FY2017
First Quarter Results

May 12, 2017

Norio Tadakawa
Corporate Officer, CFO
Shiseido Company, Limited

SHISEIDO

- I would like to review our business results for the first quarter of fiscal 2017.
- Before giving specific details of the financial results, I would like to explain three changes effective from this fiscal year.
- The first change is that we have made the Professional business, which used to be included in the business results of each region, into an independent segment, to clarify accountability.
- The second change is that we have revised the system for transactions between Shiseido and group companies by substantially transferring responsibility and authority to regions in line with our global matrix organization. We are also reviewing the criteria for allocation of corporate costs in connection with this change.

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- Finally, we have changed the management structure of certain business operations in the Americas and Europe. In line with the matrix organization approach for responding quickly to market changes in each region, starting this fiscal year, we have transferred *bareMinerals, NARS* etc. in the UK , which used to be included in the brand holder in Americas, to EMEA (Europe, Middle East and Africa), and we have transferred the Fragrance business in Latin America, which used to record under the brand holder in EMEA, to Americas.
- These three changes do not have any impact on our consolidated business results, but they do affect segment sales and profits. Please note that the independence of the Professional business and the partial change of management structure in Europe and the Americas have been reflected in the segment information in the previous term.

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.

FY2017 Q1: Executive Summary

Highest first quarter results for both net sales and operating income

Net sales: ¥232.5 billion YoY change in local currency: +10.7% YoY change in yen: +9.0%

- Growth momentum was maintained at a high level, with the steady contributions of new brands.
  - Existing businesses grew, accelerated and driven by borderless marketing targeting Chinese customers in Japan business, China business, and Travel Retail (TR) business mainly in the Prestige area.
  - *Laura Mercier* grew as expected while *Dolce&Gabbana* continued its trend of gradual softening. However, both brands achieved the planned results.
  - Initiatives for improvement began for Bare Escentuals, Cosmetics in China, and Personal Care in Japan.

Operating income: ¥24.1 billion YoY change: +9.3%

- Increase in earning power of existing businesses
  - Improvement in the product mix and marketing ROI attributed to the growth of the Prestige business
  - Profitability improvement in focus markets (Japan, China, and TR) contributed significantly to the profits of the overall company.
  - Reform of cost structure, efficient cost control contributed to the results.

3

- This slide summarizes the main points of the results in the first quarter of fiscal 2017.
- Figures for net sales and operating income were the highest on record for the first quarter.
- Net sales increased 10.7% year on year, to 232.5 billion yen, in local currency terms.
- Growth momentum was maintained at a high level, and new brands were also steadily added to sales, resulting in double-digit sales growth. In the prestige market, where we have strategically continued to strengthen investment, our brand power improved significantly in Japan, China and the Travel Retail segments. In particular, we met the needs of the growing numbers of Chinese customers , effectively tapping into demand, and maintaining growth far exceeding that of our competitors in these markets.
- Moreover, the newly acquired *Laura Mercier* increased its growth potential as expected and, although *Dolce&Gabbana* remained in a gradual downward trend, results were in line with the plan.

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3

- Additionally, during the first quarter under review, we launched initiatives for improvement in the performance of Bare Escentuals, Chinese cosmetics brands, and Personal Care business in Japan.
- Operating income increased 9.3% from the previous year, reaching 24.1 billion yen.
- This increase can be attributed to increased earnings strength in existing businesses thanks to improvement in brand power . Other contributing factors were a reduction in the COGS ratio as a result of sales growth of the prestige brands, improvement in ROI, enhancement of profitability in markets that continued to do well, including Japan, China and Travel Retail, cost structure reforms and cost efficiency.

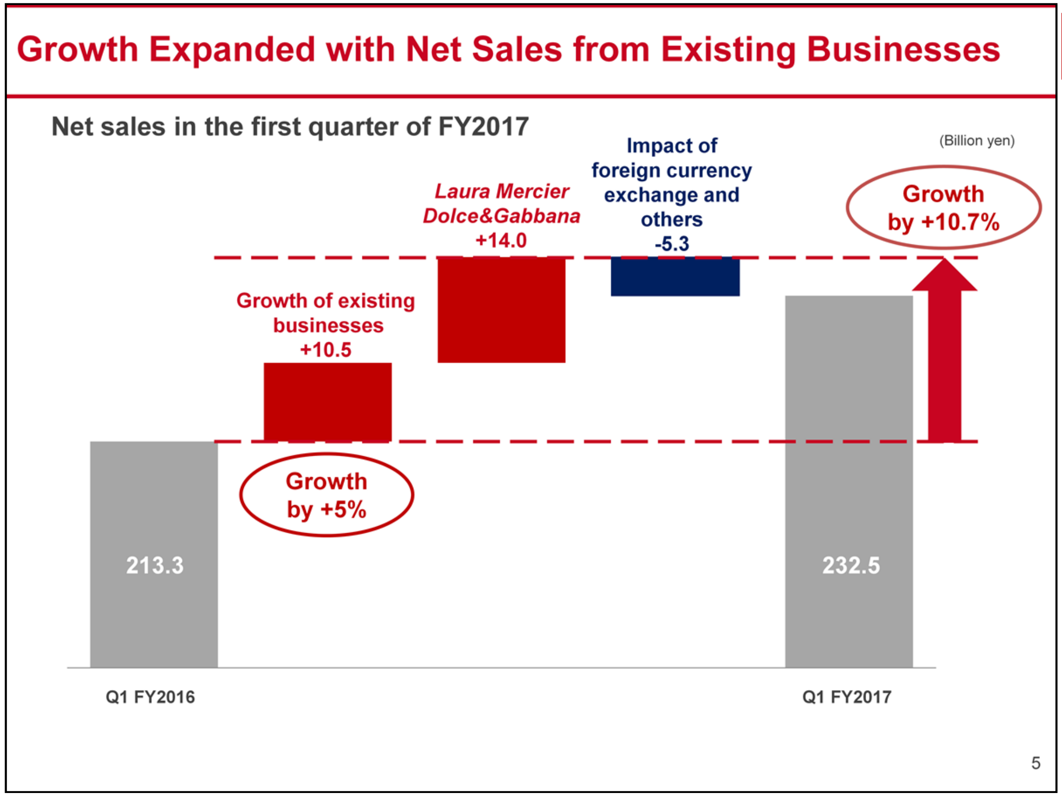
Summary of FY2017 Q1 Results

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Net Sales	232.5	100	213.3	100	+19.2	+9.0	+10.7
Cost of Sales	54.5	23.4	51.0	23.9	+3.5	+6.8	
SG&A	153.9	66.2	140.2	65.7	+13.7	+9.7	
Operating Income	24.1	10.4	22.1	10.4	+2.0	+9.3	
Ordinary Income	23.9	10.3	22.0	10.3	+1.9	+8.8	
Extraordinary Income/Loss (net)	-0.4	-0.2	17.4	8.2	-17.8	–	
Net Income Attributable to Owners of Parent	14.0	6.0	27.3	12.8	-13.3	-48.7	

Exchange rates: USD 1 = JPY 113.6 (-1.6%), EUR 1 = JPY 121.1 (-4.8%), CNY 1 = JPY 16.6 (-5.9%)

4

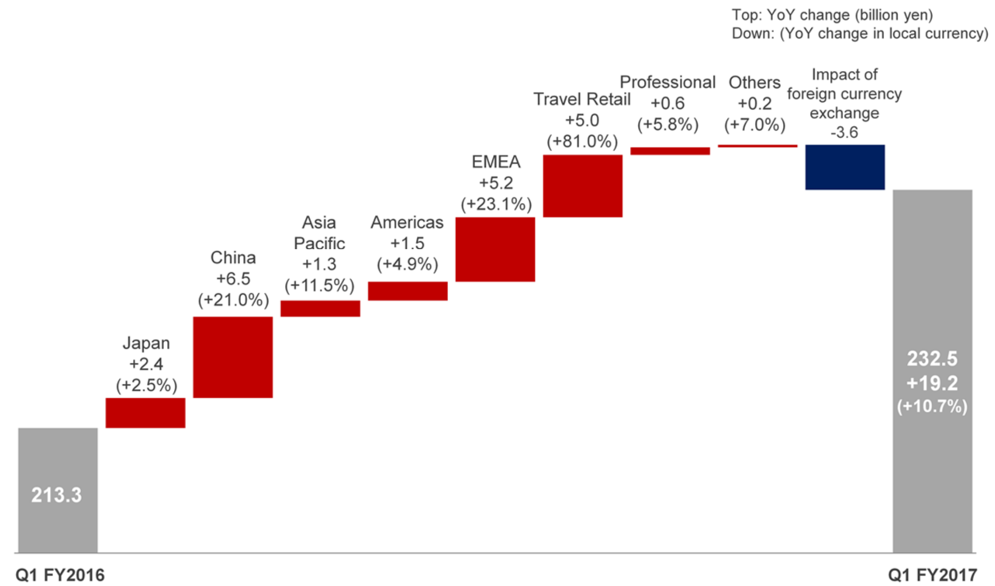
- Net income attributable to owners of parent fell 13.3 billion yen from the year before, to 14.0 billion yen.



- This slide shows a breakdown of the year-on-year change in sales by factor.
- As you can see, existing businesses maintained a growth, with sales increasing by 10.5 billion yen, or 5% growth.
- In addition, *Laura Mercier* and *Dolce&Gabbana* brought in additional sales of 14 billion yen, and net sales on a local currency basis increased 10.7% year on year.

Net Sales Increased in All Regions, Supported by the Addition of New Brands

YoY Breakdown of change in net sales by reportable segment



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

6

- The next slide shows sales results by reportable segment. In addition to growth in existing businesses, new brands also added to sales in EMEA and Americas, and as a result, we achieved sales growth in all regions.
- Notable contributions to overall growth came from Japan, which, having returned to the growth track in 2015, maintained growth, with sales up 2.5%; China, which having returned to growth in 2016, posted a 21% sales increase; and the Travel Retail segment, which posted 81% sales growth, reflecting strategically increased investment.

Japan: +2.5% Increase of Net Sales, with Improved Profitability and ROI

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %
Prestige	20.4	8.8	16.8	7.9	+3.5	+21.0
Cosmetics Specialty Stores	16.8	7.2	17.0	8.0	-0.2	-1.1
Cosmetics	45.7	19.7	46.4	21.7	-0.7	-1.4
Personal Care	12.6	5.4	13.3	6.3	-0.8	-5.9
Others[3]	5.6	2.4	5.1	2.4	+0.5	+10.6
Japan	101.1	43.5	98.7	46.3	+2.4	+2.5

(Billion yen)	2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	19.9	17.9	+2.1	+11.5
Operating Profitability (%)	18.3	17.4	+0.9 pt	
Income Before Amortization of Goodwill, etc.	20.0	18.0	+2.1	+11.4
Operating Profitability (%)	18.4	17.4	+1.0 pt	

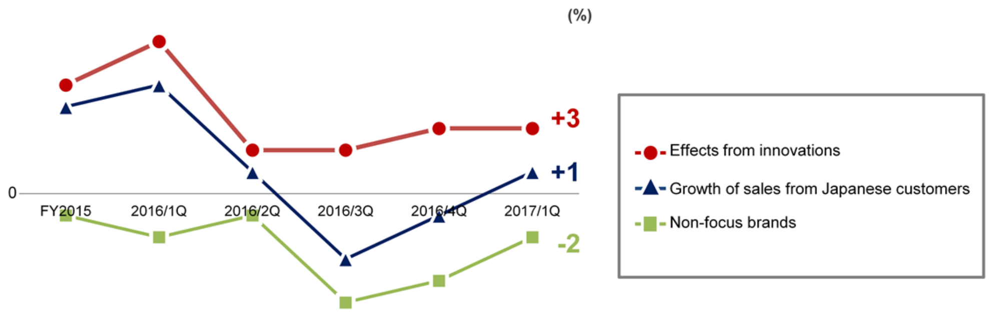
1. In line with the management system of Japan, THE GINZA, etc. which were previously included in “Others” of Japan business, are classified as “Prestige” starting from FY2017.
   In addition, Shiseido Amenity Goods Co., Ltd., which was included in “Personal Care,” is now classified as “Others.”
2. See Supplemental Data 6 for details about changes in reportable segments.
3. “Others” include Healthcare Business, Shiseido Amenity Goods Co., Ltd. and others.
4. % of Net Sales indicates percentage to consolidated net sales.
5. Operating profitability is calculated using net sales including intersegment transactions.

- Moving on to results by segment.
- Net sales from Japan business were 101.1 billion yen. This represents year-on-year growth of 2.5%.
- Operating income rose 11.5% year on year. Profitability improved due to improvement in the ROI of prestige brands and narrowing-down of brands for stronger investment in Personal Care business, in addition to lower ratios of personnel and other expenses as a result of increased sales.

Growth Momentum Exceeding Market Growth

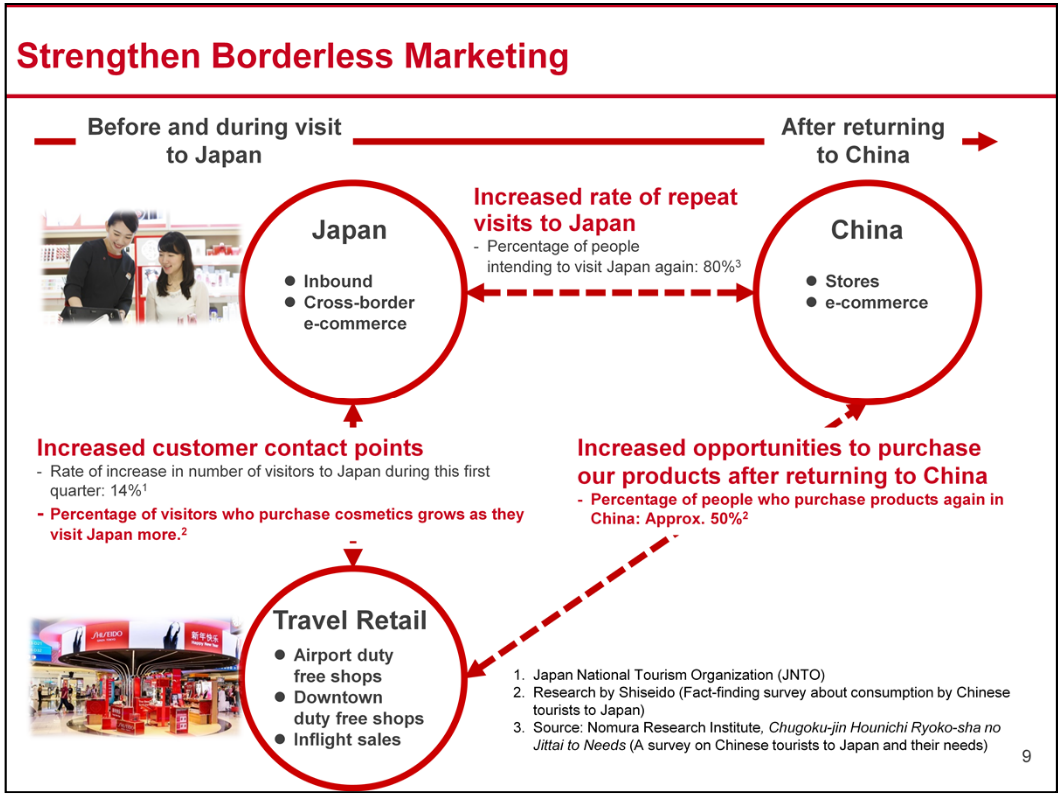
- Market
  - Growth of the cosmetics market: +1 ~ 2% (Shiseido estimate)
  - Increase in the number of foreign tourists to Japan
- Shiseido
  - YoY change in store sales: +4% (Sales from Japanese customers: +1%, Inbound: +3%)
  - Inbound sales: ¥13.0 billion (YoY change: +30%)

Breakdown of growth rate in sales from Japanese customers
(Effects of innovations and non-focus brands)

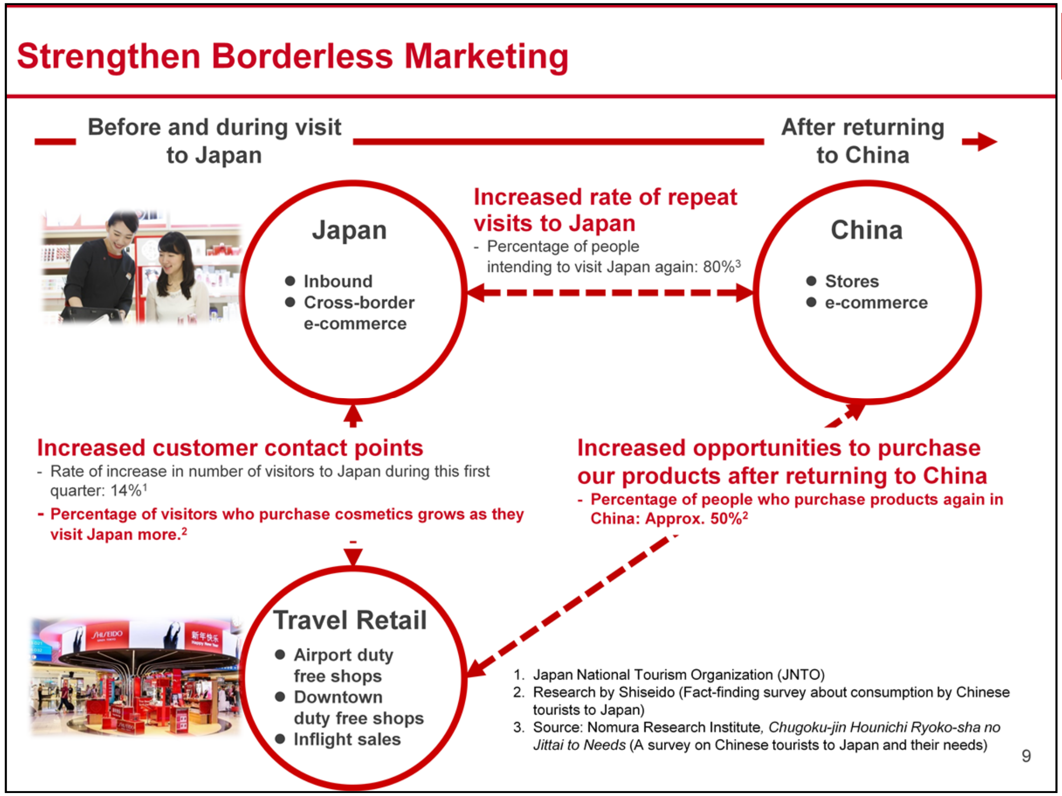


8

- In the first quarter, we maintained the growth momentum seen in the previous year, registering growth of 4% compared with market growth of 1~2%.
- As you can see from sales excluding inbound sales, purchases by Japanese customers also expanded. This is largely attributable to the fact that high- and mid-priced brands, which underwent major innovation from fiscal 2015, steadily increased their power and maintained strong sales.
- We also effectively tapped into inbound demand by strategically linking marketing campaigns across the Asia region, including marketing using popular Chinese apps and influencers. Through these initiatives, inbound sales rose 30% year on year, to reach 13 billion yen.
- Inbound customers to Shiseido at department stores increased 54% year on year, greatly exceeding the approximately 14% increase in the number of foreign tourists.



- I would like to talk about inbound sales in a little more depth.
- This slide shows an analysis of Chinese visitors to Japan. There are two key points.
- The first is the rise in the cosmetics purchase rate among Chinese women who visit Japan. The cosmetics purchase rate among Chinese women visiting Japan for the first time is around 80%. However, the cosmetics purchase rate increases with each visit, rising to 87% on the second visit, 88% on the third visit and so on, according to a Shiseido internal survey. Unlike products such as home appliances, cosmetics are purchased not only as souvenirs but also for personal use, and regular repeat purchases can be expected.
- The second point is that the percentage of women who have made repeat purchases of products bought in Japan after their return to China is as high as around 50%.



- To maximize these two points, we will implement a borderless marketing strategy, including strengthening investment in promotions and advertising on a massive scale at every airport, and using POP displays of the models we are using in China in Japanese drug stores for *ELIXIR*. This style of marketing is possible precisely because Shiseido has the organization to be able to market brands across Asia and also brand power, and I believe that herein lies Shiseido's strength. Furthermore, we will build a borderless CRM system that enables us to demonstrate this strength further and we will use this system to increase this competitive advantage, enabling us to instantly reflect changes in customer buying behavior in our marketing.

Strong Results in Mid-Priced and High-Priced Products/ Strategies for Personal Care Being Redeveloped

- Prestige
  - Accelerated growth of *SHISEIDO, clé de peau BEAUTÉ*, and *IPSA*
- Cosmetic Specialty Store
  - Strong sales of *BENEFIQUE*
  - Beginning of distribution of the *SHISEIDO* products at this channel

- Cosmetics
  - *MAQuillAGE* base makeup significantly expanded its share
  - Strong sales of *ELIXIR*
- Personal Care
  - Strong sales of *SEA BREEZE* for young consumers
  - Redevelopment of strategies for haircare, body care, and men's products
- Japan Retail Innovation Co., Ltd.
  - Enhancement of joint partnerships of three companies (Unicharm Corporation, Lion Corporation, and Shiseido)

10

- Following brand innovation , results were mixed, with high- and mid-priced brands maintaining strong sales and other brands falling short of the previous year's level.
- In the Prestige business, *SHISEIDO ULTIMUNE*, now on its fourth year after launch, posted double-digit growth. Growth in sales of both *clé de peau BEAUTÉ* and *IPSA* also reached double figures , reflecting a continued rise in Japanese customers.
- In the Cosmetics specialty store business, sales of *Hydro Genius* beauty serum, launched last year under *BENEFIQUE,* which grew sharply, expanding by around 10%. Meanwhile, *SHISEIDO*, which had been sold exclusively at department stores, has dropped the restriction on channels, and has begun to be sold at specialty and other channels. By expanding the brand target customers, we will seek further growth.

Strong Results in Mid-Priced and High-Priced Products/ Strategies for Personal Care Being Redeveloped

- **Prestige**
  - **Accelerated growth of *SHISEIDO, clé de peau BEAUTÉ*, and *IPSA***
- **Cosmetic Specialty Store**
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- In the Cosmetics business, we significantly expanded our market share by radically strengthening foundation and base makeup products under the *MAQuillAGE*, which has a high percentage of regular users. *ELIXIR* also posted growth of almost 10%, reflecting continued brisk sales of lotion and emulsion products, which have a high percentage of regular users. Although we maintained growth in store sales in this way, shipment sales were slightly below the year-ago level, reflecting the large scale of shipment sales of the new *HAKU* beauty serum and new *ELIXIR WHITE* last year.
- In the Personal Care business, sales fell 5.9% year on year. *SEA BREEZE* sales were much higher than a year ago due to the expansion in regular users mainly among high school girls driven by the initiatives such as Cinderella audition to determine a model for the TV commercial.

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- Sales of the three brands *AG DEO24*, *MA CHÉRIE* and *UNO* , which were transferred to the Personal Care business last year, fell following growth in shipments associated with the increased number of stores to which products were being delivered, and as a result of the reaction from this expansion, total sales of the Personal Care business fell year on year. We will continue to establish a clear order of priority for investment and implement measures to turn around the Personal Care business.
- Furthermore, Japan Retail Innovation Co., Ltd., a joint venture among Shiseido, Unicharm Corporation and Lion Corporation, develops sales areas through a collaboration among the three companies. The collaboration of the three companies in merchandising has bolstered our ability to develop sales displays and the power of sales displays to attract customers, and some of the products under the joint venture operation have gained the leading share in their category. We will continue strengthening the Personal Care business through similar initiatives in the future.

Early Launch of New Wrinkle Improvement Products (June 21)

<Shiseido Facial Expression Project>

- The new product with retinol as the active ingredient will be launched by *ELIXIR*. The ingredient will also be applied to other brands.
- Increased investment aimed at creating a market of wrinkle improvement through active retinol.

<ELIXIR SUPERIUR Enriched Wrinkle Cream S>

- Increasing customer contact points by offering it at approximately **15,000** stores (Drugstores, general merchandise stores, department stores, cosmetic specialty stores, and watashi+)
- Target sales: **1 million** items (June to December, 2017)

Shiseido Facial Expression Project

ELIXER SUPERIEUR Enriched Wrinkle Cream S
[Quasi-drug]
To be launched on June 21, 2017
¥5,800 (excluding tax) (watashi+ price)

11

- I would like to talk about new wrinkle improvement products and the Shiseido Facial Expression Project announced in April.
- We are accelerating the launch of ELIXIR SUPERIUR Enriched Wrinkle Cream S, the launch of which we have already announced, as the first product in a range of products that contain pure retinol as an active ingredient, from our initial plan to June 21. I believe that this groundbreaking product is not only the result of our research and technological development ability but the fact that we are now able to act with such a sense of speed - starting to air commercials this April after receiving the approval of the Minister of Health, Labour and Welfare in February is also one of the benefits of the reforms we are currently implementing.

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11

- Following our press release, we were often asked why we plan to first market this highly effective product under the mid-priced brand *ELIXIR.* One of the three skin problems experienced by Japanese women is wrinkles. There are many women who hesitate to laugh unrestrainedly for fear of wrinkles. As a consumer-oriented company, our decision was guided by the desire to have as many women as possible experience the effects of our products. Shiseido also sees it as its duty to develop a new wrinkle market in the same way that we developed the skin-brightening market.
- This is why we decided to start by introducing products under *ELIXIR* in a price bracket that customers can afford. In the future, we will apply this technology to skincare items under other brands to create a new market, as we did for skin-brightening.

China: +21.0% Increase in Sales, with a Significant Improvement in Profitability

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
China	35.5	15.3	30.9	14.5	+4.6	+14.9	+21.0

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	6.6	3.5	+3.1	+88.6
Operating Profitability (%)	18.6	11.3	+7.3 pt	
Income Before Amortization of Goodwill, etc.	6.7	3.6	+3.1	+86.1
Operating Profitability (%)	18.8	11.6	+7.2 pt	

1. See Supplemental Data 6 for details about changes in reportable segments.
2. % of Net Sales indicates percentage to consolidated net sales.
3. Operating profitability is calculated using net sales including intersegment transaction.

12

- Moving on to China business.
- Net sales were 35.5 billion yen, growing 21.0% on a local currency basis, which far exceeded market growth. It is the first time sales growth has exceeded 20% since fiscal 2012.
- Operating income rose sharply to 6.6 billion yen. The first quarter includes Chinese New Year and International Women’s Day, which attract customers, and marketing investment efficiency is comparatively high. Nonetheless, the profit margin rose sharply, reaching 18.6 %.
- A lower COGS ratio reflecting substantial growth in the prestige market due to improvement in brand power, and an increase in the ROI of brands, in both store and e-commerce operations, significantly contributed to this rise in the profit margin.

China: Further Acceleration of the Powerful Growth Momentum

- Growth driven by Prestige brands, resulting in double-digit growth
  - Results of *SHISEIDO*, *clé de peau BEAUTÉ*, and *IPSA*
  - Increase in the percentage of Prestige brands in e-commerce
- E-commerce growth of more than 30% due to the stepped up development of the e-commerce business for Personal Care and Cosmetics
- *ELIXIR*: Strong in both e-commerce and stores
- Cosmetics business: Rebuilding the foundation
  - Positive growth* of *AUPRES* after renewal
  - Rebuilding business models for *Za* and *PURE&MILD*

* YoY change in store sales in March

13

- Page 13 shows a summary of the factors behind the strong performance in China.
- The key drivers of growth in China are the prestige brands, and personal care brands mainly sold in e-commerce operations.
- In the prestige market, all brands increased their support among customers in China, growing by more than 60%, and substantially increasing their market share. Starting this fiscal year, we began stepping up investment in e-commerce and are now able to reach customers we were unable to reach through our stores. As a result, the percentage of e-commerce sales accounted for by prestige brands rose from a low single-digit in the same period a year ago to almost 10% this period, demonstrating that we are responding quickly to diversification in consumers' buying behavior.
- Due to the strengthening of e-commerce operations for personal care and cosmetics, Shiseido's e-commerce sales in Chinese business showed growth exceeding 30%, accelerating brand growth.

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* YoY change in store sales in March

13

- Meanwhile, *ELIXIR* underwent reconstruction of its brand image through increased investment in advertising under a localized marketing strategy and sales were in line with the plan.
- Additionally, through the first renewal of product lines to increase product strength in March, *AUPRES* switched from negative growth to positive, albeit for a single month, recovering as planned. Moving forward, we will increase product strength and rebuild the brand .
- We are also steadily changing the business models for *Za* and *PURE&MILD* through the reinforcement of e-commerce and self-selection operations.

Asia Pacific: +11.5% Increase of Sales, with Improvement in Profitability

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Asia Pacific	13.3	5.7	11.6	5.4	+1.7	+14.3	+11.5

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	2.7	1.3	+1.4	+108.4
Operating Profitability (%)	19.6	11.0	+8.6 pt	
Income Before Amortization of Goodwill, etc.	2.7	1.3	+1.4	+107.0
Operating Profitability (%)	19.7	11.2	+8.5 pt	

- **Korea: Strong results attributed to localized marketing**
- ***clé de peau BEAUTÉ* and *NARS***
  Double-digit growth, mainly in department stores
- **Personal Care brands: Continued brisk sales of *SENKA***

1. See Supplemental Data 6 for details about changes in reportable segments.
2. % of Net Sales indicates percentage to consolidated net sales.
3. Operating profitability is calculated using net sales including intersegment transaction.

14

- Turning to Asia-Pacific.
- Net sales grew 11.5%, to 13.3 billion yen.
- The pace of growth in South Korea, which, though the third largest market in Asia after China and Japan, showed poor growth prior to 2013, has accelerated. The sales in Korea began to grow in 2014, and this first quarter showed growth of 21%.
- We believe this is largely due to an increase in the brand power of prestige brands and *SENKA*, among others, as well as to improvement in the strength of the organization led by locally hired management who achieved this increase in brand power.
- The delegation of responsibility and authority to points of contact with customers to enable them to respond promptly to changes in the Asian market proved effective.
- Operating income of this segment increased 108.4% year on year, to 2.7 billion yen, reflecting an improvement in the product mix due to an expansion in sales of prestige brands and a reduction in costs allocated to the region which does not have a brand holder function following a revision of the system for transactions and the criteria for allocation of corporate costs.

Americas: Increase in Sales and Decrease in Income as Anticipated

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Americas	31.1	13.4	30.0	14.1	+1.0	+3.4	+4.9

* The year-on-year percentage change is -22% excluding the acquisition of *Laura Mercier*, and the licensing of *Dolce&Gabbana*.

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	-3.7	-0.4	-3.3	–
Operating Profitability (%)	-10.8	-1.2	-9.6 pt	
Income Before Amortization of Goodwill, etc.	-1.5	1.7	-3.1	–
Operating Profitability (%)	-4.2	5.1	-9.3 pt	

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2. % of Net Sales indicates percentage to consolidated net sales.
3. Operating profitability is calculated using net sales including intersegment transaction.
4. Effective from the fiscal year ending December 31, 2017, *bareMinerals, NARS* etc. in the U.K. included in the “Americas Business” under the Company’s previous segment classification structure has been included in the “EMEA Business.”
5. Effective from the fiscal year ending December 31, 2017, the Fragrance business in Latin America included in the “EMEA Business” under the Company’s previous segment classification structure has been included in the “Americas Business.”

15

- Next, I would like to look at the Americas.
- Net sales rose just 4.9% year on year to 31.1 billion yen, reflecting slowdown of market growth and intensification of the competition environment as well as supply chain problems such as production delays due to material supply problems, and insufficient supply of *Dolce&Gabbana* and other items, despite increased revenue from new brands.
- Excluding the impact of *Laura Mercier* and *Dolce&Gabbana*, net sales fell 22% year on year on a local currency basis.
- The Americas segment posted an operating loss of 3.7 billion yen, with the loss widening 3.3 billion yen from the previous year. This result can be attributed to a deterioration in the ratio of various expenses as a result of decreased sales in existing businesses, upfront investment for integration of *Laura Mercier* in the first quarter, and upfront investment to strengthen digital marketing.

Americas: Focus on Rebuilding the Foundation in FY2017

- **The rebuilding of *bareMinerals***
  - **Full operation of the new management structure**
  - **Strengthening digital investment, expanding new products by identifying customer needs**

Results of the structural reforms expected to be seen from the second half of this year

- ***Laura Mercier* made progress as planned**
  - **Continuously expanded growth in specialty stores**
  - **Steady progress in the integration with existing businesses**

16

- I would now like to talk in more detail about *bareMinerals* and *Laura Mercier*.
- At the end of last year, we started to reform the structure of Bare Escentuals from scratch, including moving the head quarters function from San Francisco to New York.
- In the first quarter, given the impact of the closure of major U.S. department stores, which we had expected since the end of last year, and the intensification of competition among retailers such as specialty stores, we have not been able to move on to a growth track.
- The new management, established in January, has drawn up a concrete action plan to rebuild the brand, including further strengthening digital marketing to meet the rapidly growing needs of the millennial generation in relation to mainstay foundation products, and we aim to achieve growth in the second half of this year.
- Meanwhile, *Laura Mercier* continued to achieve growth at cosmetics specialty stores. Integration of this brand into Americas headquarters is also proceeding smoothly and we aim to create synergy earlier than initially planned.

EMEA: Increase in Sales but Decline in Profit

(Billion yen)	FY2017		FY2016		YoY Change	YoY Change %	YoY Change in Local Currency %
	Q1	% of Net Sales	Q1	% of Net Sales			
EMEA	26.5	11.4	22.5	10.6	+4.0	+17.6	+23.1

*** Year-on-year percentage change is +6% excluding the effect of the licensing of *Dolce&Gabbana*.**

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	-2.1	-0.0	-2.1	–
Operating Profitability (%)	-7.6	-0.1	-7.5 pt	
Income Before Amortization of Goodwill, etc.	-1.2	-0.0	-1.2	–
Operating Profitability (%)	-4.3	-0.1	-4.2 pt	

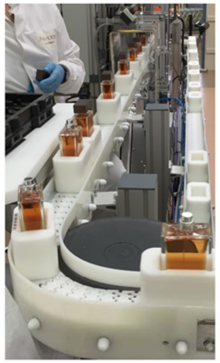
1. See Supplemental Data 6 for details about changes in reportable segment.
2. % of Net Sales indicates percentage to consolidated net sales.
3. Operating profitability is calculated using net sales including intersegment transaction.
4. Effective from the fiscal year ending December 31, 2017, *bareMinerals, NARS* etc. in the U.K. included in the “Americas Business” under the Company’s previous segment classification structure has been included in the “EMEA Business.”
5. Effective from the fiscal year ending December 31, 2017, the Fragrance business in Latin America included in the “EMEA Business” under the Company’s previous segment classification structure has been included in the “Americas Business.”

17

- Moving on to EMEA.
- Net sales increased 23.1% year on year, to 26.5 billion yen on a local currency basis.
- In real terms, excluding the impact of *Dolce&Gabbana*, sales rose 6% year on year on a local currency basis. While the market seemed to slow, existing brands grew, and sales of *Dolce&Gabbana* were almost in line with the plan.
- However, EMEA segment posted an operating loss of 2.1 billion yen, partly because, in the first quarter under review, we recorded upfront investment in the development of new products and development of promotions for *Dolce&Gabanna* initiated in the second half of this year.

EMEA: Establishing Foundation for Growth by Refining Our Focus in Investment

- ***Dolce&Gabbana***
  - ➢ **Decrease of store sales attributed to insufficient product supply**
  - ➢ **Transfer of production was advanced ahead of schedule (March)**
  - ➢ **Upfront investment made: Marketing investment and brand development cost**



- **Termination of distribution agreements with Burberry**
  (Planned for December 31, 2017)
  - ➢ **Reviewing the brand portfolio aimed at improving the profitability**
  - ➢ **Accelerating the growth of core brands**

  Intensive investment in *Dolce&Gabbana* and existing fragrance brands

18

- I would like to explain in more detail about the Fragrance business.
- Looking first at *Dolce&Gabanna*, first-quarter store sales remained very weak, partly due to insufficient product supply. Recognizing that we needed to respond immediately to this situation, we started production at our French plant in March, earlier than initially planed. Since we actively conducted marketing activities and brand development, the first quarter was still a time of upfront expense in the balance between revenue and income.
- Also, as announced in last month, we basically agreed to terminate agreements with Burberry Limited, on the distribution of Burberry fragrance and beauty products, with effect from the end of December 2017.
- We did this as part of the reorganization of our brand portfolio to improve profitability in the Fragrance business. We cannot give any further details as we are in the middle of negotiating a final agreement, but this is in line with our strategy of selection and concentration of fragrance brands and we believe it will accelerate the growth of core brands such as *Dolce&Gabbana* and enable us to build the optimal business portfolio and foundation for growth.

Travel Retail: +81.0% Increase in Sales, with Significant Improvement in Profitability

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Travel Retail	11.0	4.7	6.2	2.9	+4.8	+77.8	+81.0

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	3.7	1.6	+2.1	+130.7
Operating Profitability (%)	33.7	26.0	+7.7 pt	
Income Before Amortization of Goodwill, etc.	3.7	1.6	+2.1	+130.7
Operating Profitability (%)	33.7	26.0	+7.7 pt	

- **Accelerated growth, mainly in Asia (China, Korea, and Thailand) through aggressive investment**
- **Thanks to the strengthened relationship with retailers, an improvement in productivity per counter and an increase in the number of counters were achieved at the same time.**

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

19

- Next, I would like to talk about Travel Retail.
- Because we strategically continued aggressive investment, we recorded double the store sales last year and shipment sales grew 81.0% year on year, to 11 billion yen, growing at a faster pace than last year.
- A breakdown by brand shows that sales of individual brands grew dramatically, with sales of *clé de peau BEAUTÉ* more or less tripling, sales of *NARS* and *ANESSA* more than doubling, and sales of the core *SHISEIDO* rising to 1.4 times the year-ago level. A breakdown by area shows that while the number of stores did not increase, rising by several percent, sales per store grew, with sales in South Korea more than tripling and sales in China also rising to 1.7 times the year-ago level. This growth reflects the positive impact of improvement in the location of sales areas and an increase in space partly due to stronger relations with retailers. This kind of growth in the Travel Retail segment has a considerable impact on each of the local markets respectively and will produce synergy as in China and South Korea.

Travel Retail: +81.0% Increase in Sales, with Significant Improvement in Profitability

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Travel Retail	11.0	4.7	6.2	2.9	+4.8	+77.8	+81.0

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	3.7	1.6	+2.1	+130.7
Operating Profitability (%)	33.7	26.0	+7.7 pt	
Income Before Amortization of Goodwill, etc.	3.7	1.6	+2.1	+130.7
Operating Profitability (%)	33.7	26.0	+7.7 pt	

- **Accelerated growth, mainly in Asia (China, Korea, and Thailand) through aggressive investment**
- **Thanks to the strengthened relationship with retailers, an improvement in productivity per counter and an increase in the number of counters were achieved at the same time.**

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

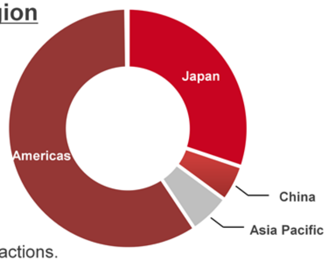
- This dramatic expansion in sales led to much higher profit margins, and operating income rose 130.7% year on year, to 3.7 billion yen. With cost efficiency improving in all segments, operating profitability also rose to an all-time high of 33.7%, significantly contributing to total profit.

Professional: +5.8% Increase in Sales, with Improved Profitability

(Billion yen)	FY2017 Q1	FY2017 % of Net Sales	FY2016 Q1	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Professional	10.8	4.6	10.3	4.8	+0.5	+4.7	+5.8

(Billion yen)	FY2017 Q1	FY2016 Q1	YoY Change	YoY Change %
Operating Income	0.4	-0.3	+0.7	–
Operating Profitability (%)	4.1	-2.7	+6.8 pt	
Income Before Amortization of Goodwill, etc.	0.5	-0.1	+0.6	–
Operating Profitability (%)	4.9	-1.0	+5.9 pt	

Sales by region



- **Strong results of Zotos, which operates mainly in the Americas**

1. See Supplemental Data 6 for details on changes in reportable segments.
2. % of Net Sales indicates percentage to consolidated net sales.
3. Operating profitability is calculated using net sales including intersegment transactions.

- Finally, I would like to talk about the Professional business.
- Net sales were 10.8 billion yen, rising 5.8% on a local currency basis. Operating profitability improved 6.8 percentage points, reflecting postponement of the incurrence of marketing costs in addition to higher profit margins due to increased revenue.
- In the Professional business, which we have included in our presentation for the first time, we have two main businesses: *SHISEIDO PROFESSIONAL*, which focuses on Japan, China and Asia, and Zotos International Inc., which focuses on the Americas. The Americas region accounts for around 60% of total sales, Japan accounts for around 30%, and China and Asia combined account for around 10%. This period, the business showed stable growth thanks to a strong performance by Zotos International Inc., which operates mainly in the Americas.

Key Actions for FY2017

Key actions		Progress
Segments of further focus	Give top priority to Prestige	● Double-digit growth of all mainstay brands ● Growth of *clé de peau BEAUTÉ* and *IPSA* by more than 30%
	Accelerate growth of Japanese brands	● Significant growth in China, Asia and Travel Retail ● Growth brands: *ELIXIR*, *ANESSA* and *SENKA* (excluding Travel Retail)
	Strengthen Digital communication/ e-commerce	● Results exceeded expectation, mainly in China
Initiatives for solving issues	Bare Escentuals	● Brand power is being redeveloped
	AUPRES	● Renewal is in progress
	Personal Care business in Japan	● Creating a short list of focus brands, ongoing redevelopment of comprehensive marketing plans (including development in Asia)
Improve productivity		● Specific actions are being taken as planned

21

- Finally, this slide summarizes progress made on key actions set out in the initial plan for fiscal 2017.
- Regarding segments for further focus, the brand power of prestige brands and Japan brands has increased, and together with the accelerated growth earning power has also risen. We have also made more progress with strengthening digital communication and e-commerce than initially planned.
- As for initiatives for solving issues, we have just launched these initiatives and I think now is not the time to evaluate results. We will continue to track the KPIs of each program, assess results, and rebuild these businesses through the implementation of concrete action programs.

Key Actions for FY2017

Key actions		Progress
Segments of further focus	Give top priority to Prestige	● Double-digit growth of all mainstay brands ● Growth of *clé de peau BEAUTÉ* and *IPSA* by more than 30%
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	Personal Care business in Japan	● Creating a short list of focus brands, ongoing redevelopment of comprehensive marketing plans (including development in Asia)
Improve productivity		● Specific actions are being taken as planned

21

- Finally, as regards improving productivity, we are first taking concrete action to rebuild our brand portfolio, including terminating our distribution agreements with Burberry Limited. Also with regard to the reduction of SKUs which produce inefficiencies, identification of the relevant products is complete and we are now starting to take concrete action and also working to formulate KPIs that will stop SKUs from increasing in the future. I think that we will be in a position to give more details on this matter in the second half of this year.
- I believe that we made a good start, in line with the plan, this first quarter. Both sales and income were the highest on record and, although the trend is favorable, we do not intend to change our full-year forecast based on the results for the first three months. I would like to assess conditions at the announcement of our first half results, and discuss the full-year forecast again then.

Key Actions for FY2017

Key actions		Progress
Segments of further focus	Give top priority to Prestige	● Double-digit growth of all mainstay brands ● Growth of *clé de peau BEAUTÉ* and *IPSA* by more than 30%
	Accelerate growth of Japanese brands	● Significant growth in China, Asia and Travel Retail ● Growth brands: *ELIXIR*, *ANESSA* and *SENKA* (excluding Travel Retail)
	Strengthen Digital communication/ e-commerce	● Results exceeded expectation, mainly in China
Initiatives for solving issues	Bare Escentuals	● Brand power is being redeveloped
	AUPRES	● Renewal is in progress
	Personal Care business in Japan	● Creating a short list of focus brands, ongoing redevelopment of comprehensive marketing plans (including development in Asia)
Improve productivity		● Specific actions are being taken as planned

21

- In an environment characterized by uncertainty about the future, technological advances in many different areas and the spread of SNS, customer awareness/buying behavior is changing at an increasing pace. I think that our success or failure will be determined by how quickly we can respond to these customer changes and changes in a changing, competitive environment and whether we can quickly take measures that anticipate future trends.
- Management that delegates responsibility and authority to each region while at the same time ensuring that headquarters exercises effective corporate governance is, therefore, important, and every day we quickly make management decisions based on information that is instantly shared across our global group.
- We will conduct daily operations that will make Shiseido a global company, while at the same time enhancing our organizational capabilities, thus ensuring that we become a global winner with our heritage. Investors can, therefore, continue to have high expectations for Shiseido in the future.
- Thank you for your attention.

SHISEIDO

Supplemental Data 1
Q1 Results of Sales by Reportable Segment

(Billion yen)	FY2017		FY2016		YoY Change	YoY Change %	YoY Change in Local Currency %
	Q1	% of Net Sales	Q1	% of Net Sales			
Japan	101.1	43.5	98.7	46.3	+2.4	+2.5	+2.5
China	35.5	15.3	30.9	14.5	+4.6	+14.9	+21.0
Asia Pacific	13.3	5.7	11.6	5.4	+1.7	+14.3	+11.5
Americas	31.1	13.4	30.0	14.1	+1.0	+3.4	+4.9 * 1, 2
EMEA	26.5	11.4	22.5	10.6	+4.0	+17.6	+23.1 *1, 3
Travel Retail	11.0	4.7	6.2	2.9	+4.8	+77.8	+81.0
Professional	10.8	4.6	10.3	4.8	+0.5	+4.7	+5.8
Other	3.3	1.4	3.1	1.4	+0.2	+7.0	+7.0
Total	232.5	100	213.3	100	+19.2	+9.0	+10.7

1. Effective from the fiscal year ending December 31, 2017, *bareMinerals, NARS* etc. in the U.K. included in the "Americas Business" under the Company's previous segment classification structure has been included in the "EMEA Business."
   Effective from the fiscal year ending December 31, 2017, the Fragrance business in Latin America included in the "EMEA Business" under the Company's previous segment classification structure has been included in the "Americas Business."
2. Year-on-year percentage change is -22% excluding the acquisition of *Laura Mercier*, and the licensing of *Dolce&Gabbana*.
3. Year-on-year percentage change is +6% excluding the licensing of *Dolce&Gabbana*.
4. See Supplemental Data 6 for details about changes in reportable segment.

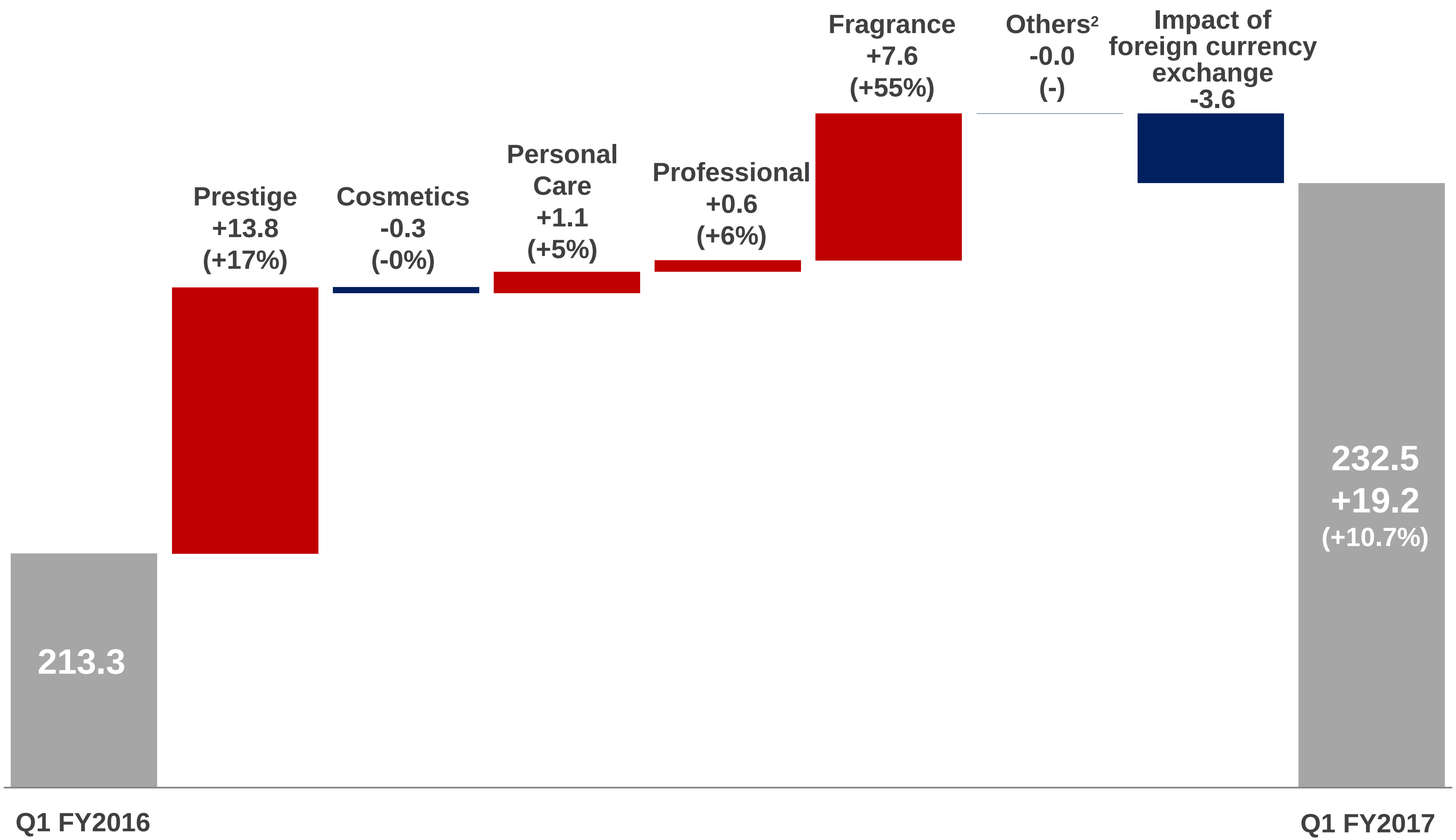
Supplemental Data 2
Q1 Results of Operating Income by Reportable Segment

(Billion yen)	FY2017		FY2016		YoY Change	YoY Change %
	Q1	Operating Profitability %	Q1	Operating Profitability %		
Japan	19.9	18.3	17.9	17.4	+2.1	+11.5
China	6.6	18.6	3.5	11.3	+3.1	+88.6
Asia Pacific	2.7	19.6	1.3	11.0	+1.4	+108.4
Americas	-3.7	-10.8	-0.4	-1.2	-3.3	–
EMEA	-2.1	-7.6	-0.0	-0.1	-2.1	–
Travel Retail	3.7	33.7	1.6	26.0	+2.1	+130.7
Professional	0.4	4.1	-0.3	-2.7	+0.7	–
Other	-2.1	-10.2	-1.9	-14.8	-0.2	–
Subtotal	25.4	9.6	21.6	9.4	+3.7	+17.2
Adjustments	-1.2	–	0.5	–	-1.7	–
Total	24.1	10.4	22.1	10.4	+2.0	+9.3

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

Supplemental Data 3
Q1 Results of Sales by Business

Top: YoY change (billion yen)
Down: (YoY change in local currency)



1. The YoY change, and YoY change in local currency terms for each business were calculated based on the exchange rate that was estimated at the beginning of the fiscal year.
2. The figure for "Others" includes the difference between the estimated rate and the actual rate.

Supplemental Data 4
Q1 Results of SG&A

(Billion yen)	FY2017 Q1			YoY Change %	YoY Change	Change Excluding Impact of Foreign Currency Exchange
		% of Net Sales	Change in % of Net Sales +: % decrease			
SG&A	153.9	66.2	+0.5	+9.7	+13.7	+16.1
Marketing Costs	76.7	33.0	-0.0	+8.8	+6.2	+7.6
Brand Development Cost and R&D Expenses	10.0	4.3	+0.7	+29.1	+2.3	+2.4
Personnel Expenses	30.5	13.1	-0.1	+9.0	+2.5	+2.9
Other Expenses	36.6	15.8	-0.1	+7.8	+2.7	+3.1

Supplemental Data 5
Consolidated Balance Sheets

(Billion yen)	Mar. 31, 2017	Change from Dec. 31, 2016	Excl. Foreign Currency Exchange	Foreign Currency Exchange
Total Current Assets	426.6	-5.3	+1.9	-7.2
Cash, Time Deposits and Short-Term Investments in Securities	112.5	-15.6	-13.7	-1.9
Notes & Accounts Receivable	145.7	+9.0	+11.4	-2.4
Inventories	122.6	+6.9	+9.1	-2.2
Total Fixed Assets	495.6	-7.1	+1.2	-8.3
Property, Plant and Equipment	156.8	+0.6	+2.0	-1.4
Intangible Assets	240.3	-6.0	+1.3	-7.4
Investments and Other Assets	98.5	-1.7	-2.1	+0.5
Total Assets	922.2	-12.4	+3.1	-15.5

(Billion yen)	Mar. 31, 2017	Change from Dec. 31, 2016	Excl. Foreign Currency Exchange	Foreign Currency Exchange
Total Liabilities	505.6	-15.1	-9.8	-5.3
Notes & Accounts Payable and Other Payables	112.0	-14.8	-13.7	-1.1
Interest-Bearing Debt	133.4	+12.9	+13.2	-0.4
Liability for Retirement Benefits	93.7	-0.8	-0.7	-0.0
Total Net Assets	416.6	+2.7	+12.9	-10.2
Shareholders' Equity	402.1	+10.1	–	–
Accumulated Other Comprehensive Income	-7.8	-8.7	–	–
Non-Controlling Interests	21.4	+1.3	–	–
Total Liabilities and Net Assets	922.2	-12.4	+3.1	-15.5

Exchange Rates:
Mar. 31, 2017: USD 1 = JPY 112.2, EUR 1= JPY 119.8, CNY 1 = JPY16.3
Dec. 31, 2016: USD 1= JPY 116.5, EUR 1 = JPY 122.7, CNY 1 = JPY 16.8

* Main line items only

Equity Ratio: 42.8%
Interest-Bearing Debt Ratio: 24.3%
(Excluding long-term payables related to payment for the *Dolce&Gabbana* trademark right)

Supplemental Data 6
Main Constituents of Old and New Segments

2016 Segments	Major Business Domains
Japan	Overall business in Japan, TR in Japan (Excluding BE and LM)
China	Overall business in China (Excluding BE, LM, and TR)
Asia Pacific	Overall business in Asia and Oceania excluding Japan and China (Excluding BE, LM, and TR)
Americas	Overall business in the Americas, BE, LM, and Zotos (Excluding TR)
EMEA	Overall business in EMEA and fragrances[2] (Excluding BE, LM, and TR)
Travel Retail	Overall business at duty-free shops worldwide outside Japan (Excluding TR in Fragrances Business[2])

2017 Segments	Major Business Domains
Japan	Overall business in Japan, TR in Japan (Excluding BE, LM, and PF)
China	Overall business in China (Excluding BE, LM, TR, and PF)
Asia Pacific	Overall business in Asia and Oceania excluding Japan and China (Excluding BE, LM, TR, and PF)
Americas	Overall business in the Americas (Excluding TR and PF)
EMEA	Overall business in EMEA (Excluding LM and TR)
Travel Retail	Overall business at duty-free shops all over the world outside Japan (Excluding TR in Fragrances Business[2])
Professional	Overall Professional Business all over the world
Other	Production Business, Frontier Science Business, restaurant operation, and others

* BE: Bare Escentuals LM: *Laura Mercier* and *RéVive* TR: Travel Retail Business PF: Professional Business EMEA: Europe, the Middle East, and Africa

1. Starting from the current fiscal year, the Professional Business, which was previously included in each business excluding EMEA and TR, is included in the Professional Business.
2. Fragrances Business exclude *SHISEIDO* fragrance and include *Dolce&Gabbana*, *ISSEY MIYAKE*, and *narciso rodriguez*.
3. Effective from the fiscal year ending December 31, 2017, *bareMinerals, NARS* etc. in the U.K. included in the “Americas Business” under the Company’s previous segment classification structure has been included in the “EMEA Business.”
   Effective from the fiscal year ending December 31, 2017, the Fragrance business in Latin America included in the “EMEA Business” under the Company’s previous segment classification structure has been included in the “Americas Business.”