

The figures for these Financial Statements are prepared in accordance with the accounting principles based on Japanese law. Accordingly, they do not necessarily match the figures in the Annual Report issued by the Company, which present the same statements in a form that is more familiar to foreign readers through certain reclassifications or summarization of accounts.



Consolidated Settlement of Accounts for the First 2 Quarters of the Fiscal Year Ending March 31, 2015 [Japanese Standards]

Shiseido Company, Limited

Listings: Tokyo Stock Exchange, First Section (Code Number: 4911)
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Filing of quarterly financial report: November 10, 2014

Start of cash dividend payments: December 4, 2014

Supplementary quarterly materials prepared: Yes (Supplemental Information will be uploaded to the corporate website on Friday, October 31, 2014.)

Quarterly results information meeting held: Yes (for institutional investors, analysts, etc.)

1. Performance for the First 2 Quarters of the Fiscal Year Ending March 31, 2015 (From April 1–September 30, 2014)

* Amounts under one million yen have been rounded down.

(1) Consolidated Operating Results

(Millions of yen; percentage figures denote year-on-year change)

	Net Sales	Operating Income	Ordinary Income	Net Income
First 2 Quarters Ended September 30, 2014	365,678 [+1.4%]	10,932 [-46.4%]	11,512 [-45.2%]	24,629 [+358.0%]
First 2 Quarters Ended September 30, 2013	360,504 [+8.1%]	20,391 [+144.4%]	21,021 [+151.7%]	5,377 [+7.1%]

Note: Comprehensive income

First 2 quarters ended September 30, 2014: ¥14,040 million [-67.8%]

First 2 quarters ended September 30, 2013: ¥43,579 million [+373.5%]

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
First 2 Quarters Ended September 30, 2014	61.78	61.68
First 2 Quarters Ended September 30, 2013	13.51	13.49

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)
First 2 Quarters Ended September 30, 2014	768,478	357,944	44.0
Fiscal Year Ended March 31, 2014	801,346	358,707	42.2

[Reference] Equity:

First 2 quarters ended September 30, 2014: ¥337,856 million

Fiscal year ended March 31, 2014: ¥338,561 million

2. Cash Dividends

	Cash Dividends per Share (Yen)				
	First Quarter	Second Quarter	Third Quarter	Year-End	Full Year
Fiscal Year Ended March 31, 2014	—	10.00	—	10.00	20.00
Fiscal Year Ending March 31, 2015	—	10.00			
Fiscal Year Ending March 31, 2015 (plan)			—	10.00	20.00

Note: Revision to dividend forecast during period: None

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2015 (From April 1, 2014–March 31, 2015)

(Millions of yen, percentage figures denote year-on-year change)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (Yen)
Fiscal Year Ending March 31, 2015	770,000 [+1.0%]	25,000 [−49.6%]	26,000 [−49.4%]	30,000 [+14.7%]	75.25

Note: Revision to consolidated earnings forecast during period: Yes

*Notes

- (1) Significant changes in subsidiaries during period (changes in specific subsidiaries due to change in scope of consolidation): None
- (2) Special accounting treatment adopted: None
- (3) Changes in accounting policies; changes in accounting estimates; restatements
 - 1) Changes in accounting policies due to amendment of accounting standards: Yes
 - 2) Other changes in accounting policies: Yes
 - 3) Changes in accounting estimates: Yes
 - 4) Restatements: None

Note: For more information, please refer to “2. (3) Changes in Accounting Policies; Changes in Accounting Estimates; Restatements” on page 8 and 9.

- (4) Shares outstanding (common stock) at term-end
1. Number of shares outstanding (including treasury stock)
 - First 2 quarters ended September 30, 2014: 400,000,000
 - Fiscal year ended March 31, 2014: 400,000,000
 2. Number of treasury shares outstanding
 - First 2 quarters ended September 30, 2014: 1,306,307
 - Fiscal year ended March 31, 2014: 1,422,159
 3. Average shares outstanding over period (cumulative; consolidated)
 - First 2 quarters ended September 30, 2014: 398,665,703
 - First 2 quarters ended September 30, 2013: 398,152,020

Implementation status of quarterly audit review procedures

At the time of disclosure of this report, audit review procedures for quarterly financial statements pursuant to the Financial Instruments and Exchange Act had not been completed.

Appropriate use of business forecasts; other special items

In this document, statements other than historical facts are forward-looking statements that reflect the Company's plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ from those anticipated in these statements. Please refer to "1. (3) Consolidated Forecasts and Other Forward-Looking Information" on page 7 for information on preconditions underlying the above outlook and other related information.

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1. Analysis of Operating Results

(1) Consolidated Performance

Review of Performance in the First 2 Quarters of the Fiscal Year Ending March 31, 2015

In the two-quarter period under review (six-month period from April 1 to September 30, 2014), the economic sentiment in Japan was characterized by continued moderate recovery underpinned by government economic measures. However, the turnaround in personal consumption slowed, affected by a recoil following a rush in demand ahead of the consumption tax hike, as well as unstable weather conditions. The domestic cosmetics market was impacted by similar factors, with the growth rate falling below previous-year levels in the second quarter, as it did in the first quarter, despite signs of a turnaround. Overseas cosmetics markets are closely linked with economic conditions in their respective countries. In Europe, there was negative growth, while the Americas and Asia continued enjoying moderate growth. (For overseas subsidiaries, the “first two quarters” refers to the period from January 1 to June 30, 2014.)

In this environment, the Company positioned fiscal 2014 as a year of preparing for drastic reforms. In addition to formulating a new long-term vision and a medium-term business plan due to start in the next fiscal period, we are targeting three major priorities: “strengthening marketing execution and brand capabilities from the customer’s perspective,” “reforming our organization and corporate culture,” and “reinforcing our operational foundation.”

As a result, the Group posted consolidated net sales of ¥365.7 billion, up 1.4% from the previous corresponding period. Domestic sales declined 5.1% year on year, to ¥172.6 billion, due largely to the recoil in demand following the consumption tax hike, as well as unstable weather conditions, which had a heavy impact. On a local-currency basis, overseas sales edged down 0.1%. After translation into yen, however, overseas sales increased 8.1%, to ¥193.1 billion, owing to the yen’s depreciation.

Operating income fell 46.4% year on year, to ¥10.9 billion. Factors included an increase in personnel expenses stemming from higher bonus payments in Japan, as well as stepped-up marketing investments overseas. Other factors included higher costs stemming from problems at our U.S. distribution center, as well as a reversal of sales in Greece. Ordinary income declined 45.2%, to ¥11.5 billion. However, net income surged 358.0%, to ¥24.6 billion, thanks to extraordinary income associated with the sale of the *DECLÉOR* and *CARITA* brands to L’Oréal S.A.

The Company will declare an interim cash dividend of ¥10.00 per share, in line with its initial forecast.

[Consolidated Performance]

(Sales)

(Millions of yen)

	First 2 Quarters Ended September 2014	Share of Total (%)	First 2 Quarters Ended September 2013	Share of Total (%)	Year-on-Year Increase/Decrease		
					Amount	% Change	% Change in Local Currency Terms
Domestic Cosmetics Business	159,976	43.8%	168,897	46.8%	-8,921	-5.3%	-5.3%
Global Business	200,883	54.9%	186,941	51.9%	+13,942	+7.5%	-0.4%
Others	4,818	1.3%	4,665	1.3%	+153	+3.3%	+3.3%
Sales Total	365,678	100.0%	360,504	100.0%	+5,174	+1.4%	-2.7%
Domestic Sales	172,554	47.2%	181,869	50.4%	-9,315	-5.1%	-5.2%
Overseas Sales	193,123	52.8%	178,634	49.6%	+14,489	+8.1%	-0.1%

(Income)

	First 2 Quarters Ended September 2014	Ratio to Net Sales* (%)	First 2 Quarters Ended September 2013	Ratio to Net Sales* (%)	Year-on-Year Increase/Decrease	
					Amount	% Change
Domestic Cosmetics Business	12,746	7.9%	17,144	10.1%	-4,398	-25.7%
Global Business	(2,831)	-1.4%	1,955	1.0%	-4,786	—
Others	984	13.7%	925	13.0%	+58	+6.4%
Elimination/Corporate	33	—	365	—	-331	—
Operating Income Total	10,932	3.0%	20,391	5.7%	-9,458	-46.4%
Ordinary Income	11,512	3.1%	21,021	5.8%	-9,509	-45.2%
Net Income	24,629	6.7%	5,377	1.5%	+19,252	+358.0%

*Based on sales, including intra-Group sales between reportable segments.

Results by Reportable Segment**(a) Domestic Cosmetics Business**

Sales in the Domestic Cosmetics Business segment declined 5.3%, to ¥160.0 billion. In the current fiscal year, the Company has been strengthening its brand power while steadily undertaking renewals of core brands and lines. In the 2nd quarter period under review, we launched new skincare offerings under the **BENEFIQUE** line of products specifically for cosmetics specialty stores. As the first step in marketing reforms carried on from the previous year, we launched a beauty essence under the global brand **SHISEIDO**, called **SHISEIDO ULTIMUNE Power Infusing Concentrate**. However, the segment was affected by the recoil in demand following the consumption tax hike. Due also to unstable weather conditions, our summer-season products struggled. These included **ANESSA** sunscreens, **AG+** deodorants, and **SEA BREEZE** whole-body-care products.

Segment operating income declined 25.7%, to ¥12.7 billion, due mainly to a marginal decline associated with lower segment sales, as well as an increase in personnel expenses stemming from higher bonus payments.

(b) Global Business

On a local-currency basis, sales in the Global Business segment edged down 0.4% year on year. After translation into yen, however, segment sales grew 7.5%, to ¥200.9 billion, owing to the yen's depreciation. In the Americas, the makeup artist brand **NARS** continued performing well, and **BARESKIN**, the first liquid foundation launched under the **bareMinerals** brand, also did well. Due to problems at our distribution center, however, overall sales in the Americas declined. In Europe, we enjoyed solid sales in Russia, but overall European sales declined due to a fall in sales of products under the **DECLÉOR** and **CARITA** brands, which were sold. In Asia, geopolitical unrest led to a sales decline in Thailand, but we posted good results in China, with solid shipments of the **AUPRES** brand, featuring a renewed complexion-brightening line, and healthy sales from and our e-commerce business. With sales growth also in Taiwan and Malaysia, overall sales in Asia increased.

The Global Business segment posted an operating loss of ¥2.8 billion, due mainly to increased marketing investments in China and the **bareMinerals** brand. Other factors included higher costs stemming from problems at our U.S. distribution center, as well as a reversal of sales in Greece.

(c) Others

Sales in the Others segment rose 3.3%, to ¥4.8 billion, thanks largely to a favorable performance by our restaurant business, bolstered by the renewal and reopening of French restaurant L'Osier in October 2013.

Segment operating income increased 6.4%, to ¥1.0 billion, owing mainly to a marginal gain on increased segment sales.

(2) Consolidated Financial Position

(a) Assets, Liabilities, and Net Assets

As of September 30, 2014, the Group had total assets of ¥768.5 billion, down ¥32.9 billion from the previous fiscal year-end (March 31, 2014). This was mainly due to the yen's appreciation since that time, as well as a decline in notes and accounts receivable. Despite an increase in liabilities stemming from a revision of the Accounting Standard for Retirement Benefits, total liabilities decreased ¥32.1 billion, to ¥410.5 billion, due mainly to repayments of debt. Net assets edged down ¥0.8 billion, to ¥357.9 billion, due to a decrease in foreign currency translation adjustments, which contrasted with an increase in retained earnings. Accordingly, the equity ratio at the end of the period was 44.0%, up from 42.2% at the previous fiscal year-end.

(b) Cash Flows

Net cash provided by operating activities amounted to ¥8.2 billion. Main factors included income before income taxes, together with an adjustment for gain on business transfer. Net cash provided by investing activities totaled ¥21.5 billion, due largely to the sale of businesses handling the *DECLÉOR* and *CARITA* brands. Net cash used in financing activities was ¥20.3 billion, due mainly to year-end cash dividends paid and repayment of long-term debt.

As a result, cash and cash equivalents at end of period stood at ¥117.3 billion, up ¥7.2 billion from the beginning of the period.

(3) Consolidated Forecasts and Other Forward-Looking Information

The Company has revised its consolidated forecasts for the fiscal year ending March 31, 2015 (previous forecasts announced on April 25, 2014), as shown in the table below, in light of various factors. These include our performance in the two-quarter period under review, reassessment of foreign exchange rates (prerequisite for making forecasts), downward revision of our forecast for sales in China in the second half of the period, and plans to optimize store-level inventories mainly in China.

[Consolidated Forecasts for Fiscal 2014]

(April 1, 2014–March 31, 2015)

(Millions of yen)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (yen)
Previous Forecast (A)	780,000	42,000	42,000	38,000	95.34
Revised Forecast (B)	770,000	25,000	26,000	30,000	75.25
Change (B–A)	(10,000)	(17,000)	(16,000)	(8,000)	
Percentage Change (%)	–1.3%	–40.5%	–38.1%	–21.1%	
[Reference] Result in Previous Year Fiscal 2014	762,047	49,644	51,426	26,149	65.65

[Sales Outlook by Reportable Segment]

(Millions of yen)

	Fiscal Year Ending March 31, 2015 (Estimate)	Fiscal Year Ended March 31, 2014	Year-on-Year Increase/Decrease	
			Amount	% Change
Domestic Cosmetics Business	341,000	349,718	–8,718	–2.5%
Global Business	419,000	402,213	+16,786	+4.2%
Others	10,000	10,114	–114	–1.1%
Net Sales	770,000	762,047	+7,952	+1.0%

[Sales Outlook by Region]

(Millions of yen)

	Fiscal Year Ending March 31, 2015 (Estimate)	Fiscal Year Ended March 31, 2014	Year-on-Year Increase/Decrease	
			Amount	% Change
Domestic Sales	367,000	377,272	-10,272	-2.7%
Overseas Sales	403,000	384,774	+18,225	+4.7%
Overseas Sales Ratio	52.3%	50.5%	—	—

We base our predictions on the following exchange rate assumptions: ¥103.0 per U.S. dollar, ¥139.5 per euro, and ¥16.7 per Chinese yuan.

2. Summary (Note) Information

(1) Significant Changes in Subsidiaries

Not applicable.

(2) Special Accounting Treatment Adopted

Not applicable.

(3) Changes in Accounting Policies; Changes in Accounting Estimates; Restatements

(Change in Accounting Policies)

Application of Accounting Standard for Retirement Benefits

With respect to “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012), the Company has applied provisions stated in Clause 35 of the Retirement Benefits Accounting Standard and Clause 67 of the Guidance on Retirement Benefits, effective the first quarter under review. Accordingly, the Company has reassessed the method for calculating retirement benefit obligations and current service costs, and changed the period reversion method for retirement benefit estimates from a straight-line basis to a benefit calculation basis. Application of discount rate has also been amended. Under the previous method, the discount rate was determined based on the average service period up to the estimated timing of benefit payment. Under the new method, differing discount rates will be used according to the estimated timing of benefit payment.

The Accounting Standard for Retirement Benefits is being applied transitionally as determined in its Clause 37. At beginning of the first two quarters under review, the effect of the change in accounting standard has been reflected as an increase or decrease in retained earnings.

This change caused the liability related to retirement benefits to increase by ¥16,188 million, deferred tax assets to increase by ¥5,882 million, retained earnings to decrease by ¥10,303 million, and minority interests to decrease by ¥2 million. It also caused consolidated net sales, operating income, ordinary income, and income before income taxes to each increase by ¥301 million.

Change in depreciation method for property, plant and equipment

To date, the Company and its domestic consolidated subsidiaries have mainly adopted the declining balance method for depreciation of buildings (excluding attached equipment) and property, plant and equipment (excluding leased assets). Effective the first quarter under review, however, the straight-line method has been applied.

The Group expects long-term stability of equipment operation and securement of income stemming from drastic reassessments of its marketing style (including for existing fostered products) and business

operational style. We also look forward to sustained growth in overseas markets, global advancement of our business, and stronger responsiveness and other factors. In order to make accounting processes consistent in this context, we conducted an examination of the depreciation method for property, plant and equipment. Accordingly, the Company and its domestic consolidated subsidiaries have adopted the straight-line method of depreciation used by its overseas consolidated subsidiaries. The Group believes that this method provides a more appropriate reflection of actual business conditions.

In the first two quarters under review, this change caused depreciation to decline by ¥490 million, and operating income, ordinary income, and income before income taxes to increase by ¥490 million.

(Changes in Accounting Estimates)

Change in estimation of useful lives and residual values of property, plant and equipment

Following the aforementioned change in depreciation method, the Group assessed the actual status of its operations and, effective the first quarter under review, changed the method of estimating useful lives of certain property, plant and equipment to reflect such actual status. As for calculating residual values, the Company and its domestic consolidated subsidiaries have adopted the method of depreciating assets until the memorandum price is reached.

In the first two quarters under review, this change caused depreciation to increase by ¥22 million. It also caused consolidated net sales, operating income, ordinary income, and income before income taxes to each decrease by ¥22 million.

3. Major Items Related to Ongoing Concern

Not applicable.

(Reference) Overseas Sales

(Millions of yen)

	First 2 Quarters Ended September 2014	Share of Net Sales	First 2 Quarters Ended September 2013	Share of Net Sales	Year-on-Year Increase/Decrease		
					Amount	% change	% change in local currency terms
Americas	58,631	16.0%	55,062	15.3%	+3,569	+6.5%	-1.0%
Europe	48,133	13.2%	45,892	12.7%	+2,240	+4.9%	-5.6%
Asia/Oceania	86,358	23.6%	77,679	21.6%	+8,678	+11.2%	+3.8%
[China]	[59,209]	[16.2%]	[52,148]	[14.5%]	[+7,061]	[+13.5%]	[+5.4%]
Overseas Sales	193,123	52.8%	178,634	49.6%	+14,489	+8.1%	-0.1%

4. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheets

(Millions of yen)

	Fiscal Year Ended March 2014	First 2 Quarters Ended September 2014
Assets		
Current assets		
Cash and deposits	95,774	104,574
Notes and accounts receivable - trade	138,282	110,496
Securities	33,129	30,853
Inventories	90,244	99,663
Deferred tax assets	26,568	27,479
Other	20,076	18,114
Allowance for doubtful accounts	(1,487)	(1,451)
Total current assets	402,588	389,730
Non-current assets		
Property, plant and equipment		
Buildings and structures	166,117	164,617
Accumulated depreciation	(103,099)	(104,525)
Buildings and structures, net	63,018	60,092
Machinery, equipment and vehicles	91,092	87,242
Accumulated depreciation	(78,320)	(75,102)
Machinery, equipment and vehicles, net	12,771	12,139
Tools, furniture and fixtures	74,194	70,531
Accumulated depreciation	(52,108)	(50,052)
Tools, furniture and fixtures, net	22,086	20,479
Land	30,853	30,644
Leased assets	7,359	6,018
Accumulated depreciation	(4,492)	(2,611)
Leased assets, net	2,867	3,407
Construction in progress	3,282	3,552
Total property, plant and equipment	134,879	130,316
Intangible assets		
Goodwill	63,377	56,619
Leased assets	586	559
Trademark right	55,173	48,762
Other	47,595	42,755
Total intangible assets	166,732	148,697
Investments and other assets		
Investment securities	26,889	27,472
Long-term prepaid expenses	11,994	11,405
Deferred tax assets	33,118	37,107
Other	25,200	23,807
Allowance for doubtful accounts	(56)	(57)
Total investments and other assets	97,145	99,735
Total non-current assets	398,758	378,748
Total assets	801,346	768,478

(Millions of yen)

	Fiscal Year Ended March 2014	First 2 Quarters Ended September 2014
Liabilities		
Current liabilities		
Notes and accounts payable - trade	50,945	33,726
Electronically recorded obligations - operating	—	24,788
Short-term loans payable	6,727	4,030
Commercial papers	—	3,545
Current portion of bonds	50,000	90,000
Current portion of long-term loans payable	5,926	5,919
Lease obligations	1,400	1,579
Accounts payable - other	48,043	32,176
Income taxes payable	17,503	7,716
Provision for sales returns	11,084	8,227
Provision for bonuses	18,094	15,017
Provision for directors' bonuses	290	217
Provision for risk and liabilities	486	432
Provision for structural reforms	122	34
Deferred tax liabilities	35	39
Other	39,123	36,348
Total current liabilities	249,783	263,801
Non-current liabilities		
Bonds payable	40,000	—
Long-term loans payable	49,714	31,765
Lease obligations	2,149	2,460
Liability for retirement benefits	60,825	74,692
Provision for loss on guarantees	350	350
Provision for environmental measures	395	395
Provision for structural reforms	1,061	1,061
Deferred tax liabilities	33,413	31,059
Other	4,945	4,949
Total non-current liabilities	192,855	146,733
Total liabilities	442,638	410,534
Net assets		
Shareholders' equity		
Capital stock	64,506	64,506
Capital surplus	70,258	70,258
Retained earnings	203,452	213,509
Treasury shares	(2,682)	(2,463)
Total shareholders' equity	335,535	345,810
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,544	3,973
Foreign currency translation adjustment	19,690	6,831
Accumulated adjustments for retirement benefit	(20,207)	(18,758)
Total accumulated other comprehensive income	3,026	(7,954)
Subscription rights to shares	941	964
Minority interests	19,204	19,122
Total net assets	358,707	357,944
Total liabilities and net assets	801,346	768,478

**(2) Consolidated Quarterly Statements of Income and
Consolidated Quarterly Statements of Comprehensive Income**

**Consolidated Quarterly Statements of Income
Cumulative for First 2 Quarters**

(Millions of yen)

	First 2 Quarters Ended September 2013	First 2 Quarters Ended September 2014
Net sales	360,504	365,678
Cost of sales	89,647	88,367
Gross profit	270,856	277,311
Selling, general and administrative expenses	250,465	266,378
Operating income	20,391	10,932
Non-operating income		
Interest income	487	599
Dividend income	382	288
Share of profit of entities accounted for using equity method	—	10
House rent income	404	495
Subsidy income	110	5
Foreign exchange gains	447	69
Other	487	465
Total non-operating income	2,321	1,935
Non-operating expenses		
Interest expenses	922	686
Share of loss of entities accounted for using equity method	73	—
Other	694	668
Total non-operating expenses	1,691	1,355
Ordinary income	21,021	11,512
Extraordinary income		
Gain on transfer of business	—	22,397
Gain on sales of non-current assets	330	796
Gain on sales of investment securities	600	0
Total extraordinary income	930	23,194
Extraordinary losses		
Impairment loss	916	—
Structural reform expenses	7,325	1,662
Loss on liquidation of subsidiaries and associates	—	117
Loss on disposal of non-current assets	550	449
Loss on sales of investment securities	4	25
Loss on valuation of investment securities	8	0
Total extraordinary losses	8,806	2,254
Income before income taxes and minority interests	13,145	32,451
Income taxes - current	8,491	6,787
Income taxes - deferred	(2,277)	(465)
Total income taxes	6,213	6,321
Income before minority interests	6,931	26,129
Minority interests in income	1,554	1,500
Net income	5,377	24,629

**Consolidated Statements of Comprehensive Income
Cumulative for First Quarter**

(Millions of yen)

	First 2 Quarters Ended September 2013	First 2 Quarters Ended September 2014
Income before minority interests	6,931	26,129
Other comprehensive income		
Valuation difference on available-for-sale securities	917	321
Foreign currency translation adjustment	35,666	(13,843)
Remeasurements of defined benefit plans, net of tax	26	1,452
Share of other comprehensive income of entities accounted for using equity method	36	(19)
Total other comprehensive income	36,647	(12,089)
Comprehensive income	43,579	14,040
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	39,916	13,648
Comprehensive income attributable to minority interests	3,662	392

(3) Consolidated Quarterly Statements of Cash Flows

(Millions of yen)

	First 2 Quarters Ended September 2013	First 2 Quarters Ended September 2014
Cash flows from operating activities		
Income before income taxes and minority interests	13,145	32,451
Depreciation	16,563	16,160
Amortization of goodwill	2,281	2,344
Impairment loss	916	—
Loss (gain) on disposal of non-current assets	220	(346)
Loss (gain) on sales of investment securities	(655)	25
Loss (gain) on valuation of investment securities	8	0
Gain on business transfer	—	(22,397)
Increase (decrease) in allowance for doubtful accounts	(17)	127
Increase (decrease) in provision for sales returns	926	(2,528)
Increase (decrease) in provision for bonuses	(1,115)	(2,662)
Increase (decrease) in provision for directors' bonuses	(27)	(72)
Increase (decrease) in provision for risk and liabilities	70	40
Increase (decrease) in provision for structural reforms	5,979	(87)
Increase (decrease) in provision for retirement benefits	(202)	—
Increase (decrease) in net defined benefit liability	—	299
Increase (decrease) in provision for environmental measures	(1)	—
Decrease (increase) in prepaid pension costs	944	—
Interest and dividend income	(870)	(888)
Interest expenses	922	686
Share of (profit) loss of entities accounted for using equity method	73	(10)
Decrease (increase) in notes and accounts receivable - trade	17,091	21,928
Decrease (increase) in inventories	2,753	(15,072)
Increase (decrease) in notes and accounts payable - trade	(4,340)	(5,216)
Other, net	(2,705)	(642)
Subtotal	51,963	24,138
Interest and dividend income received	941	986
Interest expenses paid	(922)	(685)
Income taxes paid	(9,742)	(16,289)
Net cash provided by (used in) operating activities	42,239	8,150

(Millions of yen)

	First 2 Quarters Ended September 2013	First 2 Quarters Ended September 2014
Cash flows from investing activities		
Payments into time deposits	(18,378)	(12,541)
Proceeds from withdrawal of time deposits	15,583	12,953
Purchase of securities	(242)	—
Proceeds from sales of securities	867	300
Purchase of investment securities	(773)	(710)
Proceeds from sales of investment securities	6,377	16
Proceeds from transfer of business	—	29,960
Purchase of property, plant and equipment	(6,721)	(6,240)
Proceeds from sales of property, plant and equipment	497	1,498
Purchase of intangible assets	(2,633)	(1,625)
Purchase of long-term prepaid expenses	(2,285)	(2,434)
Other, net	1,863	277
Net cash provided by (used in) investing activities	(5,846)	21,453
Cash flows from financing activities		
Increase (decrease) in short-term bank loans and commercial papers	4,281	3,137
Proceeds from long-term loans payable	22,850	—
Repayments of long-term loans payable	(35,230)	(17,938)
Repayments of lease obligations	(1,291)	(1,114)
Purchase of treasury shares	(1)	(3)
Proceeds from disposal of treasury shares	331	171
Cash dividends paid	(9,949)	(4,003)
Cash dividends paid to minority shareholders	(941)	(579)
Net cash provided by (used in) financing activities	(19,951)	(20,329)
Effect of exchange rate change on cash and cash equivalents	5,534	(2,675)
Net increase (decrease) in cash and cash equivalents	21,977	6,599
Cash and cash equivalents at beginning of period	80,253	110,163
Increase in cash and cash equivalents from newly consolidated subsidiary	—	571
Cash and cash equivalents at end of period	102,230	117,334

(4) Notes Concerning Consolidated Quarterly Financial Statements

(Note on Assumptions for Going Concern)

Not applicable.

(Consolidated Quarterly Statements of Income)

Business Transfer Income

First 2 Quarters of Fiscal 2014 (April 1–September 30, 2014)

This resulted from the sale of the *DECLÉOR* and *CARITA* brands.

Structural Reform Expenses

First 2 Quarters of Fiscal 2014 (April 1–September 30, 2014)

“Structural Reform Expenses” refers to expenses related to “strengthening human resource and personnel cost management.” These are part of one-time expenses pertaining to “structural reforms” (drastic reassessments of organization, infrastructure, and business administration aimed at building a robust business structure). They consist mainly of retirement premiums paid to early retirees.

Loss on Liquidation of Affiliate

First 2 Quarters Ended September 30, 2014 (April 1–September 30, 2014)

The Company reported a loss on liquidation of a subsidiary in Australia.

(Note in the Event of Major Changes in Shareholders’ Equity)

Not applicable.

(Segment Information)

I First 2 Quarters of Fiscal 2013 (April 1–September 30, 2013)

1. Sales and Income/Loss by Reportable Segment

(Millions of yen)

	Domestic Cosmetics Business	Global Business	Others (Note 1)	Subtotal	Adjustment (Note 2)	Total Shown in Consolidated Financial Statements (Note 3)
Net Sales						
(1) Sales to Outside Customers	168,897	186,941	4,665	360,504	—	360,504
(2) Intersegment Sales or Transfers	1,135	1,398	2,430	4,964	(4,964)	—
Total	170,033	188,339	7,095	365,468	(4,964)	360,504
Segment Income	17,144	1,955	925	20,025	365	20,391

Notes: 1. “Others” includes businesses not included in the reporting segments. These include the frontier science business (production and sale of cosmetic raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment, etc.) and the restaurant business.

2. The “Segment Income” adjustment refers to intersegment transaction eliminations amounting to ¥365 million

3. Segment income is adjusted for Operating Income described in the Consolidated Quarterly Statements of Income.

2. Information on impairment loss, goodwill, etc. on fixed assets by reportable segment

(Significant impairment losses related to fixed assets)

The Global Business segment reported a loss on impairment of goodwill in U.S. subsidiary Zotos International, Inc. In the two-quarter period ended September 30, 2013, that impairment loss amounted to ¥916 million.

(Major change in goodwill)

Not applicable.

II First 2 Quarters of Fiscal 2014 (April 1–September 30, 2014)

1. Sales and Income/Loss by Reportable Segment

(Millions of yen)

	Domestic Cosmetics Business	Global Business	Others (Note 1)	Subtotal	Adjustment (Note 2)	Total Shown in Consolidated Financial Statements (Note 3)
Net Sales						
(1) Sales to Outside Customers	159,976	200,883	4,818	365,678	—	365,678
(2) Intersegment Sales or Transfers	1,378	1,391	2,367	5,138	(5,138)	—
Total	161,355	202,275	7,185	370,816	(5,138)	365,678
Segment Income/(Loss)	12,746	(2,831)	984	10,899	33	10,932

Notes: 1. "Others" includes businesses not included in the reporting segments. These include the frontier science business (production and sale of cosmetic raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment, etc.) and the restaurant business.

2. The "Segment Income" adjustment refers to intersegment transaction eliminations amounting to ¥33 million

3. Segment income is adjusted for Operating Income described in the Consolidated Quarterly Statements of Income.

4. As stated in "Changes in Accounting Policies," the Company has applied Accounting Standard for Retirement Benefits, effective the first quarter under review (applied transitionally as determined in Clause 37 of said accounting standard). As a result, segment income in the Domestic Cosmetics Business, Global Business, and Others segments increased by ¥234 million, ¥62 million, and ¥4 million, respectively, in the first two quarters under review.

5. As stated in "Changes in Accounting Policies," the Company has changed the depreciation method for property, plant and equipment, effective the first quarter under review. As a result, segment income in the Domestic Cosmetics Business, Global Business, and Others segments increased by ¥434 million, ¥44 million, and ¥11 million, respectively, in the first two quarters under review.

6. As stated in "Changes in Accounting Estimates," the Company has changed the method of estimating useful lives and residual values of property, plant and equipment, effective the first quarter under review. As a result, segment income decreased by ¥12 million in the Domestic Cosmetics Business segment, increased by ¥8 million in the Global Business segment, and decreased by ¥18 million in the Others segment in the first quarter under review.

2. Information on impairment loss, goodwill, etc. on fixed assets by reportable segment

(Major impairment loss on fixed assets)

Not applicable.

(Major change in goodwill)

Not applicable.