May 13, 2016

Shiseido Co., Ltd.

Conference Call for Analysts and Institutional Investors for the First Quarter of the Fiscal Year Ending December 31, 2016 (Summary)

Attendees from Shiseido : Masahiko Uotani, President and CEO

Norio Tadakawa, Corporate Officer, CFO

<Outline of Shiseido's comments>

- Since the launch of "VISION 2020," we have been focusing on solving problems with a view to restructuring the business foundation, including turning around our domestic business, rebuilding our Chinese business, and establishing an integrated business framework in Europe. Today, the organizational reform of Bare Escentuals is fully underway, and improved profitability in the Americas and EMEA and the growth of the Group, which were concerns for many years, are now in sight. In Japan, we have already achieved double-digit operating profitability but, moving forward, we aim to achieve the same group-wide by embarking on further structural reform overseas as well.
- Regarding Bare Escentuals, we plan to implement organizational reform aimed at improving performance by strengthening the brand and the business from a long-term perspective. As part of this, we will move the head office from San Francisco to New York to make the internal organization more efficient and improve its organizational capabilities. This will not only leverage the full range of Shiseido's resources in the Americas but also increase our presence in New York, which is the center of the U.S. beauty and fashion industry.

Main Q&A for the First Quarter of the Fiscal Year ending December 31, 2016 (Summary)

[About the first half outlook and the makeup of expenses]

Q) The outlook for operating income in the first half is 5 billion yen higher than the initial outlook. Please give a breakdown by segment.

A) We do not disclose operating profit forecasts for each segment. However, given that income is linked to sales to some degree, income will increase in Japan first and foremost and also in China and the Travel Retail business. We do not expect any change in EMEA and the Americas.

Q) You forecast a loss of 6.1 billion yen for the second quarter. Is this attributable to a difference in the timing of costs?

A) Our forecast reflects not only a difference in the timing of costs, but also expected increases in marketing investment and R&D and higher personnel and other costs.

Q) Approximately what was the impact of the difference in timing of marketing costs in the first quarter?

A) Around 4 billion yen (1.5 billion yen in Japan and 2.5 billion yen overseas)

* In total, 5 billion yen (2.5 billion yen in Japan and 2.5 billion yen overseas), including differences in timing of other costs (1 billion yen in Japan)

Q) How do you plan to spend the 5.5 billion yen in expenditure for additional contingency measures?

A) We will strengthen investment in the low-priced products in our Japan business, the prestige business (*SHISEIDO*, *clé de peau BEAUTÉ* and *IPSA*) in our global business, and our Travel Retail business.

[Japan business]

Q) What were inbound sales for the first quarter? What is the full-year forecast?

A) Inbound sales for the first quarter were around 10 billion yen, which is around twice as high as last year. On a full-year basis, we expect inbound sales to increase by around 30% year on year, to about 34 billion yen. Although the pace of growth will slow, we expect to maintain sales at their new higher level. We are analyzing not only inbound sales but the purchasing behavior of Chinese customers from a broader perspective and examining how to capture demand.

Q) Why did you raise your inbound sales forecast now?

A) We initially expected sales growth to slow but, looking at first-quarter sales, there has not really been a slowdown and our revised forecast takes this into consideration.

Q) First-quarter (January to March) operating income for the Japan business last year was around 9 billion yen. Why did this figure increase to 13.1 billion yen? And what was first-half operating income for the Japan business last year?

A) This increase is attributable to a change in the method of allocating head office costs associated with the change in segments. We plan to disclose adjusted segment income for the second half of last year at the time of the second-quarter financial results announcement in August.

Q) Looking at first-quarter results for the Japan business, whereas shipments increased 4.5% year on year, store sales increased 12% year on year. Is there an imbalance here?

A) There appears to be an imbalance because store sales from January through March were relatively higher than the increase of shipments, and store inventories decreased.

[China business]

Q) First-quarter sales in China Business grew 14% year on year. How do you view growth potential?

A) In the first quarter, the prestige business was strong, achieving double-digit growth, but cosmetics business was unchanged from a year ago. We expect that the performance from the second quarter will be as planned.

Q) Please give details about e-commerce in China.

A) We estimate that China's e-commerce market grew around 20% year on year in the first quarter, but our business grew more than 30% year on year, far outpacing market growth. E-commerce for the *AUPRES* brand also grew considerably.

[Other]

Q) First-quarter operating profitability in the Travel Retail business was high, reaching 27.1%. Is this a normal level?

A) We consider the normal operating income level to be between 15% and 20%. In the first quarter, sale grew sharply, generating returns exceeding the increase in costs. Travel retail is a strategic channel, and we plan to continue investing in this business in future, including expenditure for additional contingency measures.

Q) Why does the yen's appreciation result in higher costs?

A) It does so because (1) Shipments from Japan to overseas subsidiaries are transactions denominated in US dollars, which means a decrease in the shipment amount converted into yen, but the costs of products manufactured in Japan remain the same denominated in yen, and this then results in a decrease in the margin between sales and costs; and (2) The depreciation of a local currency against the dollar/euro means higher costs denominated in dollar/euro in local currency terms, reducing local profits and thus adversely affecting income.

Q) You say you will incur around 5 billion yen in additional costs for the organizational reform of Bare Escentuals. Is this a one-time cost?

A) Yes. Next year, we expect increased sales, and we expect to be able to absorb the cost through increased gross profit in approximately one year.