

SHISEIDO Co., Ltd.

## FY2013 First Quarter Results and Outlook

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.

1

- I would like to review our business results for the first quarter of fiscal 2013 and explain our outlook for the first half and full year of fiscal 2013.

1

### First Quarter Results (Ended June 2013)

(Billion yen)	Result	YoY % Change	Local Currency	YoY Amount
<b>Net Sales</b>	<b>162.4</b>	<b>+8.6%</b>	<b>+0.7%</b>	<b>+12.9</b>
Domestic	82.2	+0.1%	+0.0%	+0.1
Overseas	80.2	+19.0%	+1.5%	+12.8
<b>Operating Income</b>	<b>6.9</b>	<b>(-3.0)</b>	—	<b>+9.9</b>
<b>Ordinary Income</b>	<b>7.6</b>	<b>(-2.7)</b>	—	<b>+10.3</b>
<b>Net Income</b>	<b>2.7</b>	<b>(-1.3)</b>	—	<b>+3.9</b>

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

- Overseas Sales Ratio 49.4% (+4.3 pp)
- Operating Margin 4.2% (+6.2 pp)
- Exchange Rate 1 US\$ = ¥92.4 (+17%), 1 Euro = ¥122.0 (+17%), 1 RMB = ¥14.9 (+18%)

2

- Net sales for the first quarter increased by 8.6% year on year, to 162.4 billion yen. Net sales in Japan rose by 0.1% year on year, as we maintained the level of last year thanks to the recovery in consumer confidence. Our overseas sales achieved year-on-year growth of 1.5% in local currency terms as a result of double-digit growth in our business in China, despite some difficulties in Europe and Bare Escentuals, and 19% in yen terms, reflecting the yen's depreciation.
- Operating income increased by 9.9 billion yen from last year to 6.9 billion yen. In addition to reduced personnel costs, including bonuses and pension expenses, and reduced expenses through cost structure reform, some of the expenses were carried over to the second quarter. Overseas, an increased margin in China and efficient management of marketing expenses at each area contributed to improved results.
- Ordinary income was 7.6 billion yen, an increase of 10.3 billion yen from last year. In addition to increased operating income, this was thanks to a valuation profit on foreign currency-denominated assets generated by the weakening yen. Net income for the first quarter was 2.7 billion yen, up 3.9 billion yen year on year.

2

**Sales by Reportable Segment** SHISEIDO

(Billion yen)	Q1 of 2014/3		Q1 of 2013/3		YoY % Change	Local Currency
		% of Net Sales		% of Net Sales		
Domestic Cosmetics	75.8	46.7%	75.5	50.5%	+0.4%	+0.4%
Global Business	84.3	51.9%	71.7	48.0%	+17.5%	+0.9%
Others	2.2	1.4%	2.2	1.5%	+1.7%	+1.7%
<b>Total</b>	<b>162.4</b>	<b>100%</b>	<b>149.4</b>	<b>100%</b>	<b>+8.6%</b>	<b>+0.7%</b>

3

- Next are sales by reportable segment. Domestic Cosmetics segment resulted in 0.4% growth year on year, and the Global Business segment achieved 17.5% yen-based growth and 0.9% growth in local currency terms. I will describe this in detail shortly.
- Other business segments achieved a 1.7% increase in earnings, led by strong sales of food products.

**Domestic Cosmetics Sales by Reportable Segment** SHISEIDO

(Billion yen)	Q1 of 2014/3		Q1 of 2013/3		YoY Amount	YoY % Change
		% of Net Sales		% of Net Sales		
Counseling	36.4	22.5%	36.0	24.1%	+0.4	+1.2%
Self-selection	18.7	11.5%	19.6	13.1%	-0.9	-4.6%
Toiletries	9.3	5.7%	8.8	5.9%	+0.5	+5.5%
Cosmetics	64.5	39.7%	64.5	43.1%	+0.0	+0.0%
Healthcare	3.8	2.3%	3.3	2.2%	+0.4	+13.5%
Others	7.6	4.7%	7.7	5.2%	-0.1	-1.9%
<b>Domestic Cosmetics</b>	<b>75.8</b>	<b>46.7%</b>	<b>75.5</b>	<b>50.5%</b>	<b>+0.3</b>	<b>+0.4%</b>

4

- This shows a breakdown of domestic cosmetics sales.
- Earnings from the Counseling category increased by 1.2%, with the contribution of the global brand *SHISEIDO* as well as *MAQUILLAGE* and *ELIXIR*.
- In the Self-selection category, strong sales of the *AQUALABEL* line, led by Special Gel Cream, continued. However, the category still ended with a sales decline of 4.6%, the result of reduced shipments in an effort to increase at an early stage the selection of summer products such as *AG+* and *ANESSA* from the last quarter.
- Sales from Toiletries category grew by 5.5% with the support of strong sales of the next-generation makeup base *Fullmake Washable Base* in addition to *TSUBAKI* and *Senka*.
- Healthcare category achieved a 13.5% increase in earnings thanks to very strong sales of the jelly type of the skin-beautifying drink “*Kirei No Susume*”, which was launched in June. This product did particularly well at convenience stores and general merchandise stores.
- As a result, sales were 75.8 billion yen, an increase of 0.4%, for the overall Domestic Cosmetics segment.

## Global Business Sales by Reportable Segment

SHISEIDO

(Billion yen)	Q1 of 2014/3		Q1 of 2013/3		YoY Amount	YoY % Change	Local Currency
		% of Net Sales		% of Net Sales			
Cosmetics	73.7	45.4%	62.3	41.7%	+11.4	+18.3%	+0.8%
Professional	10.5	6.5%	9.4	6.3%	+1.1	+12.1%	+1.5%
Global Business	84.3	51.9%	71.7	48.0%	+12.6	+17.5%	+0.9%

5

- Next, we look at our Global Business segment. Sales in this segment achieved a 0.9% increase in local currency terms.
- The Cosmetics Division was led by China Business Division, resulting in a 0.8% increase in earnings.
- Earnings from the Professional Division grew by 1.5%, due primarily to the continuous development of the “*The Hair Care*” line in Japan and strong sales of the US subsidiary ZOTOS in the overseas professional business.

5

## Sales by Geographic Area

SHISEIDO

(Billion yen)	Q1 of 2014/3		Q1 of 2013/3		YoY Amount	YoY % Change	Local Currency
		% of Net Sales		% of Net Sales			
Japan	82.2	50.6%	82.1	54.9%	+0.1	+0.1%	+0.0%
Americas	25.5	15.7%	22.2	14.8%	+3.3	+14.8%	-1.5%
Europe	21.6	13.3%	19.1	12.8%	+2.5	+13.1%	-3.5%
Asia/Oceania	33.2	20.4%	26.1	17.5%	+7.0	+27.0%	+7.7%
Overseas	80.2	49.4%	67.4	45.1%	+12.8	+19.0%	+1.5%
Total	162.4	100%	149.4	100%	+12.9	+8.6%	+0.7%

6

- Sales by geographic area show a 1.5% decline in the Americas in local currency terms. This reflects the fall by mid-single digit percentage points of Bare Escentuals, offsetting strong sales of global brand *SHISEIDO* and *NARS*.
- Sales in Europe saw a fall of 3.5%. In addition to lost sales in areas such as Italy and Spain because of the economic slowdown, our fragrance business, one of our major businesses, struggled.
- The Asia and Oceania enjoyed 7.7% growth. A major factor contributing to this was the double-digit growth in our key market China, in which we benefited from the difference in shipment timing for the Chinese New Year.
- This concludes the notable results for the first quarter.

6

Areas of Focus in FY2013



- 1 **Japan,**  
where store 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

7

● I will now move on to describe our initiatives in the three key areas for FY2013, namely Japan, China, and Bare Escentuals in the US.

7

Major Planned Initiatives (Japan)



Department stores		Cosmetics specialty stores	
Global brand SHISEIDO	clé de peau BEAUTÉ	BENEFIQUE	
TV ad launch		New makeup products released on Aug. 21	
Enhance the counseling capacity of beauty consultants using iPads			

8

- First is Japan.
- Our store sales in the first quarter proved stable, between 0% and 1%, and we will continue to strengthen our global brand SHISEIDO, clé de peau BEAUTÉ, and BENEFIQUE in the prestige segment amid the ongoing recovery in consumer confidence.
- For the global brand SHISEIDO, we launched the first TV ad in May for the Makeup line, which resulted in an increase in new customers at department stores. We plan to begin the first TV ad for clé de peau BEAUTÉ in August.
- As for BENEFIQUE, we will launch a line of liquid foundations and lipsticks on August 21. BENEFIQUE's makeup line has benefited from the very strong performance of products such as "Eyelash" and "Mascara" that were launched in February this year. We are aiming to grow our sales in the makeup products as well as skincare lines.
- In the overall prestige segment, we will enhance our counseling capacity using iPads distributed to all of our beauty consultants in June, who will use the device to, for example, visually present new product information and give demonstrations with the Makeup Simulator.

8

**Major Planned Initiatives (Japan)** SHISEIDO

**Major retailers  
(drugstores and general merchandise stores)**



0.01mm\*の極薄なのに、  
毛穴が消える。

肌がきれいなら、女は無敵。

Released on Jul. 21

To be released Aug. 21

MAQuillAGE



夕方なのに、きれいなひび

優く汗をおわない汗に

ELIXIR

AG+

9

- Next, I am going to talk about our approach to major retailers.
- In the first quarter, we continued to grow “True Powdery Foundation” from MAQuillAGE and “Day Care Revolution” from ELIXIR, both of which achieved store sales surpassing the results of a year earlier.
- We secured and developed retail spaces for summer products such as ANESSA, AG+, and SEA BREEZE from early on, and the store sales of these products have been very strong with the benefit of the extremely hot weather.
- In the second quarter, we will launch strong new products from MAQuillAGE, including new colors of eye shadows and lipsticks and liquid foundations, in addition to the powdery foundations released in the preceding period in the competitive foundation market, in order to increase our store sales.

**Major Planned Initiatives (China)** SHISEIDO

**Enhance initiatives in large coastal cities and locally produced brands in China**



“AUPRES” at department stores

Improvement of counseling activities using a new cosmetic device



“URARA” at cosmetics specialty stores

Renewal of the world’s first anti-aging skincare line that uses the latest research findings on D-amino acid

10

- Next, we look at China. In a harsh market environment where anti-Japanese sentiment remains, we will focus on the large coastal cities in FY2013 to strengthen AUPRES and URARA, our locally produced brands in China.
- In the first half year ended on June 30, the sales of these two brands from retail stores generally increased. We will continue to develop retail spaces and improve beauty consultants’ capacity, among other initiatives. We will boost sales by enhancing our counseling activities for AUPRES using a new cosmetic device and by renewing the world’s first anti-aging skincare line from URARA that uses the latest research findings on D-amino acid.
- Sales for the first quarter in China showed double-digit growth, helped by the difference in shipment timing for the Chinese New Year. We have cut down shipments in the second quarter, however, to reduce the inventory level in the market. Based on this and other factors, we expect that overall sales for the first half year will decline by mid-single digit percentage points, which is almost consistent with the plan.

## Major Planned Initiatives (Bare Escentuals)

SHISEIDO

### Synergy between direct-to-consumer (DTC) and retail businesses



North America DTC Business	North America Retail Business	Overseas Business
Re-strengthen QVC and infomercials	Prioritize strengthening existing stores	Focus on UK and Japanese markets

11

- Next, I would like to talk about Bare Escentuals.
- In FY2013, we are focusing on strengthening existing stores. We are implementing structural reforms of unprofitable directly operated stores such as the closure, in addition to increasing the appearance on QVC and enhancing infomercials to achieve re-growth by enhancing synergy between the direct-to-consumer and retail businesses, our original strength.
- While we are expecting a decrease in net sales for the first half of the fiscal year given the reconstruction of our business foundation to restore growth, we expect to ensure sales almost in line with the plan.

11

## Outlook for the First Half Ending September 2013

SHISEIDO

(Billion yen)	Forecast	YoY % Change	Local Currency	Change from 4/26
Net Sales	360.0	+7.9%	-0.2%	+17.0
Domestic	187.0	+0.2%	+0.2%	+/-0.0
Overseas	173.0	+17.7%	-0.8%	+17.0
Operating Income	15.0	+79.8%	—	+3.0
Ordinary Income	15.0	+79.6%	—	+3.0
Net Income	7.0	+39.4%	—	+1.0

- Overseas Sales Ratio 48.1% (+4.0 pp)
- Operating Margin 4.2% (+1.7 pp)
- Exchange Rate 1 US\$ = ¥96 (+20%), 1 Euro = ¥126 (+21%), 1 RMB = ¥15.5 (+22%)

12

- Now, we will look at our outlook for the first half of fiscal 2013. Net sales are expected to increase 7.9%, or decrease 0.2% in local currency, compared to last year, to 360 billion yen. The forecast was revised to add 17 billion yen to the initial plan. The increase in net sales of 0.2% for the domestic segment remains unchanged, but notably the foreign exchange level for the overseas segment was revised. Yen-based sales is expected to rise by 17.7%, while local-currency based sales is expected to fall by 0.8%.
- Operating income has been revised to add 3 billion yen to the initial plan, to total 15 billion yen, taking into account the effect of foreign exchange and certain expenses carried over to the second half of the year.
- Ordinary income has also been revised to add 3 billion yen to total 15 billion yen, and net income for the quarter has been revised to add 1 billion yen to reach 7 billion yen.

12

## FY2013 Outlook

SHISEIDO

(Billion yen)	Results	YoY % Change	Local Currency	Difference from result announced on Apr. 26		
				1st half	2nd half	Annual
Net Sales	727.0	+7.3%	+1.0%	+17.0	+/-0.0	+17.0
Domestic	376.0	+0.7%	+0.7%	+/-0.0	+/-0.0	+/-0.0
Overseas	351.0	+15.3%	+1.2%	+17.0	+/-0.0	+17.0
Operating Income	39.0	+49.7%	—	+3.0	-2.0	+1.0
Ordinary Income	39.0	+37.3%	—	+3.0	-2.0	+1.0
Extraordinary Income/Loss	-1.0	(-34.8)	—	+/-0.0	+/-0.0	+/-0.0
Net Income	20.0	(-14.7)	—	+1.0	-1.0	+/-0.0

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

- Overseas Sales Ratio 48.3% (+3.4 pp)
- Operating Margin 5.4% (+1.6 pp)
- Exchange Rate 1 US\$ = ¥90 (+13%), 1 Euro = ¥120 (+17%), 1 RMB = ¥14.7 (+16%)

13

- Next is our full-year outlook for fiscal 2013. We assume that net sales will remain the same as the initial plan for the second half due to future uncertainties including foreign exchange rates, and expect a year-on-year increase of 7.3%, to 727 billion yen, after adding the 17 billion yen to the outlook for the first half of the year. We plan to increase sales by 0.7% in Japan and 15.3% overseas, or 1.2% in local currency terms.
- A decrease in operating profit of 2 billion yen is expected from the initial plan for the second half of FY2013, because of the expenses carried over from the first half. The full-year outlook, however, is expected to be 39 billion yen, with 1 billion yen from exchange rate fluctuations in the first half added, and ordinary income is also projected to be 39 billion yen.
- We expect our net income to remain 20 billion yen, considering changes in taxes and other expenses.

13

This moment. This life. Beautifully.



- The reforms of the cost structure and business structure that we mentioned in April have been implemented according to plan, and we have been steadily developing internal plans to solve the issues of store inventory and unprofitable or low-profit businesses. Details of these activities will be communicated as soon as they are finalized.

14

## Cost of Sales/ SG&A

SHISEIDO

(Billion yen)	Q1 of 2014/3			Q1 of 2013/3		YoY Increase/Decrease +:cost cut	YoY % Change
		% of Net Sales	% pt. Change +:decrease		% of Net Sales		
Cost of Sales	37.8	23.3%	-0.3%	34.4	23.0%	-3.4	+10.0%
SG&A	117.7	72.5%	+6.5%	118.1	79.0%	+0.4	-0.4%
(Domestic)	62.5	76.3%	+7.9%	68.6	84.2%	+6.1	-8.8%
(Overseas)	55.2	68.6%	+4.3%	49.6	72.9%	-5.6	+11.4%
Advertising & Selling	34.5	21.3%	+3.4%	36.9	24.7%	+2.4	-6.4%
Personnel	43.8	27.0%	+1.8%	43.1	28.8%	-0.7	+1.6%
Others	37.2	22.9%	+1.1%	35.8	24.0%	-1.4	+3.8%
M&A-related Amortization Cost	2.1	1.3%	+0.2%	2.3	1.5%	+0.1	-5.0%

15

15

## SG&A: Domestic and Overseas Breakdown

SHISEIDO

(Billion yen)	Q1 of 2014/3	Q1 of 2013/3	YoY Increase/Decrease +: cost cut	YoY % Change
Domestic	16.5	18.7	+2.2	-12.0%
Overseas	18.0	18.2	+0.1	-0.7%
Advertising & Selling	34.5	36.9	+2.4	-6.4%
Domestic	26.0	28.5	+2.4	-8.5%
Overseas	17.8	14.6	-3.1	+21.4%
Personnel	43.8	43.1	-0.7	+1.6%
Domestic	19.9	21.3	+1.4	-6.5%
Overseas	17.3	14.5	-2.7	+18.9%
Others	37.2	35.8	-1.4	+3.8%
Domestic	0.0	0.0	+/-0.0	+/-0.0%
Overseas	2.1	2.2	+0.1	-5.1%
M&A-related Amortization Cost	2.1	2.3	+0.1	-5.0%
Domestic	62.5	68.6	+6.1	-8.8%
Overseas	55.2	49.6	-5.6	+11.4%
Total SG&A	117.7	118.1	+0.4	-0.4%

16

16

## Operating Income by Reportable Segment

		(Billion yen)			
		Q1 of 2014/3	Q1 of 2013/3	YoY Amount	YoY % Change
Domestic Cosmetics	Operating Income	7.1	1.7	+5.4	+322.0%
	OP Margin	9.4%	2.2%	+7.2 ppt	
Global Business	Operating Income before Amortization	1.0	-3.0	+3.9	—
	Operating Income	-1.1	-5.2	+4.0	—
	OP Margin	-1.3%	-7.2%	+5.9 ppt	
Others	Operating Income	0.5	0.4	+0.1	+17.5%
	OP Margin	15.3%	12.8%	+2.5 ppt	
Elimination/Corporate	Operating Income	0.3	0.0	+0.3	—
Total	Operating Income before Amortization	9.0	-0.8	+9.8	—
	Operating Income	6.9	-3.0	+9.9	—
	OP Margin	4.2%	-2.0%	+6.2 ppt	

17

17

## Consolidated Balance Sheets

(Billion yen)	2013/6	Change from 2013/3	(Compared to end of Mar. 2013)		2013/6	Change from 2013/3	(Compared to end of Mar. 2013)		
			Excluding Foreign Currency Exchange	Foreign Currency Exchange			Excluding Foreign Currency Exchange	Foreign Currency Exchange	
<b>Total Current Assets</b>	<b>323.4</b>	<b>-9.2</b>	<b>-22.1</b>	<b>+12.9</b>	<b>Total Liabilities</b>	<b>399.2</b>	<b>-13.2</b>	<b>-20.9</b>	<b>+7.7</b>
Cash Deposits and Securities	91.9	+0.7	-3.0	+3.7	Notes & Accounts Payable	43.7	+0.1	-0.9	+1.0
Notes & Accounts Receivable	102.8	-15.4	-19.4	+4.0	Other Payables	34.4	-5.2	-5.4	+0.3
Inventories	91.2	+6.6	+2.4	+4.2	Allowance for Bonuses	5.5	-7.0	-7.2	+0.2
<b>Total Fixed Assets</b>	<b>393.0</b>	<b>+10.1</b>	<b>-5.3</b>	<b>+15.4</b>	Interest-bearing Debt	186.8	+2.1	+1.1	+1.0
Property Plant and Equipment	129.8	+2.0	-1.4	+3.4	<b>Total Net Assets</b>	<b>317.3</b>	<b>+14.1</b>	<b>-6.4</b>	<b>+20.5</b>
Intangible Assets	159.5	+8.8	-2.4	+11.2	Shareholders' Equity	315.4	-7.2	—	—
Investments and Other Assets	103.7	-0.7	-1.4	+0.7	Other Comprehensive Income	-15.8	+19.7	—	—
<b>Total Assets</b>	<b>716.5</b>	<b>+0.9</b>	<b>-27.4</b>	<b>+28.2</b>	Minority Interests	16.8	+1.6	—	—
					<b>Total Liabilities and Net Assets</b>	<b>716.5</b>	<b>+0.9</b>	<b>-27.4</b>	<b>+28.2</b>

< Exchange rates applied >

End of Jun. 2013: USD 1.00 to JPY 94.0, EUR 1.00 to JPY 120.7, and CNY 1.00 to JPY 15.1

End of Mar. 2013: USD 1.00 to JPY 86.6, EUR 1.00 to JPY 114.7, and CNY 1.00 to JPY 13.9

Note: Major account items only

Equity ratio: 41.8%; interest-bearing debt ratio: 37.1%

18

18