

FY2015 First-Half Review and Full-Year Outlook

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SHISEIDO



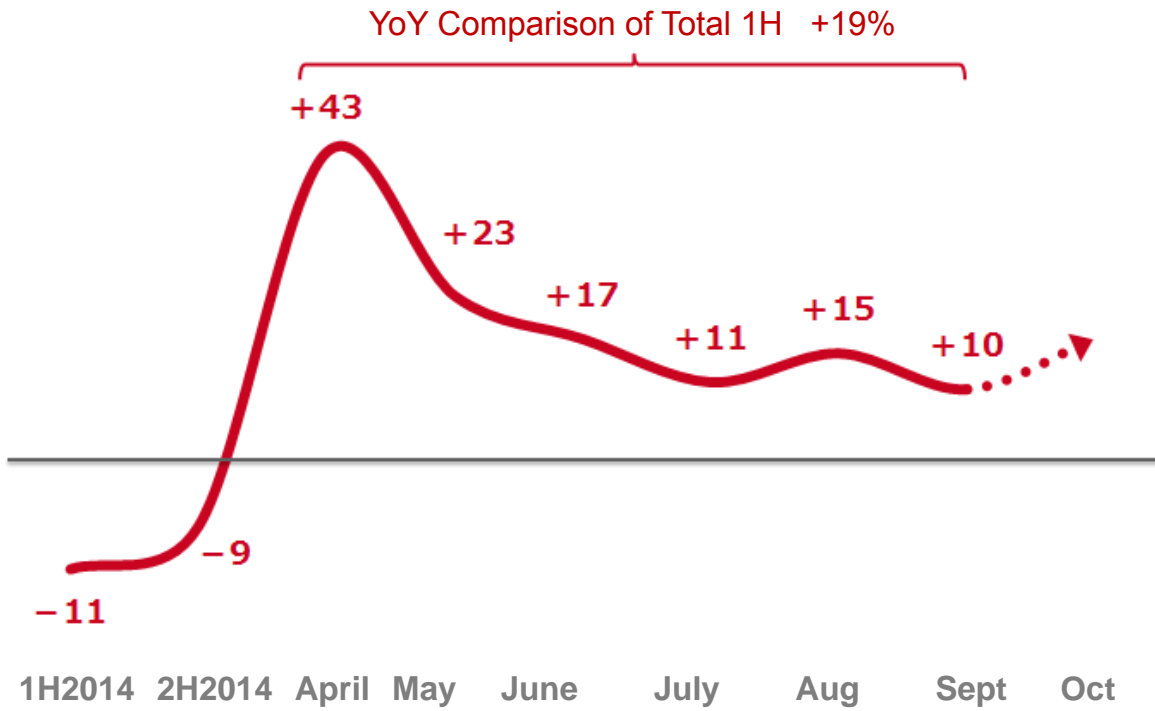
First Half Results (Ended September 2015)

(Billion yen)	15/12 Result		15/3 Result		YoY Amount	YoY Change %	Change in Local Currency
		% of Net Sales		% of Net Sales			
Net Sales	411.9	100%	365.7	100%	+46.2	+12.6%	+7.2%
Domestic	193.7	47.0%	172.6	47.2%	+21.1	+12.2%	+12.1%
Overseas	218.2	53.0%	193.1	52.8%	+25.1	+13.0%	+2.8%
Operating Income	14.9	3.6%	10.9	3.0%	+4.0	+36.2%	+36.3%
Ordinary Income	15.2	3.7%	11.5	3.1%	+3.6	+31.6%	
Extraordinary Income	2.5	0.6%	20.9	5.8%	-18.5	-88.3%	
Net Income Attributable to Owners of Parent	4.0	1.0%	24.6	6.7%	-20.6	-83.8%	
EBITDA	38.1	9.3%	51.6	14.1%	-13.5	-26.2%	

Exchange Rates USD 1 = JPY 120.2 (+17.3%); EUR 1 = JPY 134.2 (-4.5%); CNY 1 = JPY 19.3 (+16.0%)

Restoring Growth in Japan Business

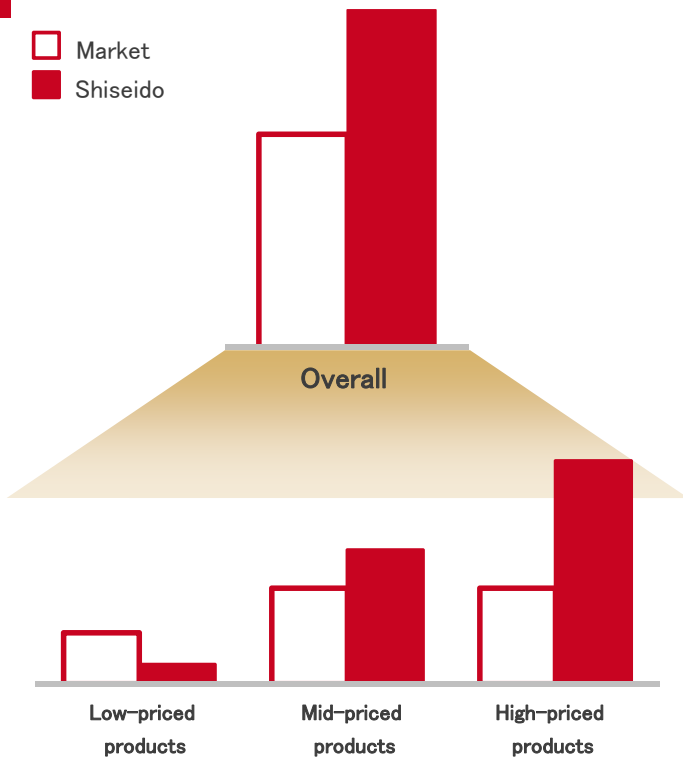
Shiseido: YoY Comparison of In-Store Sales



Mid- and High-Priced Products Selling Well

1H 2015

YoY Growth in Market and Shiseido's Store Sales



Japan YoY Sales Growth for 1H +12.2%

Brand Innovations and Capturing Inbound Demand Drove Recovery of Growth Potential That Exceeds the Market Growth

Successes

- Steady growth for key brands
- “ICHIGAN” corporate culture and consumer orientation
- Strengthened brand portfolio (selection and concentration)
- Accelerated alliances with retailers and business partners
- Capturing inbound demand

Issues

- Further nurture key brands entering their second year of innovation
- Strengthen low-priced skincare, makeup and haircare products

Initiatives from 2H 2015

- Aggressively introduce new items to nurture brands
- Renewals and strengthening communication for low-priced products
- Area events as part of the “ICHIGAN” Project

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China YoY Sales Growth for 1H (Local currency) -7.6%

Strong prestige Business and E-Commerce, Weak Cosmetics Business

Successes

- Strong Prestige business supported by market inventory reduction in previous year
 - SHISEIDO, IPSA and clé de peau BEAUTÉ
- Strong sales growth in e-commerce due to enhanced personnel and establishing an independent organization
- Strong sales in Hong Kong

Issues

- Poor execution of sales organization reforms in the cosmetics business
 - Weak sales of Za, Pure&Mild and URARA
 - Weakened sales organization functionality
 - Negative impact on store sales and shipment sales
- Sluggish sales of AUPRES: start full-scale review

Downward Revision of Sales Outlook

Full-Year FY2015: +8% initially to +3%

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Urgent Initiatives

- Management structure reform
 - Enhanced communication with distributors to restore the trust
 - Promoted dialogue with employees and fostered unity
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- Quickly stabilize sales organization
 - Strengthen collaborative initiatives with distributors and retailers in the remaining two months (November and December) to achieve FY2015 performance targets

Medium-Term Initiatives

- Review and reinforce business plans for FY2016 and FY2017
 - Nurture and strengthen brands (aggressively launch new products and make investments to expand sell-out)
 - Accelerate e-commerce growth and conduct borderless marketing
- Enhance internal and external communication
- Nurture and promote the advancement of local employees
- Restructure personnel system (hiring, training, evaluation, compensation) and organizational systems
- Promote structural reforms

Asia YoY Sales Growth for 1H (Local currency) +10.3%

Strong Overall in Asia

Successes

- Sales growth in Singapore and Malaysia (effect of market inventory reduction)
- Strong sales in Korea and Vietnam
- Steadily nurtured *SHISEIDO* and *SENKA*
- Established Asia regional headquarters
- Growth in Professional Business, hair color sales and scalp care sales
- Full-scale start of joint venture in Indonesia

Issues

- Thailand: Negative effect of political unrest
- India: *Za* brand struggling

Initiatives from 2H 2015

- Consolidate offices and promote efficient operations
- Enhance regional marketing
- Enhance product development function

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Americas YoY Sales Growth for 1H (Local currency) +5.8%

***SHISEIDO*, *NARS* and the Rest of the Prestige Business Were Strong. Restoring Growth at Bare Escentuals and Improving Profitability Are Issues to Deal With**

Successes

- *SHISEIDO* skincare and sunscreen sales were favorable
- *NARS* sales were firm
- Growth in *clé de peau BEAUTÉ* sales
- Solved distribution center issues

Issues

- Identify the key factors for slowdown in growth of Bare Escentuals sales
- Improve profitability

Initiatives from 2H 2015

- Launch *bareMinerals* exclusive holiday products and new skincare products
- Radically review and restructure Bare Escentuals' business model
- Strengthen market inventory management to improve the freshness of stock
- Consolidate IT systems and introduce shared services
- Promote the regional headquarters organization and business structural reforms

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Europe YoY Sales Growth for 1H (Local currency) +7.6%

Nurturing Key Items and Solid Performance of Area Developed Products

Successes

- Good sales in Spain and Italy
- *SHISEIDO* : steadily nurtured *ULTIMUNE*
- Favorable performance of mascara and fragrance products developed in Europe
- Strong sales of *ISSEY MIYAKE* and *narciso rodriguez*

Issues

- Restore business in Greece, Switzerland and Germany
- Enhance fragrance brand portfolio

Initiatives from 2H 2015

- Construct a regional headquarters organization and promote improvement of profitability
- Continue to nurture *SHISEIDO ULTIMUNE* and mascara products
- Launch the *ALAIA* fragrance brand by Azzedine Alaia and continue to nurture *ISSEY MIYAKE* and *narciso rodriguez*

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Travel Retail (TR)

Asia Is Driving Growth

Successes

- Good performance in Asia
– Strong growth in sales of *SHISEIDO*, *clé de peau BEAUTÉ* and *NARS*
- Enhanced development of exclusive TR products
- Established a headquarters in Singapore
- Maintained strong No. 1 share at duty-free shops at major airports in Japan

Issues

- Fewer tourists in Europe and the Americas reduced sales

Initiatives from 2H 2015

- Expand and enhance Asia business (centered on Chinese tourists); launch, expand and enhance exclusive products
- Aggressively open sales counters
- Increase airport and in-flight advertising
- Expand and enhance the organization

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Full-Year Outlook for FY2015

(Billion yen)	Year ending Dec. 2015 (FY2015)		Difference from the forecast announced in July	Difference from the forecast announced in April	YoY Change (%) (Adjusted*)	Change (%) in Local Currency (Adjusted)
		% of Net Sales				
Net sales	760.0	100%	-5.0	+30.0	+12%	+7%
Domestic	293.0	38.6%	±0	+8.0	+10%	+10%
Overseas	467.0	61.4%	-5.0	+22.0	+13%	+5%
Operating income	30.0	3.9%	±0	+2.0	+41%	
Ordinary income	30.0	3.9%	-0.5	+2.0	+31%	
Extraordinary income	5.5	0.7%	+4.0	+7.5	-66%	
Net income attributable to owners of the parent	13.0	1.7%	+2.0	+3.0	-53%	

Projected ROE: 3.3%

Exchange rates: USD 1 = JPY 120 (+13%); EUR 1 = JPY 134 (-5%); CNY 1 = JPY 19.3 (+12%)

Dividends: Interim: ¥10 Year-end: ¥10 (planned)

*FY2015 is an irregular fiscal year. FY2014 (the year ending March 31, 2015) has been adjusted accordingly. (Japan: 9-month fiscal year; overseas: 12-month fiscal year)



Supplemental Data 1 Sales and Operating Income in the First Half by Reportable Segment

(Billion yen)		15/12 Result	15/3 Result	YoY Amount	YoY Change %
Japan Business		174.5	157.0	+17.4	+11.1%
Global Business		225.9	200.9	+25.0	+12.4%
Others		11.5	7.8	+3.8	+48.9%
Net Sales		411.9	365.7	+46.2	+12.6%
Japan Business		18.0	12.6	+5.4	+42.8%
Global Business		-6.1	-3.1	-3.0	—
Others		2.9	1.4	+1.5	+105.0%
Elimination/Corporate		0.0	-0.0	+0.1	—
Operating Income		14.9	10.9	+4.0	+36.2%

Note: Effective from the first quarter of the fiscal year ending December 2015, the Company has partially reorganized its reportable segment classification method, ahead of a new organizational system to start in the fiscal year ending December 2016. Under the revision of reportable segments, the "Domestic Cosmetics Business" and "Global Business" segments became the "Japan Business" and "Global Business" segments. Some subsidiaries, previously classified under the "Domestic Cosmetics Business" segment, are reclassified under the "Global Business" or "Others" segment. Also, the method of allocating certain expenses has been revised in order to more accurately ascertain the operating performance of individual segments. Results for the first six months of the previous fiscal year have been adjusted to the reportable segment post-revision classification and expense allocation methods.

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Supplemental Data 2 Japan Business: Sales and Operating Income in the First Half

(Billion yen)	15/12 Result		15/3 Result		YoY Amount	YoY Change %
		% of Net Sales		% of Net Sales		
Prestige	52.1	12.7%	43.7	12.0%	+8.4	+19.2%
Cosmetics	89.8	21.8%	80.5	22.0%	+9.3	+11.5%
Personal Care	21.6	5.2%	21.9	6.0%	-0.3	-1.6%
Digital	3.5	0.9%	3.0	0.8%	+0.5	+15.9%
Healthcare & Others	7.5	1.8%	7.8	2.2%	-0.4	-4.7%
Japan Business	174.5	42.4%	157.0	43.0%	+17.4	+11.1%
(Billion yen)	15/12 Result		15/3 Result		YoY Amount	YoY Change %
Operating Income	18.0		12.6		+5.4	+42.8%
Operating Profitability	10.0%		7.8%		+2.2 pt.	

Note: In line with organizational reforms, the former Domestic Cosmetics Business segment has been revised to the Japan Business segment, and reportable segment classifications have been changed accordingly. See Supplemental Data 1 for details.

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Supplemental Data 3

Global Business: Sales and Operating Income in the First Half

	15/12 Result		15/3 Result		YoY Amount	YoY Change %	Change in Local Currency
	(Billion yen)	% of Net Sales	% of Net Sales				
Cosmetics	204.9	49.7%	178.6	48.8%	+26.2	+14.7%	+4.7%
Professional	21.0	5.1%	22.2	6.1%	-1.2	-5.6%	-14.6%
Global Business	225.9	54.8%	200.9	54.9%	+25.0	+12.4%	+2.5%

	15/12 Result	15/3 Result	YoY Amount	YoY Change %
(Billion yen)				
Operating Income before Amortization of Goodwill etc.	-0.7	1.5	-2.2	—
Operating Income	-6.1	-3.1	-3.0	—
Operating Profitability	-2.7%	-1.5%	-1.2 pt.	

Note: In line with organizational reforms, the former Global Business segment has been reorganized, and reportable segment classifications have been changed accordingly. See Supplemental Data 1 for details.

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Supplemental Data 4

Sales by Region in the First Half

	15/12 Result		15/3 Result		YoY Amount	YoY Change %	Change in Local Currency
	(Billion yen)	% of Net Sales	% of Net Sales				
Domestic	193.7	47.0%	172.6	47.2%	+21.1	+12.2%	+12.1%
China	62.9	15.3%	59.2	16.2%	+3.7	+6.3%	-7.6%
Asia*	32.7	7.9%	27.1	7.4%	+5.6	+20.5%	+10.3%
Americas	71.6	17.4%	58.6	16.0%	+13.0	+22.1%	+5.8%
Europe	51.0	12.4%	48.1	13.2%	+2.8	+5.9%	+7.6%
Overseas	218.2	53.0%	193.1	52.8%	+25.1	+13.0%	+2.8%
Total	411.9	100%	365.7	100%	+46.2	+12.6%	+7.2%

*Excl. China

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Supplemental Data 5 Cost of Sales/SG&A in the First Half

(Billion yen)	15/12 Result		YoY Change +: cost cuts	YoY Change %	Impact of Foreign Currency Exchange	YoY Change Excl. Impact of Foreign Currency Exchange +: cost cuts
	% of Net Sales	% Pt. Change +: decrease				
Cost of Sales	99.0	24.0%	+0.2%	-10.6	+12.0%	-4.4
SG&A	298.0	72.4%	+0.4%	-31.6	+11.9%	-17.9
(Domestic)	143.4	74.1%	+3.5%	-9.9	+7.4%	-9.9
(Overseas)	154.6	70.8%	-2.1%	-21.7	+16.3%	-8.0
Marketing Costs	108.1	26.3%	-1.9%	-18.7	+20.9%	-14.4
Personnel Expenses	110.4	26.8%	+2.0%	-5.2	+4.9%	+1.1
Other Expenses	74.5	18.1%	+0.2%	-7.5	+11.1%	-4.6
M&A-Related Amortization Expenses	5.0	1.2%	+0.1%	-0.3	+6.8%	-0.1

Note: Sales counter amortization expenses, which used to be classified as Other Expenses, moved to Marketing Costs. In addition, cost of BCs hired by distributors and retailers moved from Other Expenses to Personnel Expenses. The same reclassifications are also reflected in the previous first half results.

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Supplemental Data 6 Capital Expenditures, Depreciation Expenses, etc.

(Billion yen)	15/9 Result	14/9 Result	YoY Change	YoY Change %	15/12 Estimate	YoY Change* ²	YoY Change %* ²
Investment in Plant and Equipment, etc. ^{*1}	14.6	12.4	+2.2	+18%	33.4	+2.8	+9%
Property, Plant and Equipment	7.4	8.0	-0.6	-7%	19.7	+1.5	+8%
Intangible Assets, etc.	7.2	4.4	+2.8	+64%	13.8	+1.3	+10%
Depreciation Amortization	17.5	16.2	+1.4	+9%	33.0	-0.3	-1%
Property, Plant and Equipment	9.4	8.5	+0.9	+11%	17.9	+0.3	+2%
Intangible Assets, etc.	8.1	7.7	+0.5	+6%	15.2	-0.6	-4%
R&D Expenses	7.3	6.6	+0.7	+10%	11.6	-2.6	-18%

*1. Investments in capital expenditures; property, plant and equipment; intangible fixed assets (excluding goodwill); and long-term prepaid expenses

*2. 15/12 estimates are for nine months for Japan and 12 months for overseas. YoY changes are calculated using unadjusted full-year results for 15/3.

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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.