders. In the last three years, our dividend pay-out ratio has exceeded 100%, but, with an emphasis on stability, we have maintained a dividend of 50 yen. However, we also need to build up capital for future growth. We decided to cut our dividends this time not because our financial base weakened but to prioritize the strengthening of our business foundation in preparation for our capital requirements for future growth.

Q) You forecast growth of 1% in domestic sales for FY2013. What is your actual strategy?

A) The outlook remains uncertain despite the expected effect of Abenomics, and our sales forecast is conservative. To achieve top line growth, we plan to radically strengthen areas of high added value and to strengthen the mid-priced range in the area of major retailers. Since counter sales are recovering, we plan to nurture this trend.

Q) The FY2013 operating income forecast is 38.0 billion yen. What assumptions did you base your forecast on?

A) In addition to increased income as a result of increased sales, an additional 2.8 billion yen will be added to profits as a result of cost structure reform. Also, due to other factors, including a 1.5 billion yen decrease in the

amortization of goodwill due to the impairment loss associated with *Bare Escentuals*, a total of 12.0 billion yen will be added to FY2012 operating income of 26.0 billion yen, bringing our FY2013 operating income forecast to 38.0 billion yen.

Q) From FY2011, your policy seemed to change from a top-down approach to a bottom-up approach. Does that mean your policy will once again revert to a top-down approach now that President Maeda has taken over?

A) We do not believe our policy has ever been top-down or bottom-up. The FY2013 plan was determined through lengthy and thorough discussions with executive officers and others. We plan to increase efficiency by thoroughly implementing a strategy of distinction and concentration, to overcome our negative legacy and to put ourselves firmly on the path towards growth.

Q) What do you mean by a system that will prevent excessive store level inventory

A) We see inventory as an age-old issue. Although total inventories at stores have decreased, the inventory rate has not fallen due to decreased sales. Since makeup products tend to be obsolete inventory, it is also important to prevent excessive stock by rolling out products for a limited time only or in a limited quantity, and adding inventory-related numerical values to the evaluation of sales staff to raise awareness. We are also in the process of formulating a plan for resolving the essential issues and expect to propose this in the fall.

Q) What do you mean by a new company specializing in retail support?

A) We are about to start working out the details, but we intend to strengthen retail support to improve presentation skills at counters.

Q) You spoke of improving unprofitable or low-profit businesses. Can you be more specific?

A) We already have candidates in mind and plan to work out the specific details ahead of the general meeting of shareholders. 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, while concentrating on our "fields of strength."

Q) You do not seem to be taking a conservative line on exchange rates. Will exchange rates be a factor behind better-than-anticipated profits?

A) For exchange rates, we use average data for the past six months. We do not know how developments around the world will affect exchange rates but they could be a factor behind better-than-anticipated profits. However, they could have the opposite effect on investment.

Q) What do you mean by investment necessary for growth? What type of investments will you make?

A) Broadly speaking, these are investments in three areas: Japan, China and *Bare Escentuals*. In Japan, we will strengthen the prestige area through means such as airing TV commercials for the global brand SHISEIDO. In China, we will narrow down the brands and areas in which we will increase investment and focus on developing these. As for *Bare Escentuals*, although we recorded an impairment loss, we will strengthen marketing investment to increase synergy between direct-to-consumer business and retail business and to return *Bare Escentuals* to its origins, as a unique and highly original business model, and plan to restore growth potential from FY2014.