FY2017 Third Quarter Results and Full-Year Forecast

SHISEIDO

November 9, 2017

Norio Tadakawa
Corporate Officer, CFO
Shiseido Company, Limited

- First, I would like to talk about the further revision of our earnings forecast, disclosed today.
- The details of the disclosure made on November 1 included the impairment loss calculated based on the corporate value assessment of Bare Escentuals, which was conducted by an outside accounting firm. The assessment was based on the long-term plan for Bare Escentuals developed by us. All of these details were reviewed by the auditor and confirmed by the accounting firm, the auditor and Shiseido for appropriateness, and were then proposed to and approved by our Board of Directors, whereupon the Company made the disclosure.
- However, during subsequent careful examination of the impairment loss calculation process by the auditor, we were notified that the impairment loss amount had not been calculated properly and further revision was required. Therefore we have decided to revise the disclosed information today.

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- The reason for this revision is that the impact of the reversal of deferred tax liabilities associated with impairment loss on intangible assets, such as trademarks and customer-related intangible assets, had not been reflected in the book value, which forms the basis for the calculation of the amount of goodwill impairment loss.
- As a result, we have additionally recognized an impairment loss of 5.2 billion yen. The fact that we have had to make further revision in a short span of time is something that we take seriously as a company.
- Thus, I would now like to explain our results for the third quarter of fiscal 2017 (the nine months ended September 30, 2017) and our full-year forecast, including the announced revision.

FY2017 Q3 (First Nine Months): Executive Summary

- **Record third-quarter (first nine-month) results for both net sales and operating income**

  Net sales: ¥731.2 billion YoY change in local currency: +15.8%
  YoY change in yen: +17.4%
  - Growth in the Prestige business continued to accelerate at a remarkable pace on a global level

  Operating income: ¥70.7 billion YoY change: +82.4%
  - The profitability of existing businesses increased, reflecting continued strengthening of marketing investment in growth

  Extraordinary income/ loss: -¥74.7 billion YoY change: -¥90.6 billion
  - Expenses related to voluntary recall of products: -¥3.3 billion
  - Impairment loss on assets associated with Bare Escentuals: -¥70.7 billion

  Quarterly net income attributable to owners of parent: -¥17.0 billion YoY change: -¥54.1 billion

- **Full-year forecast – Record results for net sales and operating income expected**

  Net sales: ¥985.0 billion YoY change: +15.8% (+¥20.0 billion from August announcement)
  Operating income: ¥65.0 billion YoY change: +76.7% (+¥9.0 billion)
  Extraordinary income/ loss: -¥39.0 billion (-¥35.0 billion)
  - Gain on transfer of Zotos: +¥36.0 billion

  Net income attributable to owners of parent: ¥5.0 billion YoY change: -84.4% (-¥27.5 billion)

- I will start by explaining key points for the first nine months of FY2017.
- Firstly, as in the first quarter and the first half, net sales and operating income reached record levels.
- Net sales rose 15.8% year on year in local currency, to 731.2 billion yen. Driven by Prestige brands, in which we continue to strengthen investment, growth remained strong.
- Operating income increased 82.4% year on year, to 70.7 billion yen. In addition to higher operating margin associated with increased sales, factors such as improvement in the cost ratio, higher marketing ROI and cost structure reforms also contributed to growth.
- Extraordinary income/loss was -74.7 billion yen. Expenses for the voluntary recall of products such as body soap increased from August and we recorded a loss on the impairment of assets associated with Bare Escentuals of 70.7 billion yen. As a result, we recorded a quarterly net loss of 17.0 billion yen.

Summary of FY2017 Q3 Results

(Billion yen)	FY2017 First nine months	FY2017 % of Net Sales	FY2016 First nine months	FY2016 % of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Net Sales	731.2	100	622.7	100	+108.5	+17.4	+15.8
Cost of Sales	168.4	23.0	150.6	24.2	+17.8	+11.8	
SG&A	492.1	67.3	433.4	69.6	+58.8	+13.6	
Operating Income	70.7	9.7	38.7	6.2	+31.9	+82.4	
Ordinary Income	70.4	9.6	38.2	6.1	+32.2	+84.2	
Extraordinary Income/Loss (net)	-74.7	—	15.9	2.6	-90.6	—	
Net Income Attributable to Owners of Parent	-17.0	—	37.2	6.0	-54.1	—	
EBITDA	100.9	13.8	83.0	13.3	+17.8	+21.5	

Exchange rates: USD 1 = JPY 111.9 (+3.0%), EUR 1 = JPY 124.6 (+2.8%), CNY 1 = JPY 16.5 (-0.2%)

*1. The "+" and "-" symbols in YoY Change indicate increase and decrease in amount, respectively.
*2. Gain on transfer of intellectual property rights in connection with the *Jean Paul GAULTIER* and gain on sale of land at the former Kamakura Factory were included under extraordinary income for FY2016.

- This shows a summary of our results for the third quarter.
- Overall, the cost structure is now ideal, in line with our initial plan.
- First, by giving priority to prestige brands and pushing ahead with cost structure reforms, we have reduced and improved the cost ratio, which was 23% in the current period.
- Moving on to SG&A expenses, although it is not clear from this table, which shows total SG&A expenses, the ratio of marketing costs, excluding beauty consultants-related personnel expenses, was 22.8%, up just 0.1% from last year, and although we made a slightly greater investment than initially planned, our sales grew significantly, and ROI began to improve.
- The ratio of personnel expenses, including beauty consultants-related personnel expenses, improved 1.4% and the ratio of other expenses ratio improved 1.7%, both showing a greater improvement than planned.

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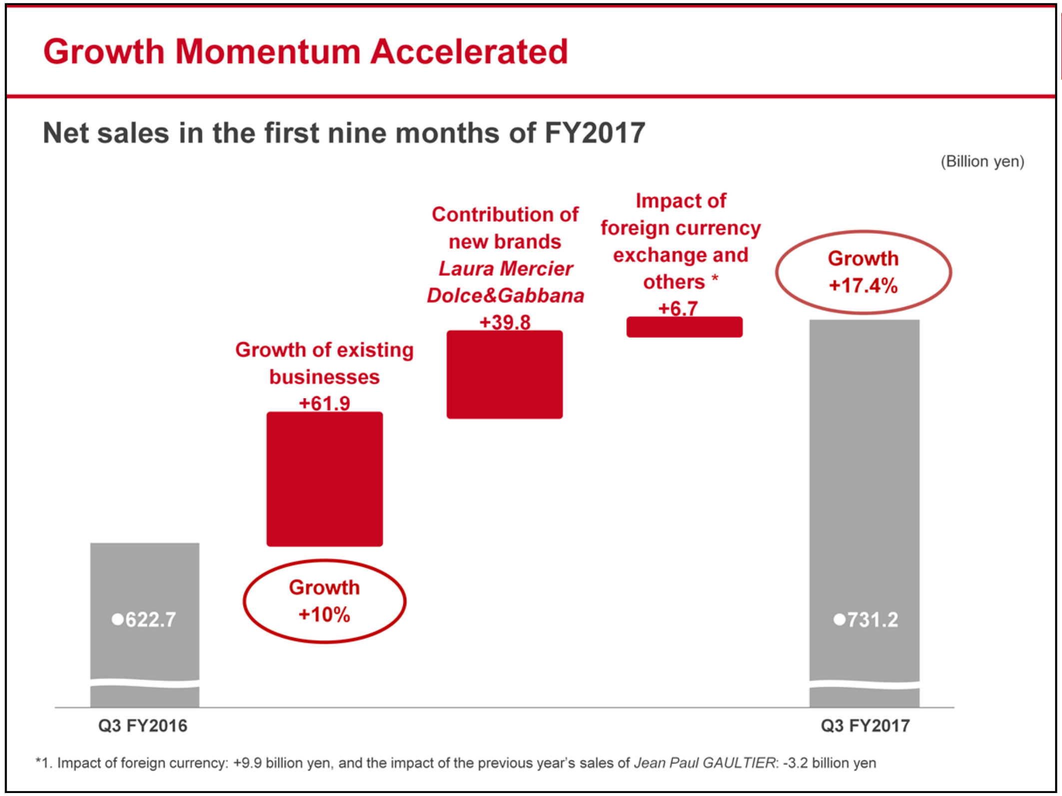
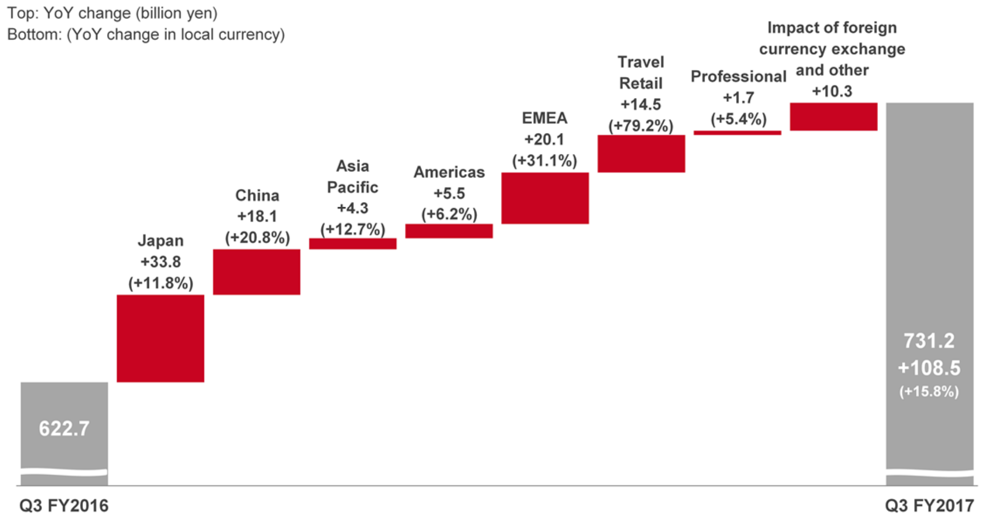
- The ratio of development costs improved by 0.7%, reflecting stronger development and indicating investment as planned.
- As a result, brands grew significantly, surpassing plan targets and leading to expansion in sales. Profitability improved, and our results show that earning power of existing businesses has increased.



- I will now explain our third quarter results.
- This shows a breakdown of the year-on-year sales increase/ decrease into existing businesses and new brands.
- As you can see, existing businesses continued to grow, with sales up 61.9 billion yen or 10%.

Net Sales Increased in All Regions

YoY breakdown of change in net sales by reportable segment (first nine months)

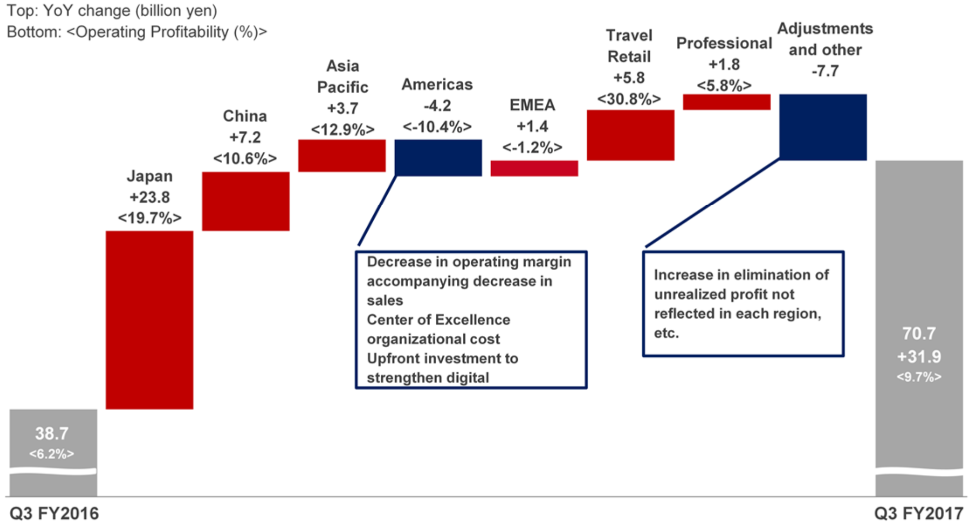


*1. The year-on-year change, and year-on-year change in local currency terms for each business were calculated based on the actual exchange rates.
*2. See Supplemental Data 8 for details about segment classifications.
*3. "Impact of foreign currency exchange and other" includes results of "Other" as a reportable segment.

- Next, this slide shows sales results by reportable segment. As in the second quarter, we achieved sales growth in all regions through growth of existing businesses and the addition of new brands.

Operating Income Increased in All Regions Except the Americas

YoY breakdown of change in operating income by reportable segment (first nine months)



*1. See Supplemental Data 8 for details about segment classifications.
*2. "Adjustments and other" includes results of "Other" as a reportable segment.

- This shows operating income by reportable segment, and here we posted increased operating income in all segments except the Americas.
- The strongly performing Japan, China and Travel Retail segments continued to contribute to increased profit. The EMEA segment also showed a slight improvement of profit despite enhanced investment.
- As for the Americas segment, it is responsible for the Center of Excellence functions for digital and makeup, and we currently record all upfront investments in these Group-wide functions as expenses in the Americas segment.
- The adjustments and other of -7.7 billion yen reflect an increase in elimination of unrealized profit reflected in each region due to the adoption of a new management approach.

Japan: Performance Remained Strong Overall

First nine months performance

- Growth of the cosmetics market in Japan: +2% (Shiseido estimate)
- Shiseido store sales (YoY change): +11%
  Including: Sales to Japanese consumers: +4%, Inbound sales: +7%
  - "ELIXIR SUPERIEUR Enriched Wrinkle Cream S"
    Jun.-Sep. shipment sales: 1.02 million units
    New consumer acquisition rate: approx. 47%
    FY2017 plan: revised upward to 1.3 million units
  - November 1: launch of "Wrinklelift Deep Retinowhite 4" from brand SHISEIDO
    Strong start with sales within first week after launch outstripping sales at launch of "ULTIMUNE"
    Second launch under "Shiseido Facial Expression Project": promotions through trial events, TV commercials, outdoor ads, etc.
  - Inbound sales results
    First nine months Jan.-Sep.: ¥42.5 billion (+57% YoY)
    Full-year forecast: ¥53.5 billion (+55% YoY)

- Let me now turn to results by reportable segment, starting with the Japan business.
- During the first nine months, Shiseido continued to significantly outperform the market, recording growth of 11% compared to market growth of 2%. Sales to Japanese consumers and inbound sales both grew, up 4% and 7% respectively.
- In particular, growth of sales to Japanese consumers continued to outpace market growth, with sales for the three months from July to September up 6% year on year. Brands with a mid-to-high price range, for which we have been strengthening marketing for the past several years, continued to drive growth, and ELIXIR SUPERIEUR Enriched Wrinkle Cream S, released in June, also contributed to the sales increase. As expected, this wrinkle-improving cream contributed to encounters with more consumers, with total sales of 1.02 million units and a new consumer acquisition rate of 47% over the first 3 months after its launch. As the result, we are raising our sales plan for the current fiscal year from the 1.2 million units announced in August to 1.3 million units.

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    Strong start with sales within first week after launch outstripping sales at launch of "ULTIMUNE"
    Second launch under "Shiseido Facial Expression Project":
    promotions through trial events, TV commercials, outdoor ads, etc.
  - **Inbound sales results**
    ●First nine months Jan.-Sep.: ¥42.5 billion (+57% YoY)
    ●Full-year forecast: ¥53.5 billion (+55% YoY)

- Vital-Perfection Wrinklelift Cream by brand *SHISEIDO*, which improves the appearance of wrinkles and also brightens the skin tone, made a good start following its release on November 1 as the second launch under the "Shiseido Facial Expression Project." First-week store sales exceeded those at the launch of *ULTIMUNE*. We will strengthen various initiatives to further expand the wrinkle-improvement market in the future.
- Inbound sales during the first nine months amounted to 42.5 billion yen, soaring 57% year on year, partly due to the depreciation of the Japanese yen since last year. We are revising our full-year inbound sales forecast to 53.5 billion yen, an increase of 9.0 billion yen from the 44.5 billion yen announced in August.

Japan: Growth Achieved in All Businesses

(Billion yen)	FY2017 First nine months	FY2017 % of Net Sales	FY2016 First nine months	FY2016 % of Net Sales	YoY Change	YoY Change %
Prestige	64.8	20.2	49.0	17.1	+15.7	+32.0
Cosmetics Specialty Stores	52.8	16.5	50.9	17.8	+1.9	+3.7
Cosmetics	147.6	46.0	133.7	46.6	+13.9	+10.4
Personal Care	40.4	12.6	38.8	13.5	+1.6	+4.1
Others*3	15.0	4.7	14.3	5.0	+0.7	+5.1
Japan	320.5	100	286.7	100	+33.8	+11.8

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %
Operating Income	67.9	44.1	+23.8	+54.0
Operating Profitability (%)	19.7	14.6	+5.1 pt	
Income Before Amortization of Goodwill, etc.	68.0	44.2	+23.8	+53.8
Operating Profitability (%)	19.8	14.7	+5.1 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 8 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 of Japan business sales.
*5. Operating profitability is calculated using net sales including intersegment transactions.

- The Japan business posted net sales of 320.5 billion yen, which was an increase of 11.8% year on year. Operating income increased sharply, rising 54.0% year on year, to 67.9 billion yen. In addition to a higher operating margin associated with increased sales, factors such as improvement in the cost ratio and higher marketing ROI contributed to growth.

China: The Prestige Business Continued to Drive Growth

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %	YoY Change in Local Currency %
China	105.4	86.9	+18.5	+21.3	+20.8

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %
Operating Income	11.2	4.0	+7.2	+181.3
Operating Profitability (%)	10.6	4.6	+6.0 pt	
Income Before Amortization of Goodwill, etc.	11.4	4.3	+7.2	+169.2
Operating Profitability (%)	10.9	4.9	+6.0 pt	

- **Prestige brands and Personal Care brands continued to perform strongly**
- ***NARS* made a strong start**
- ***AUPRES* had strong e-commerce sales offset by sluggish store sales**
- **E-commerce ratio: approx. 25%**

*1. See Supplemental Data 8 for details about changes in reportable segments.
*2. Operating profitability is calculated using net sales including intersegment transaction.

- Let me now turn to the China business. Net sales were 105.4 billion yen, growing substantially by 20.8% on a local currency basis.
- The Prestige business continued to grow, expanding 55% year on year and powerfully driving the growth of the China business overall. In particular, *NARS*, launched in Shanghai and Beijing in September, also made a strong start and looks promising for the future.
- Meanwhile, the Cosmetics business posted growth of 3% year on year. Sales of *AUPRES*, the China dedicated brand , grew slightly. Although e-commerce sales expanded steadily, store sales were sluggish. Sales of *Za* and *Pure & Mild* were below the year-ago level, reflecting the effect of channel restructuring associated with the revision of agreements.
- The Personal Care business grew 18% year on year. From the third quarter, stock shortages associated with the voluntary recall of *KUYURA* occurred. This slightly impacted on performance but, thanks to the strong sales of other brands, the Personal Care business grew overall.

China: The Prestige Business Continued to Drive Growth

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %	YoY Change in Local Currency %
China	105.4	86.9	+18.5	+21.3	+20.8

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %
Operating Income	11.2	4.0	+7.2	+181.3
Operating Profitability (%)	10.6	4.6	+6.0 pt	
Income Before Amortization of Goodwill, etc.	11.4	4.3	+7.2	+169.2
Operating Profitability (%)	10.9	4.9	+6.0 pt	

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*1. See Supplemental Data 8 for details about changes in reportable segments.
*2. Operating profitability is calculated using net sales including intersegment transaction.

- E-commerce sales posted growth exceeding 30%. The e-commerce ratio for the first nine months was approximately 25%.
- Operating income rose 7.2 billion yen, to 11.2 billion yen. Profitability has improved steadily. However, profitability on a full-year basis is expected to be slightly lower than that in the third quarter because while Double Eleven shipments were almost completed in the third quarter, the promotional expenses will be recorded in the fourth quarter, and because we will also record one-time expenses associated with the revision of agreements for *Za* and *Pure & Mild*.

Asia Pacific: Growth Maintained in All Businesses

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %	YoY Change in Local Currency %
Asia Pacific	40.9	34.0	+6.8	+20.1	+12.7

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %
Operating Income	5.4	1.7	+3.7	+212.1
Operating Profitability (%)	12.9	5.1	+7.8 pt	
Income Before Amortization of Goodwill, etc.	5.5	1.8	+3.7	+206.5
Operating Profitability (%)	13.0	5.2	+7.8 pt	

- **Performance was strong in the Prestige and Personal Care businesses**
  - **Growth outpacing the market and expansion of market share were achieved in South Korea, Taiwan and Thailand**
  - **Growth was driven by *clé de peau BEAUTÉ, NARS* and *SENKA***

*1. See Supplemental Data 8 for details about changes in reportable segments.
*2. Operating profitability is calculated using net sales including intersegment transactions.

- Next, I will turn to the Asia Pacific.
- Net sales grew 12.7%, to 40.9 billion yen. *clé de peau BEAUTÉ* continued to perform strongly, led by the flagship store in Singapore.
- Operating income was 5.4 billion yen. The increase in profitability is attributable to a higher operating margin associated with increased sales, and a review of the transaction structure and criteria for allocation of corporate expenses initiated this fiscal year.

Americas: *bareMinerals* Sales Trended Below Plan

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %	YoY Change in Local Currency %
Americas	98.4	89.9	+8.5	+9.5	+6.2

* The year-on-year change in real terms excluding the acquisition of *Laura Mercier* and the licensing of *Dolce&Gabbana* is -15%.

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %
Operating Income	-11.4	-7.2	-4.2	—
Operating Profitability (%)	-10.4	-7.5	-2.9 pt	
Income Before Amortization of Goodwill, etc.	-5.0	-1.2	-3.8	—
Operating Profitability (%)	-4.6	-1.2	-3.4 pt	

- **Both positive and negative tendencies in stores, depending on the brand:**
  - **Changes in the market and in consumers are accelerating**
  - ***NARS* and *clé de peau BEAUTÉ* are performing well, but *bareMinerals* is struggling**

*1. See Supplemental Data 8 for details about changes in reportable segment.
*2. Operating profitability is calculated using net sales including intersegment transaction.
*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 have 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."

- Next, I will look at the Americas.
- Net sales climbed 6.2%, to 98.4 billion yen. Net sales on an existing brand basis were down 15%, heavily impacted by the struggling *bareMinerals*.
- With market changes picking up pace and major brands continuing to struggle, Shiseido's results also differed according to the brand.
- More specifically, while *NARS* and *clé de peau BEAUTÉ* performed strongly, *bareMinerals* struggled, which resulted in trending below the plan, as explained earlier.
- The operating loss widened 4.2 billion yen from the previous year, to 11.4 billion yen. This is largely attributable to a lower operating margin associated with decreased sales, Center of Excellence costs and upfront investment to strengthen digital.
- If these costs and the loss from *bareMinerals* are excluded, the income before the amortization of goodwill, etc. is in the black.

Bare Escentuals: Facing the Reality of Vicious Cycle After Acquisition

- **Surging brand hit peak at time of acquisition**
- **Failure to achieve further brand development after acquisition**
- **Annual amortization expenses for goodwill and other intangible assets**
  - **At acquisition: approx. 95 million US dollars**
  - **2016 (before impairment loss): approx. 70 million US dollars**

A vicious cycle of non-attainment of plans and falling profitability

*1. Annual amortization expense for intangible assets after impairment loss (from 2018): approx. 30 million US dollars

- I would like to explain about the impairment loss on assets associated with Bare Escentuals and revival of the brand.
- At the time of acquisition in 2010, *bareMinerals* was a brand with rapidly increasing sales. We developed our initial growth strategy in light of this trend, but the brand's growth momentum slowed after peaking following acquisition and rapidly lost growth potential, with sales falling year on year in 2013.
- In the wake of acquisition, we took a variety of measures including brand reform and a review of marketing, but with little success. Weighed down by annual amortization expenses for intangible fixed assets, we also found it difficult to make any bold marketing investment decisions, and partly because of this, we found ourselves in a vicious cycle of non-attainment of plans and falling profitability.
- We have faced this reality squarely, re-examined this brand and as a result we have chosen to turn it around.

bareMinerals: Very High Brand Equity

- Sales to the tune of 50 billion yen
- Consumer base: more than 12 million
- Awareness rate in the Americas market: 78%, with 23-43% of consumers having tried out the brand (approx.19 – 36 million people)
- Brand association:
  "Enhances your natural beauty, without hiding it"
- The Group's only natural brand
- Among the top 10 brands in the U.S., U.K., and Northern European markets
- Natural cosmetics market continues to grow globally

An important brand with strong growth potential

- It may be difficult for us in Japan to imagine, but *bareMinerals* is a brand which boasts sales to the tune of 50 billion yen and also has a consumer base of more than 12 million. Brand awareness in the Americas is high at 78% and we know that up to 36 million people have tried out the brand.
- Furthermore, *bareMinerals* is the only natural brand in the Shiseido Group's brand portfolio, and this natural cosmetics market continues to expand worldwide.
- In light of these and other factors, we judged that this brand still has growth potential and that it is still highly important for the Shiseido Group.
- Moving forward, we will fundamentally review our strategy according to the changing market while at the same time clarifying the position of the brand once more.

bareMinerals: Priority Initiatives to Turn the Brand Around

Restructuring

Expand profitability and raise funds for investment

- Closure of some 100 boutiques focusing on unprofitable stores
- Reduction of fixed costs

Marketing

Concentrate investments on innovation and digital marketing

- Product innovation
- Strengthening of communication with Millennials and Generation Z
- Utilization of data through new CRM system

Strengthening of organizational and human resources

Clarify priority issues and steadily implement measures to address them

- More specifically, we will speed up the following reforms.
- The first focus will be restructuring. We will implement more far-reaching restructuring focusing on the reduction of fixed costs to obtain the funds for investment. Out of the 170 or so boutiques currently in operation, we will close around 100 with low profitability. In the future we will also continually improve profitability by managing profitability per store together with leading KPIs.
- The next focus will be to strengthen marketing. We will drastically change our previous approach and most of our investments will be made in digital marketing. In particular, we aim to strengthen communication with Millennials and Generation Z.
- Finally, we will also work to strengthen the organizational and human resources that will execute these reforms. By clarifying priority issues and steadily implementing measures to address them, we will turn *bareMinerals* into a profitable brand capable of achieving steady growth.

EMEA: Steady Growth in Existing Businesses

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %	YoY Change in Local Currency %
EMEA	87.3	64.8	+22.5	+34.8	+31.1

* The year-on-year change in real terms excluding the licensing of *Dolce&Gabbana* is +5%.

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %
Operating Income	-1.2	-2.6	+1.4	—
Operating Profitability (%)	-1.2	-3.8	+2.6 pt	
Income Before Amortization of Goodwill, etc.	0.1	-2.6	+2.7	—
Operating Profitability (%)	0.1	-3.8	+3.9 pt	

- **Existing Businesses grew +5%**
  - ***NARS* and *narciso rodriguez* performed strongly**
- ***Dolce&Gabbana***
  - **Sales fell short of plan due to supply problems despite start of full-scale production by Shiseido**

*1. See Supplemental Data 8 for details about changes in reportable segment.
*2. Operating profitability is calculated using net sales including intersegment transaction.
*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 have 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."
*4. Method for calculating Income Before Amortization of Goodwill, etc. was revised from the first half of FY2017.

- Next, let us turn our attention to the EMEA region.
- EMEA net sales increased 31.1%, to 87.3 billion yen. Existing business es grew steadily. However, performances differed according to the brand, with *NARS* and *narciso rodrigues* performing strongly while brands such as *ISSEY MIYAKE* struggled. *Dolce&Gabbana* also fell short of the plan due to supply problems.
- The operating loss was just 1.2 billion yen, improving 1.4 billion yen year on year, with upfront investment in the development of new products and promotions for the future partially offset by the start of full-scale production of *Dolce&Gabbana* products by Shiseido, which helped reduce the cost ratio.

Travel Retail: Growth Continued, Especially in Asia

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %	YoY Change in Local Currency %
Travel Retail	33.8	18.3	+15.5	+84.5	+79.2

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %
Operating Income	10.4	4.6	+5.8	+127.2
Operating Profitability (%)	30.8	25.1	+5.7 pt	
Income Before Amortization of Goodwill, etc.	10.4	4.6	+5.8	+127.2
Operating Profitability (%)	30.8	25.1	+5.7 pt	

- **Proactive marketing including advertising and events at airports (strengthening of investment)**
- **Strengthening of relationships with retailers**
- **Strengthening of organizational functions and human resources**

*1.Operating profitability is calculated using net sales including intersegment transaction.

- Next, I will talk about the strongly performing Travel Retail segment.
- Net sales increased 79.2%, to 33.8 billion yen. Business continued growing, especially in Asia. In addition to proactive marketing investment, stronger relationships with retailers and enhanced organizational functions produced results.
- Operating income rose 127.2% year on year, to 10.4 billion yen, and we maintained operating profitability exceeding 30%, with an operating margin of 30.8%.

Professional: Both Sales and Profitability Increased in China

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %	YoY Change in Local Currency %
Professional	34.8	32.4	+2.5	+7.6	+5.4

(Billion yen)	FY2017 First nine months	FY2016 First nine months	YoY Change	YoY Change %
Operating Income	2.0	0.2	+1.8	+973.8
Operating Profitability (%)	5.8	0.6	+5.2 pt	
Income Before Amortization of Goodwill, etc.	2.3	0.7	+1.6	+236.2
Operating Profitability (%)	6.5	2.1	+4.4 pt	

*1. See Supplemental Data 8 for details on changes in reportable segments.
*2. Operating profitability is calculated using net sales including intersegment transactions.

- Finally, I will touch on the Professional business.
- Net sales increased 5.4%, to 34.8 billion yen, mainly due to strong sales in China. Operating income was 2.0 billion yen, an increase of 1.8 billion yen from the previous year.
- In the Professional business, we plan to focus on strengthening investment and expanding sales in Asia, especially China.
- In accordance with this selection and concentration strategy, we recently reached an agreement to transfer our stake in Zotos, which operates mainly in the U.S., for 485 million U.S. dollars.
- Moving forward, we intend to strengthen investment, with a view to expanding our presence in Asia.

Q3 Results of Other Income and Expenses and Extraordinary Income and Losses

Other Income and Expenses

(Billion yen)	FY2017	FY2016
Interest Income	0.6	0.6
Interest Expense	-0.7	-0.6
Net Interest Income and Expense	-0.1	-0.0
Foreign Exchange Gain/Loss	-0.4	-2.0
Other	0.2	1.5
Total	-0.3	-0.5

Extraordinary Income and Losses

(Billion yen)	FY2017	FY2016
Gain on Transfer of Business	0.2	8.9
Gain/Loss on Sales or Disposal of Property, Plant and Equipment	0.0	8.5
Gain/Loss on Sales of Investments in Securities and Loss on Revaluation of Investments in Securities	0.3	0.0
Structural Reform Expenses, etc.	-1.3	-1.4
Impairment Loss	-70.7	-0.2
Voluntary Product Recall-Related Expenses	-3.3	–
Total	-74.7	15.9

*1. Gain on Transfer of Business: Transfer of intellectual property rights associated with the *Jean Paul GAULTIER* brand in 2016
*2. Gain/Loss on Sales or Disposal of Property, Plant and Equipment: Sale of land at the former Kamakura factory in 2016
*3. Structural Reform Expenses, etc.: Early retirement premiums that were being pursued in all regions, etc.

- Moving next to other income and expenses and extraordinary income and losses.
- Other income and expenses came to -0.3 billion yen, mainly reflecting improvement in foreign exchange gain or loss.
- Extraordinary income and losses amounted to -74.7 billion yen, reflecting voluntary recall expenses and impairment loss on assets associated with Bare Escentuals.
- The impairment loss can be broken down into losses of 43.1 billion yen for goodwill, 23.7 billion yen for trademarks, 2.4 billion yen for customer-related intangible asset, and 1.5 billion yen for other fixed assets. As a result, the outstanding value of goodwill on the balance sheet is zero. Moreover, annual amortization expense for intangible assets associated with Bare Escentuals next year is expected to be around 30 million U.S. dollars, which is less than half that in FY2016.

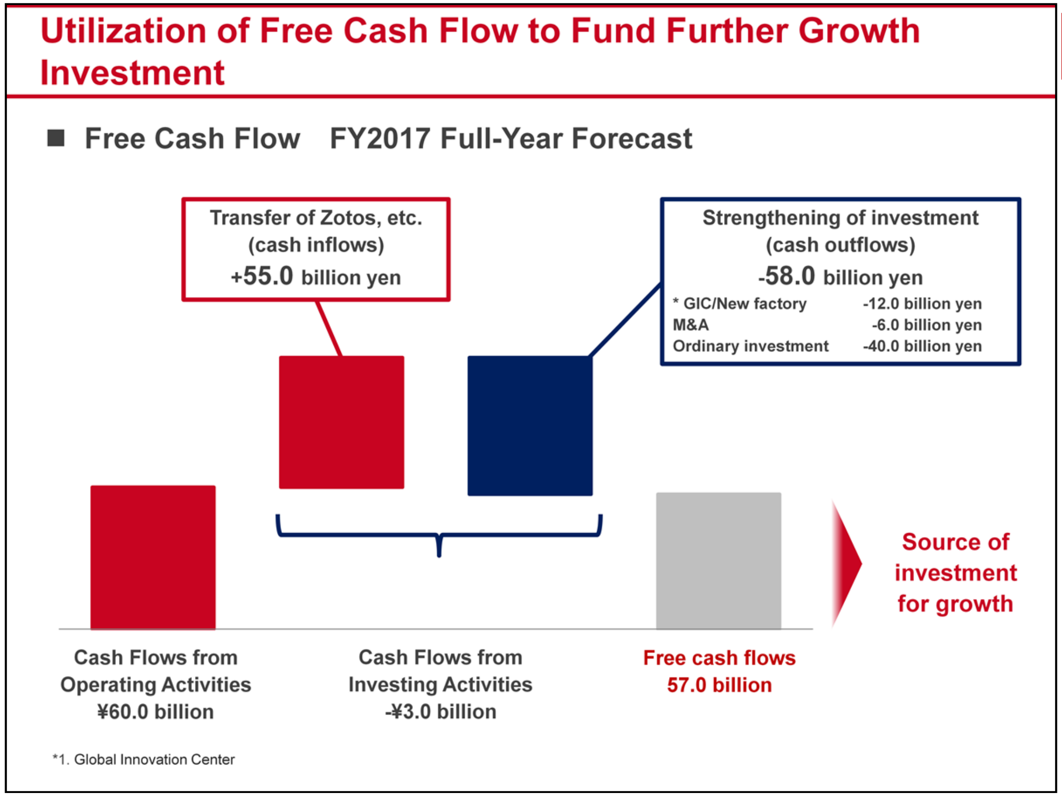
Full-Year Forecast for FY2017

(Billion yen)	FY2017	% of Net Sales	FY2016	YoY Change %	YoY Change in Local Currency %	Revised Forecast Announced on Nov. 1	Difference	Revised Forecast Announced in August	Difference
Net Sales	985.0	100	850.3	+15.8	+14	985.0	±0.0	965.0	+20.0
Operating Income	65.0	6.6	36.8	+76.7		65.0	±0.0	56.0	+9.0
Ordinary Income	64.0	6.5	37.2	+72.2		64.0	±0.0	55.0	+9.0
Extraordinary Income/Loss	-39.0	—	12.7	—		-34.0	-5.0	-4.0	-35.0
Net Income Attributable to Owners of Parent	5.0	0.5	32.1	-84.4		10.0	-5.0	32.5	-27.5

Exchange rates: FY2017 USD 1 = JPY 111.9 (+3%), EUR 1 = JPY 124.6 (+3%), CNY 1 = JPY 16.5 (+1%)
Dividends: Interim ¥12.5, Year-end ¥12.5 (plan)

*1: Extraordinary income/loss (net) for FY2016 reflects the recording of extraordinary income such as a gain on the transfer of intellectual property rights in connection with the *Jean Paul GAULTIER* brand fragrance and a gain on the sale of land at the Company's former Kamakura factory.

- Moving on, I would like to explain the revision of the full-year forecast.
- Given the continued strong performance of Prestige brands, amongst others, we expect net sales to be 985.0 billion yen, which is an increase of 20 billion yen from our August forecast. In particular, sales of *clé de peau BEAUTÉ look set to achieve growth of 35% year on year and to exceed 100 billion yen.*
- 10.0 billion yen of the 20.0 billion-yen sales increase is attributable to yen depreciation and the remainder is attributable to changes in our forecasts for each region. Our revised forecast reflects decline in sales of *bareMinerals* in the Americas segment but anticipates growth in the Japan, China and Travel Retail segments. Operating income is expected to climb 9.0 billion yen, to 65.0 billion yen. Both net sales and operating income are projected to reach record levels.
- Our net income forecast is 5.0 billion yen, as disclosed today.
- Our dividend forecast for the fiscal year ending December 31, 2017 is unchanged from that announced in August.



- I would now like to explain our free cash flow forecast.
- We forecast cash provided by operating activities at 60.0 billion yen, as a result of the growth of existing businesses. We forecast cash used in investing activities at 3.0 billion yen. This reflects cash inflows of 55.0 billion yen associated mainly with the transfer of Zotos and cash outflows at 58.0 billion yen as investments for growth in the medium and long term including investments related to the Global Innovation Center and M&A.
- We forecast positive free cash flow of around 57.0 billion yen. We intend to use most of this to fund investments in areas that will support growth in the medium and long terms, such as R&D, the supply chain, and brands.

Strengthening of Portfolio through Further Selection & Concentration

Role/Positioning	Business Domain	M&A/Strategic Partnership	Withdrawal/Sale
Positioning as profitable growth drivers – proactive investment	Prestige	Acquisition of *Laura Mercier*	-
	Fragrance	Conclusion of *Dolce&Gabbana* licensing agreement	Termination of *Burberry* distribution agreements
Building of business foundation for achieving sustainable profit growth	Cosmetics	-	Transfer of KINARI
Restructuring	Professional	-	Transfer of Zotos
	Frontier Science	-	Transfer of chromatography business
New innovative domains	- Personalization - Holistic	- Innovative digital tools MATCHCo., Giaran - Strengthening of business and organizational capabilities JWALK	-

✓ Rebuilding of the business and brand portfolio on a global scale

✓ Concentration of investment on core brands, acceleration of growth

✓ Strengthening of investment for growth in the medium and long term, such as supply chain investment

- Next, I would like to talk about the rebuilding of our business portfolio, currently being undertaken globally.
- This year alone, we have made headway with the selection and concentration of business through the transfer of subsidiaries and businesses, namely *KINARI*, the chromatography business and Zotos.
- We believe that this rebuilding of our portfolio has resulted in even greater selection and concentration. Moving forward, we will constantly divest any brands and businesses which have no prospect of higher profitability or growth while at the same time accelerating the growth of core brands such as *clé de peau BEAUTÉ* and *ELIXIR*.
- We will also actively focus on acquiring brands and technologies which are important for Shiseido’s future, making use of the funds gained through reorganization of the business portfolio. This year in particular, we acquired technologies which will speed up personalization and digital innovation, including MatchCo., and Giaran, the acquisition of which was announced the other day, in the Americas.
- We are committed to making continued investment to strengthen innovation in the future.

Supply Chain:
Meeting Increased Demand in Japan and Overseas

- 3 factories in Japan: Strengthening of infrastructure and increase of personnel
- Nasu factory: Slated to start operation in 2019
- New Osaka factory: Production capacity to be increased to 2.1 times the initial plan
- Active investment in treatment of workers and human resource development
  Realization of better production process from a long-term perspective
  - Re-employ fixed-term contract employees full-time from 2018
  (those willing to change the contract from around 1,200 employees max.)

Building a robust production structure to support global growth

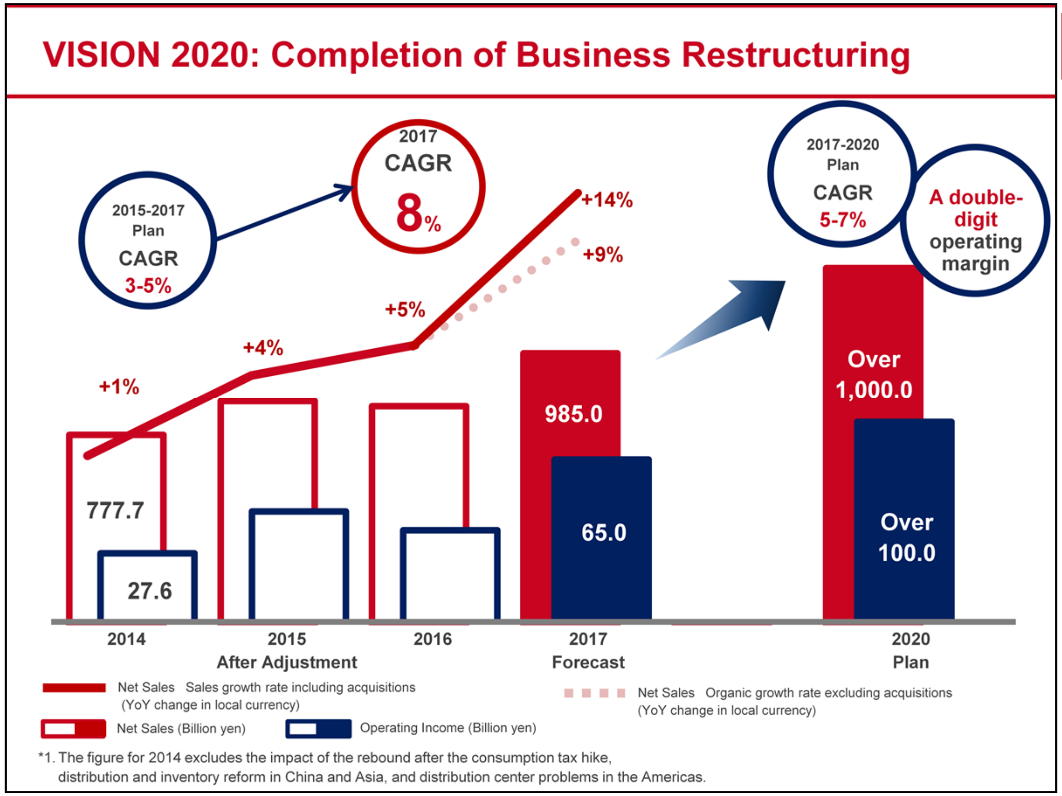
- We will also invest funds gained through such portfolio reorganization to strengthen the supply chain.
- Currently, demand for Shiseido products, especially "made-in-Japan" brands, is expanding inside and outside Japan. In order to continue growing globally, we will actively invest from both a short-term and a medium-to-long-term perspective to strengthen our supply chain structure.
- To quickly meet growing demand in the short term, we are working to expand the production infrastructure and increase personnel at our three plants in Osaka, Kakegawa and Kuki which are currently in operation.
- In addition, we have decided to build the Nasu Factory and to expand the production capacity of the new Osaka Factory in order to strengthen the production structure in the medium and long term. We expect to make an investment of 30.0-40.0 billion yen in the construction of the Nasu Factory, and additional investment of 15.0 billion yen in the new Osaka Factory, bringing total investment in the new Osaka factory to 55.0 billion yen. We will also launch collaborative initiatives with suppliers.

Supply Chain:
Meeting Increased Demand in Japan and Overseas

- 3 factories in Japan: Strengthening of infrastructure and increase of personnel
- Nasu factory: Slated to start operation in 2019
- New Osaka factory: Production capacity to be increased to 2.1 times the initial plan
- Active investment in treatment of workers and human resource development
  Realization of better production process from a long-term perspective
  - Re-employ fixed-term contract employees full-time from 2018
  (those willing to change the contract from around 1,200 employees max.)

Building a robust production structure to support global growth

- Furthermore, to improve the quality of the production process from a long-term perspective, it is necessary to fully utilize people’s skills. We will actively invest in improving the treatment of workers and developing human resources on the production frontline. We will start by re-employing fixed-term contract employees (maximum 1,200 people) who are willing to change the contract to full time from 2018. We will develop a work environment which better attracts talent and in which employees feel motivated to work.



- Finally, 2017 is the final fiscal year of the first three years of “VISION 2020.” There are only a few months left, but we plan to complete the rebuilding of the business foundation in preparation for the acceleration of growth over the next three years and to make quick decisions and take various actions based on our assessment of the changing market. Through this, we aim to achieve our 2020 targets of net sales exceeding 1 trillion yen, operating income exceeding 100 billion yen, double-digit operating margin , and ROE of 12%.
- This concludes my presentation.

SHISEIDO

Supplemental Data 1:
FY2017 Full-Year Forecast (by Reportable Segments)

(Billion yen)		FY2017	YoY Change %	In Local Currency, %	Revised Forecast Announced In August	Difference	(Ref) FY2016
Net Sales		985.0	+15.8	+14	965.0	+20.0	850.3
	Japan	423.0	+11.0	+11	409.0	+14.0	381.2
	China	139.0	+17.7	+17	135.5	+3.5	118.1
	Asia Pacific	53.0	+16.2	+10	51.5	+1.5	45.6
	Americas	143.0	+12.2	+9	148.0	-5.0	127.5
	EMEA	123.0	+30.7	+26	119.5	+3.5	94.1
	Travel Retail	42.5	+71.3	+66	40.5	+2.0	24.8
	Professional	47.5	+5.7	+4	47.0	+0.5	44.9
	Other	14.0	0	0	14.0	±0.0	14.0

Exchange rates: FY2017: USD 1 ＝ JPY 111.9 (+3%), EUR 1 ＝ JPY 124.6 (+3%), CNY 1 ＝ JPY 16.5 (+1%)

*1. See Supplemental Data 8 for details about changes in reportable segment.

Supplemental Data 2:
Q3 Results of Sales by Reportable Segment (Jan.-Sep.)

(Billion yen)	FY2017		FY2016		YoY Change	YoY Change %	YoY Change in Local Currency %
		% of Net Sales		% of Net Sales			
Japan	320.5	43.8	286.7	46.1	+33.8	+11.8	+11.8
China	105.4	14.4	86.9	13.9	+18.5	+21.3	+20.8
Asia Pacific	40.9	5.6	34.0	5.5	+6.8	+20.1	+12.7
Americas	98.4	13.5	89.9	14.4	+8.5	+9.5	+6.2 *1, 2
EMEA	87.3	11.9	64.8	10.4	+22.5	+34.8	+31.1 *1, 3
Travel Retail	33.8	4.6	18.3	2.9	+15.5	+84.5	+79.2
Professional	34.8	4.8	32.4	5.2	+2.5	+7.6	+5.4
Other	10.2	1.4	9.9	1.6	+0.4	+3.7	+3.7
Total	731.2	100	622.7	100	+108.5	+17.4	+15.8

*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 have 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 of sales of existing business is -15% excluding the acquisition of *Laura Mercier*, and the licensing of *Dolce&Gabbana*.
*3. Year-on-year percentage change of sales of existing business is +5% excluding the licensing of *Dolce&Gabbana*.
*4. See Supplemental Data 8 for details about changes in reportable segment.

Supplemental Data 3: Q3 Results of Operating Income by Reportable Segment (Jan.-Sep.)

(Billion yen)	FY2017		FY2016		YoY Change	YoY Change %
		Operating Profitability %		Operating Profitability %		
Japan	67.9	19.7	44.1	14.6	+23.8	+54.0
China	11.2	10.6	4.0	4.6	+7.2	+181.3
Asia Pacific	5.4	12.9	1.7	5.1	+3.7	+212.1
Americas	-11.4	-10.4	-7.2	-7.5	-4.2	—
EMEA	-1.2	-1.2	-2.6	-3.8	+1.4	—
Travel Retail	10.4	30.8	4.6	25.1	+5.8	+127.2
Professional	2.0	5.8	0.2	0.6	+1.8	+973.8
Other	-7.9	-11.7	-7.2	-17.1	-0.7	—
Subtotal	76.5	9.2	37.6	5.5	+38.8	+103.3
Adjustments	-5.8	—	1.1	—	-6.9	—
Total	70.7	9.7	38.7	6.2	+31.9	+82.4

*1. Operating profitability is calculated using net sales including intersegment transactions.
*2. See Supplemental Data 8 for information about segment changes.

Supplemental Data 4:
Q3 Results of Sales by Reportable Segment (Jul.-Sep.)

(Billion yen)	FY2017		FY2016		YoY Change	YoY Change %	YoY Change in Local Currency %
		% of Net Sales		% of Net Sales			
Japan	111.9	43.2	97.0	46.1	+14.9	+15.4	+15.4
China	36.7	14.2	26.5	12.6	+10.2	+38.7	+28.8
Asia Pacific	15.0	5.8	11.6	5.5	+3.4	+29.5	+17.2
Americas	36.2	14.0	34.6	16.5	+1.6	+4.7	-3.2 *1, 2
EMEA	33.4	12.9	21.5	10.2	+11.9	+55.4	+39.1 *1, 3
Travel Retail	10.7	4.1	6.3	3.0	+4.4	+69.5	+55.2
Professional	11.6	4.5	10.1	4.8	+1.5	+14.6	+8.3
Other	3.4	1.3	2.8	1.3	+0.7	+23.7	+23.7
Total	259.1	100	210.4	100	+48.6	+23.1	+17.5

*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 have 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 of sales of existing business is -15% excluding the acquisition of *Laura Mercier*, and the licensing of *Dolce&Gabbana*.
*3. Year-on-year percentage change of sales of existing business is +9% excluding the licensing of *Dolce&Gabbana*.
*4. See Supplemental Data 8 for details about changes in reportable segment.

Supplemental Data 5: Q3 Results of Operating Income by Reportable Segment (Jul.-Sep.)

(Billion yen)	FY2017		FY2016		YoY Change	YoY Change %
		Operating Profitability %		Operating Profitability %		
Japan	27.2	22.9	18.8	18.5	+8.4	+44.5
China	6.1	16.7	1.7	6.6	+4.4	+252.0
Asia Pacific	3.1	20.2	1.7	14.8	+1.4	+81.6
Americas	-2.4	-5.9	-2.5	-6.8	+0.1	—
EMEA	2.0	5.5	-0.3	-1.3	+2.3	—
Travel Retail	2.9	27.0	1.7	27.6	+1.2	+66.4
Professional	0.9	7.4	0.0	0.4	+0.8	—
Other	-2.7	-11.6	-2.6	-17.6	-0.1	—
Subtotal	37.3	12.7	18.7	8.1	+18.6	+99.2
Adjustments	-1.3	—	0.1	—	-1.4	—
Total	36.0	13.9	18.8	8.9	+17.2	+91.5

*1. Operating profitability is calculated using net sales including intersegment transactions.
*2. Year-on-year percentage increase/(decrease) data for segment operating income in the Professional Business exceeds 1,000% and accordingly is not stated here.
*3. See Supplemental Data 8 for information about segment changes.

Supplemental Data 6:
Q3 Results of SG&A (Jan.-Sep.)

(Billion yen)	FY2017			YoY Change %	YoY Change	Change Excluding Impact of Foreign Currency Exchange
		% of Net Sales	Change in % of Net Sales			
SG&A	492.1	67.3	-2.3	+13.6	+58.8	+52.4
Marketing Costs	252.2	34.5	-0.6	+15.3	+33.5	+30.3
Brand Development Cost and R&D Expenses	35.7	4.9	+0.7	+37.2	+9.7	+9.3
Personnel Expenses	92.6	12.7	-0.7	+11.2	+9.3	+7.9
Other Expenses	111.6	15.2	-1.7	+6.0	+6.3	+4.9

*1. The “+” and “-” symbols in YoY Change are used to indicate increase and decrease in amount and as a percentage of net sales, respectively.

Supplemental Data 7: Consolidated Balance Sheets

(Billion yen)	Sep. 30, 2017	Change from Dec. 31, 2016	Excl. Impact of Foreign Currency Exchange	Impact of Foreign Currency Exchange
Total Current Assets	501.9	+70.0	+65.0	+5.0
Cash, Time Deposits and Short-Term Investments in Securities	144.1	+16.0	+14.7	+1.3
Notes & Accounts Receivable	167.8	+31.0	+28.2	+2.9
Inventories	136.9	+21.2	+20.8	+0.4
Total Fixed Assets	432.8	-69.8	-75.4	+5.6
Property, Plant and Equipment	160.9	+4.7	+4.7	+0.0
Intangible Assets	171.6	-74.8	-78.8	+4.1
Investments and Other Assets	100.4	+0.2	-1.3	+1.5
Total Assets	934.7	+0.1	-10.4	+10.6

(Billion yen)	Sep. 30, 2017	Change from Dec. 31, 2016	Excl. Impact of Foreign Currency Exchange	Impact of Foreign Currency Exchange
Total Liabilities	540.1	+19.3	+12.6	+6.8
Notes & Accounts Payable and Other Payables	125.8	-1.1	-2.9	+1.9
Interest-Bearing Debt	134.6	+14.0	+14.1	-0.2
Long-term payables	59.7	+6.5	+2.2	+4.3
Liability for Retirement Benefits	92.9	-1.6	-1.9	+0.3
Total Net Assets	394.7	-19.2	-23.0	+3.8
Shareholders' Equity	366.5	-25.6	-	-
Accumulated Other Comprehensive Income	6.4	+5.5	-	-
Non-Controlling Interests	20.9	+0.8	-	-
Total Liabilities and Net Assets	934.7	+0.1	-10.4	+10.6

Exchange Rates:
Dec. 31, 2016: USD 1= JPY 116.5; EUR 1 = JPY 122.7; CNY 1 = JPY 16.8
Sep. 30, 2017: USD 1= JPY 112.7; EUR 1 = JPY 132.8; CNY 1 = JPY 17.0

Equity Ratio: 39.9%
Interest-Bearing Debt Ratio: 25.4%
(Excluding long-term payables related to payment for the DG trademark right)

* Main line items only

Supplemental Data 8:
Main Constituents of Old and New Segments

2016 Segments	Major Businesses (December 31, 2016)
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*2)

2017 Segments	Major Businesses (September 30, 2017)
Japan	Overall business in Japan, TR in Japan (Excluding BE 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*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 have 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.

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.