SHISEIDO

FY2014 First Quarter Results and Outlook

July 31, 2014

Norio Tadakawa
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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 Norio Tadakawa and I am in charge of finance and IR.
- I would like to review our business results for the first quarter of fiscal 2014 and explain our outlook for fiscal 2014.

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First Quarter Results (Ended June 2014)

(Billion yen)	Results	YoY % Change	Local Currency	YoY Amount
Net Sales	168.4	+3.7%	-2.3%	+6.0
Domestic	79.5	-3.2%	-3.3%	-2.6
Overseas	88.8	+10.8%	-1.4%	+8.6
Operating Income	1.4	-80.2%	—	-5.5
Ordinary Income	1.4	-80.9%	—	-6.1
Income before Income Taxes	2.1	-72.1%	—	-5.5
Net Income	-1.8	(2.7)	—	-4.4

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

- Overseas Sales Ratio 52.8% (+3.4 pp)
- Operating Margin 0.8% (-3.4 pp)
- Exchange Rate 1 US$ = ¥102.8 (+11%), 1 Euro = ¥140.8 (+15%), 1 RMB = ¥16.9 (+14%)

- Let's begin with a summary of the statement of income.
  Net sales for the first quarter were 168.4 billion yen, up 3.7% year on year, and declining 2.3% in local currency terms.
- Domestic sales were down 3.2%. Overseas, sales rose 10.8% year on year, dropping 1.4% in local currency terms.
- Operating income decreased 5.5 billion yen year on year, to 1.4 billion yen. This decline is attributable to factors that were already taken into consideration such as higher personnel costs due to increased bonuses in addition to a lower margin due to decreased sales in Japan and higher marketing expenses overseas, and was more or less in line with expectations.

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- A net loss of 1.8 billion yen was recorded. In the first quarter, net sales and operating income were both at a low level. In addition, tax effects associated with unrealized profit eliminations resulted in a temporary increase in tax expenses because of the recording of insufficient taxable income, which dropped largely due to a decline following the surge in demand before the consumption tax hike.

Domestic Cosmetics Business Sales and Operating Income

(Billion yen)	Q1 of 2015/3	% of Net Sales	Q1 of 2014/3	% of Net Sales	YoY Amount	YoY % Change
Counseling	34.2	20.3%	36.4	22.5%	-2.2	-6.0%
Self-selection	19.7	11.7%	18.7	11.5%	+0.9	+5.0%
Toiletries	8.1	4.8%	9.3	5.7%	-1.2	-13.4%
Cosmetics	62.0	36.8%	64.5	39.7%	-2.5	-3.9%
Healthcare	3.6	2.1%	3.8	2.3%	-0.2	-4.8%
Others	7.7	4.6%	7.6	4.7%	+0.2	+2.1%
Domestic Cosmetics Business Sales	73.3	43.5%	75.8	46.7%	-2.5	-3.3%

(Billion yen)	Q1 of 2015/3	Q1 of 2014/3	YoY Amount	YoY % Change
Operating Income	4.0	7.1	-3.1	-43.5%
OP Margin	5.5%	9.4%	-3.9 pp	

- Next, we look at consolidated results by segment.

Domestic:
Summary of Results for the First Quarter of FY2014

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Net Sales	● Decline following the surge in demand before the consumption tax hike ● Store sales were recovering ● The decline following the surge in demand will not continue into the second quarter
Operating Income	● A lower margin due to decreased sales ● Higher personnel costs due to increased bonuses
Initiatives	● Countermeasures against the decline following the surge in demand before the consumption tax hike ● Preparations for brand innovations ● Preparations for boosting joint initiatives with major retailers

- This is a summary of the results of the Domestic Cosmetics Business for the first quarter.
- Net sales of the Domestic Cosmetics Business fell 3.3%, to 73.3 billion yen, reflecting the impact of a decline following the surge in demand before the consumption tax hike. However, store sales were recovering so we expect that the reactionary fall following the surge in demand will not continue into the second quarter.
- Meanwhile, operating income slid 3.1 billion yen, to 4 billion yen, affected by higher personnel costs associated with increased bonuses in addition to a lower margin as a result of decreased sales.
- I would like to explain the status of store sales and our specific initiatives related to store sales, which is a key point of our initiatives in the first quarter.

Domestic:
Decline Following the Surge in Demand before the Consumption Tax Hike/ Store Sales Were Recovering

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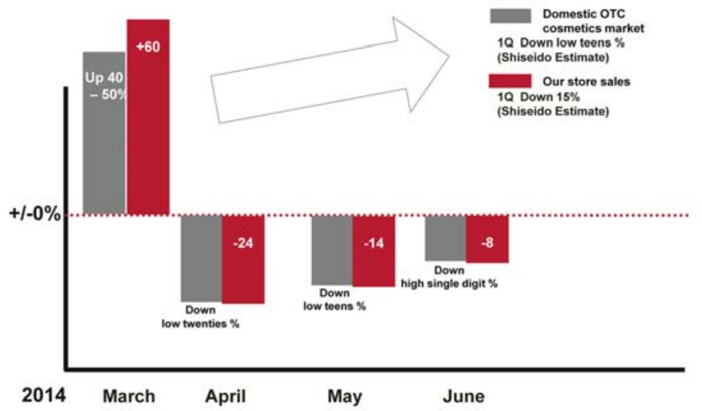
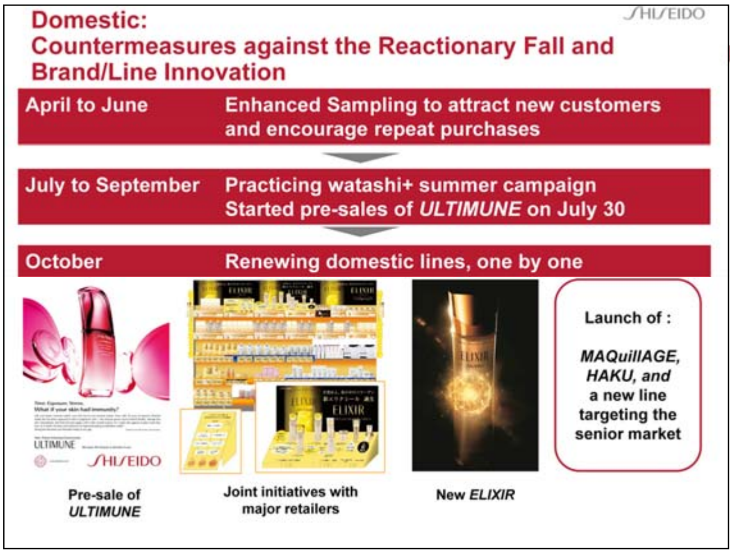


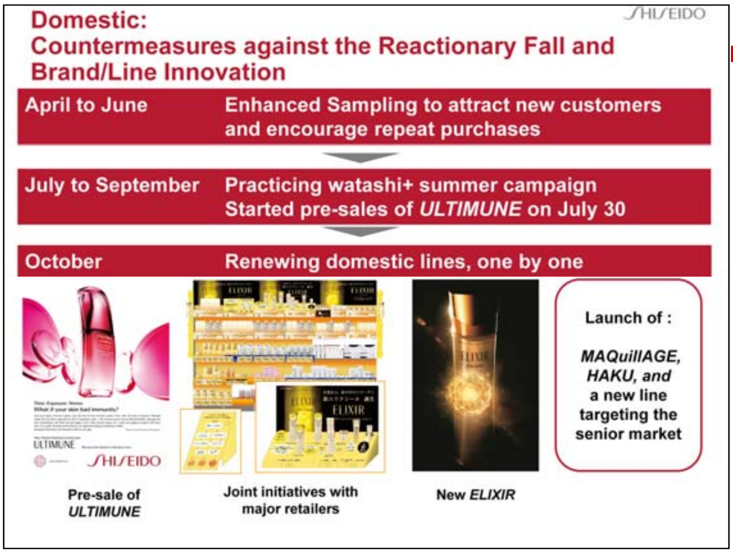
- First, let me review store sales for the first quarter.
- The domestic OTC cosmetics market saw decline following the surge in demand before the consumption tax hike, and the cumulative total is estimated to have shrunk around a little over 10% year on year in the first quarter. However, with every month that passes, the market is recovering, and store sales are expected to return to the year-ago level from July.
- Meanwhile, our store sales were down 15% during the first quarter. During the four-month period from March to June, our store sales were up 7% year on year.
- A breakdown by price bracket reveals that store sales of our high-end cosmetics are recovering at a faster pace than the market.



- Next, I would like to describe our countermeasures against reactionary fall following the surge in demand before the consumption tax hike and future brand/line innovations in the domestic market.

- In April to June this year, we enhanced sampling in stores and on the website. This was aimed at meeting new customers and meeting the replacement demand of cosmetic users, who tend to come to stores every two or three months, after the surge in demand before the consumption tax hike had been saturated.

- Furthermore, starting from July, when demand for products for summer is at its peak, we have been operating a campaign on watashi+, creating attractive selling spaces and obtaining more of these areas, and stepping up product promotions, in an effort to increase store sales.



- We also began pre-sales of *ULTIMUNE* on July 30 in several department stores, making a good start with sales on the first day three times higher than expected.

- We will pursue these activities along with the Marketing Reform Project we have been advancing since the end of last year, thereby linking them to the renewals of lines for the second half of the fiscal year, including those of *ELIXIR* and *MAQuillAGE,*

- At the same time, starting with the renewal of *ELIXIR* in October, we will introduce new store fixtures and tools, which we developed jointly with retailers, to drug stores.

Global Business Sales and Operating Income

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(Billion yen)	Q1 of 2015/3	% of Net Sales	Q1 of 2014/3	% of Net Sales	YoY Amount	YoY % Change	Local Currency
Cosmetics	81.8	48.6%	73.7	45.4%	+8.1	+10.9%	-1.3%
Professional	10.8	6.4%	10.5	6.5%	+0.2	+2.2%	-5.5%
Global Business Sales	92.6	55.0%	84.3	51.9%	+8.3	+9.8%	-1.8%

(Billion yen)	Q1 of 2015/3	Q1 of 2014/3	YoY Amount	YoY % Change
Operating Income before Amortization	-1.0	1.0	-2.0	—
Operating Income	-3.3	-1.1	-2.2	—
OP Margin	-3.6%	-1.3%	-2.2 pp	

- Moving on to the Global Business.
- Sales were 92.6 billion yen, falling 1.8% in local currency terms and increasing 9.8% due to the yen's depreciation in yen terms. The business reported an operating loss of 3.3 billion yen.

Overseas: Summary of Results for the First Quarter (Jan–Mar) of FY2014

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Area	YoY % Change of Net Sales (Local Currency)	Descriptions
Americas	+5.3% (-5.5%)	(+) The *NARS* brand remained strong (-) Decline in sales attributed to logistics problems
Europe	+10.6% (-3.6%)	(+) Strong sales in Italy, Spain, and Russia (-) Decline in sales of fragrance business (-) Increase in the allowance of sales returns in Greece
Asia	+15.2% (+3.3%)	(+) China: Year-on-year growth secured thanks in part to the launch of a new line of skin-brightening products from *AUPRES*.

- This screen shows the key points of our results in each geographical area for January to March, which is the first quarter in overseas countries.
- Sales in the Americas declined despite the strong sales of *NARS* due in part to the logistics center problems.
- In Europe, sales remained strong in Italy, Spain, and Russia, but sales in the fragrance business, where brand strengthening and other initiatives will take place from the second quarter, declined year on year. Overall sales in Europe also decreased year on year.

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- Sales in Asia exceeded the year-ago level due to the steady performance of *AUPRES*, which saw a launch of new skin-brightening products in China in March.
- Our profit in Global Business was affected by the increased marketing expenses in China and *bareMinerals* and an increase in the allowance of sales returns, which was aimed at stock adjustment in Greece, in addition to a lower margin due to decreased sales.

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Overseas: Initiatives for the Second Quarter (Apr–Jun) of FY2014

Area	Q2 Sales	Descriptions
Americas	Year-on-year increase	(+) Strong sales of the *NARS* brand (+) Sales of *bareMinerals* were on the recovery trend due to the launch of *BARESKIN* liquid foundation. (+) Restoration of the logistics structure (with an increase of operation costs as a negative factor)
Europe	Year-on-year decline	(+) Favorable results in Russia (-) Decrease of sales attributed to the sales of the *DECLÉOR* and *CARITA* business
Asia	Year-on-year increase	(+) Year-on-year growth secured thanks in part to increase in sales of *Za* and sales in e-commerce site in China

- I will give a brief overview of our sales in the second quarter in overseas markets because the second quarter has already ended in those markets.
- In the Americas, we launched in May *BARESKIN*, the first liquid foundation from *bareMinerals*. This product made a good start. For example, it was ranked 1st and 3rd in sales of foundations in May at major US retailers ULTA and SEPHORA, respectively. In the second quarter, restoration of the logistic structure in the region made progress, albeit incurring operation costs, and overall sales in the Americas returned to positive growth.

Overseas:
Initiatives for the Second Quarter (Apr–Jun) of FY2014

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- Sales in Europe declined year on year, partly reflecting a decrease in sales resulting from sales of the *DECLÉOR* and *CARITA* business. However, the global brand *SHISEIDO* has been strong in Russia.
- In Asia, we achieved sales exceeding those of the same quarter in the previous year, partly because China continued to expand the sales of *Za* and sales on the e-commerce site in the second quarter.

Overseas:
Initiatives for the Second Half (Jul–Dec) of FY2014

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1. **Launch of *ULTIMUNE* from the global brand *SHISEIDO***
2. **Enhanced initiatives in China**

Launch scheduled for September
ULTIMUNE

Launch scheduled for August
AUPRES Aqua Energy Line

Launch scheduled for September
URARA Prime Line

- Let me describe our initiatives for the second half of the year. From the global brand *SHISEIDO*, our mainstay brand, we will launch *ULTIMUNE* in September, which will be our first initiative under the Marketing Reform Project. We have already undertaken marketing activities aggressively in a number of countries, including large-scale press events and tie-ups with magazines. Thanks to these activities, reservations for the product and its initial sales have been making steady progress.
- In China, in addition to the renewal of our main brands, *AUPRES* and *URARA*, we will focus on responding to the growth of the middle-income group and changes in sales channels, such as the expansion of the e-commerce market, reviews of the organizational structure, including proactive recruitment of local human resources, and other measures, in an effort to achieve higher growth.

Consolidated Balance Sheets

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(Billion yen)	2014/6	Change	(Compared to end of Mar. 2014) Excl. Foreign Exchange	Foreign Exchange
Total Current Assets	346.1	-56.5	-50.4	-6.1
Cash Deposits and Securities	95.4	-33.5	-31.8	-1.7
Notes & Accounts Receivable	109.6	-28.7	-26.6	-2.1
Inventories	99.7	+9.4	+11.3	-1.9
Total Fixed Assets	393.7	-5.1	+0.6	-5.7
Property Plant and Equipment	131.2	-3.7	-2.1	-1.5
Intangible Assets	159.9	-6.8	-3.2	-3.6
Investments and Other Assets	102.6	+5.4	+5.9	-0.5
Total Assets	739.8	-61.6	-49.9	-11.7

(Billion yen)	2014/6	Change	(Compared to end of Mar. 2014) Excl. Foreign Exchange	Foreign Exchange
Total Liabilities	405.3	-37.3	-33.9	-3.4
Other Payables	34.8	-13.3	-13.0	-0.2
Interest-bearing Debt	138.5	-17.4	-17.2	-0.2
Liability Related to/Reserve for Retirement Benefit	76.4	+15.5	+15.7	-0.1
Total Net Assets	334.5	-24.2	-16.0	-8.3
Shareholders' Equity	319.4	-16.1	—	—
Other Comprehensive Income	-4.7	-7.7	—	—
Minority Interests	18.8	-0.4	—	—
Total Liabilities and Net Assets	739.8	-61.6	-49.9	-11.7

US1$ = ¥102.9 1€ = ¥141.6 1RMB = ¥16.6 (2014/6)

US1$ = ¥105.4 1€ =¥145.0 1RMB = ¥17.4 (2014/3)

* NOTE: Major account.t title only

Equity Ratio: 42.5%, Interest-bearing Debt Ratio: 29.3%

- Let us now turn out attention to the balance sheet.
- Total assets as of the end of June decreased 61.6 billion yen from the end of the previous fiscal year, to 739.8 billion yen.
- This reflects decreases in cash and deposits and securities due to the repayment of interest-bearing debt and the payment of cash dividends, a decrease in notes and accounts receivable-trade due to the difference in the period of time of recording sales between the entire fiscal year and the end of the first quarter, the higher value of the yen at the end of June compared with the end of March, and other factors.
- The interest-bearing debt ratio dropped 1.0 percentage points from the end of the previous fiscal year, to 29.3%.

Outlook for the First Half Ending September 2014

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(Billion yen)	Q1	YoY % Change	Q2	YoY % Change	1st half	YoY % Change	Forecast Difference
Net Sales	168.4	+3.7%	201.6	+1.8%	370.0	+2.6%	+4.0
Domestic	79.5	-3.2%	99.5	-0.2%	179.0	-1.6%	+/-0.0
Overseas	88.8	+10.8%	102.2	+3.8%	191.0	+6.9%	+4.0
Operating Income	1.4	-80.2%	13.1	-2.8%	14.5	-28.9%	+/-0.0
Ordinary Income	1.4	-80.9%	13.1	-3.0%	14.5	-31.0%	+/-0.0
Extraordinary Income / Loss	0.7	—	15.8	(-7.9)	16.5	(-7.9)	+/-0.0
Net Income	-1.8	(2.7)	26.3	+866.6%	24.5	+355.6%	+/-0.0

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

- Overseas Sales Ratio 51.6% (+2.0 pp)
- Operating Margin 3.9% (-1.8 pp)
- Exchange Rate 1 US$ = ¥102 (+7%), 1 Euro = ¥140 (+12%), 1 RMB = ¥16.7 (+8%)

- Now, we will look at our outlook for the first half.
- Net sales are expected to increase 2.6% year on year, to 370 billion yen. The forecast was revised to add 4 billion yen to the initial plan. The domestic forecast is unchanged but notably the foreign exchange level for the overseas forecast was revised, and yen-based sales are expected to rise by 6.9%.
- Forecasts for operating income, ordinary income, extraordinary income/loss and net income are all unchanged.

Full-Year Forecasts for FY2014

(Billion yen)	2015/3	2014/3	YoY Amount	YoY % Change	Local Currency	Forecast Difference
Net Sales	780.0	762.0	+18.0	+2.4%	+1%	+/-0.0
Domestic	370.0	377.3	-7.3	-1.9%	-2%	+/-0.0
Overseas	410.0	384.8	+25.2	+6.6%	+4%	+/-0.0
Operating Income	42.0	49.6	-7.6	-15.4%	—	+/-0.0
Ordinary Income	42.0	51.4	-9.4	-18.3%	—	+/-0.0
Extraordinary Income / Loss	14.5	-1.0	+15.5	—	—	+/-0.0
Net Income	38.0	26.1	+11.9	+45.3%	—	+/-0.0

- Overseas Sales Ratio 52.6%
- Operating Margin 5.4%
- Forecasted ROE 10.7%
- Exchange Rate 1 US$ = ¥100 (+2%), 1 Euro = ¥135 (+4%), 1 RMB = ¥16.5 (+4%)

- We did not review the full-year forecast because the foreign exchange level is uncertain.

VISION 2020 and Mid-Term Management Plan

To realize management suited to a global company, all members of the management team and responsible persons from domestic and overseas offices discussed business challenges and proposed strategies

1) Determining a vision for Shiseido and resetting our business domains
2) Developing a new global brand portfolio strategy
3) Strengthening innovation strategy
4) Promoting reform of the organization and corporate culture
5) Strengthening business base

Formulated outline of VISION 2020 and mid-term management plan

Will be setting specific numerical targets and developing detailed measures

- Next, I would like to explain what the management team has discussed with respect to sustainable growth.

- It is 100 days since Mr. Uotani was appointed President and CEO of Shiseido and a new management team was formed. During this period, all members of the management team and key staff from our domestic and overseas offices discussed our business challenges and strategies along with the five themes. As a result, we formulated the outline of the Vision 2020 as a summary of what Shiseido should be like in 2020 and the mid-term management plan.

- Going forward, we will set specific numerical targets and finalize specific actions for achieving the targets, such as the introduction or termination of brands and lines and their deployment in geographic areas, one by one in a detailed manner. We will announce the targets and actions on a timely basis after finalizing them internally.

Thorough Review and Streamlining of the Company-wide Cost Structure

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Continue to promote reform of cost structure

Cost reduction effect in FY2013 through FY2014 as compared to FY2011	
Cumulative cost reduction from FY2011	¥24.0 billion
Greater-than-planned reduction achieved in Q1 of FY2014	

We will centralize media-buying in key overseas markets in July 2014

Aggressive investments in marketing and R&D

- I will move on now to explain our comprehensive review and streamlining of the company-wide cost structure.
- In our reform of the cost structure, we thoroughly reviewed and streamlined the cost structure throughout the company, aiming for a cumulative cost reduction of 24 billion yen in FY2013 through FY2014. In the first quarter, we were able to achieve a reduction that was greater than planned.
- In July, we started a new initiative. We centralized media-buying by Shiseido Group companies in key overseas markets. By making use of our economies of scale on a global level, we will strive to make further improvements in the efficiency of advertising, an investment that is essential for selling cosmetics products.
- Going forward, we will aggressively invest the resources generated through these measures in marketing activities and in research and development efforts.

Enhancement of Brand Marketing

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Introduce the Brand Management System

Promote visualization

Company-wide efforts

ICHIGAN Project

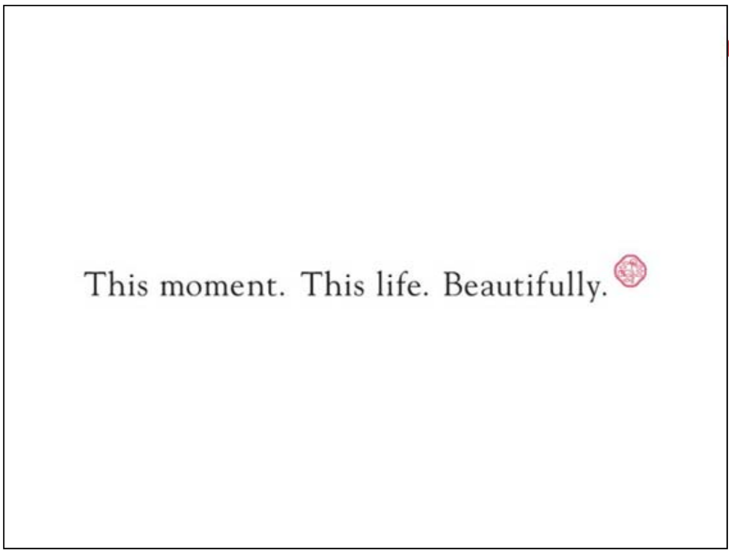
Be a more competitive organization

- Finally, I would like to explain the enhancement of our brand marketing.
- In Japan, we began to visualize daily store sales of each brand/line and sales channel in April. In July, we began to visualize data on shipment sales made in overseas countries where we operate. Those visualized data are sent to our management, the brand development team in charge of each business, and sales people every day to ensure that the data are shared internally. We thus raise our awareness of daily fluctuations of sales.
- In addition to the visualization of our performance, in the second half of the year we will introduce a system that will enable us to manage profits of each brand on a monthly basis. We will use this system to accelerate decision-making. For example, we will reallocate cost flexibly by transcending the boundaries of brands and lines.

- Meanwhile, as we told you at the press conference of *ELIXIR* on July 18, we will introduce the Brand Management System. Under this system, our Brand Managers will take overall control of the entire process from planning and development to production and sales of products for their brands, with comprehensive responsibility and authority over the process and in collaboration with front-line sales people.

- At the same time, we will launch the ICHIGAN Project, which will involve all employees, including those of the Head Office, in our effort to improve our ability to execute.

- In this way, in the brand innovations which we will begin, all of us at Shiseido will focus on the value we provide to customers, by using the data that has been fully shared through visualization and by making full use of the collective wisdom and power created in the ICHIGAN Project. We will thereby transform into an organization that is able to prevail over competing brands.



- This concludes my presentation. Thank you for your kind attention.

[Supplemental Data 1]
Sales and Operating Income by Reportable Segment

(Billion yen)	Q1 of 2015/3	Q1 of 2014/3	YoY Amount	YoY % Change
Domestic Cosmetics Business	73.3	75.8	-2.5	-3.3%
Global Business	92.6	84.3	+8.3	+9.8%
Others	2.5	2.2	+0.2	+10.7%
Sales	168.4	162.4	+6.0	+3.7%
Domestic Cosmetics Business	4.0	7.1	-3.1	-43.5%
Global Business	-3.3	-1.1	-2.2	—
Others	0.7	0.5	+0.1	+24.3%
Elimination/ Corporate	0.0	0.3	-0.3	—
Operating Income	1.4	6.9	-5.5	-80.2%

[Supplemental Data 2]
Sales by Geographic Segment

(Billion yen)	Q1 of 2015/3		Q1 of 2014/3		YoY Amount	YoY % Change	Local Currency
		% of Net Sales		% of Net Sales			
Japan	79.5	47.2%	82.2	50.6%	-2.6	-3.2%	-3.3%
Americas	26.8	15.9%	25.5	15.7%	+1.3	+5.3%	-5.5%
Europe	23.9	14.2%	21.6	13.3%	+2.3	+10.6%	-3.6%
Asia/ Oceania	38.2	22.7%	33.2	20.4%	+5.0	+15.2%	+3.3%
Overseas	88.8	52.8%	80.2	49.4%	+8.6	+10.8%	-1.4%
Total	168.4	100%	162.4	100%	+6.0	+3.7%	-2.3%

[Supplemental Data 3] Cost of Sales and SG&A

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(Billion yen)	Q1 of 2015/3	% of Net Sales	% pt. Change +: decrease	YoY Increase/ Decrease +: cost cuts	YoY % Change	Foreign Currency Exchange	Excl. Foreign Currency Exchange +: cost cuts
Cost of Sales	39.4	23.4%	-0.1%	-1.6	+4.3%	-2.7	+1.1
SG&A	127.6	75.8%	-3.3%	-9.9	+8.4%	-7.0	-2.9
(Domestic)	64.1	80.8%	-4.5%	-1.6	+2.5%	—	-1.6
(Overseas)	63.5	71.3%	-2.7%	-8.3	+15.1%	-7.0	-1.3
Advertising & Selling	38.0	22.6%	-1.3%	-3.4	+10.0%	-2.4	-1.0
Personnel	47.7	28.3%	-1.3%	-3.9	+8.9%	-2.2	-1.7
Others	39.6	23.5%	-0.6%	-2.4	+6.4%	-2.2	-0.2
M&A-related Amortization Cost	2.4	1.4%	-0.1%	-0.2	+9.6%	-0.2	+0.0

[Supplemental Data 4] SG&A: Domestic and Overseas Breakdown

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(Billion yen)	Q1 of 2015/3	Q1 of 2014/3	YoY Increase/ Decrease +: cost cut	YoY % Change	Foreign Currency Exchange	Excl. Foreign Currency Exchange +: cost cuts
Domestic	16.6	16.5	-0.1	+0.7%	—	-0.1
Overseas	21.4	18.0	-3.3	+18.5%	-2.4	-0.9
Advertising & Selling	38.0	34.5	-3.4	+10.0%	-2.4	-1.0
Domestic	27.5	26.0	-1.5	+5.8%	—	-1.5
Overseas	20.1	17.8	-2.4	+13.4%	-2.2	-0.2
Personnel	47.7	43.8	-3.9	+8.9%	-2.2	-1.7
Domestic	19.9	19.9	+0.1	-0.3%	—	+0.1
Overseas	19.7	17.3	-2.4	+14.1%	-2.2	-0.2
Others	39.6	37.2	-2.4	+6.4%	-2.2	-0.2
Domestic	0.0	0.0	±0	+/-0.0%	—	±0
Overseas	2.3	2.1	-0.2	+9.8%	-0.2	+0.0
M&A-related Amortization Cost	2.4	2.1	-0.2	+9.6%	-0.2	+0.0
Domestic	64.1	62.5	-1.6	+2.5%	—	-1.6
Overseas	63.5	55.2	-8.3	+15.1%	-7.0	-1.3
Total	127.6	117.7	-9.9	+8.4%	-7.0	-2.9