January 30, 2015

Shiseido Co., Ltd.

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

[About consolidated operating results]

Q) Please describe income by geographical segment for the Q3 cumulative period.

A) Income came to 7.5 billion yen in Japan, minus 1.6 billion yen in the Americas, 3.9 billion yen in Europe, and 6.9 billion yen in Asia/Oceania.

Q) In which areas was the marketing budget allocated in Q3?

A) We strengthened marketing investment for China and *Bare Escentuals* operations.

Q) What factors will likely cause the year-on-year decrease in operating income of nearly 10 billion yen in the Q4?

A) The effects of the adjustment of store-level inventory in China and the rest of Asia will likely be the largest, although there will be a marginal profit due to the impact of the fall after the last-minute demand before the consumption tax hike in Japan.

Q) Would it not be difficult to achieve an operating income of 25 billion yen for the full fiscal year?

A) The fiscal year has already ended overseas and we do not think that actual results will deviate greatly from the forecasts.

For the domestic market, we will focus on sales increases for *ULTIMUNE*, *ELIXIR*, and *MAQuillAGE*, which achieved positive results by Q3, launch *PRIOR* in January, and further strengthen *TSUBAKI* and other hair care and body care products and men's category.

[About the domestic situation]

Q) How do you view the domestic market developments in 2014 and 2015? What about in terms of price ranges?

A) In the Q3 cumulative period of 2014, market growth saw a mid single-digit contraction for the low-price range and a high single-digit contraction for the mid-to-high price range combined. In 2015, we expect modest growth. There is unlikely to be a significant difference among price ranges due to the absence of the reaction after the last-minute demand before the consumption tax hike.

Q) What are the factors for the operating income decline in Q3 in domestic operations?

A) Operating income declined compared to the level a year ago, due to the impact of strengthening of advertising and promotion efforts after the innovation for *ELIXIR* and *MAQuillAGE* and higher personnel costs resulting from increased bonuses.

Q) What is the breakdown by price range in domestic operations?

A) The low-price range (up to 2,000 yen) accounts for slightly more than 40%, the mid-price range (between 2,000 yen and 5,000 yen) accounts for slightly more than 30%, and the high-price range (more than 5,000 yen) accounts for slightly more than 20%. Looking at the market as a whole, the low-price range accounts for about 50% of the market. Compared to this, our internal share of products in the low-price range is low.

Q) Please describe your plan for strengthening the low-price range in the Q4. Will the plan include *AQUALABEL* and *INTEGRATE*?

A) We plan to accelerate our project and implement product innovation for *TSUBAKI* in March. Its promotional communication will be revamped and the content of the product will be strengthened based on the concept of realizing beautiful hair by keeping the scalp soft. Retailers are also enthusiastic about this project and we are sure you can expect to hear favorable results. We plan to start strengthening *Integrate* and *AQUALABEL* in earnest from the next fiscal year onward.

Q) How much were sales to inbound tourists? What sold well? Was there any cannibalization between sales to inbound tourists and sales in their home countries?

A) Sales to foreigners through the department channel in October through December rose threefold from a year ago. We estimate that sales to inbound tourists, including sales at drug stores, will exceed 5.0 billion yen in FY2014 and will be more in the next fiscal year. In addition to the global brand *SHISEIDO*, *ANESSA* and *clé de peau BEAUTÉ* are popular. We will dispatch interpreters and take other steps for Chinese New Year in February. Even if there is some cannibalization, we expect that purchases in Japan will result in continued purchases in their home countries.

Q) How much have store sales been in January?

A) Sales declined from a year ago in November and December. However, *Prior* got off to a good start, and sales are recovering gradually.

[Situation in China]

Q) Why did operating income in China fell into negative territory in Q3? What is your full-year operating income forecast for China?

A) The main reason was an increase in investment in marketing. In China, income is low in Q1 and Q3 every year. In Q4 this year, operating income will fall significantly, reflecting the adjustment of store-level inventory in October through December, and we do not expect much income in the full year.

Q) Could you describe the current situation of *AUPRES*, *URARA*, and the global brand *SHISEIDO*?

A) Sales of *AUPRES* are on a par with the year-ago level, and *URARA* is struggling, reflecting weak sales at specialty stores overall. The decline in the global brand *SHISEIDO* has narrowed due to the launch of *ULTIMUNE*. Overall, the situation remains challenging. In January, store sales have been weak due to late Chinese New Year this year, but shipments has exceeded the year-ago level partly due to the adjustment of store-level inventory. We will increase investment in marketing and will seek to boost store sales in February.

[Situation in the Americas]

Q) Were there additional costs to deal with trouble at distribution centers?

A) We posted additional costs, including personnel costs, in Q4 to deal with the peak demand period in December, and thanks to this effort, we were able to reduce opportunity losses. However, there have been no costs added to our forecast since October. We will strengthen overall operations from the next fiscal year.

Q) Could you describe the situation of *Bare Escentuals*?

A) Shipments in the second half recorded a double-digit increase. In Q4, over-the-counter same-store sales recorded a mid single-digit increase, which indicates that growth momentum has been generated. We will step up investment in the emulsion foundation and *BARESKIN* that were launched in January to put *Bare Escentuals* on a growth track.