

3Q FY2016

(Nine months ended Sep. 30, 2016)

Results and Full-Year Forecast

November 9, 2016

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SHISEIDO

- I would like to cover our results for the third quarter of fiscal 2016 (the nine months ended September 30, 2016), and our full-year forecast.

FY2016 3Q Results: Executive Summary



- Growth momentum continued, and zero growth is behind us
- Prestige business, China, and Travel Retail drove overall growth
- Growth in all businesses and regions, excluding special factors
- Localized marketing embodying Think Global, Act Local began to yield results
- “Matrix Organization” and “Center of Excellence” now fully operational
 - Maximizing the capabilities of our outstanding global people
 - Responding quickly and accurately to market and consumer change

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- This is a summary of key points for FY2016.
- The first point is growth potential. We have effectively put zero growth behind us and maintained our growth momentum.
- In particular, Prestige has been the strongest business driving overall growth worldwide. By region, China has been growing at double digits, and Travel Retail has continued to grow strongly. Excluding special factors, all businesses and regions have achieved higher sales.
- Sales were 622.7 billion yen. This was an increase of 5.4 percent year on year on a local currency basis. We were not able to report record sales because of the effect of the strong Japanese yen.
- A contributing factor behind this growth was the localization of marketing using exhaustive analysis of local consumers based on our Think Global, Act Local policy.

FY2016 3Q Results: Executive Summary



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- Also, our “Matrix Organization” and “Center of Excellence” in each category are fully operational.
- Through these measures, we are targeting further growth by leveraging the capabilities of our outstanding global people throughout our operations while quickly and accurately responding to changes in consumers and the competitive environment in each of our markets.
- Now, let’s turn to our results.

Summary of 3Q FY2016 Results (Jul.-Sep. 2016)

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change*	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
Net Sales	210.4	100%	220.4	100%	-10.0	-4.5%	+5.1%
Cost of Sales	52.0	24.7%	53.7	24.4%	-1.7	-3.1%	
SG&A	139.6	66.4%	148.7	67.4%	-9.1	-6.1%	
Operating Income	18.8	8.9%	18.0	8.2%	+0.8	+4.6%	
Ordinary Income	19.9	9.4%	16.9	7.7%	+3.0	+17.5%	
Extraordinary Income/Loss (Net)	-0.9	-0.4%	-0.0	-0.0%	-0.9	—	
Net Income Attributable to Owners of Parent	12.7	6.0%	10.4	4.7%	+2.3	+22.0%	

* Effective from FY2016, the "+" and "-" symbols are used to indicate increase and decrease in amount of change, respectively.

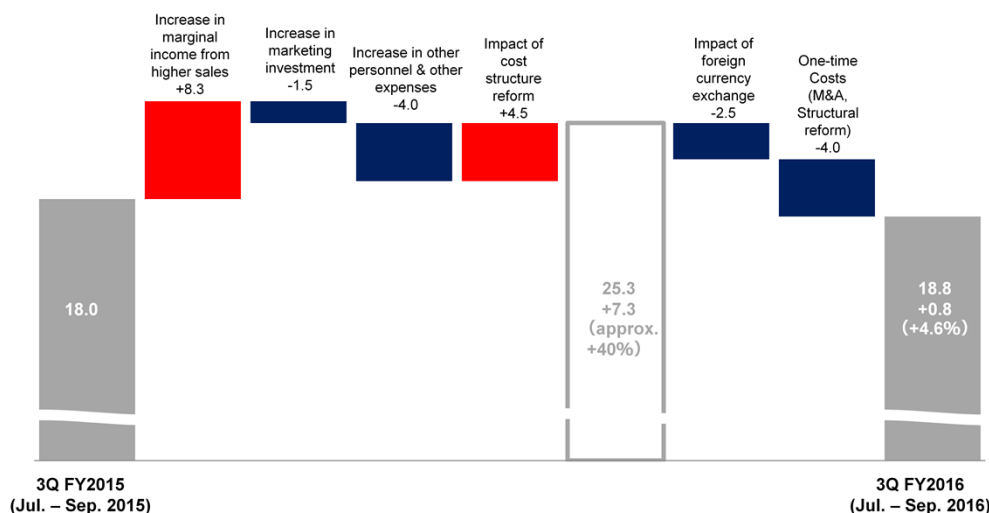
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- This page presents results for the third quarter, consisting of the period from July to September.
- Sales were 210.4 billion yen for the three-month period. This was an increase of 5.1% year on year on a local currency basis. Existing businesses excluding *Jean Paul GAULTIER* in FY2015 and *Laura Mercier* in FY2016 continued to grow, with sales maintaining growth of 5.6%.

Summary of 3Q FY2016 Results (Jul.-Sep. 2016)

Change in operating income by reason

Top: YoY change (Billion yen)
Bottom: (YoY change in local currency)



- This page presents operating income.
- Operating income for the third quarter (July to September) of FY2015 was 18.0 billion yen, and the changes from last year to this year consisted of an increase in marginal income of 8.3 billion yen from higher sales excluding the effect of currency translation, an increase of approximately 1.5 billion yen in investment in marketing excluding cost reductions from structural reform, an increase of 4.0 billion yen in personnel expenses and overhead, and 4.5 billion from the effect of cost structure reforms. As a result, excluding the effect of currency translation, existing businesses generated profit of 25.3 billion yen in the third quarter, a year-on-year increase of around 40%.
- Here, the effect of foreign exchange was approximately 2.5 billion yen, and we recorded a 4.0 billion yen as one-time costs associated with M&A and structural reform in the Americas and Europe. Despite these factors, we ended up with total operating income of 18.8 billion yen, a year-on-year increase of 4.6%.
- Net income increased 22% year on year to 12.7 billion yen.

Summary of Results through 3Q FY2016 (Jan. – Sep. 2016)

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change*	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
Net Sales	622.7	100%	631.0	100%	-8.3	-1.3%	+5.4%
Cost of Sales	150.6	24.2%	154.2	24.5%	-3.6	-2.3%	
SG&A	433.4	69.6%	443.7	70.3%	-10.4	-2.3%	
Operating Income	38.7	6.2%	33.1	5.2%	+5.7	+17.1%	
Ordinary Income	38.2	6.1%	32.4	5.1%	+5.8	+17.9%	
Extraordinary Income/Loss (Net)	15.9	2.6%	5.2	0.9%	+10.7	+206.8%	
Net Income Attributable to Owners of Parent	37.2	6.0%	15.8	2.5%	+21.4	+135.0%	

Exchange rates: USD 1 = JPY 108.7 (-10.1%), EUR 1 = JPY 121.2 (-10.1%), CNY 1 = JPY 16.5 (-14.6%)

* Effective from FY2016, the "+" and "-" symbols are used to indicate increase and decrease in amount of change, respectively.

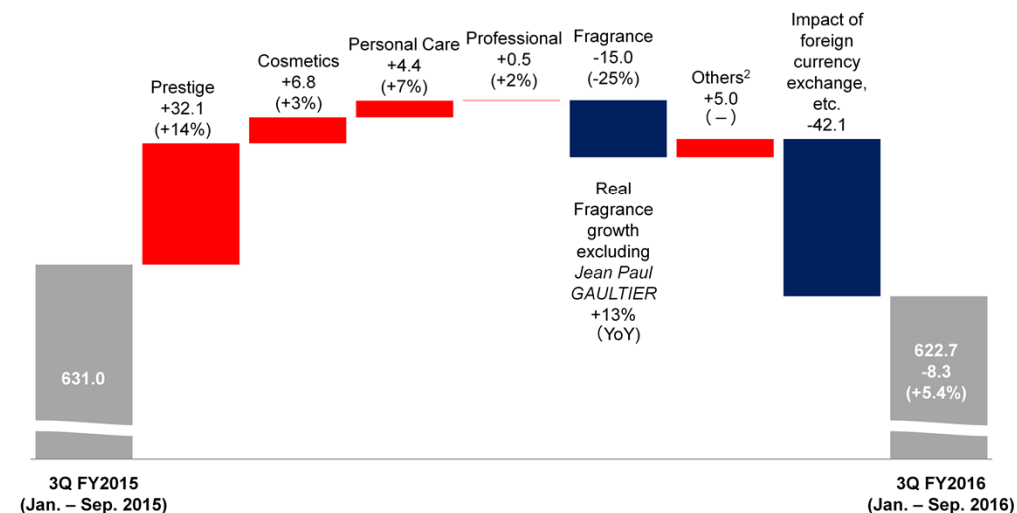
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- As I mentioned at the beginning, sales for the nine-month period ended September 2016 increased 5.4% year on year on a local currency basis, but decreased 1.3% year on year to 622.7 billion yen due to the strong yen.
- Operating income increased 17.1% year on year to 38.7 billion yen. By area, operating income increased in Japan, China, Asia Pacific and Travel Retail.
- Net income increased 135% to a third-quarter record of 37.2 billion. Factors included the increase in operating income, in addition to gain on transfer of intellectual property rights associated with the *Jean Paul GAULTIER* brand and gain on sale of the Kamakura Factory site, which were recognized in extraordinary income.

Prestige Business Drove Overall Growth

Change in Net Sales by Business

Top: YoY change (Billion yen)
Bottom: (YoY change in local currency)



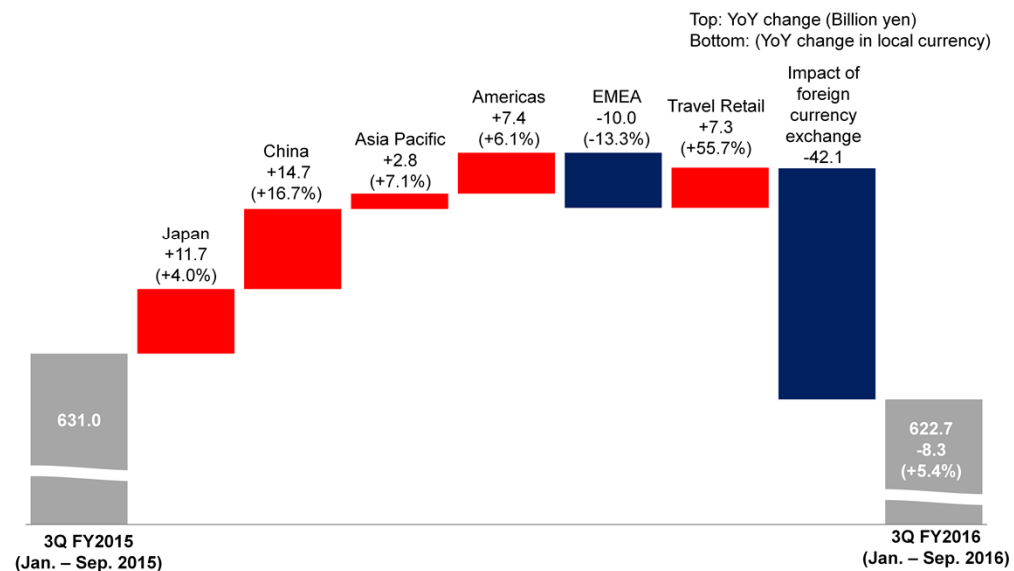
1. Year-on-year change and year-on-year change in local currency for each business were calculated based on the exchange rates assumed at the beginning of the fiscal year.
2. "Others" include changes caused by the difference between assumed rates and actual rates.

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- Pages 6 and 7 cover changes in sales by business and region.
- As you can see, sales in the Prestige Business, which we are strengthening on a priority basis, increased 14% year on year, contributing to growth in every area.
- The Cosmetics Business grew, centered on the Japan Business.
- Sales declined in the Fragrance Business and in EMEA because of special factors. However, we forecast an increase in sales year on year from October 2016 due to the Dolce&Gabbana license agreement.
- I will discuss performance in each region in detail later.

Higher Sales in All Regions Except EMEA

Change in Net Sales by Reportable Segment (Region)

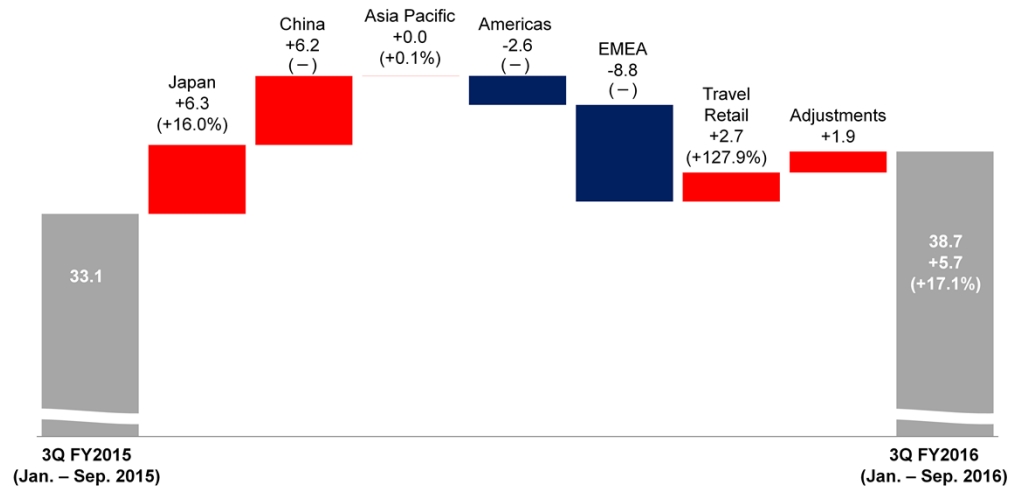


* Year-on-year change and year-on-year change in local currency for each business were calculated based on the actual exchange rates.

Japan, China & Travel Retail Drove Earnings Growth

Change in Operating Income by Reportable Segment (Region)

Top: YoY change (Billion yen)
Bottom: (YoY change)



* YoY percentage change for operating income is not presented for China, Americas and EMEA because these regions have operating losses either for FY2015 or FY2016 or both.

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- I will provide a brief outline of each region.
Operating income in Japan increased substantially year on year. Third quarter marketing investment decreased year on year because we changed the product launch and promotion period, which was centered on August in 2015, to the end of September in 2016.
- Operating income increased in China and Travel Retail because higher sales increased marginal income. Operating income also increased in Asia excluding the impact of foreign currency exchange.
- In the Americas, we recognized one-time costs for structural reforms and expenses related to M&A in the third quarter. In Europe, we no longer had the earnings from the *Jean Paul GAULTIER* brand we did in 2015, and also recognized one-time expenses for structural reforms. Consequently, we had operating losses in the Americas and EMEA.

Japan

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %
		% of Net Sales		% of Net Sales		
Prestige ¹	39.1	6.3%	33.8	5.4%	+5.3	+15.5%
Cosmetics Specialty Stores	47.8	7.7%	43.4	6.9%	+4.4	+10.1%
Cosmetics ²	131.0	21.0%	128.2	20.3%	+2.8	+2.2%
Personal Care ²	46.2	7.4%	47.3	7.5%	-1.1	-2.4%
Others ⁴	41.4	6.7%	41.0	6.5%	+0.4	+0.9%
Japan	305.5	49.1%	293.8	46.6%	+11.7	+4.0%

(Billion yen)	FY2016	FY2015 (Adjusted)	YoY Change	YoY Change %
Operating Income	45.9	39.6	+6.3	+16.0%
Operating Profitability	13.5%	12.1%	+1.4 pt.	
Income before amortization of goodwill, etc.	46.2	39.7	+6.5	+16.3%
Operating Profitability	13.6%	12.2%	+1.4 pt.	

1. Prestige business is divided into "Prestige" and "Cosmetics Specialty Stores" in line with the management system of Japan.

2. Three brands AG+ (renamed AgDEO24 after the renewal), uno and MA CHÉRIE, were transferred from Cosmetics to Personal Care in 1Q 2016. Results for the previous fiscal year have been adjusted based on the post-transfer classification.

3. Results for "Digital" are combined with the results of each business in line with the internal management system. Year-on-year change for Digital is +22%.

4. "Others" include THE GINZA, Frontier Science Business, and Shiseido ParLOUR, etc. % of Net Sales indicates ratio to consolidated net sales.

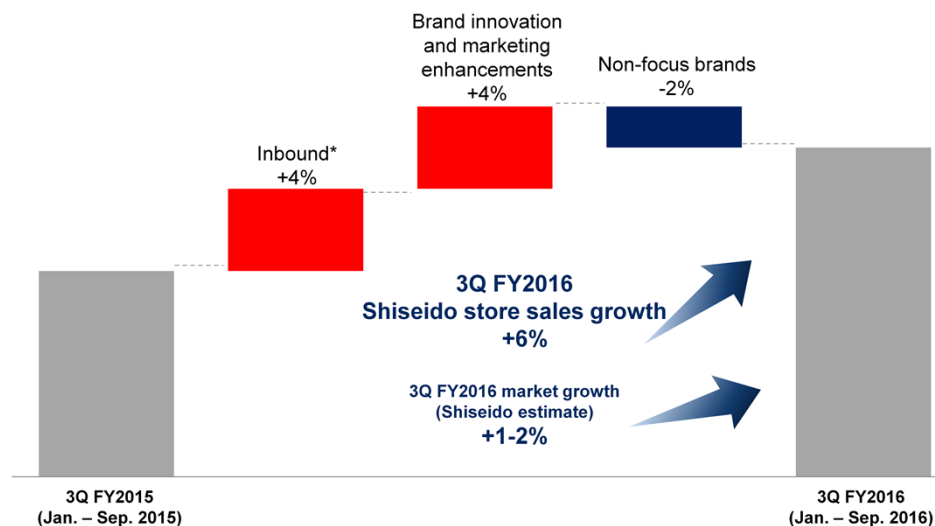
6. Operating profitability is calculated using net sales including intersegment transactions.

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- In the Japan Business, sales increased 4% year on year to 305.5 billion yen. Operating income increased 16% year on year to 45.9 billion yen.
- Sales for the three months ended September 2016 increased 1.1% year on year.

Japan: Exceeded Market Growth throughout 3Q (Jan. – Sep. 2016)

Factors supporting growth in Shiseido store sales



*Applicable businesses: Prestige, Cosmetics Specialty Stores, and Cosmetics in the Japan Business excluding *uno*, *MA CHÉRI* and *Ag DEO 24*, which were transferred to Personal Care.

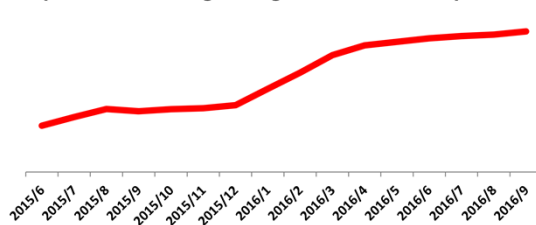
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- This page analyzes the factors in year-on-year changes in stores sales in Japan.
- We maintained store sales growth of 6% for the period from January to September, compared with 1-2% growth for the overall market.
- About 4 points of growth came from capturing inbound demand, and about 4 points came from brand innovation and marketing enhancements. On the other hand, contraction in sales of non-focus brands cut growth by 2 points.
- For the three months ended September 2016, while the market grew 1-2%, Shiseido store sales were about the same as in the previous year because some brands didn't exceed the previous year's results.

Japan: Inbound Sales Growing As Expected

- Q3 inbound sales of about 8.0 billion yen (+14% YoY). Growth slowed compared with Q1 and Q2
- Sales at airport duty-free shops remains strong, department store sales continue to grow due to increased consumer visits. Drugstore sales down YoY.
- Rate of increase in consumers visiting Shiseido counters now exceeds the rate of increase in tourists
- Average sales per customer are declining, mainly due to the decreasing difference between prices in Japan and overseas
- Tourist visits trending away from urban centers to regional cities
- Souvenir purchases are declining, purchases for personal consumption, repeat purchases, and purchases to enjoy experiences are increasing

Shiseido's Inbound Sales Trend
(12-month moving average for sales amount)

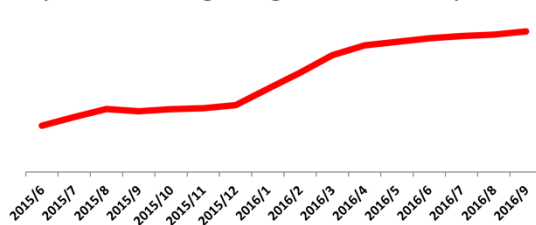


- This page summarizes the inbound market. Shiseido's inbound sales for the three months from July to September increased 14% year on year, but quarterly year on year growth is slowing. It was 100% for the first quarter and 29% for the second quarter.
- The key trends are that airport duty-free shop sales remain strong, and department store sales continue to grow because the number of tourists making purchases is increasing. On the other hand, drugstore sales decreased year on year, the same as at other companies.

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Shiseido's Inbound Sales Trend
(12-month moving average for sales amount)



- Looking at specific numbers for department stores, Shiseido customers at department stores increased 34% year on year, exceeding the 17% increase in the number of foreign tourists. However, average purchase amount per tourist decreased 14% because price conscious tourists have been affected by the decreasing difference between prices in Japan and overseas brought on by exchange rate changes. Average purchase amount was essentially unchanged for customers with pronounced individual counseling needs.
- Moreover, customer purchasing areas are trending away from urban centers to the suburbs and regional cities. Souvenir purchases are declining as consumers shift to purchases for personal consumption, repeat purchases and purchases to enjoy experiences. Customers who want skin diagnostics have also increasing substantially year on year.
- These changes were within the scope of our assumptions, and we accommodated them successfully, so inbound sales continued to grow year on year.

Japan: Mid- and High-Priced Brands Are Performing Well, Low-Priced Brands Are Underperforming

- Prestige Business
 - *ULTIMUNE* within *SHISEIDO* continues to drive growth in its third year
 - *clé de peau BEAUTÉ* and *IPSA* continue to perform well
- Cosmetics Specialty Store Business
 - *BENEFIQUE*
 - Increase of regular users due to good results in activities that build close relationships with consumers
 - New beauty serum performing well
- Cosmetics Business
 - *ELIXIR* and *MAQuillAGE* performing well
 - *PRIOR* new gel beauty serum well received
- Personal Care Business
 - *TSUBAKI* and other brands underperforming overall
 - Restructuring priorities and brand portfolio



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- This page summarizes performance by business in Japan. Overall, mid- and high-priced cosmetics are performing well, but low-priced cosmetics are underperforming.
- Prestige Business sales increased 15.5% year on year. In particular, in the *SHISEIDO* brand, sales of *ULTIMUNE* have continued to grow because we integrated stores, sales, marketing and R&D for this brand and formulated and executed strategies for its third year that have generated steady results.
- Cosmetics Specialty Store Business sales increased 10.1%. Our activities to build close relationships with consumers have yielded good results, and the number of regular users of *BENEFIQUE* has increased. We have also been further nurturing this brand with energetic activities by retail stores to introduce a newly launched beauty serum.

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- Cosmetics Business sales increased 2.2%. Performance was strong for *MAQuillAGE*, in which foundation sold well, *ELIXIR*, for which regular users are increasing, and *PRIOR*, for which we held successful events in seven locations nationwide to expand points of consumer contact.
- On the other hand, low-priced cosmetics have not done well because of severe competition. In particular, in September we supported *TSUBAKI* in ways such as renewing main products, introducing a line of oil shampoos and revising prices. However, market competition intensified further and sales were down year on year. As a result, Personal Care sales were down 2.4% year on year.
- In the low-priced market, we will again set priorities, restructure our brand portfolio and formulate countermeasures.

China

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
China	88.5	14.2%	88.0	13.9%	+0.5	+0.6%	+16.7%

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %
Operating Income	4.3		-2.0		+6.2	-
Operating Profitability	4.8%		-2.2%		+7.0 pt.	
Income before amortization of goodwill, etc.	4.6		-1.6		+6.2	-
Operating Profitability	5.1%		-1.8%		+6.9 pt.	

1. % of Net Sales indicates ratio to consolidated net sales.

2. Operating profitability is calculated using net sales including intersegment transactions.

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- China is next. Sales for the three months ended September 2016 continued to increase strongly. They rose 19% on a local currency basis. Sales for the nine months ended September were 88.5 billion yen. This was an increase of 16.7% on a local currency basis.
- Operating income was 4.3 billion yen, compared with an operating loss of 2.0 billion in the same period of the previous year. An increase in marginal income made a major contribution. Recovery is apparent with a profit margin in the mid-single digits.

China: Prestige and E-Commerce Doing Well

- Prestige continues to perform well
 - *SHISEIDO*, *clé de peau BEAUTÉ*, *NARS*, *IPSA* and others continued to be strong overall. Prestige grew more than 30% YoY in total
- Solid Personal Care results centered on e-commerce
 - *SUPER MILD*, *SENKA* and others driving growth of more than 30% YoY
- E-commerce growth over 50%, significantly exceeding overall e-commerce market growth rate, which is in the high 20s
 - Started collaborative initiatives with Alibaba
- *AUPRES* and *PURE&MILD*
 - These brands underperformed overall, despite contributions from the launch of new counters.



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- This page summarizes positive factors and issues we need to address in China.
- Prestige and Personal Care brands are the key growth drivers in China.
- The ability of department stores to attract customers is waning, but our Prestige brands have continued to grow at more than 30% and significantly increase market share. In addition, we have generated synergies by strengthening our e-commerce operations.
- At the same time, e-commerce has made significantly contributions to Personal Care brand sales, which have continued to grow at over 30%.
- Our initiatives to strengthen e-commerce have allowed us to maintain growth over 50%, which is significantly higher than the e-commerce market growth rate, which is in the high 20s.

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- We must further accelerate our expansion of e-commerce in the future. We have made a start by entering into an alliance with Alibaba, and have already drawn up an action plan. Moreover, for Singles' Day on November 11, we will further accelerate growth in e-commerce sales with measures such as strengthening efforts for reservations and promoting cooperation in customer relation management.
- At the same time, we have issues to resolve for *AUPRES*, *PURE&MILD* and other locally produced brands.
- Despite an increase in the number of stores with new counters, sales of both brands are declining, mainly in the department store channel, and the contribution of new *AUPRES* and *PURE&MILD* counters to overall sales is limited. While we are preparing to introduce new lines next year, we need to think about our strategy.

China: Full-Scale Launch of *ELIXIR*

- Full-scale launch from March 2017
 - Launch of directly managed stores in shopping malls
 - Initiate e-commerce
- Link digital and brick-and-mortar stores
Create layouts that make consumers want to share their shopping experiences
- Create and invest in localized communications and advertising



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- In that regard, I would like to talk about the full-scale launch of *ELIXIR*.
- I previously explained the strong performance of our Prestige and Personal Care brands. It is backed by the trust Chinese customers place in products that are made in Japan.
- We will build on this trust with the full-scale launch of *ELIXIR* to enhance our competitiveness in the Cosmetics Business, which is one of the issues we want to resolve.
- This is not simply an effort to market in China a brand that is number one in Japan. We have been preparing for this launch for two years. The brandholder in headquarters and the Shanghai marketing team have thoroughly researched Chinese consumers and created a marketing plan based on insights into these consumers. Now is the time to act.

China: Full-Scale Launch of *ELIXIR*

- Full-scale launch from March 2017
 - Launch of directly managed stores in shopping malls
 - Initiate e-commerce
- Link digital and brick-and-mortar stores
Create layouts that make consumers want to share their shopping experiences
- Create and invest in localized communications and advertising



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- We will first open directly managed stores starting in January 2017. They will be designed based on the lifestyles of target customers in China. We will localize overall marketing with techniques such as linking stores with social networking sites.
- From March 2017, we aim to increase growth potential by investing in advertising, e-commerce sites and other measures fully designed for Chinese customers.

Asia Pacific

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
Asia Pacific	36.9	5.9%	39.7	6.3%	-2.8	-7.1%	+7.1%

(Billion yen)	FY2016	FY2015 (Adjusted)	YoY Change	YoY Change %
Operating Income	1.8	1.8	+0.0	+0.1%
Operating Profitability	4.9%	4.5%	+0.4 pt.	
Income before amortization of goodwill, etc.	1.8	1.8	-0.0	-0.3%
Operating Profitability	5.0%	4.6%	+0.4 pt.	

- **SENKA** performing well after renewal
 - Expanded through channel and store availability
 - Successfully localized advertising to fit the cosmetics behavior of Asian consumers



1. % of Net Sales indicates ratio to consolidated net sales.
 2. Operating profitability is calculated using net sales including intersegment transactions.

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- Next, I will discuss Asia Pacific.
- Net sales were 36.9 billion yen. This was an increase of 7.1% on a local currency basis. Operating income was essentially unchanged after translation into yen, but increased in local currency terms.
- This year, Asia Pacific Regional Headquarters became fully operational, and results from localization of activities have become apparent.
- In addition to continued growth of Prestige brands, the Personal Care brand **SENKA**, which sold well in each country, is an example of the success of this localization. It generated year-on-year growth of more than 50% in the three months ended September. We used the launch of a new series of facial cleansers to increase the channels and stores that handle **SENKA** in each country. The regional headquarters and brandholder worked together to successfully localize advertising to fit the cosmetics behavior of Asian consumers such as their morning face washing routine.

Americas

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
Americas	115.3	18.5%	121.1	19.2%	-5.8	-4.8%	+6.1%

(Billion yen)	FY2016	FY2015 (Adjusted)	YoY Change	YoY Change %
Operating Income	-8.1	-5.4	-2.6	—
Operating Profitability	-6.6%	-4.2%	-2.4 pt.	
Income before amortization of goodwill, etc.	-1.5	+1.6	-3.2	—
Operating Profitability	-1.2%	1.3%	-2.5 pt.	

- One-time costs from M&A and structural reform
- Began selling *Laura Mercier* in July
- Organizational integration and enhancement proceeding simultaneously
- Sharing and using prestige brand marketing knowledge



1. % of Net Sales indicates ratio to consolidated net sales.

2. Operating profitability is calculated using net sales including intersegment transactions.

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- This page presents information on the Americas. Sales were 115.3 billion yen. This was an increase of 6.1% on a local currency basis. One-time costs associated with structural reforms at Bare Escentuals, Inc. and the acquisition of Gurwitch Products, LLC resulted in an operating loss of 8.1 billion yen.
- We began full-scale marketing of *Laura Mercier* as part of our brand portfolio in July 2016. At the same time, we began integrating *Laura Mercier* into our organization.
- We intend to further grow the *Laura Mercier* brand by sharing and using our knowledge of prestige brand marketing, which is one of our strengths. We will also use the Group's channel network to increase the number of counters.
- I will cover the amortization of goodwill and other items later.

Prestige Makeup Market Expanding in Americas

- U.S. Market
 - Makeup accounts for the largest share of the market
 - Prestige makeup market expected to grow by 13%* in 2016
 - Small, unique brands with a prominent image are growing strongly, but major brands with large market share are underperforming
- Shiseido
 - *bare Minerals* mainstay foundation did not perform well, but strong performance by new products contributed to overall sales
 - *NARS* performing well centered on the base makeup category
 - *Laura Mercier* store sales are up 15% YoY in the 9 months through September
 - “Center of Excellence” launched for makeup and digital

*NPD data



- Next I would like to briefly explain the North American beauty market.
- Makeup accounts for the largest percentage of the U.S. prestige beauty market, which is forecast to grow 13% in 2016. Brands with strong originality are particularly expanding. On the other hand, major brands that have comparatively high market share are generally underperforming.
- For *bareMinerals*, new products are selling strongly and contributed to the growth of overall sales, despite poor performance by loose foundation products, which are a main item.
- *NARS* is a brand with originality, and as such, it continues to perform well. *Laura Mercier* is also performing strongly, with January-September sales up 15% year on year.
- We established and are now using a “Center of Excellence” for makeup and digital to gain a real-time understanding of the recent rapid changes in the market and quickly address them.
- We therefore expect to generate strong growth from fiscal 2017.

EMEA (Europe, Middle East and Africa)

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
EMEA	58.2	9.4%	75.3	11.9%	-17.1	-22.7%	-13.3%

*Actual year-on-year percentage change is +8% excluding the effect of the termination of the license agreement for *Jean Paul GAULTIER*.

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %
Operating Income	-2.8		6.0		-8.8	—
Operating Profitability	-4.6%		7.5%		-12.1 pt.	
Income before amortization of goodwill, etc.	-2.8		6.0		-8.8	—
Operating Profitability	-4.6%		7.5%		-12.1 pt.	

- One-time costs due to new licensing agreement and structural reforms
- Began selling *DOLCE&GABBANA* in October
- Enhanced end-of-year holiday season investment
- Shiseido Group EMEA moved to new office in Paris to start the new “One Shiseido” organization



1. % of Net Sales indicates ratio to consolidated net sales.

2. Operating profitability is calculated using net sales including intersegment transactions.

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- This page presents information on Europe, the Middle East and Africa (EMEA).
- Sales were 58.2 billion yen. This was a decrease of 13.3% on a local currency basis, but an increase of 8% in real terms, excluding the negative impact of *Jean Paul GAULTIER*.
- Operating loss was 2.8 billion yen. The effect of the termination of the *Jean Paul GAULTIER* contract was pronounced in the third quarter, which is when the fragrance business typically generates the strongest earnings.
- We started sales of *DOLCE&GABBANA* on October 1. We will significantly raise our investment year on year to capture demand when it is strongest in the holiday season to further build brand equity and expand growth potential from 2017 onward.

EMEA (Europe, Middle East and Africa)

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
EMEA	58.2	9.4%	75.3	11.9%	-17.1	-22.7%	-13.3%

*Actual year-on-year percentage change is +8% excluding the effect of the termination of the license agreement for Jean Paul GAULTIER.

(Billion yen)	FY2016	FY2015 (Adjusted)	YoY Change	YoY Change %
Operating Income	-2.8	6.0	-8.8	—
Operating Profitability	-4.6%	7.5%	-12.1 pt.	
Income before amortization of goodwill, etc.	-2.8	6.0	-8.8	—
Operating Profitability	-4.6%	7.5%	-12.1 pt.	

- One-time costs due to new licensing agreement and structural reforms
- Began selling *DOLCE&GABBANA* in October
- Enhanced end-of-year holiday season investment
- Shiseido Group EMEA moved to new office in Paris to start the new “One Shiseido” organization



1. % of Net Sales indicates ratio to consolidated net sales.

2. Operating profitability is calculated using net sales including intersegment transactions.

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- Ongoing organization structural reforms have progressed significantly. We moved the Paris office to a central location in October, and reopened it as Shiseido Group EMEA. We will promote further activities that unite the cosmetics and fragrance businesses with the objective of simultaneously increasing growth potential and profitability.

Travel Retail

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
Travel Retail	18.3	2.9%	13.1	2.1%	+5.2	+40.0%	+55.7%

(Billion yen)	FY2016	FY2015 (Adjusted)	YoY Change	YoY Change %
Operating Income	4.8	2.1	+2.7	+127.9%
Operating Profitability	26.0%	16.0%	+10.0 pt.	
Income before amortization of goodwill, etc.	4.8	2.1	+2.7	+127.9%
Operating Profitability	26.0%	16.0%	+10.0 pt.	

- Accelerated growth and enhanced investment in Asia
- Strengthened communication with retailers
- Executed and enhanced cross-border marketing focused on Chinese customers in Japan, China, Asia and Travel Retail

1. % of Net Sales indicates ratio to consolidated net sales.

2. Operating profitability is calculated using net sales including intersegment transactions.



- Finally, I would like to cover the rapidly growing Travel Retail business.
- Growth potential is increasing in this business. On a local currency basis, sales for the three months ended September increased 62.2%. Sales for the nine months ended September were 18.3 billion yen. This was an increase of 55.7% on a local currency basis.
- Operating income increased 127.9% year on year to 4.8 billion, and operating profitability was a strong 26%. We have enhanced investments in Travel Retail and substantial sales growth has substantially increased marginal income.
- Travel Retail will continue to be positioned as a key business as the market is growing and because we have formidable advantages among Japanese brands.

Travel Retail

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
Travel Retail	18.3	2.9%	13.1	2.1%	+5.2	+40.0%	+55.7%

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %
Operating Income	4.8		2.1		+2.7	+127.9%
Operating Profitability	26.0%		16.0%		+10.0 pt.	
Income before amortization of goodwill, etc.	4.8		2.1		+2.7	+127.9%
Operating Profitability	26.0%		16.0%		+10.0 pt.	

- Accelerated growth and enhanced investment in Asia
- Strengthened communication with retailers
- Executed and enhanced cross-border marketing focused on Chinese customers in Japan, China, Asia and Travel Retail

1. % of Net Sales indicates ratio to consolidated net sales.

2. Operating profitability is calculated using net sales including intersegment transactions.



- At the same time, even though our share of the market is less than that of foreign brands, it is increasing. However, this year some European and American brands are not doing well in the main Asian markets of China, South Korea and Thailand, while Shiseido brands are generating double-digit growth and have clear momentum.
- To accelerate growth, we will strengthen our partnerships with retailers. At a trade show for major retailers from around the world that was held in Cannes in October, President Uotani participated for the first time, engaging in business negotiations and other top-level sales discussions.
- To further spur on a wave of growth, Shiseido will ensure rapid growth by conducting cross-border marketing centered on Chinese customers, organically linking Japan, China, Asia and Travel Retail.

Balance Sheets

(Billion yen)	Sep. 30, 2016	Change from Dec. 31, 2015	Excl. Foreign Currency Exchange	Foreign Currency Exchange
Total Current Assets	424.5	+13.9	+61.6	-47.7
Cash, Time Deposits and Short-term Investments in Securities	130.8	+6.3	+22.3	-16.0
Notes & Accounts Receivable	128.1	+0.9	+15.7	-14.8
Inventories	110.6	+4.7	+16.7	-12.0
Total Fixed Assets	377.0	-20.9	+17.1	-38.0
Property, Plant and Equipment	136.7	+2.4	+11.0	-8.7
Intangible Assets	148.1	-13.3	+12.4	-25.7
Investments and Other Assets	92.2	-10.0	-6.4	-3.6
Total Assets	801.5	-7.0	+78.6	-85.7

(Billion yen)	Sep. 30, 2016	Change from Dec. 31, 2015	Excl. Foreign Currency Exchange	Foreign Currency Exchange
Total Liabilities	415.2	+20.0	+44.1	-24.1
Notes & Accounts Payable and Other Payables	101.5	+2.1	+8.1	-6.0
Interest-Bearing Debt	116.2	+29.5	+32.0	-2.5
Liability for Retirement Benefits	79.3	-4.4	-3.8	-0.6
Total Net Assets	386.3	-27.0	+34.5	-61.5
Shareholders' Equity	396.5	+29.5	-	-
Accumulated Other Comprehensive Income	-28.7	-53.3	-	-
Non-Controlling Interests	17.7	-3.2	-	-
Total Liabilities and Net Assets	801.5	-7.0	+78.6	-85.7

Exchange rates:

Sep. 30, 2016: USD 1 = JPY 101.1, EUR 1 = JPY 113.3, CNY 1 = JPY 15.2
Dec. 31, 2015: USD 1 = JPY 120.5, EUR 1 = JPY 131.7, CNY 1 = JPY 18.3

Equity ratio: 45.9%
Interest-bearing debt ratio: 23.1%

*Main line items only

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- The next slide covers our balance sheet.
- I would now like to talk about the amortization of goodwill and other assets related to the acquisitions of *Laura Mercier* and *RéVive*.
- On July 12, 2016, we acquired all of the shares of Gurwitch Products, LLC, which handled *Laura Mercier*. The acquisition price was 248 million U.S. dollars, or approximately 25 billion yen.
- Goodwill was approximately 63 million U.S. dollars, which will be amortized by the straight-line method over a period of 10 years.
- In addition, intangible assets related to customers totaling approximately 34 million U.S. dollars will be amortized by the straight-line method over a period of 12 years.
- Trademark rights totaling approximately 76 million U.S. dollars will not be amortized.
- Total annual amortization for a 12-month period will be approximately 9 million U.S. dollars.

FY2016: Full-Year Forecast

(Billion yen)	FY2016			Forecast Announced August 2016	Difference from forecast	Initial Forecast	Difference from forecast
		YoY Change after Adjustment					
			Foreign Currency Exchange				
Net Sales	848.0	-1.8%	+6%	848.0	±0	872.0	-24.0
Operating Income	30.0	-32.3%		30.0	±0	38.0	-8.0
Ordinary Income	29.0	-34.5%		29.0	±0	38.0	-9.0
Extraordinary Income/Loss (net)	14.5	+64.1%		14.5	±0	6.0	+8.5
Net Income Attributable to Owners of Parent	30.0	+1.8%		30.0	±0	28.0	+2.0

Expected ROE: 7.5%

Exchange rates:

FY2016: USD 1 = JPY 106.9 (-12%), EUR 1 = JPY 118.8 (-12%), CNY 1 = JPY 16.1 (-16%)

2H FY2016: USD 1 = JPY 102 (-16%), EUR 1 = JPY 113 (-16%), CNY 1 = JPY 15.2 (-20%)

Year-end dividend per share: ¥10 (planned)

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- Our full-year forecast for net sales and operating income has not changed.
- Regarding exchange rates, the strong yen was already factored into previous forecasts, so we do not expect any changes due to the impact of foreign currency exchange.
- Consolidated net sales are progressing in line with our forecast.

FY2016: Full-Year Forecast

(Billion yen)	FY2016			Forecast Announced August 2016	Difference from forecast	Initial Forecast	Difference from forecast
		YoY Change after Adjustment					
			Foreign Currency Exchange				
Net Sales	848.0	-1.8%	+6%	848.0	±0	872.0	-24.0
Operating Income	30.0	-32.3%		30.0	±0	38.0	-8.0
Ordinary Income	29.0	-34.5%		29.0	±0	38.0	-9.0
Extraordinary Income/Loss (net)	14.5	+64.1%		14.5	±0	6.0	+8.5
Net Income Attributable to Owners of Parent	30.0	+1.8%		30.0	±0	28.0	+2.0

Expected ROE: 7.5%

Exchange rates:

FY2016: USD 1 = JPY 106.9 (-12%), EUR 1 = JPY 118.8 (-12%), CNY 1 = JPY 16.1 (-16%)

2H FY2016: USD 1 = JPY 102 (-16%), EUR 1 = JPY 113 (-16%), CNY 1 = JPY 15.2 (-20%)

Year-end dividend per share: ¥10 (planned)

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- We expect operating income to decrease significantly year on year in the fourth quarter, for the following reasons.
 - One-time costs associated with organization structural reform in Europe and the Americas and structural reform at Bare Escentuals
 - Major marketing investments in *Laura Mercier* and *DOLCE&GABBANA*
 - The timing of product launches and promotions in the Japan Business that were in the third quarter in 2015 will move to the fourth quarter this year.
 - The impact of significant enhancements in investment in China for sales growth on Singles' Day on November 11.
- We will consider how to use expenses and pay attention to ROI in timely cooperation with regional CFOs.

VISION 2020: Roadmap and Current Status



- In fiscal 2014 we began rebuilding our business foundation with the aim of realizing VISION 2020. We have been addressing and resolving legacy issues by confronting them head on, and are now making progress in creating a virtuous cycle.
- The path forward is not always be clear, but going forward, we are taking the steps essential for continuing global growth and to become a company that has the respect of all stakeholders.

VISION 2020

“One Shiseido” “Think Global, Act Local” “Matrix Organization”



We must now maximize the capabilities of our outstanding global people to respond quickly and resolutely to societal, consumer and market change.

A Global Winner with Our Heritage

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- The key points in this transformation are “One Shiseido,” “Think Global and Act Local,” and “Matrix Organization.” Achieving them will be a challenge for us.
- These strategies will transform Shiseido from a Japanese company into a global company. They are absolutely necessary for us to prevail internationally. They include transforming our corporate culture, and we are accelerating their implementation.
- We have regular conference calls with the regional CEOs and CFOs so that we can transparently share what is happening around the world while headquarters and the regional headquarters quickly make and execute various decisions.

VISION 2020

**“One Shiseido”
“Think Global, Act Local”
“Matrix Organization”**



We must now maximize the capabilities of our outstanding global people to respond quickly and resolutely to societal, consumer and market change.

A Global Winner with Our Heritage

24

- In addition, the CEOs and CFOs of each regional headquarters gather once each quarter at Global Executive Committee meetings to discuss strategy, which is raising ownership by region to a higher level.
- Thus promptly transforming our organization and corporate culture is certainly challenging. However, we are promoting reforms with a strong understanding that Shiseido will not become a global company that can prevail internationally, or at all, if we do not change now.
- Certainly, growth in profit may seem a little slow. But please understand that we are taking the steps essential for transforming Shiseido into a global company.
- We are absolutely committed to transforming Shiseido from a leader in Japan to a winner worldwide. This concludes my presentation.

SHISEIDO

Please note that the previous year's period for comparison has changed due to the change in the fiscal year end.

Fiscal Year FY2016 (3Q)	Domestic : Jan.-Dec. 2016 (Jan.-Sep. 2016)	Overseas : Jan.-Dec. 2016 (Jan.-Sep. 2016)
FY2015 (Adjusted)¹ (3Q)	Domestic : Jan.-Dec. 2015 (Jan.-Sep. 2015)	Overseas : Jan.-Dec. 2015 (Jan.-Sep. 2015)
FY2015	Domestic² : Apr.-Dec. 2015	Overseas : Jan-Dec. 2015

1. The above figures have not been audited by an independent accounting auditor.
They are provided as reference for comparison.
2. Excluding some subsidiaries

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.

Supplemental Data 1: 3Q Sales by Reportable Segment (Jan. – Sep.)

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
Japan	305.5	49.1%	293.8	46.6%	+11.7	+4.0%	+4.0%
China	88.5	14.2%	88.0	13.9%	+0.5	+0.6%	+16.7%
Asia Pacific	36.9	5.9%	39.7	6.3%	-2.8	-7.1%	+7.1%
Americas	115.3	18.5%	121.1	19.2%	-5.8	-4.8%	+6.1%
EMEA	58.2	9.4%	75.3	11.9%	-17.1	-22.7%	-13.3% ¹
Travel Retail	18.3	2.9%	13.1	2.1%	+5.2	+40.0%	+55.7%
Total	622.7	100%	631.0	100%	-8.3	-1.3%	+5.4%

1. Actual year-on-year percentage change is +8.0% excluding the effect of the termination of the license agreement for *Jean Paul GAULTIER*.

2. See Supplemental Data 6 for details about changes in reportable segments.

Supplemental Data 2: 3Q Operating Income by Reportable Segment (Jan. – Sep.)

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %
		Operating Profitability		Operating Profitability		
Japan	45.9	13.5%	39.6	12.1%	+6.3	+16.0%
China	4.3	4.8%	-2.0	-2.2%	+6.2	—
Asia Pacific	1.8	4.9%	1.8	4.5%	+0.0	+0.1%
Americas	-8.1	-6.6%	-5.4	-4.2%	-2.6	—
EMEA	-2.8	-4.6%	6.0	7.5%	-8.8	—
Travel Retail	4.8	26.0%	2.1	16.0%	+2.7	+127.9%
All Regions	45.8	6.9%	42.1	6.2%	+3.8	+8.9%
Adjustments	-7.1	—	-9.0	—	+1.9	—
Total	38.7	6.2%	33.1	5.2%	+5.7	+17.1%

Supplemental Data 3: 3Q Sales by Reportable Segment (Jul. – Sep.)

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
Japan	102.6	48.8%	101.5	46.1%	+1.1	+1.1%	+1.1%
China	27.0	12.8%	28.3	12.8%	-1.3	-4.7%	+19.0%
Asia Pacific	12.4	5.9%	14.1	6.4%	-1.7	-11.9%	+3.5%
Americas	43.0	20.4%	44.3	20.1%	-1.3	-3.0%	+13.7%
EMEA	19.2	9.1%	27.6	12.5%	-8.4	-30.5%	-17.3% ¹
Travel Retail	6.3	3.0%	4.6	2.1%	+1.7	+37.1%	+62.2%
Total	210.4	100%	220.4	100%	-10.0	-4.5%	+5.1%

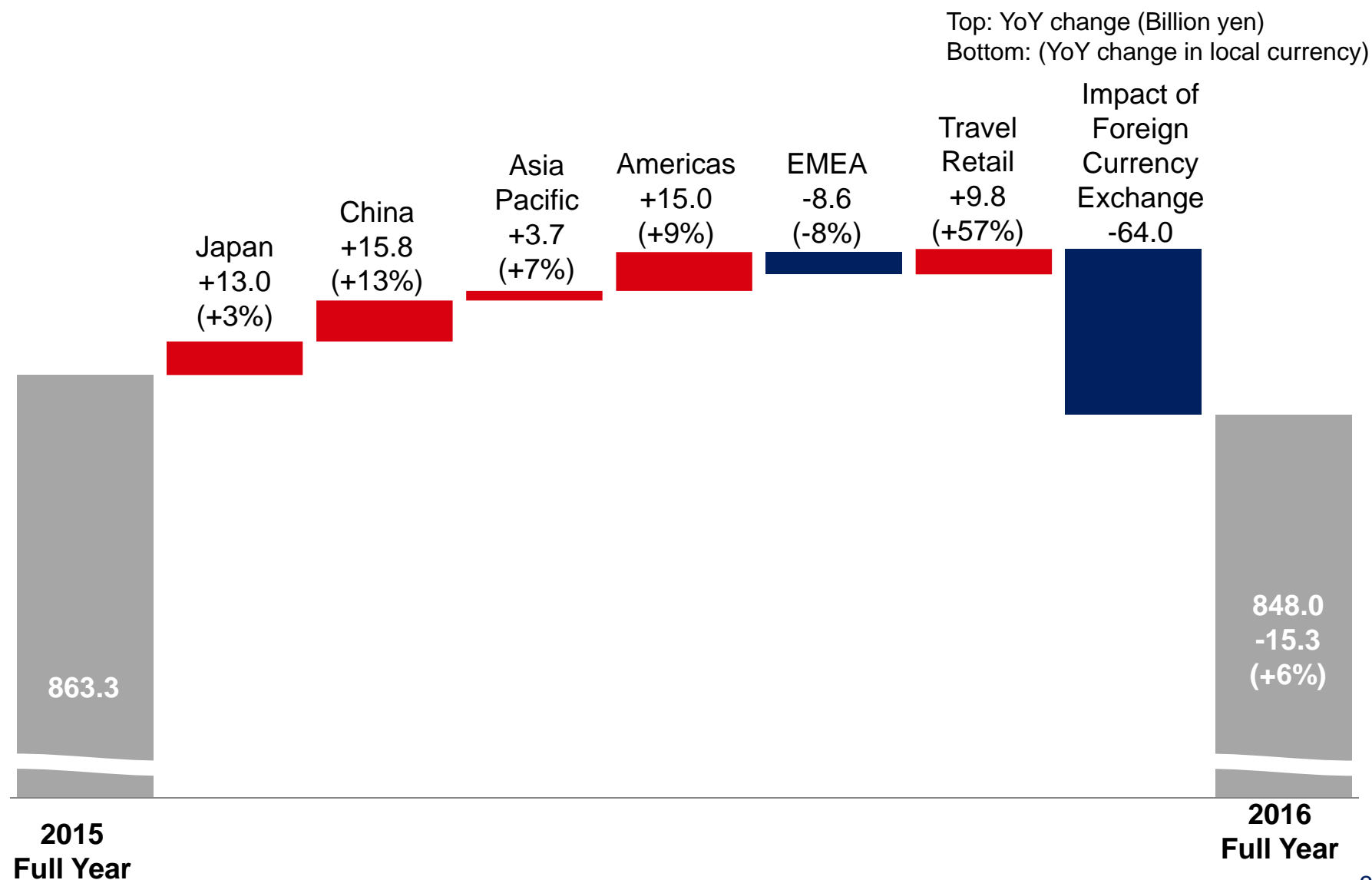
1. Actual year-on-year percentage change is +11.6% excluding the effect of the termination of the license agreement for *Jean Paul GAULTIER*.
2. See Supplemental Data 6 for details about changes in reportable segments.

Supplemental Data 4: 3Q SG&A Expenses (Jan. – Sep.)

(Billion yen)	FY2016			YoY Change %	YoY Change	Change Excluding Impact of Foreign Currency Exchange
		% of Net Sales	Change in % of Net Sales + : % decrease			
SG&A	433.4	69.6%	-0.7%	-2.3%	-10.4	+17.3
Marketing Costs	218.7	35.1%	-1.2%	-4.4%	-10.2	+5.3
Brand Development Cost and R&D Expenses	26.0	4.2%	-0.1%	-3.7%	-1.0	-0.5
Personnel Expenses	83.3	13.4%	+0.1%	-1.1%	-0.9	+4.3
Other Expenses	105.3	16.9%	+0.5%	+1.7%	+1.7	+8.1

1. In FY2016, the personnel expenses for BCs were reclassified from Personnel Expenses to Marketing Costs.
2. The “+” and “-” symbols are used to indicate increase and decrease in amount, respectively.

Supplemental Data 5: FY2016 Full-Year Forecast for Net Sales Change in Net Sales by Reportable Segment (Region)



* Year-on-year change and year-on-year change in local currency for each business were calculated based on the actual exchange rates.

Supplemental Data 6: Main Constituents of Former and New Segments

2015 Segments		Major Businesses
Japan		Prestige, Cosmetics, Personal Care, Digital, Healthcare, etc.
Global	Cosmetics	China, Asia Pacific, Americas, EMEA ³ (TR ² included in all regions)
	Professional ¹	Japan, Global
Other		THE GINZA, Frontier Science, Shiseido Parlour, etc.



2016 Segments	Major Businesses
Japan	Overall business in Japan, TR ² in Japan (Excluding BE and LM ²)
China	Overall business in China (Excluding BE, LM and TR ²)
Asia Pacific	Overall business in Asia and Oceania excluding Japan and China (Excluding BE, LM and TR ²)
Americas	Overall business in the Americas, BE, LM ² and ZOTOS (Excluding TR ²)
EMEA	Overall business in EMEA ³ and BPI ² (Excluding BE, LM and TR ²)
Travel Retail	Overall business at duty-free shops worldwide outside Japan (Excluding BPI ²)

- Starting from FY2016, the Professional Business, which was included in the Global Business in FY2015, is included in all regions excluding Travel Retail.
- BE: Bare Escentuals
LM: *Laura Mercier, RéVive*
BPI: Beauté Prestige International
TR: Travel Retail Business
- EMEA (Europe, the Middle East and Africa)