

FY2016 First Half Results and Full-Year Forecast

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SHISEIDO

FY2016 1H Results

FY2016 1H Results: Executive Summary

- Back on growth track, with zero growth behind us
- Sustained growth in Japan, recovery in China, sales growth in Travel Retail
- Higher sales in all businesses and regions (excluding extraordinary items)
- Higher profit in all regions except EMEA

- Net sales: ¥412.3 billion (record high for 1H)
 - +5.5% YoY excl. foreign currency exchange, +0.4% YoY
- Operating income: ¥19.9 billion, +32.1% YoY
- Net income: ¥24.5 billion, +351.8% YoY (record high level for 1H)

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Summary of FY2016 1H Results

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change*	YoY Change %	YoY Change in Local Currency	Difference from May 2016 Announcement
		% of Net Sales		% of Net Sales				
Net Sales	412.3	100%	410.6	100%	+1.7	+0.4%	+5.5%	-7.7
Operating Income	19.9	4.8%	15.1	3.7%	+4.8	+32.1%	+38.7%	+3.9
Ordinary Income	18.3	4.4%	15.5	3.8%	+2.8	+18.4%		+2.3
Extraordinary Income/Loss (net)	16.7	4.1%	5.2	1.3%	+11.5	+222.2%		-0.8
Net Income Attributable to Owners of Parent	24.5	5.9%	5.4	1.3%	+19.1	+351.8%		+1.0
EBITDA	54.5	13.2%	38.1	9.3%	+16.4	+42.9%		

Exchange rates: USD 1 = JPY 111.9 (-7.0%), EUR 1 = JPY 124.7 (-7.1%), CNY 1 = JPY 17.1 (-11.6%)

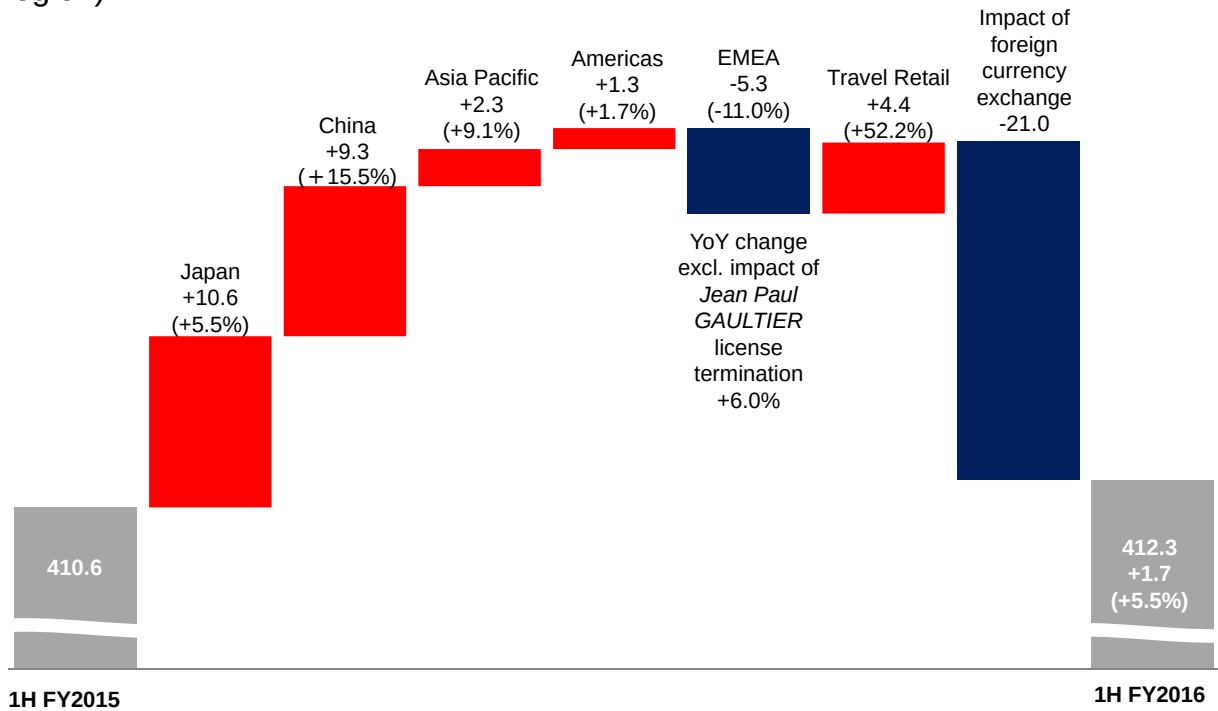
*Effective from FY2016, the "+" and "-" symbols are used to indicate increase and decrease in amount, respectively.

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Higher Sales in All Regions Except EMEA

Change in Net Sales by Reportable Segment (Region)

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



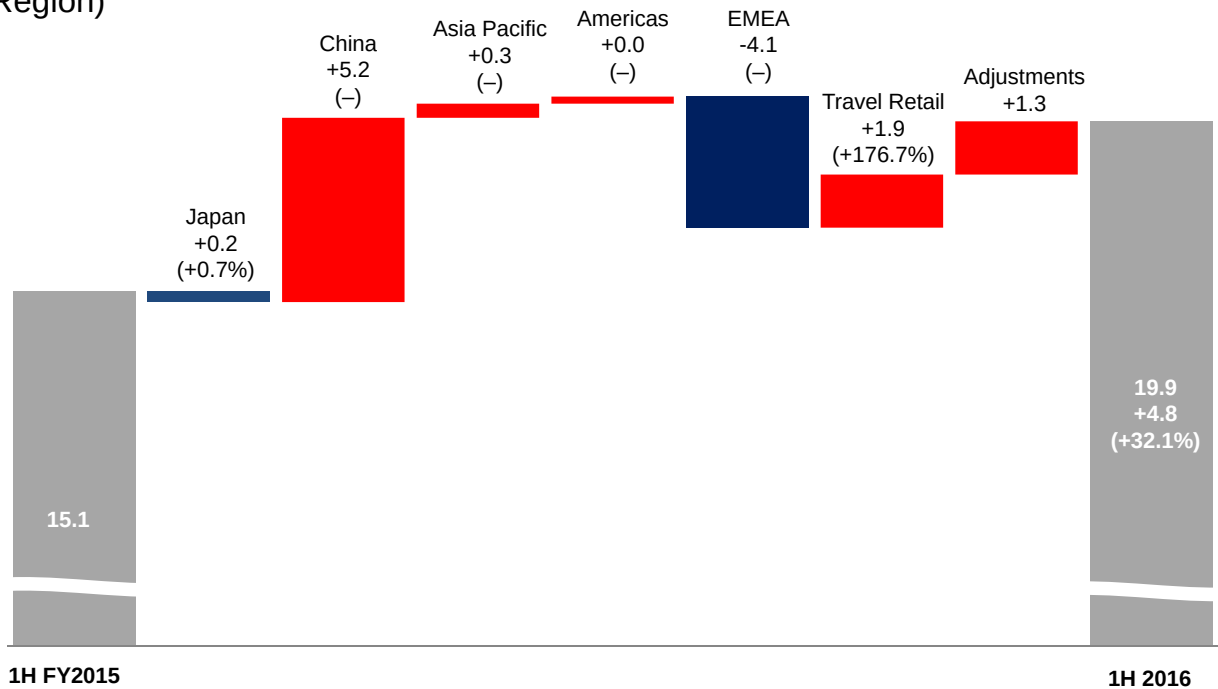
* Year-on-year change and year-on-year change in local currency for each business were calculated based on the actual exchange rates.

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China and Travel Retail Drove Earnings Growth

Change in Operating Income by Reportable Segment (Region)

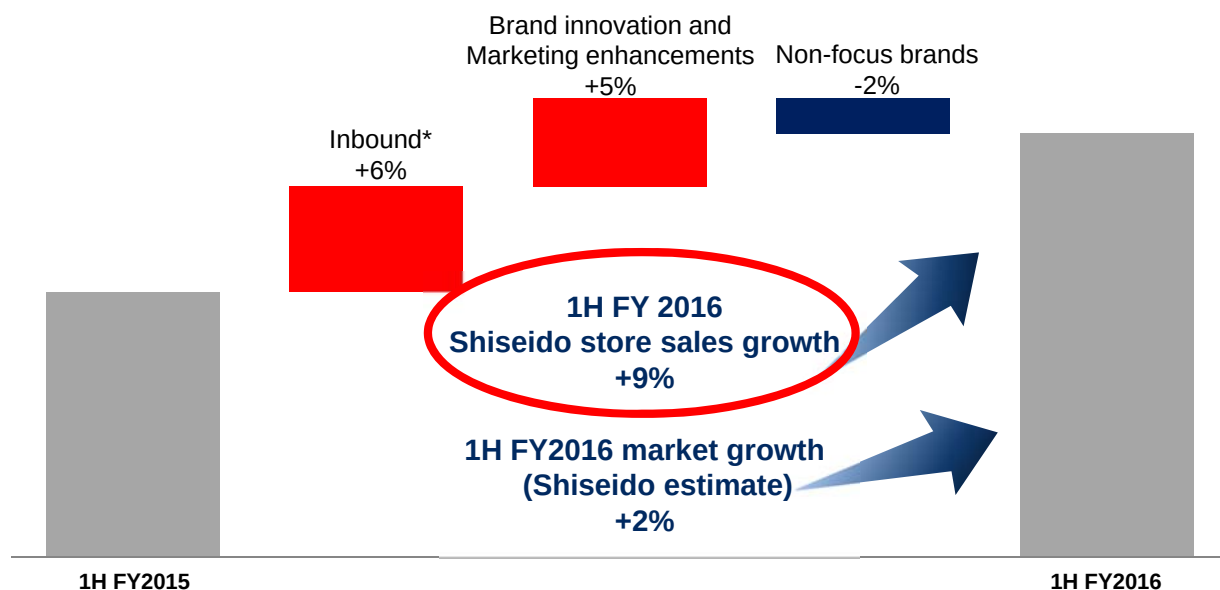
Top: YoY change (Billion yen)
Bottom: (YoY change)



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Japan: Inbound Demand and Brand Innovation Supported Growth

Factors supporting growth in Shiseido store sales



*Subject businesses are Prestige, Cosmetics Specialty Stores and Cosmetics of the Japan Business (excluding impact of the transfer of three brands to Personal Care)

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Japan: Maintain Growth Potential by Continuing to Strengthen Marketing

- **Launch new products that address consumer needs and elicit empathy**
 - *ELIXIR Sleeping Gel Pack* (July 2016)
 - *SHISEIDO Cushion Compact* (Autumn 2016)
- **Enhance low-priced product range**
 - Launch renewed *INTEGRATE*, etc.
- **Increase consumer interfaces and promotions**
 - Hold *PRIOR* "Mirai no Hanasaku Party" (blossoming future party) for seniors in seven cities nationwide
 - Planning collaboration with youth-oriented Tokyo Girls Collection *MAQuillage*, *INTEGRATE*, *MAJOLICA MAJORCA*
- **Enhance ability to create attractive sales corners and strengthen alliances**
 - Strengthen cooperation with major accounts
 - Improve capabilities of trade marketing organization
- **Capture inbound demand**
 - Enhance cross-border marketing and e-commerce



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China: Shift from Stability to Growth

- Continue enhancing prestige brands
 - *SHISEIDO, clé de peau BEAUTÉ, IPSA*
- **AUPRES**
 - New sales counter target for 2016: 300 stores
 - Close unprofitable counters and increase new channels
 - Introduce new products (spring 2017)
- **PURE&MILD**
 - Totally renew brand and promote addition of new counters
- Expand e-commerce business (2020 target: over 30% share of net sales)
 - Strategic partnerships with major e-commerce companies
- Build R&D base in China
 - China Innovation Center (Shanghai, November 2016)



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FY2016 Full-Year Forecast and Initiatives

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VISION 2020: Roadmap and Current Status



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Enhance Our Brand Portfolio through M&A

July 2016

Acquired the *Laura Mercier* and *RéVive* brands and integrated the businesses

October 2016

Scheduled to begin business as licensee of DOLCE&GABBANA



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Brand Embodying Italian Tradition and Mediterranean Culture

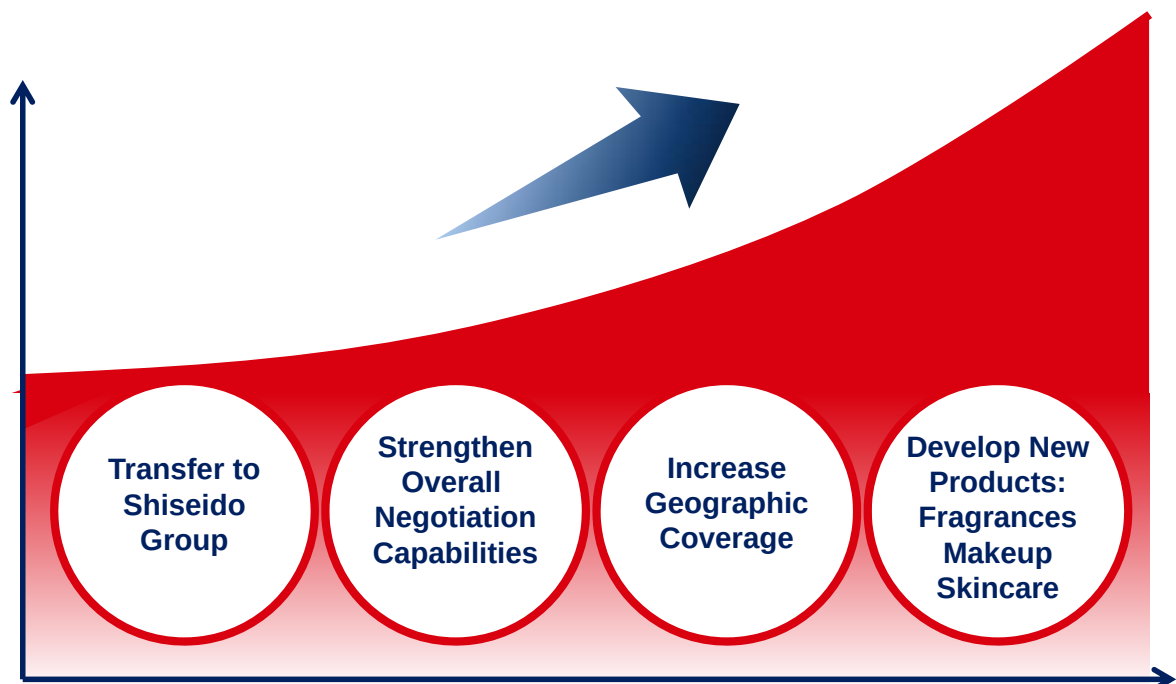
DOLCE & GABBANA

- Domenico Dolce and Stefano Gabbana founded the brand in Milan, Italy in 1985
- Stylish luxury fashion brand with unique designs
- A leading brand in the global fashion and beauty industry



Exercise Group Synergy for Intense Brand Building

Sales Growth Expectations



From October 2016

Bare Escentuals: Structural Reforms Are Proceeding Smoothly

- Head office relocation project started (Completion planned for April 2017)
Integrate organization and back office; raise efficiency of supply chain
- Restructure and innovate management
- Innovate marketing and aggressively launch new products
- Withdraw from unprofitable stores and raise efficiency
Aggressively open stores in advantageous locations



Increase sales and restore profitability



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Realistic Forecast of Foreign Currency Exchange Impact

USD Exchange Rate

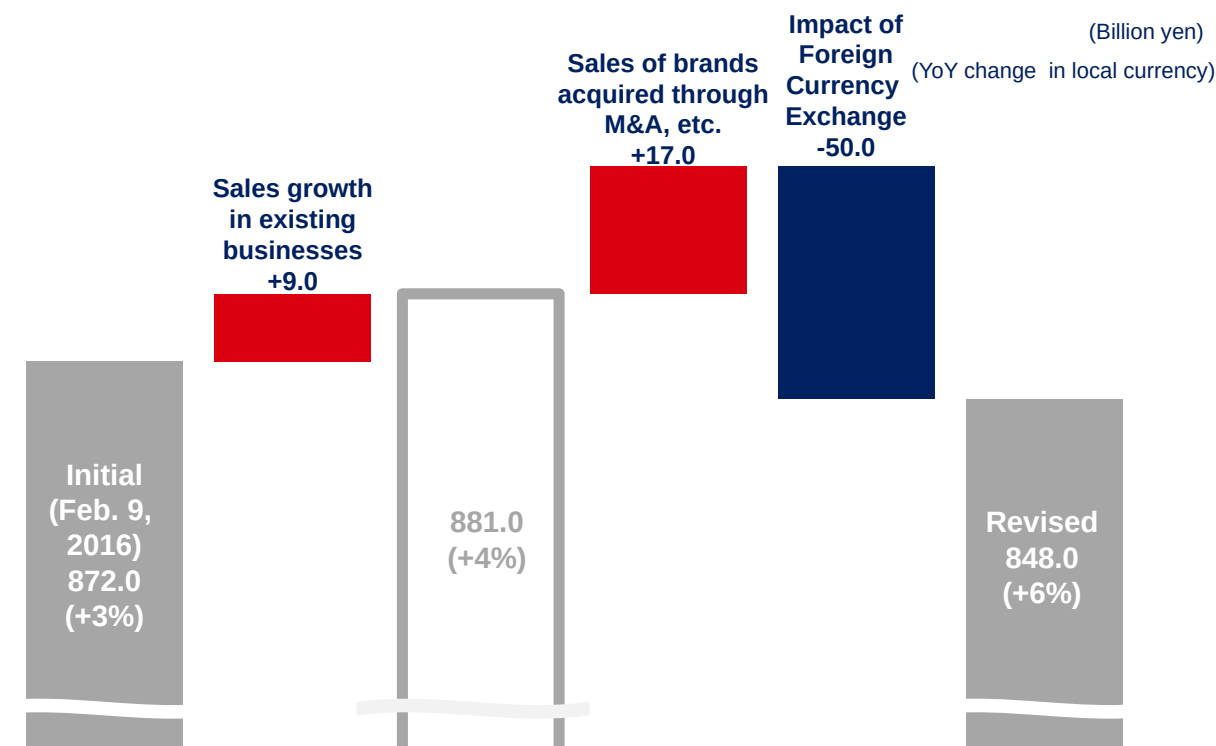
	JPY/USD
FY2015 Actual (average market rate)	121.05
FY 2016 Plan (planned rate at start of fiscal year)	119.00
1Q FY2016 Actual (average market rate Jan-Mar 2016)	115.45
2Q FY2016 Actual (average market rate Jan-Jun 2016)	111.85

2H FY2016 Forecast Rate	102.00
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Forecast Impact on FY2016 Results	Average rate for the year 106.90	Impact vs. Initial Plan (Billion yen)	
		Net Sales -50.0	Operating Income -7.0

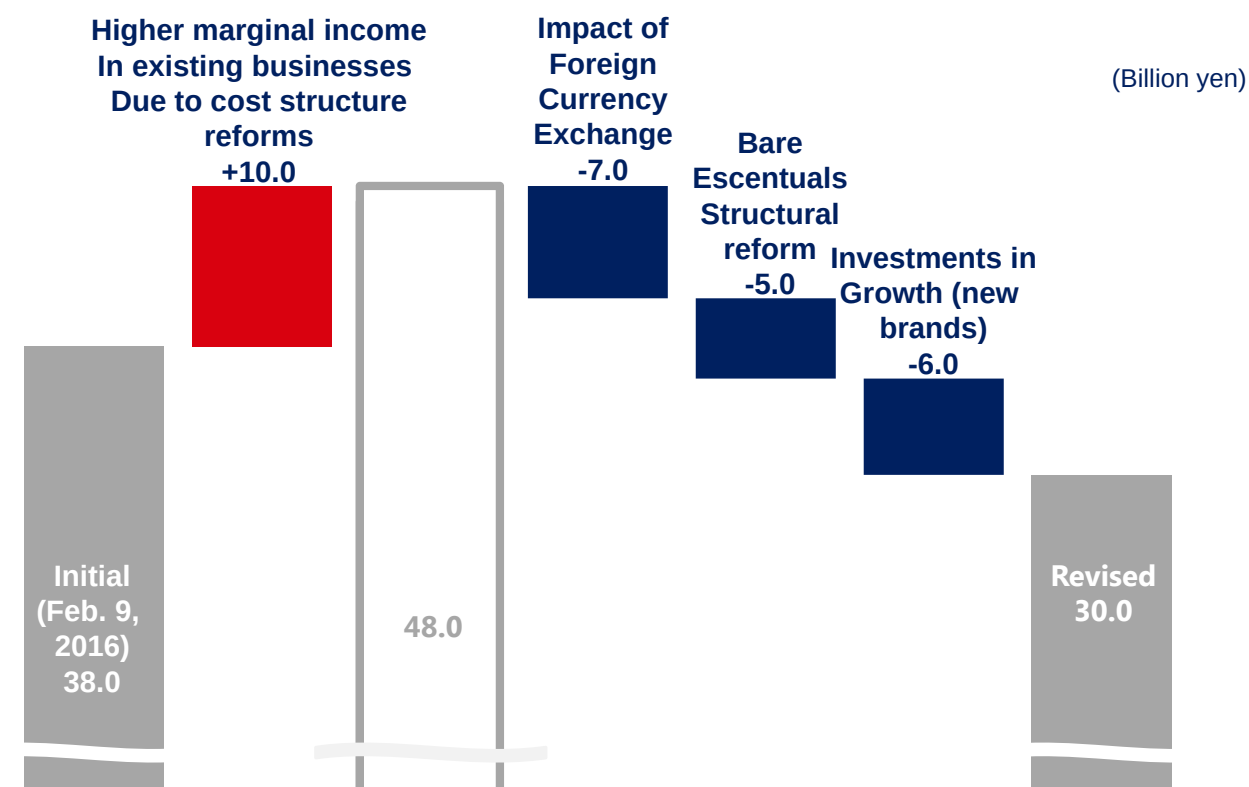
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FY2016: Full-Year Forecast for Net Sales



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FY2016: Full-Year Forecast for Operating Income



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FY2016: Full-Year Forecast

(Billion yen)	FY2016			May Announ- cement	Difference from the Previous Forecast		Initial Forecast	Difference from the Initial Forecast
		YoY Change after Adjustment		YoY Change in Local Currency after Adjustment	Yen	Excl. Impact of Foreign Currency Exchange		
			Foreign Currency Exchange					
Net Sales	848.0	-1.8%	+6%	+4%	-24.0	+10.0	872.0	-24.0
Operating Income	30.0	-32.3%			-8.0		38.0	-8.0
Ordinary Income	29.0	-34.5%			-9.0		38.0	-9.0
Extraordinary Income (Expenses)	14.5	+64.1%			-1.0		6.0	+8.5
Net Income Attributable to Owners of Parent	30.0	+1.8%			-4.5		28.0	+2.0

Expected ROE: 7.5%

Exchange Rates: FY2016 Full year USD 1 = JPY 106.9 (-12%), EUR 1 = JPY 118.8 (-12%), CNY 1 = JPY 16.1 (-16%)
FY2016 2H USD 1 = JPY 102 (-16%), EUR 1 = JPY 113 (-16%), CNY 1 = JPY 15.2 (-20%)

Dividend: Interim ¥10, Year-end ¥10 (planned)

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FY2016: Full-Year Forecast Highlights

- Change in exchange rate forecast: 2H USD 1 = JPY 102 Full-year = JPY 106.9
- Net sales: ¥848.0 billion ¥24.0 billion below initial forecast
- Operating income: ¥30.0 billion ¥8.0 billion below initial forecast
- Net income: ¥30.0 billion ¥2.0 billion above initial forecast

Aggressive investment to achieve steady growth with a long-term perspective

Impact on Net Sales

- Existing businesses: +¥9.0 billion (effect of marketing reforms, inbound demand in Japan, etc.)
- Impact of brand acquisitions: +¥17.0 billion (brand portfolio enhancement)
- Impact of foreign exchange: -¥50.0 billion

Impact on Operating Income

- Increased marginal income in existing businesses due to effect of cost structure reforms: +¥10.0 billion
- Impact of foreign exchange: -¥7.0 billion
- Structural reforms at Bare Escentuals: -¥5.0 billion
- Investment in newly acquired brands for growth: -¥6.0 billion

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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.

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

Fiscal Year		
FY2016	Domestic : Jan.-Dec. 2016	Overseas : Jan.-Dec. 2016
(First Half)	(Jan.-Jun. 2016)	(Jan.-Jun. 2016)
FY2015 (Adjusted)¹	Domestic : Jan.-Dec. 2015	Overseas : Jan.-Dec. 2015
(First Half)	(Jan.-Jun. 2015)	(Jan.-Jun. 2015)
FY2015	Domestic² : Apr.-Dec. 2015	Overseas : Jan-Dec 2015
(First Half)	(Apr.-Sep. 2015)	(Jan.-Jun. 2015)
1. Adjusted figures have not been audited by the auditing firm. They are provided as reference for comparison.		
2. Excluding some subsidiaries		

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Supplemental Data 1: 1H Sales by Reportable Segment

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %	YoY Change in Local Currency
		% of Net Sales		% of Net Sales			
Japan	202.9	49.2%	192.3	46.8%	+10.6	+5.5%	+5.5%
China	61.5	14.9%	59.7	14.5%	+1.8	+3.1%	+15.5%
Asia Pacific	24.5	5.9%	25.6	6.2%	-1.2	-4.5%	+9.1%
Americas	72.4	17.6%	76.8	18.8%	-4.4	-5.8%	+1.7%
EMEA	39.0	9.5%	47.7	11.6%	-8.7	-18.2%	-11.0%*
Travel Retail	12.0	2.9%	8.5	2.1%	+3.5	+41.5%	+52.2%
Total	412.3	100%	410.6	100%	+1.7	+0.4%	+5.5%

1. *Year-on-year percentage change is +6% excluding the effect of the termination of the license agreement for Jean Paul GAULTIER.
2. See Supplemental Data 7 for details about changes in reportable segment.

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Supplemental Data 2: 1H Operating Income by Reportable Segment

(Billion yen)	FY2016		FY2015 (Adjusted)		YoY Change	YoY Change %
		Operating Profitability		Operating Profitability		
Japan	26.7	11.9%	26.5	12.4%	+0.2	+0.7%
China	2.4	3.9%	-2.8	-4.7%	+5.2	—
Asia Pacific	0.0	0.2%	-0.3	-1.2%	+0.3	—
Americas	-5.5	-7.1%	-5.5	-6.7%	+0.0	—
EMEA	-2.1	-5.2%	2.0	3.9%	-4.1	—
Travel Retail	3.0	24.8%	1.1	12.7%	+1.9	+176.7%
All Regions	24.5	5.6%	21.0	4.8%	+3.6	+17.0%
Adjustments	-4.6	—	-5.9	—	+1.3	—
Total	19.9	4.8%	15.1	3.7%	+4.8	+32.1%

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

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Supplemental Data 3: 1H 2016 SG&A

(Billion yen)	FY2016			YoY Change %	YoY Change	Change Excluding Impact of Foreign Currency Exchange
		% of Net Sales	YoY Change %			
Cost of Sales	98.6	23.9%	-0.6%	-1.9%	-1.9	—
SG&A	293.7	71.3%	-0.5%	-0.4%	-1.3	+11.5
Marketing Costs	151.1	36.7%	-0.8%	-1.9%	-2.9	+4.2
Brand Development Cost and R&D Expenses	17.4	4.2%	+0.3%	+9.5%	+1.5	+1.7
Personnel Expenses	56.1	13.6%	-0.2%	-1.2%	-0.7	+1.9
Other Expenses	69.2	16.8%	+0.2%	+1.2%	+0.8	+3.8

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

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Supplemental Data 3: Capital Expenditures, Depreciation and Amortization

(Billion yen)	1H FY2016	1H FY2015 (Adjusted)	FY2016 Outlook
Capital Expenditures*	24.9	15.3	61.0
Property, Plant and Equipment	18.4	7.5	45.2
Intangible Assets, etc.	6.5	7.8	15.8
Depreciation and Amortization	16.7	17.5	34.1
Property, Plant and Equipment	8.7	9.3	17.6
Intangible Assets, etc.	8.0	8.2	16.5
R&D Expenses	8.7	8.1	18.7

*Investments in capital expenditures; property, plant and equipment; intangible fixed assets (excl. goodwill); and long-term prepaid expenses

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Supplemental Data 5: FY2016 Full-Year Forecast by Reportable Segment

(Billion Yen)	FY2016			May Announcement
		FY2015 (Adjusted)		YoY Change in Local Currency (Adjusted)
			Local Currency	
Net Sales	848.0	-1.8%	+6%	+4%
Japan	412.0	+4.1%	+4%	+5%
China	117.5	-6.5%	+11%	+11%
Asia Pacific	50.0	-5.2%	+7%	+7%
Americas	160.0	-4.5%	+8%	+4%
EMEA	85.5	-17.9%	-6%	-13%
Travel Retail	23.0	+33.8%	+50%	+41%

Exchange rates:

FY2016 Full-Year: USD 1 = JPY 106.9 (-12%) , EUR 1 = JPY118.8 (-12%) , CNY 1 = JPY 16.1 (-16%)

FY2016 2H: USD 1 = JPY 102 (-16%) , EUR 1 = JPY113 (-16%) , CNY 1 = JPY 15.2 (-20%)

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Supplemental Data 6: Major Public Announcements

News Releases

- Jul. 2016 Notice of Completing the Acquisition of Gurwitch Products, LLC
- Jul. 2016 Notice of Signing a License Agreement with DOLCE&GABBANA S.R.L.
- Jun. 2016 Notice of acquisition of Gurwitch Products, LLC
– Addition of *Laura Mercier* and *RéVive* to Shiseido's Global Portfolio –
- May 2016 Shiseido Enhances Global R&D Structure
– Unveiling of Americas Innovation Center Reinforces Commitment to Consumer-Centered Product Development –
- Mar. 2016 Shiseido Awarded World's Most Ethical Companies Designation Five Years in a Row

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Supplemental Data 7 : Main Constituents of Former and New Segments

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



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

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

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