

Q&A at the Conference Call for Analysts and Institutional Investors for the First Quarter of the
Fiscal Year Ending December 31, 2017 (Summary)

[1Q Results]

Q) Were the results of each segment higher or lower than the plan?

A) The results of the Japan, China, Asia-Pacific and Travel Retail segments exceeded the plan, while EMEA and Americas segments fell slightly short. In EMEA segment, sales of existing brands grew by 6%, but performance was affected slightly by insufficient product supply for *Dolce&Gabbana*.

Q) Do you think the momentum seen in the first quarter is sustainable?

A) In our view, the sales growth of 81% seen in Travel Retail segment is high. However, we do expect a certain level of momentum to be maintained in the future. In Japan, too, the prestige business is booming, and both sales to Japanese customers and inbound sales grew. In China, we have just renewed our *AUPRES*, and we will assess the trend over the coming months.

[Japan business]

Q) Is the sales growth of the prestige business in Japan attributable to inbound sales?

A) Inbound sales remained strong, but sales to Japanese customers also grew by 1%.

Q) Why did Cosmetics Specialty Stores, Cosmetics and Personal Care businesses post decreased sales?

A) In the Cosmetics Specialty Stores business, sales of *BENEFIQUE* were brisk. However, sales of *dicila* and sales to foreign buyers declined. In Cosmetics business, store sales were strong. However, shipment sales fell year on year, largely due to a difference in the scale of new products compared with last year. Similarly, in Personal Care business, shipment sales fell year on year since shipments of several brands surged last year because they were transferred to Personal Care business, in which products are sold at more stores through wholesale distributors.

Q) The operating profitability in Japan was 18.3%. Will it remain at this level?

A) In the first quarter, the operating profitability was higher than expected because growth in sales outweighed our marketing expenditure. This does not mean that it will remain at

this level in the future. However, ROI improved, and our business structure is now more profitable than it was last year.

[China]

Q) What was the balance between stores sales and shipment sales in China? Initial shipments of AUPRES following brand renewal were high, weren't they?

A) In China, stores sales in the prestige market grew sharply, and e-commerce sales also remain brisk. We renewed our AUPRES in March. First-quarter shipments for AUPRES showed high single-digit growth, while store sales were on the same level as last year. Store inventories, which we include in our KPIs, were lower than projected.

Q) What was e-commerce's share of sales in China? By approximately how much did store sales grow?

A) E-commerce increased its share of sales to almost the mid-20% range. The percentage of e-commerce sales accounted for by prestige brands rose to almost 10%. Store sales in the prestige business grew by 60%, expanding market share in the department store channel.

[Americas]

Q) In the Americas, existing businesses posted a 20% decline in sales. What was the impact on income?

A) Store sales were not that bad compared with shipments. Sales of NARS showed double-digit growth. Sales of *bareMinerals* were down around 10%. Skincare items under SHISEIDO performed well, posting low single-digit growth. America's segment reported decreased operating profit due to decline in the sales of existing business and also because we strengthened investment in *Laura Mercier* and digital marketing.

Q) So the issue lies with Bare Escentuals, right?

A) We are implementing initiatives to rebuild the brand and we will put the business back on the growth track.

[Asia-Pacific and Travel Retail]

Q) What caused the acceleration in the sales growth of Asia-Pacific and Travel Retail segments?

A) Sales grew in the Japan, China and Travel Retail segments, with their businesses linked with each other. In Travel Retail business, sales per store grew sharply because the

position of sales displays improved thanks to stronger relationships with retailers. In Asia, the effects of our localized marketing strategy became apparent, especially in South Korea. The delegation of responsibility and authority to local management increased the motivation of local staff, leading to good business results.

[Other]

Q) Inbound sales were strong. Will you divert the profit generated from the better-than-anticipated results to additional investment?

A) We will discuss our full-year outlook when we announce our financial results for the second quarter, based on an assessment of the circumstances at that time.

Q) How do you intend to increase marketing investment from the second quarter?

A) In the first quarter, sales growth outweighed our increased marketing investment. From the second quarter, we will expand sales by increasing investment in wrinkle improvement products under *ELIXIR*. We plan to increase the amount of marketing investment while maintaining the marketing cost ratio to sales we initially planned.