SHISEIDO

FY2018 First Quarter Results

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- I would now like to explain our results for the first quarter of fiscal 2018.

FY2018 Q1: Executive Summary

- **Established strong brands globally**
- **Organic net sales grew double-digit for the fourth consecutive quarter**
- **Net sales and operating income hit record highs**

Net sales: **¥263.8 Bn YoY change in local currency: +12.8% YoY change: +13.5%**
+18% YoY excluding the impact of Zotos transfer, etc.

- Japan business maintained double-digit growth (like-for-like: +18%)
- Cross-border marketing contributed to sales growth (China +27% / TR +50% / Inbound sales + over 40%)
- Prestige brands were the major driver for global growth (+18%)
- Cosmetics brands grew significantly in Japan, China and Asia Pacific (+23%)

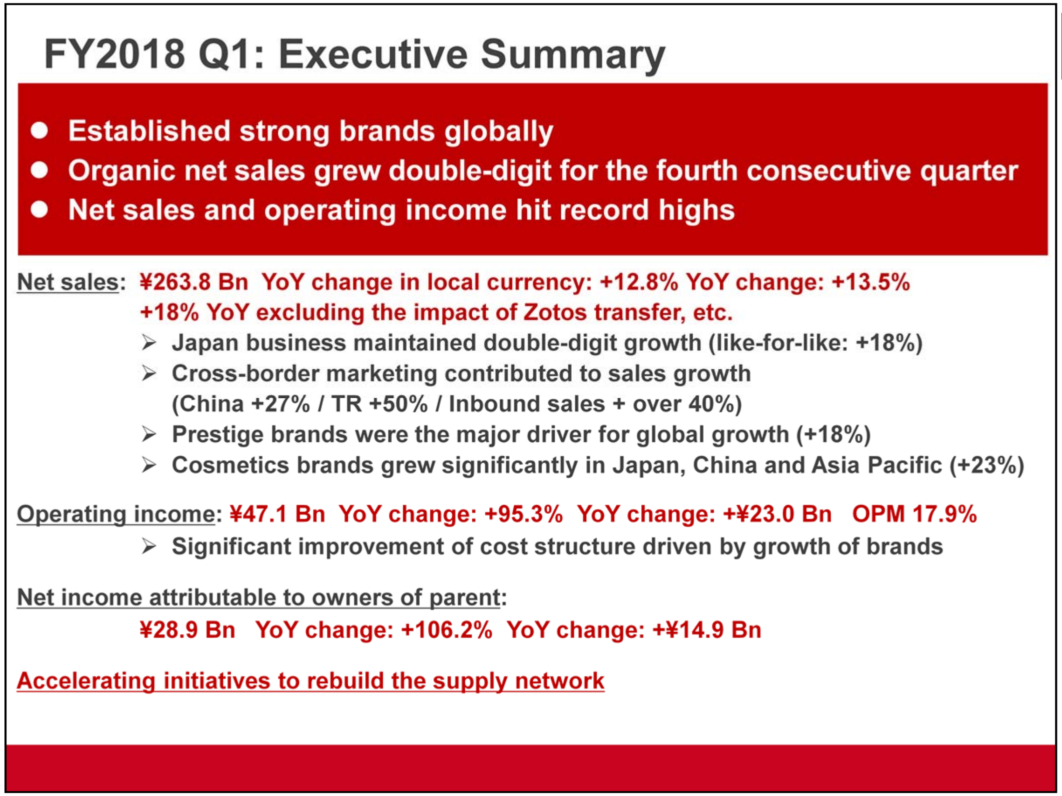
Operating income: **¥47.1 Bn YoY change: +95.3% YoY change: +¥23.0 Bn OPM 17.9%**

- Significant improvement of cost structure driven by growth of brands

Net income attributable to owners of parent:
¥28.9 Bn YoY change: +106.2% YoY change: +¥14.9 Bn

Accelerating initiatives to rebuild the supply network

- I will start by explaining key points for the first quarter of FY2018.
- Through our selection and concentration strategy and continuous aggressive investment in brands, each brand has increased its global competitiveness, and we have posted double-digit growth for four consecutive quarters, and significantly accelerated our growth momentum. As a result, both net sales and operating income hit new first-quarter highs.
- Net sales amounted to ¥263.8 billion, an increase of 12.8% year on year in local currency.
  Organic year-on-year sales growth was 18%.
- This was driven by continued double-digit growth and considerable expansion of market share in the Japan business. Another driver was the achievement of growth outpacing the market in the China and Travel Retail businesses, where sales grew 27% and 50% respectively thanks to cross-border marketing.
- In terms of brands, the prestige brands generally maintained growth momentum, with sales up 18%. Cosmetics brands, especially *ELIXIR* and *ANESSA*, also achieved rapid growth across the entire Asia region, with sales up 23%.



- Operating income increased ¥23.0 billion from the previous year, to ¥47.1 billion. This increase reflects significant growth by the brands we have focused on nurturing as mentioned at the beginning and the shift to the ideal brand cost structure with high profitability.
- As a result of the steady build-up of earnings power in our businesses, quarterly net income also reached a new record high of ¥28.9 billion.
- We also accelerated initiatives to strengthen our supply network, which supports this brand growth.

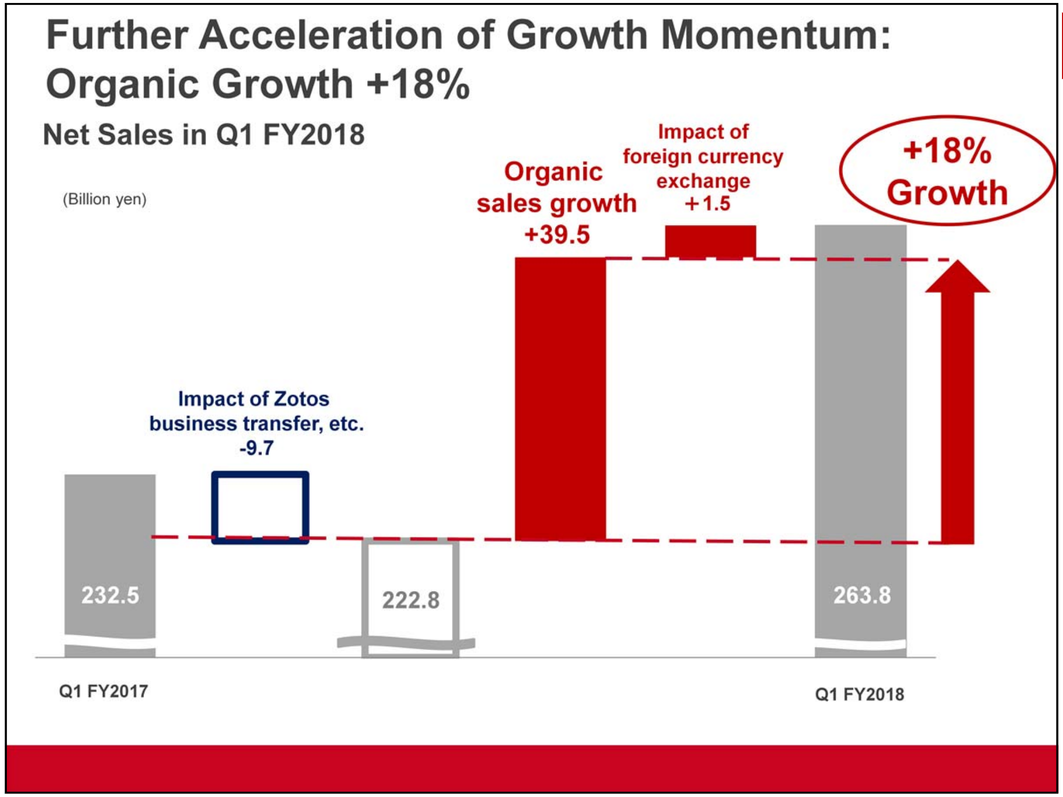
Summary of FY2018 Q1 Results

(Billion yen)	FY2018	% of Net Sales	FY2017	% of Net Sales	YoY Change	YoY Change %	YoY Change in Local Currency %
Net Sales	263.8	100	232.5	100	+31.3	+13.5	+12.8
Cost of Sales	54.9	20.8	54.5	23.4	+0.5	+0.9	
SG&A	161.7	61.3	153.9	66.2	+7.8	+5.1	
Operating Income	47.1	17.9	24.1	10.4	+23.0	+95.3	
Ordinary Income	47.2	17.9	23.9	10.3	＋23.3	+97.7	
Extraordinary Income/Loss (net)	0.2	0.1	-0.4	-0.2	+0.6	—	
Net Income Attributable to Owners of Parent	28.9	10.9	14.0	6.0	+14.9	+106.2	

Exchange rates: USD 1 ＝ JPY 108.3(-4.7%), EUR 1 ＝ JPY133.2(+10.0%), CNY 1 ＝ JPY17.1(＋2.9%)

*1. The "+" and "-" symbols in YoY Change indicate increase and decrease in amount, respectively.

- This shows a summary of our results for the first quarter.



- This graph shows organic sales growth.
- Organic sales growth, excluding the impact of the ¥9.7 billion decline in sales from factors such as Zotos business transfer in FY2017, was ¥39.5 billion, or 18%, and we succeeded in further accelerating double-digit growth, which we have maintained since the second quarter of last year.

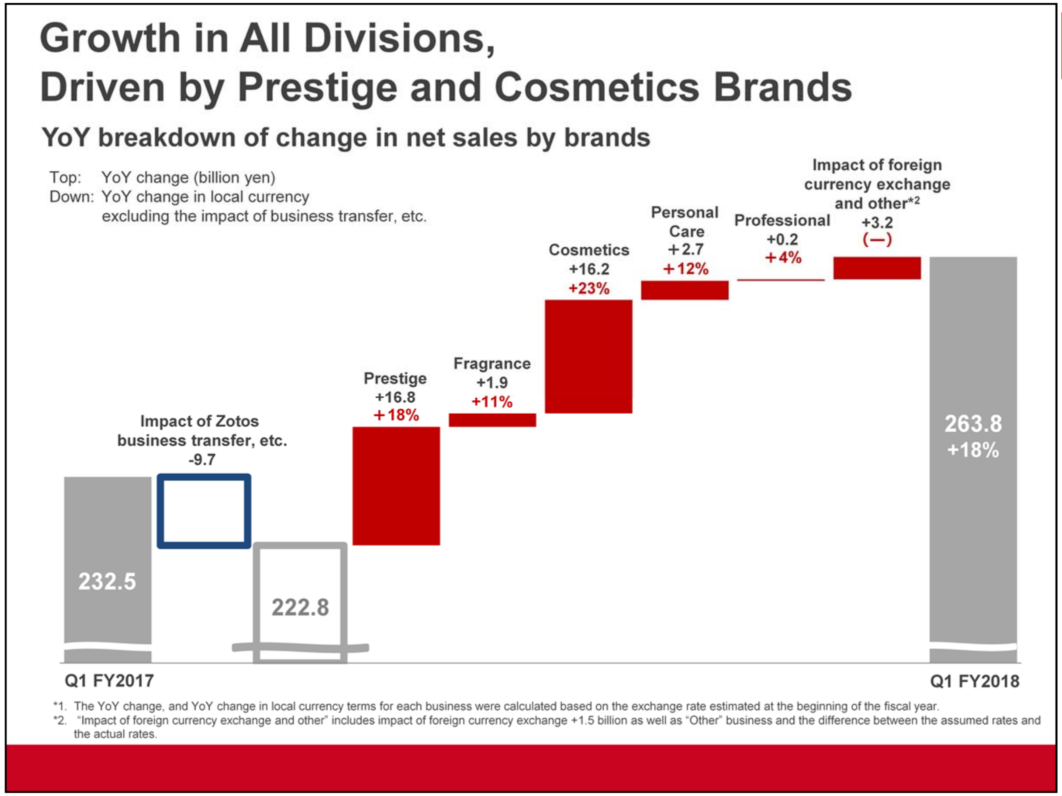
Achieving Continuous Growth in Japan, China, Asia Pacific and Travel Retail

Q1 Results of Sales by Reportable Segment

(Billion yen)	FY2018		FY2017		YoY Change	YoY Change %	YoY Change in Local Currency %	YoY Change in Local Currency % (like-for-like*2)
		% of Net Sales		% of Net Sales				
Japan	118.7	45.0	101.4	43.6	+17.3	+17.0	+17.0	+18
China	45.6	17.3	35.5	15.3	+10.2	+28.7	+27.2	+27
Asia Pacific	17.1	6.5	14.7	6.3	+2.4	+16.1	+13.2	+13
Americas	28.2	10.7	29.6	12.7	-1.4	-4.8	-1.1	+4
EMEA	25.1	9.5	22.4	9.7	+2.6	+11.7	+3.1	+7
Travel Retail	21.4	8.1	15.1	6.5	+6.3	+41.9	+44.3	+50
Professional	4.8	1.8	10.8	4.6	-5.9	-55.0	-55.4	+4
Other	2.9	1.1	3.1	1.3	-0.1	-4.0	-4.0	+7
Total	263.8	100	232.5	100	+31.3	+13.5	+12.8	+18

*1. See Supplemental Data 3 for details about changes in reportable segments. The previous year's results are restated to reflect the new reportable segments.
*2. YoY Change in Local Currency % (like-for-like) is the year-on-year change on a local currency basis excluding the impact of business transfer, etc. the previous year.

- This shows sales by reportable segment.
- The column on the far right shows year-on-year organic sales growth, excluding the impact of business transfer and other factors.
  In all reportable segments, sales exceeded the year-ago level. The Japan, China, Asia Pacific and Travel Retail segments continued to drive high growth, with sales growth exceeding 10%, and the Americas business also posted year-on-year growth despite struggling last year.
- I will discuss this in more detail later in the presentation.



- This shows sales results by division.
- During this quarter, in addition to prestige brands, which had been driving growth, made-in-Japan cosmetics brands also grew rapidly in Asia.

Globally Improved Profitability

Q1 Results of Operating Income by Reportable Segment

(Billion yen)	FY2018	Operating Profitability %	FY2017	Operating Profitability %	YoY Change	YoY Change %
Japan	31.8	24.8	20.0	18.3	+11.8	+59.0
China	14.8	32.4	6.6	18.6	+8.2	+124.8
Asia Pacific	3.2	18.4	3.3	21.6	-0.0	-1.0
Americas	-4.6	-13.0	-4.1	-12.4	-0.5	—
EMEA	-1.3	-4.5	-3.4	-14.2	+2.1	—
Travel Retail	5.4	25.4	4.8	31.7	+0.7	+13.7
Professional	0.1	2.0	0.4	4.1	-0.3	-78.2
Other	-0.9	-3.5	-2.2	-10.9	+1.3	—
Subtotal	48.6	15.7	25.4	9.6	+23.2	+91.6
Adjustments	-1.4	—	-1.2	—	-0.2	—
Total	47.1	17.9	24.1	10.4	+23.0	+95.3

*1. Operating Profitability is calculated using net sales including intersegment transactions.
*2. See Supplemental Data 3 for details about changes in reportable segments. The previous year's results are restated to reflect the new reportable segments.

- This shows operating income by reportable segment.
- The Japan, China, Travel Retail and Asia Pacific businesses secured high profitability, and the EMEA business also posted a much smaller loss than last year.
- In the Americas business, profitability worsened in the first quarter due to expansion of investment in development of global brands and increase of marketing investment for a return to growth in the U.S. market. However, this decline was in line with our initial plan.

Japan: +18% Organic Sales Growth, Operating Profitability Breaks Ground at Over 20%

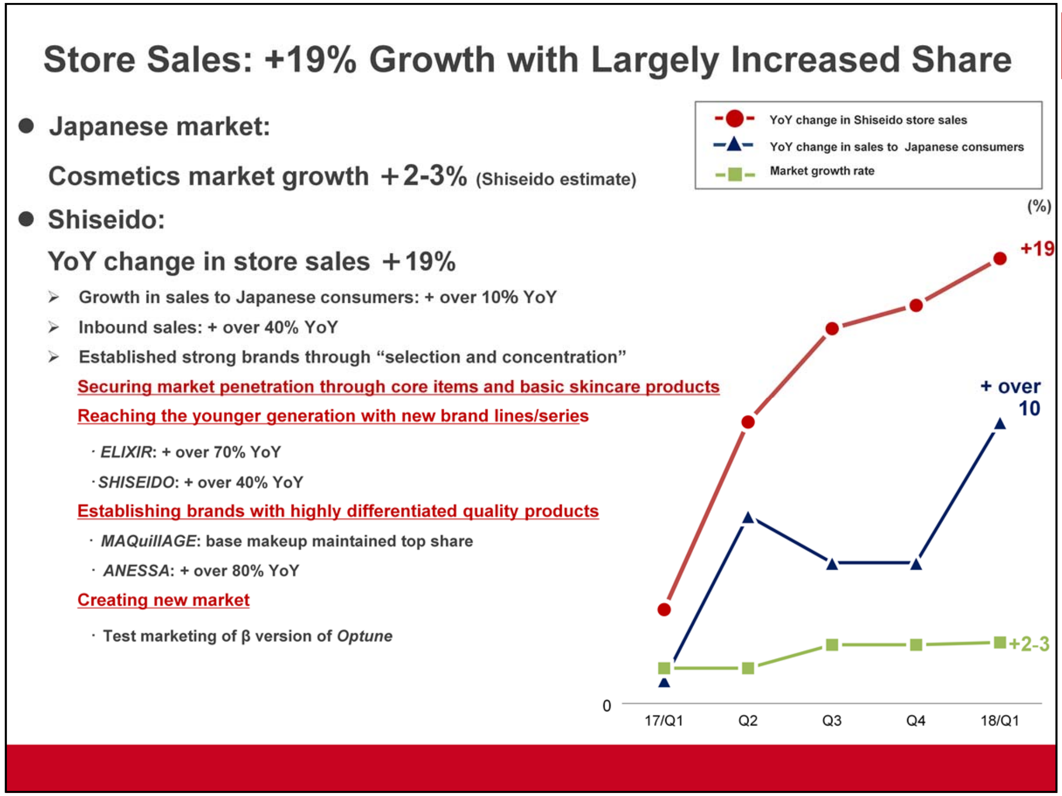
(Billion yen)	FY2018		FY2017		YoY Change	YoY Change %
	Q1	% of Net Sales	Q1	% of Net Sales		
Prestige/ Specialty Store*1	43.3	36.5	37.7	37.1	+5.7	+15.1
Cosmetics	55.4	46.7	45.7	45.1	+9.7	+21.1
Personal Care	14.4	12.1	12.6	12.4	+1.8	+14.3
Others*2	5.6	4.7	5.4	5.4	+0.1	+2.2
Sales	118.7	100	101.4	100	+17.3	+17.0

YoY change excluding the impact of business transfer in FY2017 was +18%.

(Billion yen)	FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %
Operating Income	31.8	20.0	+11.8	+59.0
Operating Profitability %	24.8	18.3	+6.5pt	
Income Before Amortization of Goodwill, etc.	31.9	20.1	+11.8	+58.9
Operating Profitability %	24.9	18.4	+6.5pt	

*1. The net sales of the previously separate Prestige and Specialty Stores businesses of the Japan Business are added together and recorded as the net sales of the "Prestige/Specialty Store" from FY2018 for better alignment with the management structure of the Japan region.
*2. "Others" include Healthcare Business, Amenity Goods Co., Ltd. and others.
*3. % of Net Sales indicates percentage of Japan business sales.
*4. Operating Profitability is calculated using net sales including intersegment transactions.

- I would now like to explain the results of each reportable segment.
- I will start with the Japan business.
- Net sales increased to ¥118.7 billion. Organic year-on-year sales growth excluding the impact of business transfer and other factors was 18%.
- Prestige brands *SHISEIDO* and *IPSA* continued to grow significantly, and this quarter also saw rapid growth by cosmetics brands *ELIXIR* and *ANESSA*, which significantly contributed to the overall sales expansion.
- Operating income reached ¥31.8 billion, an increase of 59.0% year on year.
  Operating profitability was 24.8%, exceeding 20% for the first time.
- Focusing on the 3 skin-related categories, namely, skincare, base makeup and sun care largely contributed to improvement in profitability.



- Next, I would like to talk about store sales in the Japan business.
- Shiseido recorded growth of 19% against market growth of 2–3%, significantly expanding its share.
- The figure on the right shows that this growth comes from both the capturing of inbound demand and expansion of regular users among Japanese consumers. However, this quarter in particular, sales to Japanese consumers grew substantially, rising more than 10% year on year and, as a result, overall store sales in Japan had more growth momentum than ever before.
- Inbound sales grew by more than 40% year on year.
- This acceleration of growth momentum is clearly attributable to the strengthening of core brands. We expect that this growth will continue in the future.
- *ELIXIR* grew by more than 70%. The wrinkle-reducing cream, which was launched last year with the aim of creating a new market, contributed to the expansion of new consumers, leading regular users to purchase items for continued use such as lotions and emulsions and resulting in stable high growth momentum.

Store Sales: +19% Growth with Largely Increased Share

- **Japanese market:**

  Cosmetics market growth ＋2-3% (Shiseido estimate)

- **Shiseido:**

  YoY change in store sales ＋19%

  - Growth in sales to Japanese consumers: + over 10% YoY
  - Inbound sales: + over 40% YoY
  - Established strong brands through "selection and concentration"

    Securing market penetration through core items and basic skincare products

    Reaching the younger generation with new brand lines/series

    ・*ELIXIR*: + over 70% YoY

    ・*SHISEIDO*: + over 40% YoY

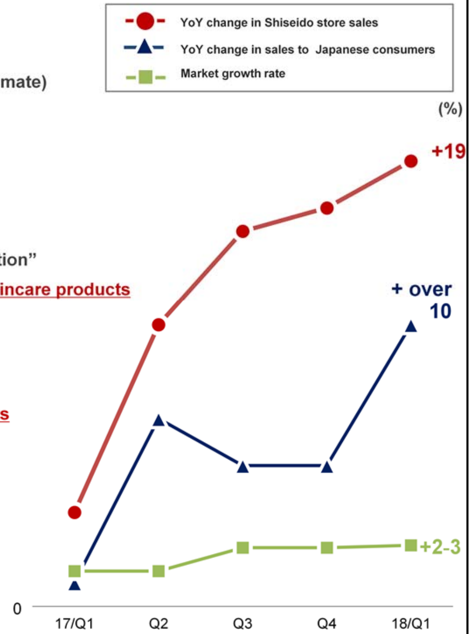
    Establishing brands with highly differentiated quality products

    ・*MAQuillAGE*: base makeup maintained top share

    ・*ANESSA*: + over 80% YoY

    Creating new market

    ・Test marketing of β version of *Optune*



- The *REFLET* series, which aims to expand the age range of regular users to establish higher brand awareness, also made a significant contribution. Therefore, *ELIXIR* achieved unprecedented rapid growth.
- The *SHISEIDO* brand also posted growth exceeding 40%. Besides requiring continued use, a core product *ULTIMUNE* consistently contributed to the acquisition of regular users and also led to purchases of basic skincare items in other lines. Meanwhile, active promotions of *PICO* makeup items led to reaching the younger consumers in their teens and 20s and helped rejuvenate the *SHISEIDO* brand.
- *MAQuillAGE* maintained top share of the base makeup market. *ANESSA,* with its reputation for high quality that sets it apart from the competition, also gained significant share and grew by more than 80%, creating a positive growth cycle, with a ripple effect that spread to the China, Asia Pacific and Travel Retail businesses.

China: +27.2% Growth in Sales, Significant Increase in Operating Profitability

(Billion yen)	FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %	YoY Change in Local Currency %
Sales	45.6	35.5	+10.2	+28.7	+27.2

(Billion yen)		FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %
Operating Income		14.8	6.6	+8.2	+124.8
	Operating Profitability %	32.4	18.6	+13.8pt	
Income Before Amortization of Goodwill, etc.		14.9	6.7	+8.2	+122.9
	Operating Profitability %	32.6	18.8	+13.8pt	

- **Prestige brands drove growth**
  - **Brisk sales of *Clé de Peau Beauté, SHISEIDO, IPSA* and *NARS***
- **Cosmetics business performed strongly**
  - **Robust sales of *AUPRES*, high growth in *ANESSA* and *ELIXIR***
- **E-commerce sales remained strong**

*1. See Supplemental Data 3 for details about changes in reportable segments. The previous year's results are restated to reflect the new reportable segments.
*2. Operating Profitability is calculated using net sales including intersegment transactions.

- Next, I will look at the China business.
- Net sales were ¥45.6 billion, growing 27.2% in local currency.
- In Prestige brands, *Clé de Peau Beauté, SHISEIDO* and *IPSA* continued to achieve high growth, and makeup brand *NARS* also contributed to overall sales growth.
- In Cosmetics brands, *AUPRES* performed well, and made-in-Japan brands *ANESSA* and *ELIXIR* achieved high growth through strengthening of cooperative marketing with the Japan business.
- E-commerce sales remained strong, mainly driven by growth in Prestige brands and *AUPRES*.
- Operating income climbed ¥8.2 billion, to ¥14.8 billion, and operating profitability was 32.4%.
- In the China business, the first quarter includes the Chinese New Year and International Women's Day and profitability, therefore, tends to be comparatively high. Beyond this, however, the profitability of the China business improved due to higher profit margins through the unparalleled growth of Prestige brands and explanation of e-commerce sales, and improvement of ROI.

Asia Pacific: +13.2% Growth in Sales, Maintaining Double-Digit Operating Profitability

(Billion yen)	FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %	YoY Change in Local Currency %
Sales	17.1	14.7	+2.4	+16.1	+13.2

(Billion yen)	FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %
Operating Income	3.2	3.3	-0.0	-1.0
Operating Profitability %	18.4	21.6	-3.2pt	
Income Before Amortization of Goodwill, etc.	3.2	3.3	-0.0	-1.0
Operating Profitability %	18.5	21.7	-3.2pt	

- **Prestige brands continued to perform strongly**
  - **Brisk sales of *SHISEIDO, Clé de Peau Beauté* and *NARS***
- **Cosmetics and Personal Care: *ANESSA* and *SENKA* recorded high growth**
- **South Korea and Thailand were top performers**
- **Taiwan outpaced market growth**

*1. See Supplemental Data 3 for details about changes in reportable segments. The previous year's results are restated to reflect the new reportable segments.
*2. Operating Profitability is calculated using net sales including intersegment transactions.

- Next, I will look at the Asia Pacific business.
- Net sales in the Asia Pacific business rose 13.2% in local currency, to ¥17.1 billion.
- In all areas, *SHISEIDO, Clé de Peau Beauté*, and *NARS* continued to perform strongly, and *ANESSA* and *SENKA* also showed high growth. Main countries and areas that drove growth were South Korea, Thailand and Taiwan, which account for 80% of total Asia Pacific sales.
- Operating income was ¥3.2 billion, mostly unchanged from a year ago, reflecting increased investment despite higher profit margins as a result of higher sales. Operating profitability was 18.4%.

Americas: +4% Organic Sales Growth, Sales and Operating Income: Progress on Track

(Billion yen)	FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %	YoY Change in Local Currency %
Sales	28.2	29.6	-1.4	-4.8	-1.1

YoY change excluding the impact of business transfer in FY2017 was +4%.

(Billion yen)	FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %
Operating Income	-4.6	-4.1	-0.5	—
Operating Profitability %	-13.0	-12.4	-0.6pt	
Income Before Amortization of Goodwill, etc.	-3.3	-1.8	-1.5	—
Operating Profitability %	-9.3	-5.6	-3.7pt	

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*2. Operating Profitability is calculated using net sales including intersegment transactions.

- Next is the Americas business.
- Net sales in the Americas decreased 1.1% in local currency, to ¥28.2 billion. Organic sales growth, excluding the impact of the termination of the distribution agreement with Burberry and the transfer of the *RéVive* brand, was 4%, and we successfully returned the Americas business as a whole to positive growth.
- Operating income before the amortization of goodwill, etc. was minus ¥3.3 billion, with the loss widening ¥1.5 billion from the previous year, mainly due to strategic strengthening of investment in marketing.
- Altogether, the start of the fiscal year was in line with the plan, both in terms of sales and operating income.

Americas

- ***NARS* performing strongly**
  - **Presence in specialty stores increased**

- ***Dolce&Gabbana* posting strong results**
  - **"*Light Blue*" turned in a solid performance**
  - **New "*Dolce Garden*" made a strong start**

- **Reform of *bareMinerals* progressing as planned**
  - **Total brand sales were below last year**
  - **Closure of unprofitable boutiques is under way**
  - **E-commerce sales were strong due to reinforced digital marketing**

- **Strengthening investment in brands**
  - **Increase of marketing investment in the Americas market**
  - **Reinforced investment in Centers of Excellence and brands**

- This shows the results of core brands in the Americas business.
- *NARS* store sales continued to grow in mid-teens, and the brand's presence expanded, with increased shelving allocation in specialty stores.
- *Dolce&Gabbana* store sales also showed high growth momentum, almost topping 20%. In addition to the regular *Light Blue* product line, new product *Dolce Garden* also contributed.
- Meanwhile, sales of *bareMinerals,* which is still undergoing structural reforms to turn it around, fell year on year due to progress as planned on the closure of unprofitable boutiques. However, thanks to enhanced digital marketing,
  e-commerce sales were far higher than a year earlier due to strong sales of new products.
- Due to investment in brand development of *NARS*, which we are strengthening globally, and increased upfront marketing investment in the Americas, the first-quarter loss widened from last year. However, we aim to break even on a full-year basis.

EMEA: +7% Organic Sales Growth, Improvement of Operating Profitability

(Billion yen)	FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %	YoY Change in Local Currency %
Sales	25.1	22.4	+2.6	+11.7	+3.1

YoY change excluding the impact of business transfer in FY2017 was +7%.

(Billion yen)	FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %
Operating Income	-1.3	-3.4	+2.1	—
Operating Profitability %	-4.5	-14.2	+9.7pt	
Income Before Amortization of Goodwill, etc.	-0.8	-3.0	+2.2	—
Operating Profitability %	-2.9	-12.5	+9.6pt	

- ***Dolce&Gabbana***
  - New "***Dolce Garden***" made a strong start
  - Growth paced up, especially in France, the UK and the Middle East
- ***NARS*** **achieved significant growth of sales**
- ***SHISEIDO*** **performed well in skincare category**
  - Sales of "***WASO***" and "***Essential Energy***" were robust

*1. See Supplemental Data 3 for details about changes in reportable segments. The previous year's results are restated to reflect the new reportable segments.
*2. Operating Profitability is calculated using net sales including intersegment transactions.

- Next, I will look at the EMEA business
- In EMEA, net sales grew 3.1% in local currency, to ¥25.1 billion. Organic sales growth was 7%. *Dolce Garden*, a new product, got off to a strong start especially in France, the UK and the Middle East, and *Light Blue* continued to contribute to expansion in sales.
- *NARS* achieved strong growth and skincare lines under the *SHISEIDO* brand such as *WASO* and *Essential Energy* also did well, leading to gaining share.
- As a result, the operating income was minus ¥1.3 billion, with the loss narrowing by ¥2.1 billion from the previous year, and operating profitability improved 9.7 percentage points, reflecting higher profit margins due to increased sales and the effect of organizational and structural reforms as well as improvement in profitability due to in-house production of *Dolce&Gabbana*, which commenced in April last year.

Travel Retail:
Outstanding Growth in Sales and Continued High Profitability

(Billion yen)	FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %	YoY Change in Local Currency %
Sales	21.4	15.1	+6.3	+41.9	+44.3

YoY change excluding the impact of business transfer in FY2017 was +50%.

(Billion yen)	FY2018 Q1	FY2017 Q1	YoY Change	YoY Change %
Operating Income	5.4	4.8	+0.7	+13.7
Operating Profitability %	25.4	31.7	-6.3pt	
Income Before Amortization of Goodwill, etc.	5.4	4.8	+0.7	+13.7
Operating Profitability %	25.4	31.7	-6.3pt	

- **Cosmetics**
  - ***Clé de Peau Beauté, SHISEIDO, NARS* and *ANESSA* maintained high growth**
- **Fragrance**
  - ***Dolce&Gabbana* performed strongly**

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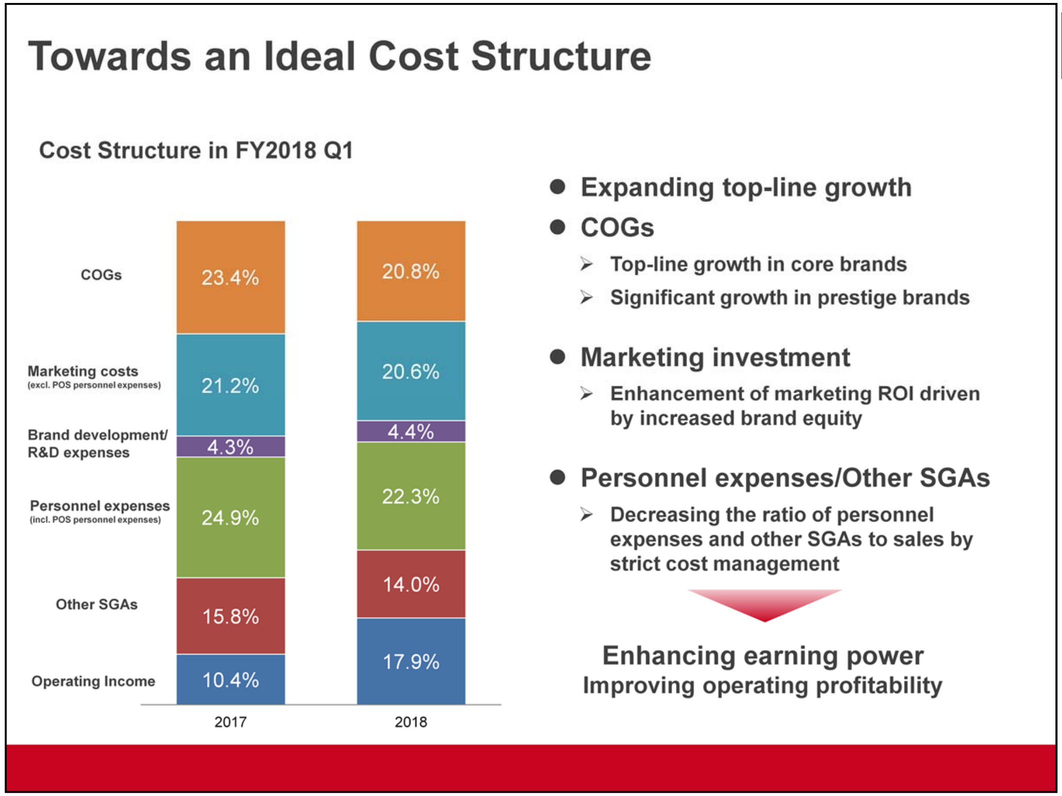
*2. Operating Profitability is calculated using net sales including intersegment transactions.

- The Travel Retail business maintained high growth, with net sales rising 44.3% in local currency, to ¥21.4 billion, and organic sales growth of 50%.
- *Clé de Peau Beauté, SHISEIDO, NARS* and *ANESSA* maintained growth largely exceeding year-ago levels, especially in Asia.
- Starting from the current quarter, we transferred the marketing and corporate management functions for the fragrances sold in duty-free stores from the EMEA business to the Travel Retail business. This will allow us to negotiate with operators in conjunction with prestige brands and conduct operations on more favorable terms, resulting in higher growth than ever before.
- Operating income increased 13.7% year on year, to ¥5.4 billion. Operating profitability was 25.4%. Although this appears lower than the year-ago level, this decline reflects the impact of revised prices in inter-group transactions in accordance with our transfer pricing policy and the inclusion of the fragrance business from the first quarter.
- Excluding these changes, operating profitability on a like-for-like basis improved around 5% due to higher sales growth than planned.



- Finally, thanks to substantial top-line growth, we have reached the ideal cost structure.
- Firstly, the COGs ratio was 2.6 percentage points lower due to substantial growth in core brands and an increase in Prestige brands' share of total sales.
- Turning to marketing investment, the marketing ROI of core brands steadily improved due to the cumulative effect of investments. As a result, although the total amount of marketing investment increased, the ratio of marketing costs to sales fell 0.6 percentage points.
- The percentage of personnel expenses and other SGAs to sales dropped 2.6 points and 1.8 points, respectively. The minimization of personnel expenses and other SGAs amid increasing sales significantly contributed to improvement in the fixed costs ratio.
- As a result, while first-quarter profitability has tended to be high in the recent years, operating profitability reached an unprecedented high of 17.9%.

Aiming for Further Challenges and Greater Heights

- **Further strengthening of brand portfolio**
  Expanding sales and enhancing profitability by increasing brand equity
  - ***SHISEIDO, Clé de Peau Beauté, ELIXIR, NARS, Dolce&Gabbana, ANESSA, IPSA***
- **Promoting the development of global management structure**

Function × Region	Sales Company	Regional HQ	Brand Holder	Center of Excellence	Manufacture
Japan	○	○	○		
China	○	○	○		○
Asia Pacific	○	○			○
Americas	○	○	○	○	○
EMEA	○	○	○	○	○
Travel Retail	○	○			

Transform Shiseido into a more competitive and energetic organization

Towards globally competitive profitability

- However, we are by no means satisfied with the current status and will aim for further heights.
- Firstly, we will further increase our brand equity and strengthen our portfolio.
- *SHISEIDO* and *Clé de Peau Beauté* have now grown into brands with sales exceeding ¥100 billion, but this is still not enough compared to global competitors. We plan to turn these into ¥150 billion or ¥200 billion brands soon. We also plan to quickly develop our next ¥100 billion brand.
- Three years ago, we had no brands with sales exceeding ¥100 billion at all and we built up our sales through an accumulation of many brands. However, since the latter part of 2017, our brand equity has grown faster than initially anticipated, picking up the growth momentum. Consequently, we have gradually become confident that we can achieve this.

Aiming for Further Challenges and Greater Heights

- **Further strengthening of brand portfolio**
  Expanding sales and enhancing profitability by increasing brand equity
  - ***SHISEIDO, Clé de Peau Beauté, ELIXIR, NARS, Dolce&Gabbana, ANESSA, IPSA***
- **Promoting the development of global management structure**

Function × Region	Sales Company	Regional HQ	Brand Holder	Center of Excellence	Manufacture
Japan	○	○	○		
China	○	○	○		○
Asia Pacific	○	○			○
Americas	○	○	○	○	○
EMEA	○	○	○	○	○
Travel Retail	○	○			

Transform Shiseido into a more competitive and energetic organization

Towards globally competitive profitability

- Secondly, although we have definitely made some significant progress thus far, we will now start to develop our global management structure in a real sense.
- It is two years since we launched our global matrix organization under our "Think Global, Act Local" concept. Our vision is that each regional headquarters becomes a center of value creation and that we establish a global headquarters that will be able to support growth worldwide in order to achieve a further leap forward.
- As shown in this chart, we will conduct operations under a unique structure, with head office and brand holder functions appropriately placed based on the strengths in each region. The EMEA and Americas businesses have a number of makeup and fragrance brands under development with low profitability. Their profitability will decrease in the short term due to strategic upfront investment to strengthen the portfolio in the future.

Aiming for Further Challenges and Greater Heights

- **Further strengthening of brand portfolio**
  Expanding sales and enhancing profitability by increasing brand equity
  - ***SHISEIDO, Clé de Peau Beauté, ELIXIR, NARS, Dolce&Gabbana, ANESSA, IPSA***
- **Promoting the development of global management structure**

Function × Region	Sales Company	Regional HQ	Brand Holder	Center of Excellence	Manufacture
Japan	○	○	○		
China	○	○	○		○
Asia Pacific	○	○			○
Americas	○	○	○	○	○
EMEA	○	○	○	○	○
Travel Retail	○	○			

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- However, for us to aim for even greater heights, the growth of these makeup and fragrance brands is essential.
- As you know, in view of the operating profitability of our global competitors, our profits are still low and our VISION 2020 target of operating profitability exceeding 10% is also just a waypoint. We will continue taking on even further challenges in the future to become a global company with made-in-Japan prestige brands and global luxury brands that are able to properly compete on the global stage.
- We are not making any changes to the forecast this time. The changes will be made in the second quarter.
- This concludes my presentation.

SHISEIDO

Supplemental Data 1:
Decrease in Fixed Cost Ratio Due to Higher Sales Towards an Ideal Cost Structure

(Billion yen)	FY2018 Q1			YoY Change %	YoY Change	YoY Change Excluding Impact of Foreign Currency Exchange
		% of Net Sales	Change in % of Net Sales			
SG&A	161.7	61.3	-4.9	+5.1	+7.8	+6.8
Marketing Costs	82.5	31.3	-1.7	+7.6	+5.9	+5.1
Brand Development Cost and R&D Expenses	11.7	4.4	+0.1	+16.2	+1.6	+1.4
Personnel Expenses	30.5	11.6	-1.5	-0.1	-0.0	-0.1
Other Expenses	37.0	14.0	-1.8	+1.0	+0.4	+0.4

*1. The "+" and "-" symbols in YoY Change are used to indicate increase and decrease in amount and percentage of net sales, respectively.
*2. Marketing Costs includes POS personnel expenses.

Supplemental Data 2: Consolidated Balance Sheets

(Billion yen)		As of Mar. 31, 2018	Change from Dec. 31, 2017
Total Current Assets		493.2	-33.0
	Cash, Time Deposits and Short-Term Investments in Securities	134.7	-39.8
	Notes & Accounts Receivable	176.4	+14.3
	Inventories	130.5	+0.5
Total Fixed Assets		413.3	-9.8
	Property, Plant and Equipment	156.7	-1.9
	Intangible Assets	164.6	-4.0
	Investments and Other Assets	92.0	-3.9
Total Assets		906.5	-42.9

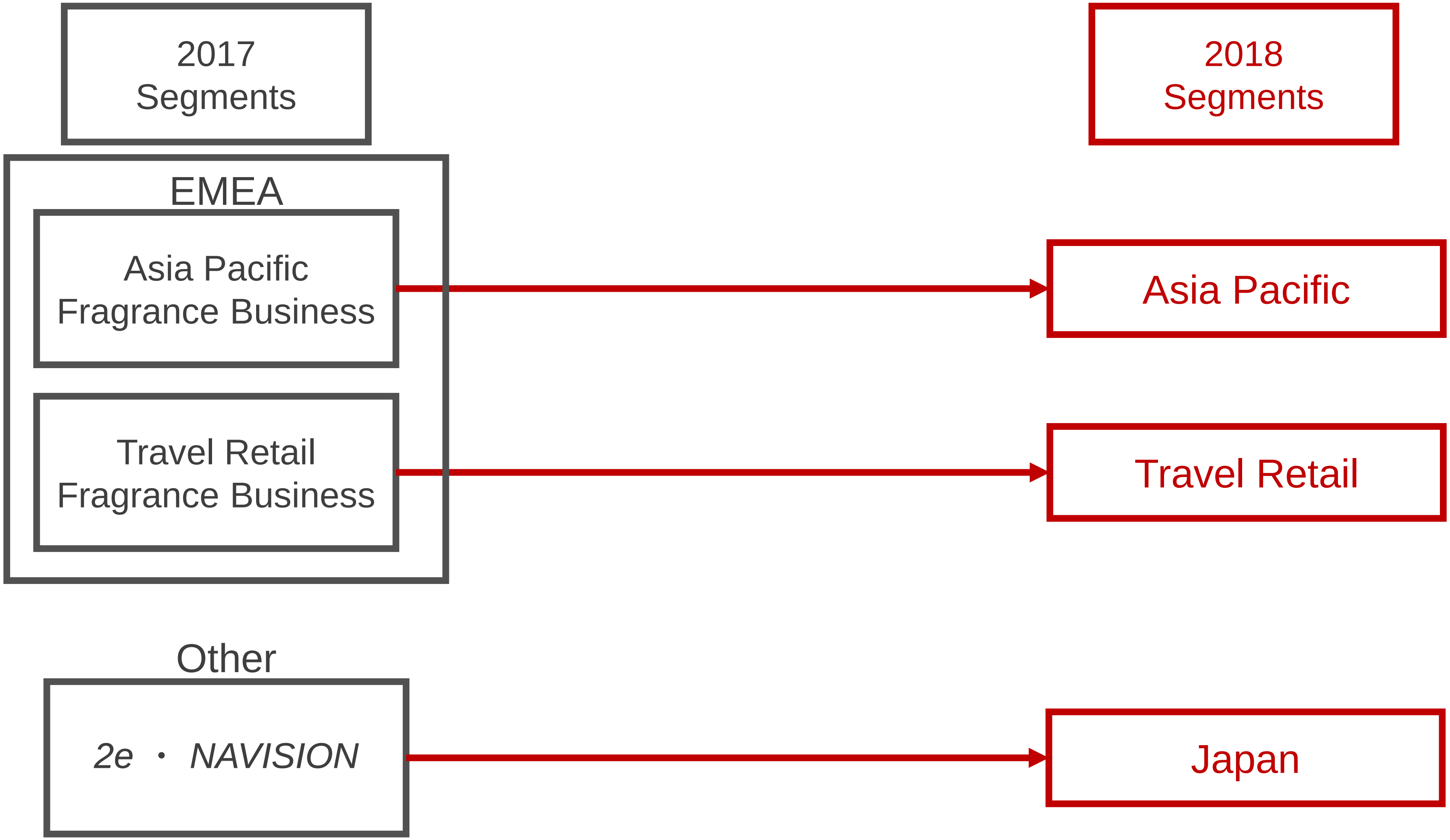
(Billion yen)		As of Mar. 31, 2018	Change from Dec. 31, 2017
Total Liabilities		449.7	-53.9
	Notes & Accounts Payable and Other Payables	127.7	-19.2
	Accrued Income Taxes	11.2	-13.8
	Accrued Bonuses for Employees	16.7	-8.3
	Interest-Bearing Debt	81.2	-0.2
	Long-term Payables	56.9	-2.4
Total Net Assets		456.9	+11.0
	Shareholders' Equity	429.3	+23.1
	Accumulated Other Comprehensive Income	3.7	-13.7
	Non-Controlling Interests	23.0	+1.5
Total Liabilities and Net Assets		906.5	-42.9

Exchange Rates:
Mar. 31, 2018: USD 1= JPY 106.3; EUR 1 = JPY 130.6; CNY 1 = JPY 16.9
Dec. 31, 2017: USD 1= JPY 113.1; EUR 1 = JPY 135.0; CNY 1 = JPY 17.3

* Main line items only

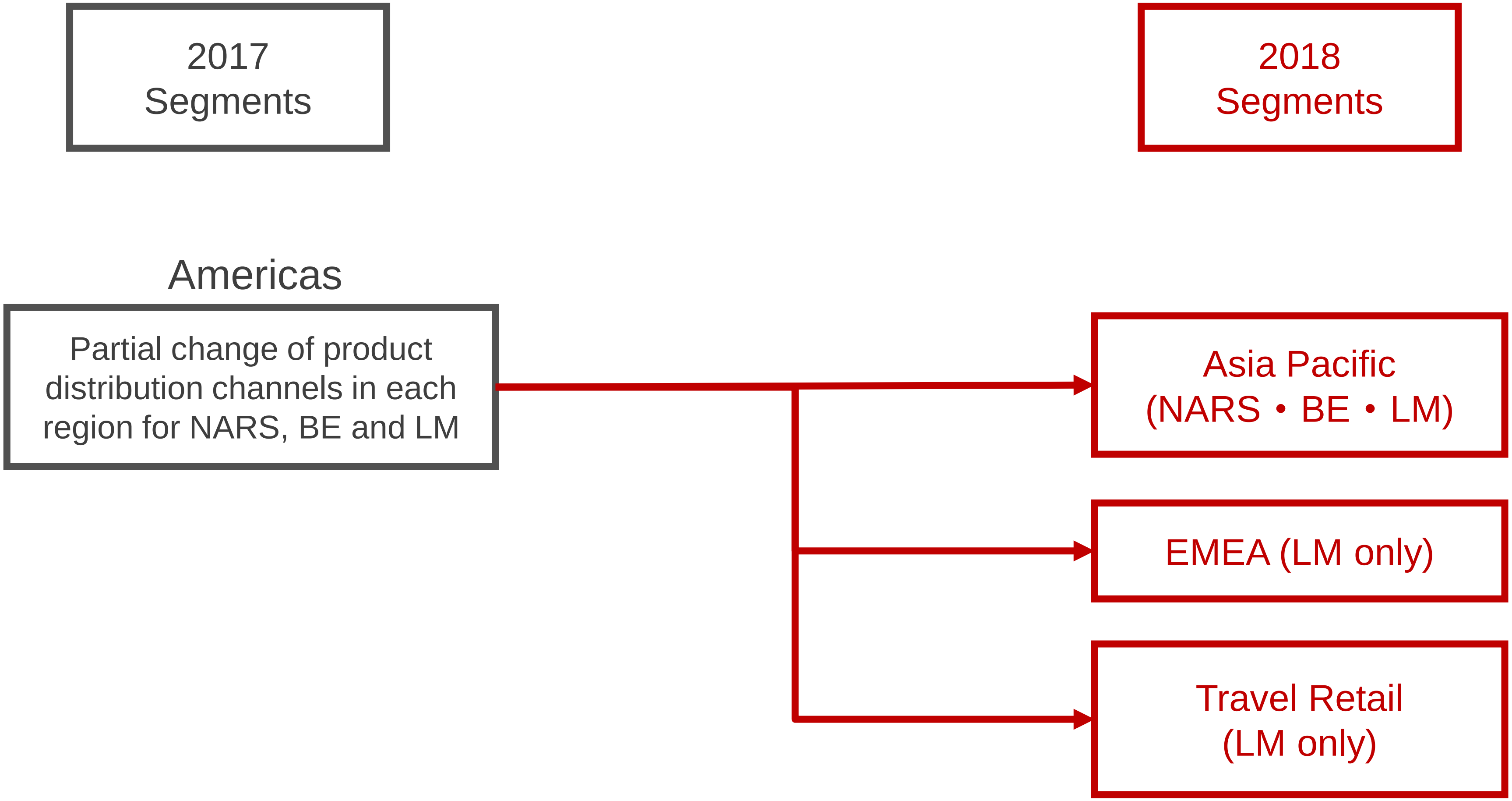
Debt-to-equity ratio 0.19

Supplemental Data 3-1:
Main Constituents of Old and New Reportable Segments



The Company revised its reportable segment classification structure for better alignment with the Group's corporate management framework. Fragrance business in the Asia Pacific, which was previously included in the EMEA business, is now included in the Asia Pacific Business, travel retail fragrance business, which was previously included in the EMEA business, is now included in the Travel Retail business, and *2e* and *NAVISON*, which were previously included in the Others business, are now included in the Japan business.

Supplemental Data 3-2:
Main Constituents of Old and New Reportable Segments



The classification of business results was also partially revised. As a result, part of *NARS, bareMinerals,* and *Laura Mercier* product distribution operations conducted by distributors in each region, which were previously included in the Americas, are now included in Asia Pacific, EMEA, and Travel Retail.
BE: *bareMinerals*
LM: *Laura Mercier*

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.