

Q&A for the First Quarter of the Fiscal Year Ending March 31, 2015 (Summary)

Q) Sales growth in China for Q1 was in the mid-single digits. Did it grow to the same extent in Q2 again?

Can you achieve double-digit growth for the full year?

A) Sales growth was in the mid-single digits again in Q2. This growth is attributable to sales from e-commerce, in which we mainly offer toiletry products. The key for the second half of the year is whether or not the *Aqua Energy* line of *AUPRES* and *URARA*'s *Prime* line, which we will soon introduce, will perform as planned. In addition, we are preparing to step up marketing investments toward the second half, including for the global brand *SHISEIDO*, from which we will release *ULTIMUNE* in November. So we still aim for double-digit growth for the full year.

Q) How much do you focus on achieving your profit plan for the year?

A) Our basic approach is to increase the amount of profit through growth in sales, instead of adhering to the profit margin only. Currently, we review the prospect of each business on a monthly basis. We will also reallocate the marketing expense flexibly in light of the situation on the sales frontline.

Q) What impact will the sales of *DECLÉOR* and *CARITA* have on PL?

A) It was in April that we sold *DECLÉOR* and *CARITA*, so their performance is included in the Q1 result but not in the result for May onward. The gain on transfer of business in Q1, which is 0.3 billion yen, is that of domestic assets. Including this amount, we are going to post a total of 22.2 billion yen as a gain on the transfer of business for the first half.

Q) It seems that the gross margin has not improved. What is the progress in the review of the company-wide cost structure?

A) Cost cutting has been making more progress than planned, with domestic production costs having been reduced steadily. However, this does not make a significant contribution to the gross margin, partly because our overseas sales ratio has been increasing. Reducing the cost of purchasing indirect materials has also been progressing more quickly than planned. What is important in cost cutting is to make it an established practice of the Company. We are looking for costs that can be reduced but that are not included in the plan we developed last year.

Q) Income declined 5.5 billion yen in Q1. Could you analyze the change?

A) On a currency-neutral basis, gross profit decreased by 2.7 billion yen, personnel expenses in Japan increased by 1.5 billion yen, overseas marketing cost increased by 0.9 billion yen, and expenses increased by 0.4 billion yen. In Japan and China, the streamlining of the cost structure and the increase in marketing costs balanced each other out.

Q) What was the impact of the reactionary fall after the last-minute demand before the consumption tax hike in Japan?

A) We regard the impact as 8 billion yen, in line with expectations. We believe the impact of the reactionary fall is over, partly because sales of *clé de peau BEAUTÉ* and *ELIXIR*, for which there was great last-minute demand in March, reached the year-ago level in July and partly because sales of products for summer have been above the year-ago level since the end of the rainy season.

Q) What are the factors that caused Q2 sales growth rate in China to remain unchanged from Q1? Can you achieve a double-digit operating margin for the full year?

A) We expected the sales growth rate to be a little higher in Q2. Sales from e-commerce exceeded the plan, but sales of *AUPRES* did not grow as much as they did in Q1. Recovery of the global brand *SHISEIDO* has been delayed, and the problem is that brand power weakened as a result of the reduction in marketing investment after the Senkaku Islands dispute. To achieve double-digit growth in sales for the full year, we will boost investment in the second half, thereby increasing the brand strength of *AUPRES*, *URARA*, and the global brand *SHISEIDO* while also spurring growth in e-commerce. With regard to operating income, we will place more emphasis on the “amount” than on the “rate” and give priority to growth through sufficient investment.

Q) You announced personnel changes among executives today. Does this mean that your strategy for international business will change?

A) The strategy will not change because a Corporate Officer will serve concurrently as General Manager of a division.

Q) How were monthly sales in China in Q2?

A) Sales declined in April and May but grew significantly in June.

Q) Were the sales from e-commerce above the level for the overall market? What factors contributed to the strong result?

A) The e-commerce market has been growing significantly, and its rate of growth is equivalent to that of our sales from e-commerce. We mainly handle toiletry products in e-commerce. It accounts for around 5% of total sales, but we are planning the next phase aiming for further expansion.

Q) How did Q2 sales of *Bare Escentuals* compare to the same period of the previous fiscal year? What factors contribute to the favorable performance of *BARESKIN*?

A) Sales of *Bare Escentuals* declined by mid-single digits in Q1 and stood at the previous year's level in Q2. Liquid foundation made from mineral materials is rare, so it is very popular with women in the United States, who prefer liquid foundation. The technique for applying the foundation featuring the use of a brush, which is unique to *Bare Escentuals*, is also evaluated highly. Sales of *BARESKIN* were 30% above the plan in May and June. We will step up investment in this product in July again, in an effort to turn it into a main category following the existing loose-powder foundation. In September, we will release the liquid foundation in the UK, so we can expect further sales growth.

Q) What data do you refer to as the base for your estimates of the domestic cosmetics market?

A) There is no market data that cover all channels. Therefore, we make estimates taking into comprehensive consideration multiple data including statistics on department stores all over Japan and INTAGE SRI and SLI.

Q) Did Shiseido's domestic sales in the Apr-Jun quarter grow at the same rate as that of the market?

A) The rate is mostly linked to the market. When we look closely at each price range and each channel, the rate of growth of our products in at high end recovered more quickly than the market while that of our low-price products was below the market level and that of our mid-range products was on the same level as the market's. We started to see a shift from the low-price range to the mid-price range around last year, and expect the growth of the latter to continue this year. Accordingly, we will strengthen the *ELIXIR* and *MAQuillage* products that we will release in October or later. We also expect growth in products in the high-price range, so we will boost measures for *clé de peau BEAUTÉ* and the global brand *SHISEIDO* at department stores.

Q) At the press conference for *ELIXIR*, you told us about the provision of samples to 4 million people. Has this been factored into the domestic marketing cost?

A) It has been factored into our cost plan. If the increase of sales becomes more certain after the release, we may allocate an additional budget through a resource shift.

Q) Please tell us the progress made by your reform of the cost structure in Q1.

A) You can assume that the targeted reduction for the full year, which is 5 billion yen, will be achieved evenly throughout the year, with a reduction of roughly a quarter every quarter. In Q1, we achieved a reduction of more than a quarter of the targeted amount.

Q) Please explain the gap between store sales and shipments in Japan. Sales in Japan decreased by 2.5 billion yen in Q1. Was there any impact on sales in Q2?

A) There seems to be a gap if you look at the year-on-year rate, with over-the-counter sales having declined 15% and shipment sales having decreased by 4%. In monetary terms, however, the store-level inventory as of the end of June increased just 0.5 billion yen compared to the end of March, and over-the-counter sales and shipments remained in parallel with each other in July. Store-level inventory did not increase, so sales in Q2 were not affected.

Q) Can we assume that personnel expenses in Q1 were below expectations?

A) There was an increase in bonuses, but personnel expenses did not increase as expected because the number of employees decreased. We have not changed our full-year forecast because we are considering expanding our marketing workforce.

Q) What is the breakdown of the 2.2 billion yen decrease in operating income of the Global Business for Q1?

A) We had expected the income to decline, so the result was not below expectations. Operating income was affected in part by an increased marketing investment in China and *bareMinerals* and an increase in the allowance of sales returns, which was aimed at market inventory adjustment in Greece, in addition to a lower margin due to decreased sales.

Q) Please describe overseas sales for Q2 by region.

A) Sales in the Americas increased year on year. The growth rate in China was almost the same as that in Q1. Sales in Europe decreased year on year due to the sale of the *DECLÉOR* and *CARITA* businesses but were in line with the plan.