

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 the summarization of accounts.

November 7, 2019



Consolidated Settlement of Accounts for the First Nine Months of the Fiscal Year Ending December 31, 2019

[Japanese Standards]

Shiseido Company, Limited

Listings: Tokyo Stock Exchange, First Section (Code Number: 4911)
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Filing date of quarterly securities report: November 11, 2019

Start of cash dividend payments: —

Supplementary quarterly materials prepared: Yes

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

1. Performance for the First Nine Months of the Fiscal Year Ending December 31, 2019 (From January 1 to September 30, 2019)

* Amounts under one million yen have been rounded down.

(1) Consolidated Operating Results

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit Attributable to Owners of Parent	
First Nine Months Ended September 30, 2019	846,625	[5.1%]	103,324	[1.9%]	100,718	[(1.9)%]	72,458	[13.2%]
First Nine Months Ended September 30, 2018	805,760	[10.2%]	101,412	[43.5%]	102,663	[45.9%]	64,000	[—%]

Note: Comprehensive income

First nine months ended September 30, 2019: ¥65,977 million [1.5%]

First nine months ended September 30, 2018: ¥65,033 million [—%]

	Net Profit per Share (Yen)	Fully Diluted Net Profit per Share (Yen)
First Nine Months Ended September 30, 2019	181.42	181.24
First Nine Months Ended September 30, 2018	160.23	160.04

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio
As of September 30, 2019	1,080,301	510,506	45.4%
As of December 31, 2018	1,009,618	468,462	44.4%

[Reference] Equity: As of September 30, 2019: ¥490,450 million
As of December 31, 2018: ¥448,580 million

2. Cash Dividends

	Cash Dividends per Share (Yen)				
	Q1	Q2	Q3	Year-End	Full Year
Fiscal Year 2018	—	20.00	—	25.00	45.00
Fiscal Year 2019	—	30.00	—		
Fiscal Year 2019 (forecast)				30.00	60.00

Note: Revision to the most recently disclosed dividend forecast: None

3. Forecast for the Fiscal Year Ending December 31, 2019 (From January 1 to December 31, 2019)

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit Attributable to Owners of Parent		Net Profit per Share (Yen)
Fiscal Year 2019	1,134,000	[3.6%]	113,000	[4.3%]	109,000	[(0.4%)]	78,500	[27.8%]	196.54
	to 1,139,000	to [4.0%]	to 120,000	to [10.8%]	to 116,000	to [5.9%]	to 83,000	to [35.2%]	to 207.81

Note: Revision to the most recently disclosed performance forecast: Yes

Notes

- (1) Changes in significant subsidiaries during the period (changes in specific subsidiaries causing a change in the scope of consolidation): None
- (2) Adoption of special accounting treatment in preparation of consolidated quarterly financial statements: None
- (3) Changes in accounting policies; changes in accounting estimates; restatements
 - 1) Changes in accounting policies due to amendments of accounting standards: Yes
 - 2) Other changes in accounting policies: None
 - 3) Changes in accounting estimates: None
 - 4) Restatements: None

Group subsidiaries that have adopted IFRS standards have implemented IFRS 16, Leases, from the first quarter of fiscal year 2019. See “2. Consolidated Quarterly Financial Statements (3) Notes Concerning Consolidated Quarterly Financial Statements (Changes in Accounting Policies)” on page 13 for further details.

- (4) Shares outstanding (common stock)
 - 1) Number of shares outstanding (including treasury stock)

As of September 30, 2019:	400,000,000
As of December 31, 2018:	400,000,000
 - 2) Number of treasury stock outstanding

As of September 30, 2019:	573,586
As of December 31, 2018:	618,049
 - 3) Average number of shares over the period

First nine months ended September 30, 2019:	399,404,058
First nine months ended September 30, 2018:	399,427,535

Implementation status of quarterly review procedures

This Consolidated Settlement of Accounts for the First Nine Months of the Fiscal Year Ending December 31, 2019 is not subject to quarterly review procedures by a certified public accountant or audit firm.

Appropriate use of business forecasts; other special items

In this report, 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. Analysis of Operating Results (2) Consolidated Forecast and Other Forward-Looking Information” on page 8 for information on preconditions underlying the above outlook and other related information.

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1. Analysis of Operating Results

(1) Consolidated Performance

(Millions of yen unless otherwise stated)

	Net Sales	Operating Profit	Ordinary Profit	Net Profit Attributable to Owners of Parent	Net Profit per Share (Yen)
First Nine Months of Fiscal Year 2019	846,625	103,324	100,718	72,458	181.42
First Nine Months of Fiscal Year 2018	805,760	101,412	102,663	64,000	160.23
Percentage Change Increase (Decrease)	5.1%	1.9%	(1.9)%	13.2%	13.2%
Percentage Change Increase (Decrease) FX-Neutral	7.2%				
Percentage Change Increase (Decrease) Like for Like	7.7%				

For the first nine months of fiscal year 2019, economic conditions in Japan continued along a path of moderate recovery. This included signs of a positive turnaround in consumer spending underpinned by improvement in employment and income gains. The domestic cosmetics market continued to rebound and remained firm, due in part to last-minute demand ahead of the consumption tax hike in October and an overall trend of growth in inbound demand supported by foreign travelers to Japan. In the overseas cosmetics market, performance was weak in Europe, where demand varied by country, and the negative growth in makeup also continued in the Americas, resulting in weak delivery overall. China and the rest of Asia were affected by the tough market environments in Hong Kong and other factors. However, growth remained firm overall.

In 2015, the Shiseido Group (hereafter, “the Group”) launched its medium-to-long-term strategy VISION 2020 in a bid to ensure that it remains vital for the next 100 years. We are shifting all of our activities toward a consumer-oriented focus and working to globally enhance our brand value to gain a competitive advantage as a global beauty company with Japanese heritage.

Fiscal year 2019 is the second year of the latter three-year period known as the second phase of VISION 2020. We are working to accomplish the new strategy to accelerate growth. To achieve this, we are concentrating marketing investments on prestige brands, a key driver of growth, and made-in-Japan cosmetics and personal care brands, and are promoting greater investments in digital marketing and innovation. In addition, we are working on building supply capability and improving profitability in the Americas and EMEA, both of which are challenges that need to be addressed. In October of this year, the Group announced the acquisition of the *Drunk Elephant* skincare brand in the “clean” market, which is highly popular with a broad range of consumers, including younger generations known as Millennials and Generation Z (see the press release on October 8, 2019 for further details). Adding this U.S.-based brand with large global demand potential to *SHISEIDO*, *Clé de Peau Beauté*, and other Japanese-based brands will further strengthen and expand the core prestige skincare business and reinforce the sales and profit base in the Americas Business.

Net sales in the first nine months of fiscal year 2019 increased 7.2% year on year on an FX-neutral basis. When converted into yen, net sales rose 5.1% year on year to ¥846.6 billion. Like-for-like growth was 7.7% excluding such factors as the impact of withdrawal from the amenity goods business.

Operating profit rose 1.9% year on year to ¥103.3 billion, due to higher margins accompanying growth in sales and other factors, which compensated for greater investments in marketing, research and development, and human resources. The operating profit margin was 12.2%, maintaining continued double-digit profitability.

Net profit attributable to owners of parent rose to ¥72.5 billion, an increase of 13.2% year on year, thanks to a decline in tax expenses and other factors.

Net sales, operating profit, and net profit attributable to owners of parent all reached record highs during the first nine months of fiscal year 2019.

Major foreign currency exchange rates applicable to income and expense accounting line items in the Company's financial statements are JPY109.2/USD, JPY122.7/EUR, and JPY15.9/CNY for the first nine months of fiscal year 2019.

[Consolidated Performance]

(Millions of yen)

Classification		First Nine Months Ended September 30, 2019	% of Total	First Nine Months Ended September 30, 2018	% of Total	Year-on-Year Increase (Decrease)		
						Amount	% Change	FX-Neutral
Net Sales	Japan Business	350,665	41.4%	340,125	42.2%	10,540	3.1%	3.1%
	China Business	158,522	18.7%	140,540	17.5%	17,982	12.8%	18.3%
	Asia Pacific Business	53,658	6.3%	51,878	6.4%	1,780	3.4%	7.1%
	Americas Business	93,476	11.1%	94,559	11.7%	(1,083)	(1.1)%	(0.1)%
	EMEA Business	76,176	9.0%	75,072	9.3%	1,103	1.5%	8.3%
	Travel Retail Business	78,008	9.2%	67,256	8.3%	10,752	16.0%	17.9%
	Professional Business	10,966	1.3%	10,500	1.3%	465	4.4%	6.7%
	Other	25,151	3.0%	25,827	3.3%	(676)	(2.6)%	(2.6)%
	Subtotal	846,625	100.0%	805,760	100.0%	40,865	5.1%	7.2%
	Adjustments	—	—	—	—	—	—	—
Total	846,625	100.0%	805,760	100.0%	40,865	5.1%	7.2%	

(Millions of yen)

Classification		Intersegment sales or sales including internal transfers between accounts	
		First Nine Months Ended September 30, 2019	First Nine Months Ended September 30, 2018
Net Sales	Japan Business	382,929	363,413
	China Business	159,007	140,800
	Asia Pacific Business	55,350	53,386
	Americas Business	123,705	122,174
	EMEA Business	84,748	84,064
	Travel Retail Business	78,200	67,377
	Professional Business	11,485	11,015
	Other	117,857	105,180
	Subtotal	1,013,284	947,414
	Adjustments	(166,658)	(141,654)
Total	846,625	805,760	

(Millions of yen)

Classification	First Nine Months Ended September 30, 2019	Ratio to Net Sales	First Nine Months Ended September 30, 2018	Ratio to Net Sales	Year-on-Year Increase (Decrease)		
					Amount	% Change	
Operating Profit (Loss)	Japan Business	76,019	19.9%	71,610	19.7%	4,408	6.2%
	China Business	23,925	15.0%	23,452	16.7%	473	2.0%
	Asia Pacific Business	5,467	9.9%	7,129	13.4%	(1,661)	(23.3)%
	Americas Business	(11,298)	(9.1)%	(9,611)	(7.9)%	(1,686)	—
	EMEA Business	(3,436)	(4.1)%	(4,759)	(5.7)%	1,323	—
	Travel Retail Business	17,731	22.7%	14,990	22.2%	2,740	18.3%
	Professional Business	432	3.8%	400	3.6%	32	8.1%
	Other	(2,729)	(2.3)%	1,322	1.3%	(4,051)	—
	Subtotal	106,112	10.5%	104,534	11.0%	1,578	1.5%
	Adjustments	(2,788)	—	(3,122)	—	333	—
	Total	103,324	12.2%	101,412	12.6%	1,912	1.9%

Notes:

1. The Group has revised its reportable segment classification method in line with its internal management structure, effective from the first quarter of the consolidated fiscal year. Shiseido Beauty Salon Co., Ltd., which was previously included in the Professional Business, is now included in the Other segment. Shiseido Astech Co., Ltd. and Hanatsubaki Factory Co., Ltd., which were previously included in the Japan Business, are now included in the Other segment. The segment information for the first nine months of the previous fiscal year has been restated in line with the new method of classification.
2. The results of IPSA Co., Ltd., which were previously included in the Japan Business, are now included in the Other segment. This change was implemented from the third quarter of the previous consolidated fiscal year in line with its internal management structure.
3. The Other segment includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., manufacturing operations as well as the activities of the Frontier Science business (cosmetic raw materials and pharmaceuticals), the Restaurant business, etc.
4. The ratio of operating profit (loss) to net sales shows operating profit as a percentage of total sales including intersegment sales, or sales including internal transfers between accounts.
5. The operating profit (loss) adjustment amount is mainly the elimination of transactions between segments.

Results by reportable segment are provided below.

[Japan Business]

In the Japan Business, we continued to see solid sales growth in the “skin trinity category” in which we have continued to increase marketing investments. Continued robust momentum was maintained for *Clé de Peau Beauté* with its renewed skincare products, as well as *SHISEIDO* with strong sales of *ULTIMUNE* eye serum and foundation, and *ELIXIR* with its contributing lotions, emulsions, and wrinkle-reducing cream. Last-minute pre-tax-hike demand also drove growth. Strong cross-border marketing throughout the Asian region steadily captured growing inbound demand, despite the negative impact of lower sales to inbound buyers owing to appreciation of the Japanese yen and enactment of a new e-commerce law in China. Unfavorable weather also had a negative effect on local demand. The above performance resulted in a 3.1% year-on-year increase in net sales, to ¥350.7 billion. Net sales growth excluding such factors as the impact of withdrawal from the amenity goods business, or like for like, was 4.3%. Operating profit rose 6.2% year on year to ¥76.0 billion, due to higher margins accompanying growth in sales and efficient use of expenses.

[China Business]

In the China Business, the high-paced performance of prestige brands such as *SHISEIDO*, *Clé de Peau Beauté*, *IPSA* and *NARS* continued. Among cosmetics, strong growth was also maintained for made-in-Japan brands *ELIXIR* and *ANESSA*. Although sales were impacted by the demonstrations in Hong Kong, consumer demand in mainland China remained at a high level, and net sales rose 18.3% year on year on an FX-neutral basis, or 12.8% year on year to ¥158.5 billion when converted to yen. Operating profit rose 2.0% year on year to ¥23.9 billion due to higher margins accompanying growth in sales, which compensated for the increased investments in digital marketing such as social media.

[Asia Pacific Business]

In the Asia Pacific Business, continued solid performance of *SHISEIDO*, *LAURA MERCIER* and other prestige brands combined with strong growth for *ELIXIR* and *ANESSA* resulted in 7.1% year-on-year growth in net sales on an FX-neutral basis, amid an uncertain economic environment. When converted into yen, net sales rose 3.4% year on year to ¥53.7 billion. Operating profit fell 23.3% year on year to ¥5.5 billion, mainly due to increased marketing investments, despite higher margins in line with a sales increase.

[Americas Business]

In the Americas Business, net sales declined 0.1% year on year on an FX-neutral basis, or 1.1% year on year to ¥93.5 billion when converted to yen. By brand, *bareMinerals*, which is in the process of closing unprofitable boutiques and other structural reforms, underperformed the previous year, while other prestige skincare brands such as *SHISEIDO* and *Clé de Peau Beauté* continued to grow. The fragrance brand *Dolce&Gabbana* launched new products which led to strong performance. The operating loss increased by ¥1.7 billion over the same period during the previous fiscal year to ¥11.3 billion due to increased costs associated with organizational enhancement. Broken down by function, the Americas Business consists of the commercial business in the Americas and the makeup brand holder function aimed at global-scale development. It also possesses the Center of Excellence* function that serves as the value creation base for makeup, digital, and technology and assumes the cost of strategic investment in these global functions. We will pursue reforms for *bareMinerals*, and strengthen and expand the newly acquired *Drunk Elephant* in order to improve profitability in the future.

[EMEA Business]

In the EMEA Business, prestige brands such as *SHISEIDO* and *NARS* continued to grow, and the fragrance brands *narciso rodriguez* and *Dolce&Gabbana* with new launches also performed well. This resulted in 8.3% year-on-year growth in net sales on an FX-neutral basis. When converted into yen, net sales increased 1.5% year on year to ¥76.2 billion. The operating loss decreased by ¥1.3 billion to ¥3.4 billion due to higher margins accompanying sales growth. Broken down by function, the EMEA Business consists of the commercial business in EMEA, the fragrance brand holder function, and the Center of Excellence function for fragrances, and assumes the cost of strategic investment in these global functions. We will improve profitability in the future as we expand sales while accelerating the pace of skincare development in addition to fragrances.

[Travel Retail Business]

In the Travel Retail Business, *SHISEIDO*, *Clé de Peau Beauté*, and *ANESSA* drove substantial growth, mainly in Asia, amid supply improvements, causing net sales to surge 17.9% year on year on an FX-neutral basis. When converted into yen, net sales rose 16.0% year on year to ¥78.0 billion. Operating profit increased 18.3% year on year to ¥17.7 billion, boosted mainly by higher margins accompanying a sales increase.

[Professional Business]

In the Professional Business, sales in China were strong, resulting in year-on-year net sales growth of 6.7% on an FX-neutral basis. When converted into yen, net sales rose 4.4% year on year to ¥11.0 billion. Operating profit rose 8.1% year on year to ¥400 million, mainly due to higher margins in line with a sales increase.

* Center of Excellence (CoE) refers to a system where each product category is led by the region that excels in that category. The designated CoE then formulates global strategies and develops products for the whole Group. Japan hosts the CoE for skincare; the Americas, for makeup, digital and technology; and EMEA, for fragrance.

(2) Consolidated Forecast and Other Forward-Looking Information

The Group maintained record high performance during the first nine months of fiscal year 2019. This strong momentum resulted from a last-minute pre-tax-hike spending rush and capturing growth in inbound demand in the Japan Business. Group-wide growth was also driven primarily by the China Business and Travel Retail Business. However, market uncertainties increased due to the effect of FX fluctuations, trade frictions between the U.S. and China, declining sales in markets such as Hong Kong and South Korea, unfavorable weather in Japan and a decrease in the number of inbound buyers, as well as structural channel shifts and a continued slowdown in the makeup market in the U.S.

In light of these circumstances, the Group has revised the full-year consolidated forecast from the previous forecast announced on August 8, 2019. Dividend forecast is not revised.

Revisions in Consolidated Forecast for Fiscal Year 2019

(January 1 to December 31, 2019)

(Millions of yen unless otherwise stated)

	Net Sales	Operating Profit	Ordinary Profit	Net Profit Attributable to Owners of Parent	Net Earnings per Share (Yen)
Previous Forecast (A)	1,164,000	120,000	116,000	83,000	207.81
Revised Forecast (B)	1,134,000 to 1,139,000	113,000 to 120,000	109,000 to 116,000	78,500 to 83,000	196.54 to 207.81
Change (B-A)	(25,000) to (30,000)	— to (7,000)	— to (7,000)	— to (4,500)	
Percentage Change (%)	(2.1)% to (2.6)%	— to (5.8)%	— to (6.0)%	— to (5.4)%	
Results for Previous Fiscal Year (Ended December 31, 2018)	1,094,825	108,350	109,489	61,403	153.74

2. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheets

(Millions of yen)

	As of December 31, 2018	As of September 30, 2019
ASSETS		
Current Assets:		
Cash and time deposits	125,891	100,352
Notes and accounts receivable	166,491	173,679
Inventories	149,788	172,754
Other current assets	42,811	61,279
Less: Allowance for doubtful accounts	(1,989)	(2,083)
Total current assets	482,994	505,981
Fixed Assets:		
Property, Plant and Equipment:		
Buildings and structures	191,335	200,423
Less: Accumulated depreciation	(103,727)	(99,769)
Buildings and structures, net	87,607	100,653
Machinery, equipment and vehicles	84,055	85,365
Less: Accumulated depreciation	(61,867)	(59,379)
Machinery, equipment and vehicles, net	22,188	25,985
Tools, furniture and fixtures	81,024	88,717
Less: Accumulated depreciation	(51,968)	(51,999)
Tools, furniture and fixtures, net	29,055	36,718
Land	49,795	44,942
Leased assets	8,231	9,282
Less: Accumulated depreciation	(3,630)	(4,232)
Leased assets, net	4,601	5,050
Right-of-use assets	-	23,588
Less: Accumulated depreciation	-	(4,672)
Right-of-use assets, net	-	18,916
Construction in progress	41,937	57,517
Total property, plant and equipment	235,185	289,785
Intangible Assets:		
Goodwill	12,610	10,978
Leased assets	233	184
Trademarks	111,001	101,549
Other intangible assets	41,561	45,132
Total intangible assets	165,406	157,845
Investments and Other Assets:		
Investments in securities	23,026	16,752
Long-term prepaid expenses	15,363	15,848
Deferred tax assets	59,691	58,806
Other investments	28,016	35,334
Less: Allowance for doubtful accounts	(66)	(51)
Total investments and other assets	126,031	126,689
Total Fixed Assets	526,624	574,320
Total Assets	1,009,618	1,080,301

(Millions of yen)

	As of December 31, 2018	As of September 30, 2019
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	56,870	29,315
Electronically recorded obligations – operating	45,422	56,283
Short-term debt	2,725	15,318
Current portion of long-term debt	730	730
Current portion of corporate bonds scheduled for redemption	10,000	25,000
Lease obligations	1,746	8,428
Other payables	73,836	65,747
Accrued income taxes	20,129	10,189
Reserve for sales returns	10,795	9,681
Refund liabilities	4,741	4,547
Accrued bonuses for employees	30,782	27,486
Accrued bonuses for directors	211	90
Provision for liabilities and charges	471	216
Provision for loss on business withdrawal	3,204	1,421
Other current liabilities	78,272	76,575
Total current liabilities	339,940	331,032
Long-Term Liabilities:		
Bonds	30,000	15,000
Long-term debt	28,105	70,924
Lease obligations	2,469	16,324
Long-term payables	54,639	49,211
Liability for retirement benefits	76,877	73,891
Allowance for losses on guarantees	350	350
Allowance for environmental measures	144	54
Deferred tax liabilities	3,316	2,754
Other long-term liabilities	5,312	10,251
Total long-term liabilities	201,215	238,761
Total Liabilities	541,156	569,794
NET ASSETS		
Shareholders' Equity:		
Common stock	64,506	64,506
Capital surplus	70,748	70,737
Retained earnings	319,001	369,335
Treasury stock	(2,829)	(2,632)
Total shareholders' equity	451,427	501,948
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	4,992	3,814
Foreign currency translation adjustments	15,645	5,490
Accumulated adjustments for retirement benefits	(23,484)	(20,802)
Total accumulated other comprehensive income	(2,846)	(11,497)
Stock Acquisition Rights	952	1,210
Non-Controlling Interests in Consolidated Subsidiaries	18,929	18,846
Total Net Assets	468,462	510,506
Total Liabilities and Net Assets	1,009,618	1,080,301

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

Consolidated Quarterly Statements of Income Cumulative for the First Nine Months

(Millions of yen)

	First Nine Months Ended September 30, 2018 (January 1 to September 30, 2018)	First Nine Months Ended September 30, 2019 (January 1 to September 30, 2019)
Net Sales	805,760	846,625
Cost of Sales	170,095	178,238
Gross Profit	635,665	668,387
Selling, General and Administrative Expenses	534,253	565,063
Operating Profit	101,412	103,324
Other Income		
Interest income	890	954
Dividend income	302	238
Equity in earnings of affiliates	213	286
Rental income	537	467
Subsidy income	2,803	1,074
Other	941	1,421
Total other income	5,687	4,442
Other Expenses		
Interest expense	563	1,585
Foreign exchange loss	2,260	3,428
Other interest on debt	1,049	954
Other	562	1,079
Total other expenses	4,435	7,047
Ordinary Profit	102,663	100,718
Extraordinary Gains		
Gain on sales of property, plant and equipment	628	649
Gain on sales of investments in securities	2,715	2,166
Gain on transfer of business	48	-
Total extraordinary gains	3,392	2,816
Extraordinary Losses		
Loss on disposal of property, plant and equipment	781	935
Loss on sales of investments in securities	-	165
Structural reform expenses	310	1,469
Loss on liquidation of subsidiaries and affiliates	-	466
Loss on business withdrawal	3,586	-
Total extraordinary losses	4,678	3,036
Quarterly Profit before Income Taxes	101,377	100,498
Income Taxes – Current	34,962	22,803
Income Taxes for Prior Years	-	3,607
Income Tax – Deferred	(633)	(1,101)
Total Income Taxes	34,329	25,309
Quarterly Net Profit	67,048	75,188
Quarterly Net Profit Attributable to Non-Controlling Interests	3,047	2,729
Quarterly Net Profit Attributable to Owners of Parent	64,000	72,458

**Consolidated Quarterly Statements of Comprehensive Income
Cumulative for the First Nine Months**

(Millions of yen)

	First Nine Months Ended September 30, 2018 (January 1 to September 30, 2018)	First Nine Months Ended September 30, 2019 (January 1 to September 30, 2019)
Quarterly Net Profit	67,048	75,188
Other Comprehensive Income		
Unrealized gains (losses) on available-for-sale securities	(1,581)	(1,109)
Foreign currency translation adjustments	(4,140)	(10,796)
Adjustment for retirement benefits	3,698	2,686
Share of other comprehensive income of associates accounted for under the equity method	8	8
Total other comprehensive income (loss)	(2,014)	(9,211)
Quarterly Comprehensive Income	65,033	65,977
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	62,395	63,807
Quarterly comprehensive income attributable to non-controlling interests	2,637	2,169

(3) Notes Concerning Consolidated Quarterly Financial Statements

(Note on Assumptions of a Going Concern)

Not applicable.

(Consolidated Quarterly Statements of Income)

Structural reform expenses

First nine months of fiscal year 2019 (From January 1 to September 30, 2019)

These are expenses from office relocation as part of the extraordinary expenses for global structural reform in progress.

Loss on liquidation of subsidiaries and affiliates

First nine months of fiscal year 2019 (From January 1 to September 30, 2019)

This loss was incurred following foreign currency translation adjustments accompanying the liquidation of an overseas consolidated subsidiary.

Income taxes for prior years

First nine months of fiscal year 2019 (From January 1 to September 30, 2019)

This is the estimated additional tax amount on transactions between the Company and its overseas consolidated subsidiaries.

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

Not applicable.

(Changes in Accounting Policies)

Group subsidiaries that have adopted IFRS standards have implemented IFRS 16, Leases, from the first quarter of fiscal year 2019.

Conventionally, the Company has treated lease transactions when it is the debtor as operating leases and finance leases. With the application of this standard, all of lease transactions are recorded as right-of use assets and lease obligations from the first quarter of fiscal year 2019. However, short-term leases and leases of low-value assets are not recognized as lease obligations.

Right-of-use assets and lease obligations recognized under this standard are included in the consolidated quarterly balance sheets in the amounts of ¥18,916 million as right-of-use assets, net, ¥6,463 million in lease obligations under current liabilities, and ¥13,984 million in lease obligations under long-term liabilities. Furthermore, the cumulative total amount of depreciation of right-of-use assets as of September 30, 2019 was ¥4,672 million.

The impact of these changes on the profit and loss for the first nine months of consolidated fiscal year 2019 is minor.

For the application of this standard, we have adopted a method in which the cumulative impact from the application is recognized as a transitional measure on the first day on which the standard is applied. To measure the right-of-use assets, we have adopted the method of adjusting the measurement of lease obligations by prepaid or accrued lease prepayments. As a result, there is no impact on retained earnings at the beginning of the year.

(Significant Subsequent Events)

Business combination through acquisition

On October 8, 2019, the Company entered into an agreement on the acquisition of Drunk Elephant Holdings, LLC (hereafter, “the Acquiree”), owner of the **Drunk Elephant** brand which is growing rapidly mainly in the U.S. market, via Shiseido’s consolidated subsidiary Shiseido Americas Corporation (hereafter, “SAC”). The equity transfer agreement was concluded with SAC, the Acquiree, and the shareholders of the Acquiree.

1. Overview of business combination

(1) Name and business description of the Acquiree

Name: Drunk Elephant Holdings, LLC *¹
Business description: Cosmetics marketing, etc.

*¹ A company by the name of VMG Drunk Elephant Blocker, Inc. (hereafter, “VMG”) exists to temporarily hold a portion of equity (under 10%) to organize the equity owners of the Acquiree. SAC will also acquire VMG and hold 100% of the equity in the Acquiree, either directly or indirectly.

(2) Reason for business combination

Drunk Elephant has a strong presence in the “clean” market, one segment of the cosmetics market that is growing mainly in the Americas and EMEA regions and is expected to achieve even higher growth in the future. We have added this brand to further strengthen and expand our core prestige skincare business as part of our strategy to accelerate global growth and maximize use of our management resources and the competitiveness of each regional headquarters, which are goals of our medium-to-long-term strategy VISION 2020. We will simultaneously target higher profitability in the Americas Business through further expansion of our highly profitable core skincare business.

(3) Date of business combination:

November 7, 2019

(4) Legal form of business combination:

Cash share acquisition

(5) Name after combination:

No change

(6) Percentage of equity to be acquired:

100%

(7) Main basis for selecting this company for acquisition:

For Shiseido’s subsidiary SAC to acquire the shares and cosmetic brand for cash.

2. Breakdown of acquisition cost and type of payment

Cash payment on the date of business combination of USD845 million *²

*² The funds for the acquisition will be sourced from liquid cash on hand and bank borrowing. The acquisition price is subject to revision.

3. Amount of goodwill, reason for recognition of goodwill, and method and term of amortization

The amount of goodwill to be recognized is being calculated.