Historical Selected Financial Data

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended March 31, 2010 to December 31, 2018

									Millions of yen (Except per share data)	Thousands of U.S. dollars (Except per share data)
	2010/3	2011/3	2012/3	2013/3	2014/3	2015/3	2015/12	2016/12	2017/12	**2018/12**	**2018/12**
Operating Results:											
Net sales	644,201	670,701	682,385	677,727	762,047	777,687	763,058	850,306	1,005,062	**1,094,825**	**9,871,292**
Cost of sales	160,166	168,692	162,989	166,783	189,559	196,433	196,009	207,553	231,327	**231,928**	**2,091,136**
Selling, general and administrative expenses	433,684	457,550	480,260	484,898	522,843	553,640	529,388	605,972	693,298	**754,545**	**6,803,218**
Operating profit	50,350	44,458	39,135	26,045	49,644	27,613	37,660	36,780	80,437	**108,350**	**976,918**
EBITDA	75,699	65,576	76,974	61,463	91,285	90,703	80,635	90,078	154,741	**150,318**	**1,355,315**
Net profit (loss) attributable to owners of parent	33,671	12,790	14,515	(14,685)	26,149	33,668	23,210	32,101	22,749	**61,403**	**553,629**
Financial Position (At period-end):											
Total assets	775,445	739,120	720,707	715,593	801,346	823,636	808,547	934,590	949,425	**1,009,618**	**9,103,038**
Short-term Interest-bearing debt	112,693	16,361	9,734	39,394	64,054	75,615	18,996	16,557	10,662	**15,202**	**137,066**
Long-term Interest-bearing debt	101,753	181,155	175,418	145,274	91,864	31,281	67,617	104,022	70,801	**60,574**	**546,154**
Interest-bearing debt	214,446	197,517	185,153	184,669	155,918	106,897	86,613	120,580	81,463	**75,776**	**683,220**
Equity	348,323	307,269	290,494	287,069	338,561	386,860	391,664	392,963	423,447	**448,580**	**4,044,540**
Cash Flows:											
Cash flows from operating activities	69,431	67,586	52,599	42,040	84,320	32,134	60,529	59,129	95,392	**92,577**	**834,703**
Cash flows from investing activities	(204,884)	(30,303)	(20,668)	(25,534)	(16,799)	11,538	(23,137)	(70,640)	(1,061)	**(103,112)**	**(929,690)**
Cash flows from financing activities	120,359	(39,571)	(35,482)	(24,745)	(47,462)	(58,419)	(30,151)	22,378	(53,117)	**(29,722)**	**(267,983)**
Cash and cash equivalents at end of year	77,157	88,592	82,974	80,253	110,163	100,807	104,926	113,122	156,834	**111,767**	**1,007,726**
Per Share Data (In yen and U.S. dollars):											
Net profit (loss)	84.6	32.1	36.5	(36.9)	65.7	84.4	58.2	80.4	56.9	**153.7**	**1.38**
Net assets	875.7	772.1	729.9	721.2	849.4	970.0	981.4	984.1	1,059.8	**1,123.2**	**10.12**
Cash dividend	50.0	50.0	50.0	50.0	20.0	20.0	20.0	20.0	27.5	**45.0**	**0.40**
Weighted average number of shares outstanding during the period (thousands)	397,886	397,864	397,974	398,007	398,300	398,704	399,026	399,227	399,466	**399,409**	
Financial Ratios:											
Operating margin (%)	7.8	6.6	5.7	3.8	6.5	3.6	4.9	4.3	8.0	**9.9**	
Return on invested capital (%)	8.3	4.5	3.5	3.4	5.9	4.1	4.6	5.0	10.4	**13.1**	
Return on equity (%)	9.8	3.9	4.9	(5.1)	8.4	9.4	6.0	8.2	5.6	**14.1**	
Equity ratio (%)	44.9	41.6	40.3	40.1	42.2	47.0	48.4	42.0	44.6	**44.4**	
Interest-bearing debt to EBITDA ratio (times)	1.8	3.1	2.5	3.0	1.9	1.4	1.2	1.2	0.7	**0.5**	
Debt-equity ratio (times)	0.62	0.64	0.64	0.64	0.46	0.28	0.22	0.31	0.19	**0.17**	
Interest-bearing debt ratio (%)	38.1	39.1	38.9	39.1	31.5	21.6	18.1	23.5	16.1	**14.5**	
Payout ratio (consolidated) (%)	59.1	155.5	137.1	—	30.5	23.7	34.4	24.9	48.3	**29.3**	
Dividend on equity (%)	5.8	6.1	6.7	6.9	2.6	2.2	2.1	2.0	2.7	**4.1**	
Number of employees at year-end	28,968	31,310	32,595	33,356	33,054	33,000	33,783	36,549	37,438	**38,640**	
Net sales per employee	22.2	21.4	20.9	20.3	23.1	23.6	22.6	23.2	26.8	**28.3**	

Notes:
1. The fiscal year ended December 31, 2015 is the 9 months from April 1, 2015 to December 31, 2015 for Shiseido and its consolidated subsidiaries in Japan and the 12 months from January 1, 2015 to December 31, 2015 for all other subsidiaries. In this report, it is referred to as "the year ended December 2015" in the text and as "2015/12" in tables, charts, and graphs.
2. Amounts less than one million yen are omitted.
3. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥110.91 = US$1 prevailing on December 31, 2018.
4. EBITDA (Earnings before interest, taxes, depreciation and amortization) = Net income (loss) before income taxes + Interest expense + Depreciation and amortization expense + Impairment loss on goodwill and other intangible assets
5. Net profit (loss) per share (primary) is based on the average number of shares outstanding during the fiscal year. Net assets per share is calculated using the number of shares outstanding as of the balance sheet date. Net profit (loss) per share is calculated before dilution.
6. Return on invested capital = Operating profit × (1 – Tax rate*) / (Interest-bearing debt + Equity)**
   *Tax rate = Total income tax / Profit before income tax ** (Interest-bearing debt + Equity) is the average of the beginning and the ending balances.
7. Interest-bearing debt to EBITDA ratio = Interest-bearing debt* / EBITDA *Interest-bearing debt is the average of the beginning and the ending balances.
8. Debt-equity ratio = Interest-bearing debt / Equity* *Equity = Total net assets – Stock acquisition rights – Non-controlling interests in consolidated subsidiaries
9. Interest-bearing debt ratio = Interest-bearing debt / Invested capital* *Invested capital = Interest-bearing debt + Equity
10. Dividend on equity = Return on equity × Payout ratio (Consolidated)
11. The number of employees at year-end does not include temporary employees.
12. Shiseido Group subsidiaries in Americas formerly recognized free samples and promotional items associated with marketing activities in stores as assets when acquired and expensed them after shipped to customers. However, effective from the fiscal year ended March 31, 2012 these subsidiaries began to expense these items when acquired in order to conform with the Group's accounting policies. As a result, the Shiseido Group retrospectively restated the consolidated financial statements for the fiscal year ended March 31, 2011, accordingly.
13. Effective from the fiscal year ended March 31, 2014, certain subsidiaries of the Shiseido Group's retrospectively adopted a new standard for Employee Benefits (IAS 19, amended June 16, 2011) and changed the method for recognizing changes in net defined benefit obligation. The Shiseido Group applied this change retrospectively and restated the consolidated financial statements for the fiscal year ended March 31, 2013, accordingly.
14. From the fiscal year 2016, Shiseido has been recognizing payables associated with *Dolce&Gabbana*. For the fiscal year ended December 2018, the interest-bearing debt ratio including these payables was 22.5 percent, the debt-equity ratio was 0.29, and interest-bearing debt was ¥129,939 million.
15. In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes" ("ASU 2015-17"). The standard requires that deferred tax assets and liabilities be classified as non-current on the balance sheet rather than being separated into current and non-current. Effective from the first quarter of 2017, affiliates in the Americas have adopted ASU 2015-17 on a retrospective basis. Accordingly, the Company reclassified the current deferred taxes to non-current in the consolidated balance sheet as of December 31, 2016.

Operating Results and Financial Condition

OPERATING RESULTS

For the fiscal year 2018, 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 was stable despite the occurrence of typhoons and earthquakes, thanks to an ongoing trend of recovery and inbound demand supported by the continued increase in overseas tourists to Japan. Meanwhile, in overseas cosmetics markets, Europe remained weak with varied performance from country to country. Growth slowed in Americas, while China and the rest of Asia continued to expand steadily.

In the fiscal year 2015, the Shiseido Group (hereinafter, "the Group") launched its VISION 2020 medium-to-long-term strategy 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 in order to "Be a Global Winner with Our Heritage".

The fiscal year 2018 is the first fiscal year in the final three-year period that represents the second phase of VISION 2020, and we implemented a new strategy to accelerate growth. We stepped up our efforts in digitalization, developing new businesses, and generating new value through innovation as we continued substantial marketing investment focused on the prestige brands. Cross-border marketing was implemented strategically in all regions in Asia, mainly to Chinese consumers, treating Japan, China, and Travel Retail (airport duty-free stores, and other such channels) as a single market. We also actively invested in human resources out of recognition that our human resources, which generate all value, constitute the source of our growth.

As a result, net sales, operating profit, ordinary profit, and net profit attributable to owners of parent all reached record highs in the fiscal year 2018. After achieving our VISION 2020 goal of ¥1 trillion ($9,016.3 million) in net sales last fiscal year, three years ahead of plan, this year we achieved our goal of more than ¥100 billion ($901.6 million) in operating profit two years earlier than planned.

ANALYSIS OF OPERATING RESULTS

NET SALES

Net sales increased 8.8% year on year on a local currency basis. The prestige brands in which the Group has increased strategic investment drove overall results. This represents organic growth of 14% year on year excluding the impact of the sale of Zotos International, Inc. (hereinafter, "Zotos") and other factors. When converted into Japanese yen, net sales reached ¥1,094.8 billion ($9,871.0 million), 8.9% higher than the previous fiscal year.

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of Sales

Cost of sales increased 0.3% year on year, to ¥231.9 billion ($2,090.8 million). The ratio of cost of sales to net sales improved 1.8 percentage points, to 21.2%. This result was due to the effects of revising our business portfolio and the growth of our prestige brands.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 8.8% year on year, to ¥754.5 billion ($6,802.8 million). Details of SG&A expenses are as follows:

Marketing Costs

The ratio of marketing costs to net sales increased 0.9 percentage point, to 36.6%. This result was due to our concentration and expansion of investment in core brands.

Personnel Expenses

The ratio of personnel expenses to net sales decreased 0.9 percentage point, to 11.6%.

Other SG&A Expenses

The ratio of other expenses to net sales remained at 20.7%.

R&D expenses, which are included in SG&A expenses, were ¥29.1 billion ($262.3 million) and represented 2.7% of net sales.

Cost of Sales Ratio / SG&A Expenses Ratio / SG&A Expenses

	2015/3	2015/12	2016/12	2017/12	**2018/12**
Cost of Sales Ratio (%)	25.2	25.7	24.4	23.0	**21.2**
SG&A Expenses Ratio (%)	71.2	69.4	71.3	69.0	**68.9**
Marketing Costs	23.4	25.2	36.3	35.7	**36.6**
Personnel Expenses	24.5	25.7	13.2	12.5	**11.6**
Other SG&A Expenses	23.3	18.5	21.8	20.7	**20.7**
SG&A Expenses (Billions of yen)	553.6	529.4	606.0	693.3	**754.5**
Marketing Costs	182.2	192.1	308.8	359.2	**401.2**
Personnel Expenses	190.6	196.0	112.0	125.8	**127.1**
Other SG&A Expenses	180.8	141.3	185.2	208.3	**226.2**

Note: From the fiscal year 2015, counter depreciation expenses and costs of Beauty Consultants previously included in other expenses and personnel expenses have been reclassified as marketing costs.

OPERATING PROFIT

Operating profit rose 34.7% year on year, to ¥108.4 billion ($977.3 million). This was mainly owing to an increase in the operating margin accompanying the growth in sales and improvement in the cost structure due to a strong performance of highly profitable prestige category, among other factors.

Operating profit / Operating Margin

(Billions of yen)	2015/3	2015/12	2016/12	2017/12	**2018/12**
Operating Profit	27.6	37.7	36.8	80.4	**108.4**
Operating Margin (%)	3.6	4.9	4.3	8.0	**9.9**

OTHER INCOME (EXPENSES)

Other income increased by ¥1.2 billion ($10.8 million) compared with the previous fiscal year, to ¥1.1 billion ($9.9 million).

ORDINARY PROFIT

Ordinary profit increased 36.3% year on year, to ¥109.5 billion ($987.2 million).

EXTRAORDINARY GAINS (LOSSES)

An extraordinary loss of ¥5.2 billion ($46.8 million) was recorded mainly related to the discontinuation of some brands and the withdrawal from the commercial cosmetics sales business and other businesses. Also, an extraordinary loss was recognized in the previous fiscal year for an impairment loss on goodwill and other intangible assets of Bare Escentuals, Inc. in Americas region.

INCOME TAXES, INCLUDING DEFERRED TAXES

Income taxes, including deferred taxes, increased 198.5% year on year, to ¥39.4 billion ($355.2 million) due to increase in profit and recognition of valuation allowance for deferred tax asset in Americas region.

NET PROFIT ATTRIBUTABLE TO OWNERS OF PARENT

Net profit attributable to owners of parent increased 169.9% year on year, to ¥61.4 billion ($553.6 million).

For the fiscal year 2018, the consolidated operating margin was 9.9%. Consolidated ROE (return on equity) was 14.1%, and consolidated ROIC (return on invested capital) was 13.1%. The major foreign currency exchange rates applicable to income and expense accounting line items in the Company's consolidated financial statements are US$1:¥110.4, €1:¥130.4, and CNY1:¥16.7 for the year.

REVIEW BY REPORTABLE SEGMENT

Results by reportable segment are as follows.

Net Sales by Reportable Segment

Segments[1]

(Billions of yen)	2016/12	2017/12
Japan Business	381.2	431.0
China Business	118.1	144.3
Asia Pacific Business	45.6	54.2
Americas Business	127.5	140.4
EMEA Business	94.1	128.4
Travel Retail Business	24.8	44.5
Professional Business	44.9	48.0
Other[3]	14.0	14.3

Net Sales by Reportable Segment

Segments[2]

(Billions of yen)	2017/12	**2018/12**
Japan Business	417.1	**454.6**
China Business	144.3	**190.8**
Asia Pacific Business	59.8	**68.1**
Americas Business	134.1	**131.7**
EMEA Business	108.5	**113.2**
Travel Retail Business	65.0	**87.6**
Professional Business	48.0	**20.3**
Other[4]	28.3	**28.5**

Operating Profit by Reportable Segment

Segments[1]

(Billions of yen)	2016/12	2017/12
Japan Business	56.4	83.2
China Business	3.6	11.3
Asia Pacific Business	1.1	5.7
Americas Business	(12.8)	(10.3)
EMEA Business	(6.7)	(3.2)
Travel Retail Business	5.4	12.4
Professional Business	1.1	3.0
Other[3]	(11.9)	(12.9)

Operating Profit by Reportable Segment

Segments[2]

(Billions of yen)	2017/12	**2018/12**
Japan Business	78.2	**91.4**
China Business	11.3	**24.5**
Asia Pacific Business	7.2	**7.8**
Americas Business	(11.8)	**(14.8)**
EMEA Business	(5.8)	**(8.0)**
Travel Retail Business	15.0	**17.6**
Professional Business	3.0	**0.8**
Other[4]	(8.0)	**(6.0)**

Operating Margin by Reportable Segment[5]

Segments[1]

(%)	2016/12	2017/12
Japan Business	14.1	18.0
China Business	3.1	7.8
Asia Pacific Business	2.3	10.3
Americas Business	(9.4)	(6.5)
EMEA Business	(6.8)	(2.3)
Travel Retail Business	21.6	27.6
Professional Business	2.4	6.1
Other[3]	(20.5)	(13.9)

Operating Margin by Reportable Segment[5]

Segments[2]

(%)	2017/12	**2018/12**
Japan Business	17.5	**18.8**
China Business	7.8	**12.8**
Asia Pacific Business	11.7	**11.1**
Americas Business	(7.7)	**(8.7)**
EMEA Business	(4.9)	**(6.4)**
Travel Retail Business	23.0	**20.0**
Professional Business	6.1	**3.9**
Other[4]	(7.6)	**(4.4)**

Notes:
1. Change in Business Segment Classification
Effective from the fiscal year 2017, the Group has revised its reportable segment classification method in line with its internal financial management structure. As a result, reportable segment classifications have been changed to the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail Business" and "Professional Business" segments.
Segment information for the corresponding period of the previous fiscal year has been restated in line with changes in the method of classifying reportable segments.
2. Change in Business Segment Classification
Effective from the fiscal year 2018, the Group has revised its reportable segment classification method in line with its internal financial management structure. The results of IPSA Co., Ltd., which were previously included in the Japan Business, are now included in the Other segment. The fragrance business in the Asia Pacific region, which was previously included in the EMEA Business, is now included in the Asia Pacific Business. The travel retail fragrance business, which was previously included in the EMEA Business, is now included in the Travel Retail Business. *NAVISION* and *2e*, which were previously included in the Other segment, are now included in the Japan Businesses.
We have also made some revisions to the categories used to monitor business performance. The business of some distributors for *NARS*, *bareMinerals*, and *LAURA MERCIER* in each region, which were previously included in the Americas Business, are now included in the Asia Pacific Business, the EMEA Business, or the Travel Retail Business.
Segment information for the corresponding period of the previous fiscal year has been restated in line with changes in the method of classifying reportable segments.
3. "Other" includes head office administration departments, manufacturing operations as well as the activities of the Frontier Science business (production and sale of cosmetic raw materials, medical-use drugs, medical cosmetics, purification and analytical equipment), the Restaurant business and other businesses.
4. "Other" includes head office administration departments, IPSA Co., Ltd., manufacturing operations and the activities of the Frontier Science business (cosmetic raw materials and medical-use drugs), as well as the Restaurant business and other businesses.
5. "Operating margin by reportable segment" is calculated against sales for the segment, including intersegment sales.

Japan Business

In the Japan Business, brands in the mid-to high-price range, which benefited from increased investment in marketing, continued to perform well as sales to Japanese consumers expanded. We also secured steady inbound demand from overseas visitors to Japan by strengthening cross-border marketing throughout Asia. This caused growth to outstrip market growth substantially.

We continued to focus on sustainable growth in skincare, base makeup, and sun care, the three skin-related categories that distinguish our company from its competitors. *ULTIMUNE* and makeup product renewals in *SHISEIDO*, combined with stronger marketing to young consumers, boosted sales substantially. The *ELIXIR* wrinkle-reducing cream introduced in the previous fiscal year helped reach new consumers, and increased growth in sales of lotions and emulsions led to strong overall growth for the brand.

The factors mentioned above led to a 9.0% increase in sales in the Japan Business compared with the previous fiscal year, to ¥454.6 billion ($4,098.8 million). Operating profit rose 16.9% year on year to ¥91.4 billion ($824.0 million). This growth resulted from higher margins accompanying the growth in sales, improvement in the cost structure, and strengthened investment in marketing.

China Business

In the China Business, the strong performance of prestige brands such as *SHISEIDO*, *Clé de Peau Beauté*, *IPSA*, and *NARS* continued. Sales of the "Made in Japan" cosmetics brands *ELIXIR* and *ANESSA* increased substantially. E-commerce sales recorded strong growth from the roll-out of digital marketing and stronger collaboration with major local Chinese online platforms, in addition to an aggressive launch schedule for products in the prestige and cosmetics categories. We pursued initiatives aimed at improving the profitability of local cosmetics brands in China through greater investment in *AUPRES* in Tier 3 and 4 cities with high potential, as well as strengthening the self-service sales channel for *Za* and *PURE&MILD*, which have been restructured since last fiscal year.

The factors mentioned above resulted in sales growth of 32.3% year on year on a local currency basis, and an increase of 32.3% year on year to ¥190.8 billion ($1,720.3 million) when converted into yen. Operating profit climbed 116.4% year on year to ¥24.5 billion ($220.8 million). In addition to higher margins accompanying the increase in sales, this growth also reflected such factors as greater efficiency in marketing investment.

Asia Pacific Business

In the Asia Pacific Business, strong growth in sales was recorded in the prestige brands *SHISEIDO*, *Clé de Peau Beauté*, and *NARS*, mainly in South Korea and Thailand. Sales in Southeast Asia were strong due to the expanded launch of *NARS* free-standing stores. We enhanced marketing tailored to the differing preferences and lifestyles of consumers in each country and region in the cosmetics and personal care categories, and achieved sales growth in *SENKA* and *ANESSA*, which were launched as products exclusively for Asia.

The above factors resulted in sales growth of 13.1% year on year on a local currency basis and 13.9% year on year, to ¥68.1 billion ($614.0 million), when converted into yen. Operating profit rose 8.7% year on year to ¥7.8 billion ($70.3 million), boosted by higher margins accompanying the growth in sales and other factors.

Americas Business

In the Americas Business, growth continued in prestige brands such as *SHISEIDO*, *NARS*, and *LAURA MERCIER* as we invested actively in the areas of makeup and digital marketing. The fragrance brand *Dolce&Gabbana* also performed well. We launched the "THE POWER OF GOOD," a new marketing concept for *bareMinerals* based on a new brand strategy in an effort to rejuvenate the brand. Although sales declined in line with the scheduled closure of unprofitable boutiques, we achieved the initial plan for the period in both sales and profit. We also acquired the Second Skin technology and its related business and assets from Olivo Laboratories, LLC which has advanced technology in artificial skin generation, in January 2018. This acquisition was aimed at creating new value.

The above factors resulted in a sales decline of 0.4% year on year on a local currency basis, organic sales growth of 4% excluding the impact of a business transfer and other factors, and a sales decline of 1.8% year on year, to ¥131.7 billion ($1,187.4 million) when converted into yen. The operating loss increased by ¥3.0 billion ($27.0 million) over the previous fiscal year, to ¥14.8 billion ($133.4 million). Broken down by function, the Americas Business consists of the commercial business in the Americas, the global-scale development as makeup brand-holder function, and the Center of Excellence* function that serves as the value creation base for makeup, digital, and technology. The Americas Business also assumes the cost of strategic investment in these global functions. Although the commercial business had an operating margin in the mid-single digits, it is now absorbing the cost of the brand holder function, which has not yet become profitable. Structural reforms of *bareMinerals* have been undertaken to improve profitability.

* "Center of Excellence" (COE) refers to Shiseido's global system for strategy formulation and product development in each category. Under this system, the region that is most advanced in each category on a global basis is designated as the Center of Excellence and leads strategy formulation and product development for that category. Japan is the COE for skincare, the Americas is the COE for makeup and digital, and EMEA is the COE for fragrances.

EMEA Business

In the EMEA Business, sales of *Dolce&Gabbana* were strong, benefiting from the increased investment in marketing aimed at sustained expansion in growth potential, while sales of other fragrance brands declined compared with the previous fiscal year. *SHISEIDO* skincare products performed well, expanding market share, and *NARS* sales also continued to grow. Progress was also made on optimizing the organization, which was integrated in the European region, to improve profitability.

Sales rose 1.4% year on year on a local currency basis. Organic growth was 5% year on year excluding the impact of a business transfer and other factors, and sales rose 4.3% year on year to ¥113.2 billion ($1,020.6 million) when converted into yen. The operating loss increased by ¥2.2 billion ($19.8 million) compared with the previous fiscal year, to ¥8 billion ($72.1 million). 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 in fragrance. The EMEA Business also assumes the cost of strategic investment in these global functions. Although the commercial business had an operating margin in the high single digits, it is now absorbing the cost of the brand-holder function, which has not yet become profitable. Profitability will be improved in the future through growth in sales.

Travel Retail Business

The Travel Retail Business (sales of cosmetics and fragrances through airport duty-free stores) saw an expansion in the market with the increase in travelers, mainly in Asia. We are working actively to strengthen it as one of our most important businesses to further reinforce Shiseido's position in the global prestige market because we recognize the significant potential for further growth of this business.

During the fiscal year 2018, we actively engaged in promotions and advertising in airports around the world. This resulted in continued high growth in sales of *SHISEIDO*, *Clé de Peau Beauté*, *NARS*, and *ANESSA*, mainly in South Korea, China, Thailand, and other countries in Asia. To accelerate growth, we introduced new brands, performed to our retail excellence capabilities, and strengthened relationships with major retailers.

These efforts resulted in sales growth of 35.4% year on year on a local currency basis. Organic growth was 40% year on year excluding the impact of a business transfer and other factors, and sales grew 34.7% year on year, to ¥87.6 billion ($789.8 million) when converted into yen. Operating profit surged 17.0% year on year, to ¥17.6 billion ($158.6 million), due to higher margins accompanying growth in sales and other factors.

Professional Business

In the Professional Business, we sell professional products such as hair care, hair styling products, hair color, and hair-perming products to hair salons, and also operate directly owned beauty salons in Japan and Thailand. During the fiscal year 2018 we worked to strengthen products and marketing with the intent of accelerating growth in China and the rest of Asia. In the previous fiscal year, we sold all shares and related assets of our subsidiary, Zotos, which operated a global hair care business aimed at salons, to Henkel AG & Co. KGaA of Germany as part of a global business and brand portfolio restructuring.

As a result, there was a sales decline of 57.7% year on year on a local currency basis due to the sale mentioned above, organic growth of 1% year on year excluding the impact of a business transfer and other factors, and a 57.6% year on year decline in sales to ¥20.3 billion ($183.0 million) when converted into yen. Operating profit declined 72.4% year on year to ¥0.8 billion ($7.2 million), as a result of the decline in margins accompanying the decrease in sales.

[Reference]
Period-on-Period Growth in Sales (Local Currency Basis)

(%)	2015/3	2015/12 (Adjusted)	2016/12	2017/12	**2018/12**
Net Sales	(2.0)	7.8	5.2	16.0	**8.8**

Note: The above period-on-period growth in sales on a local currency basis is a period-on-period comparison before translation into yen. Exchange rates for each fiscal period are presented below.

(Yen)	2015/3	2015/12	2016/12	2017/12	**2018/12**
USD	105.9	121.2	108.9	112.2	**110.4**
EUR	140.4	134.3	120.4	126.7	**130.4**
CNY	17.2	19.2	16.4	16.6	**16.7**

Sales by Region

(Billions of yen)	2015/3	2015/12	2016/12	2017/12	**2018/12**
Japan	365.6	296.9	407.7	456.9	**495.4**
China	114.8	132.4	129.8	161.0	**216.9**
Asia (excl. China)	55.3	66.6	69.1	94.9	**116.0**
Americas	133.1	155.3	148.4	163.9	**138.3**
Europe	108.9	111.8	95.3	128.3	**128.2**
Total	777.7	763.1	850.3	1,005.1	**1,094.8**

Note: Sales are categorized by country or region based on customer location.

LIQUIDITY AND CAPITAL RESOURCES

FINANCING AND LIQUIDITY MANAGEMENT

The Shiseido Group seeks to generate stable operating cash flow and ensure a wide range of funding methods with the aims of securing sufficient capital for operating activities and maintaining sufficient liquidity and a sound financial position. We fund working capital, capital expenditures, and investments and loans needed for sustainable growth primarily with cash on hand and operating cash flow supplemented by bank borrowings and bond issues. Shiseido aims for a debt-to-equity ratio of 0.3 and an interest-bearing debt to EBITDA* ratio of 1.0 so that it can maintain an A-level credit rating, which enables access to capital on favorable terms. At the same time, Shiseido raises funds using optimum, timely methods giving consideration to such factors as market environment.

* EBITDA (Earnings before interest, taxes, depreciation and amortization) = Net income (loss) before income taxes + Interest expense + Depreciation and amortization expense + Impairment loss on goodwill and other intangible assets

One of our targets for short-term liquidity is to maintain cash on hand at a level of approximately 1.5 months of consolidated net sales. As of December 31, 2018, cash and time deposits totaled ¥125.9 billion ($1,135.1 million) and represented 1.4 months of consolidated net sales for the fiscal year 2018.

Interest-bearing debt as of December 31, 2018 totaled ¥129.9 billion ($1,171.2 million) (including interest-bearing debt associated with *Dolce&Gabbana*). Shiseido uses diversified funding methods, which include authorized but unissued straight bonds for ¥200.0 billion ($1,803.2 million). In addition, Shiseido Co., Ltd. and two subsidiaries in EMEA and the Americas have established a syndicated loan program with authorized but unused commitments totaling $300 million. A subsidiary in the Americas also holds unused commercial paper totaling $100 million.

As of December 31, 2018, the Shiseido Group maintained a sufficient level of liquidity and a high level of financial flexibility through its diversified funding methods.

CREDIT RATINGS

The Shiseido Group recognizes the need to maintain a certain level of credit rating to secure financial flexibility that is consistent with its capital/liquidity policies and to secure access to sufficient capital resources through capital markets. The Shiseido Group has acquired ratings from Moody's Japan K.K. (Moody's) and Standard and Poor's Global Ratings Japan (S&P) to facilitate fund procurement in global capital markets.

	Moody's	S&P
Long-term	A2 (Outlook: Stable)	A– (Outlook: Stable)
Short-term	P–1	A–2

(As of February 28, 2019)

ASSETS, LIABILITIES, AND NET ASSETS

Assets

Total assets were ¥1,009.6 billion ($9,102.8 million), an increase of ¥60.2 billion ($542.7 million) over the end of the previous consolidated fiscal year. This was mainly due to an increase in property, plant and equipment accompanying the construction of the Global Innovation Center and the Nasu Factory.

Liabilities

Total liabilities were ¥541.2 billion ($4,879.6 million), an increase of ¥37.6 billion ($339.0 million). This resulted mainly from an increase in other payables related to construction of the Nasu Factory.

Net Assets

Net assets were ¥468.5 billion ($4,224.1 million), an increase of ¥22.6 billion ($203.7 million), due mainly to the increase in retained earnings.

As of December 31, 2018, net assets per share were up ¥63.35 from a year earlier, to ¥1,123.19 ($10.12). The equity ratio decreased 0.2 percentage points, to 44.4%.

CASH FLOWS

The balance of cash and cash equivalents as of the end of the current consolidated fiscal year 2018 stood at ¥111.8 billion ($1,008.0 million), ¥45.1 billion ($406.6 million) less than the end of the previous fiscal year.

Cash Flows Summary

(Billions of yen)	2016/12	2017/12	**2018/12**
Cash Flows from Operating Activities	59.1	95.4	**92.6**
Cash Flows from Investing Activities	(70.6)	(1.1)	**(103.1)**
Cash Flows from Financing Activities	22.4	(53.1)	**(29.7)**
Cash and Cash Equivalents at End of Year	113.1	156.8	**111.8**

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥92.6 billion ($834.9 million). Increase in inventories was ¥24.3 billion ($219.0 million), and increase in notes and accounts receivable was ¥10.7 billion ($96.4 million). On the other hand, income before income taxes was ¥104.3 billion ($940.4 million), depreciation was ¥42.0 billion ($378.6 million), and increase in notes and accounts payable was ¥13.9 billion ($125.3 million).

Cash Flows from Investing Activities

Net cash used in investing activities was ¥103.1 billion ($929.5 million). Proceeds from sales of investment securities provided ¥4.7 billion ($42.3 million) and proceeds from sales of property, plant and equipment provided ¥4.4 billion ($39.6 million). On the other hand, acquisition of property, plant and equipment used ¥80.6 billion ($726.7 million), acquisition of intangible assets used ¥17.1 billion ($154.1 million), payments of long-term prepaid expenses used ¥8.1 billion ($73.0 million), and payments for lease and guarantee deposits used ¥4.0 billion ($36.0 million).

Cash Flows from Financing Activities

Net cash used in financing activities was ¥29.7 billion ($267.7 million). Cash dividends paid used ¥13.9 billion ($125.3 million) and fluctuations in short-term debt and commercial paper resulted in a net cash outflow of ¥5.1 billion ($45.9 million). In addition, cash dividends paid to non-controlling interests used ¥4.1 billion ($36.9 million).

BUSINESS AND OTHER RISKS

Among the items listed in our annual securities report pertaining to our business and financial conditions, the items presenting risks that could potentially affect the business performance and financial position of the Shiseido Group are summarized below. We feel that these risks could have a major impact on investors' decisions. Items that deal with future events are based on our judgment as of March 26, 2019, the date on which our annual securities report was published. Please note that the potential risks are not limited to those listed below.

Risks Related to Business Activities

(1) Business Strategies
The cosmetics industry is becoming increasingly competitive on a global scale, and a remarkable number of companies from other industries are entering the cosmetics market. Amid these circumstances, we are promoting a selection and concentration investment strategy for our prestige brands, a core strength of the Company, as well as our cosmetics and personal care brands, which we promote throughout China and other Asian regions. However, as needs and purchasing behavior related to beauty and cosmetics diversify, and in the event the Company is unable to appropriately provide products and services and implement marketing activities in the fields of prestige, cosmetics and personal care brands, the Company may not be able to fulfill its target market share. Also, if the Company is unable to accelerate the key strategy of digital and e-commerce marketing, or realize value creation through new technologies, the support of consumers in growth markets may be lost. Furthermore, strategies may need to be reviewed upon enforcement of new laws or regulations in a certain market.

(2) Brand Image
With the widespread use of social media and other services, if damaging information regarding the Company and its businesses were disseminated, the Company's brand image—which represents a core strength—could be negatively impacted. Moreover, the Company's brand image could be adversely affected in the event that social criticisms were leveled toward the words and deeds of models the Company employs or social media influencers who have a certain level of impact on product purchasing decisions, as we are unable to regulate these words and deeds in advance. Also, if the Company is unable to realize its brand strategy due to the fraudulent use of its brand, including counterfeit goods, it could be adversely affected in such ways as losing its competitive edge over competitors. To address such risks, we have determined the Shiseido Group Social Media Policy and are thoroughly promoting internal education. At the same time, to prevent words, behavior, and expressions that may cause ethical and social problems, we have introduced a system that promotes the beforehand confirmation of information communicated through advertisements and other means as well as the words and deeds of our models and relevant social influencers. In addition, by constantly monitoring websites and social media platforms, we are working to promptly identify and deal with negative information. We have taken measures in cooperation with government agencies to expose counterfeit goods. Along with the risks described above, risks that could adversely affect our brand image include quality issues, information leaks, environmental pollution, and compliance violations.

(3) Quality Control
As consumer needs for quality become more sophisticated and diverse, if product defects were to occur due to the Company's quality control systems not functioning properly, or if there might be concerns about product safety due to new scientific discoveries, the Company's products could potentially cause damage to the health of consumers. This also would lead to the loss of social trust in the Company's quality. To address this risk, the Group has formulated Quality Management Basic Guidelines and Global Quality Policy Guidance to maintain its stringent quality and safety assurance standards. These standards are thoroughly implemented in all processes, from new product development to production and shipment. At the same time, we have established a consumer center and internal response systems and conduct simulation training regularly. In these ways, we have set up a structure that can promptly and accurately respond to the quality-related requests of our customers.

(4) Strategic Investment Activities
With the aim of realizing the second phase of VISION 2020, which is implementing a new strategy to accelerate growth, we are bolstering strategic investments, including investment in strategic markets, business expansion into new markets and new businesses, and mergers and acquisitions (M&A). However, the Company may have to revise its strategies in the event the anticipated results of a particular strategy are not being realized due to unforeseeable market changes and other factors. Also, regarding M&A, while the Company engages in thorough due diligence and takes the initiative in mitigating risks in a particular country or region, in the event it is unable to realize the anticipated investment return due to the severely unprofitable business operation of a company acquired through M&A, or if the acquired company's corporate governance/internal control failure resulted in the enactment of government penalties or lawsuits, social trust in the Company may be adversely affected.

Risks Related to Business Environment

(5) Exchange Rate Fluctuations
Export, import, and other transactions denominated in foreign currencies expose the Shiseido Group to foreign exchange rate risk. Although the Group hedges foreign exchange rate risk by entering into foreign exchange forward contracts and other derivative instruments, it is unable to completely eliminate this risk. Moreover, the financial statements of overseas subsidiaries and equity affiliates are denominated in local currencies that are translated into yen upon inclusion in the consolidated financial statements. This has the potential to exert a negative impact on operating performance if the yen appreciates versus foreign currencies when revenues exceed expenses. Moreover, the Group's investments in overseas consolidated subsidiaries and equity affiliates are subject to foreign currency translation adjustments that reduce net assets if the yen appreciates. In addition, foreign exchange fluctuations could negatively affect the Group's business performance and financial position.

(6) Procurement of Raw Materials
If the Company's suppliers face issues in terms of business continuity, the Company may have difficulty procuring specific ingredients to enable stable product production or supply. In addition, the price of raw materials could rise significantly due to changes in market conditions. Both of these scenarios could negatively impact the Company's financial position. If human rights-related issues such as child labor and forced labor, environmental issues such as the destruction of biodiversity, or contamination issues related to prohibited materials were to occur at a supplier, the Company could face difficulty procuring raw materials and its social trust may be negatively impacted. To address such issues, we have established the Shiseido Group Supplier Code of Conduct and request strict adherence to it by our suppliers. In addition, we have joined Supplier Ethical Data Exchange (Sedex) to objectively assess our efforts to address social and environmental issues in the supply chain.

(7) Human Resources
Due to the rapid progression of globalization, the hiring and development of human resources that can handle an internationally competitive business environment have become an urgent issue for the Company. If the Company is not successful in the hiring and development of global human resources, human resources for managerial positions, and professional people with high levels of insight and experience, which are all essential for competing on a global stage, the Company may lose its competitiveness, and its ability to achieve the targets of its global strategies could be jeopardized. Furthermore, for a company whose main consumers are women, a workplace environment that encourages the active role of women and embraces diversity in terms of nationality and age is essential. If the Company is unable to realize such an environment, its ability to create new value, achieve global growth, and recruit human resources may be hindered. In light of such risks, we have positioned the PEOPLE FIRST strategy as one of our key strategies and are promoting the diversity of human resources in terms of recruiting, training, and personnel placement.

(8) Response to the Environment
Awareness of the environment has been rising following the growing severity of global environmental issues. Amid such a trend, social criticisms of the environmental burden related to the Company's business activities could impact customer satisfaction with Shiseido products. Also, in the countries and regions in which it operates, the Company may face government penalties or lawsuits due to the violation of environmental regulations resulting from environmental pollution or other factors. To address these risks, we aim to realize a sustainable society in which people can peacefully coexist with the planet. To that end, from the perspective of sustainable production, we have started to use sustainable plastics and certified palm oil and have established targets for reducing our CO_2 emissions.

External Risks

(9) Economic and Political Conditions
If unfavorable regulations related to foreign investment and pharmaceuticals were enacted in a country or region in which the Company operates as a result of changes in political administrations and policies, or if the business environment in a country or region were to worsen due to deteriorating diplomatic relations, the Company's business continuity in said region may be affected, and the Company may be left with no other choice but to withdraw from the area. Accordingly, when pursuing new business development, we collect and scrutinize information related to the economic, political, and social conditions of the country or region beforehand. In a similar manner, we collect important information pertaining to countries and regions in which we already operate via our local subsidiaries. At the same time, we have established a system to address issues via such means as periodic monitoring while promoting collaboration between local subsidiaries and our headquarters.

(10) Natural Disasters
If the Company's production bases or supply chain were affected by a large-scale natural disaster, there is the possibility of damages in terms of employees, facilities, and/or suspended production, logistics, sales operations over a certain period of time. To minimize the damage from such a disaster by ensuring the continuity of important business operations and a prompt recovery, we have positioned production bases, logistics bases, information system divisions, and our head office as important locations for business continuity and are preparing business continuity plans for these locations.

(11) Information Security
With the progression of transactions via the Internet, the importance of sound, reliable IT systems and infrastructure and the careful handling of information have become extremely important. Under such circumstances, there have been rising threats related to the leakage of private and confidential information and the suspension of business operations due to cyberattacks. In the event private or confidential information is leaked due to unpredictable cyberattacks or fraudulent access, our social trust may be adversely impacted. Furthermore, if the Group violates increasingly strict laws and regulations in a country or region of operation, it may face punishment based on local laws and regulations. For the protection of information assets held by the Shiseido Group, we have established various regulations and are thoroughly enforcing adherence with these regulations. We are also making efforts to raise employee awareness. At the same time, as a technological measure, we are promoting efforts to defend against attacks from an outside party and strengthening the security of our PCs and other devices to prevent information leaks in the event such devices are lost. In addition, we are enhancing security related to the use of cloud servers.

Compliance-Related Risks

(12) Regulatory Risks
There are various laws and regulations that relate to the businesses of the Shiseido Group, including Japanese laws ensuring the quality, efficacy, and safety of pharmaceutical products and medical devices, as well as environmental standards. In the event the Company violates these laws and regulations, it would incur legal punishment and responsibility for damages. The Company could also become the target of social criticism. Additionally, as the Company is expanding its businesses globally, it is subject to regulations of each country or region of operation, such as laws relating to tax, as well as intellectual property, cartel, anti-corruption, and corporate laws. In the event that these laws and regulations are significantly revised, the Company may need to allocate additional expenses and investment in order to respond to them. Also, if the Company were unable to fulfill the requirements of the laws and regulations in a particular country or region, in addition to receiving punishment or being the target of a lawsuit, it would be forced to significantly reduce the size and/or change the nature of its business in the area. In some instances, it may have to withdraw from the area all together. Accordingly, we are working to thoroughly enforce compliance in-house through law observance frameworks and employee education. At the same time, we request that our business partners strictly adhere to laws as well.

(13) Material Litigation
In the fiscal year 2018, the Shiseido Group was not involved in any material litigation. If unfavorable court rulings were to result from material litigation in the future, the situation could negatively affect the Group's business performance and financial position.

SIGNIFICANT ACCOUNTING ESTIMATES

The Group prepares its consolidated financial statements in accordance with accounting principles generally accepted in Japan. In preparing these financial statements, we select and apply accounting policies and necessarily make estimates that affect reported amounts for assets, liabilities, revenue, and expenses. We consider information including historical data in making rational estimates. However, due to the unpredictable nature of these estimates, actual results may vary. The Shiseido Group considers the following significant accounting estimates which exert a significant influence on the consolidated financial statements.

Property, Plant and Equipment
The Group reviews property, plant and equipment for impairment whenever circumstances indicate that their carrying value may not be recoverable. Business-use assets are pooled by business division to estimate future cash flow, and the net sales value of idle assets is estimated for each separate asset. Based on these estimates, assets are devalued from book value to recoverable value. We consider the estimates of future cash flow and recoverable value to be rational. However, unpredictable factors could cause changes in underlying assumptions and estimates. This could change our estimates, decrease future cash flow and recoverable value, and require us to recognize impairment losses.

Goodwill, Trademarks, and Other Intangible Assets
The Group reviews goodwill, trademarks, and other intangible assets for impairment periodically. The Group employs the opinions of external experts in estimating fair value and examining impairment for goodwill, trademarks, and other intangible assets. The discounted cash flow method primarily used to estimate fair value relies extensively on estimates and assumptions regarding future cash flow and discount rate. These estimates and assumptions may significantly affect measurement and the amount of impairment recognized. We consider the estimates of fair value used for measuring impairment to be rational. However, unforeseen changes to underlying assumptions and estimates could reduce fair value and require us to recognize impairment losses.

Securities
The Group recognizes loss on revaluation for securities reported as available-for-sale securities for which fair value or market price has fallen substantially below acquisition cost. Securities deemed recoverable are excluded. Securities with a fair value that is more than 50 percent below acquisition cost as of the balance sheet date are deemed unrecoverable. The recoverability of securities with a fair value from 30 to 50 percent below acquisition cost is evaluated according to the performance and financial condition of the issuing entity. Loss on revaluation is recognized for securities for which fair value is not available if actual value has fallen to more than 50 percent below the acquisition cost due to the financial condition of the issuing entity. Securities deemed recoverable are excluded. We consider the estimates of recoverability to be appropriate. However, in the future the market price of securities deemed recoverable may decrease and the performance and financial condition of the issuing entity may deteriorate, which could require us to recognize loss on revaluation.

Deferred Tax Assets
The Group has established a valuation allowance for deferred tax assets deemed unrecoverable using appropriate deferred tax asset accounting. Historical data and future projections are used to evaluate the recoverability of deferred tax assets to sufficiently determine taxable status. We consider these to be appropriate. However, unpredictable factors could cause changes in underlying assumptions that could reduce or eliminate deferred tax assets. This could require us to provide additional allowances for deferred tax assets.

Retirement Benefits and Obligations
The Group domestic retirement benefit plans consist primarily of corporate pension plans and termination allowance plans. Employee benefits and obligations for defined benefits are calculated based on assumptions including discount rate, employee turnover rate, mortality rate, and projected rate of return on pension plan assets. These assumptions are revised annually. Discount rate and expected return on pension plan assets are critical assumptions in determining benefits and obligations. The discount rate is determined based on the market rate as of the balance sheet date for long-term fixed-rate bonds that carry little or no risk. Expected return on pension plan assets is determined based on an expected weighted-average return for the various types of assets held within the plan. We consider these assumptions to be appropriate. However, actual results may vary and changes in the underlying assumptions could occur, which could affect retirement benefits and obligations.

FORECAST FOR THE FISCAL YEAR 2019

We are forecasting consolidated net sales of ¥1,172.0 billion ($10,567.1 million), an increase of 7.0% year on year. Due to such factors as higher marginal income accompanying the increase in net sales, both operating profit and ordinary profit are forecast to reach ¥120.0 billion ($1,081.9 million), and net profit attributable to owners of parent is forecast to reach ¥75.5 billion ($680.7 million).

Consolidated Financial Results Forecast for the Fiscal Year 2019

	Net Sales	Operating Profit	Net Profit Attributable to Owners of Parent	Net Profit per Share
Forecast for the fiscal year 2019 (A)	Billions of yen 1,172.0	Billions of yen 120.0	Billions of yen 75.5	Yen 189.0
Results for the fiscal year 2018 (B)	1,094.8	108.4	61.4	153.7
Amount of increase or decrease (A–B)	77.2	11.6	14.1	—
Rate of increase or decrease (%)	7.0	10.8	23.0	—

Consolidated Financial Statements
Consolidated Balance Sheets

Shiseido Company, Limited and Subsidiaries
As of December 31, 2017 and 2018

	Note	2017/12	2018/12	2018/12
			Millions of yen	Thousands of U.S. dollars (Note 1)
ASSETS				
Current Assets:				
Cash and time deposits	17	166,698	**125,891**	**1,135,073**
Notes and accounts receivable		162,058	**166,491**	**1,501,136**
Short-term investments in securities		7,781	**—**	**—**
Inventories	03	129,954	**149,788**	**1,350,536**
Deferred tax assets		25,467	**29,690**	**267,694**
Other current assets		36,012	**42,811**	**385,997**
Less: Allowance for doubtful accounts		(1,727)	**(1,989)**	**(17,933)**
Total current assets		526,245	**512,684**	**4,622,522**
Fixed Assets:				
Property, Plant and Equipment:				
Buildings and structures	17	162,538	**191,335**	**1,725,137**
Less: Accumulated depreciation		(104,382)	**(103,727)**	**(935,235)**
Buildings and structures, net		58,156	**87,607**	**789,892**
Machinery, equipment and vehicles	17	81,175	**84,055**	**757,866**
Less: Accumulated depreciation		(63,367)	**(61,867)**	**(557,812)**
Machinery, equipment and vehicles, net		17,808	**22,188**	**200,054**
Tools, furniture and fixtures		81,783	**81,024**	**730,538**
Less: Accumulated depreciation		(56,520)	**(51,968)**	**(468,560)**
Tools, furniture and fixtures, net		25,262	**29,055**	**261,969**
Land		36,971	**49,795**	**448,967**
Leased assets		7,244	**8,231**	**74,213**
Less: Accumulated depreciation		(3,957)	**(3,630)**	**(32,729)**
Leased assets, net		3,286	**4,601**	**41,484**
Construction in progress		17,196	**41,937**	**378,117**
Total property, plant and equipment		158,681	**235,185**	**2,120,503**
Intangible Assets:				
Goodwill		12,166	**12,610**	**113,695**
Leased assets		247	**233**	**2,100**
Trademarks		121,347	**111,001**	**1,000,820**
Other intangible assets		34,825	**41,561**	**374,727**
Total intangible assets		168,586	**165,406**	**1,491,353**
Investments and Other Assets:				
Investments in securities	17	26,280	**23,026**	**207,609**
Long-term loans receivable		90	**—**	**—**
Long-term prepaid expenses		13,991	**15,363**	**138,517**
Deferred tax assets		30,658	**30,001**	**270,498**
Other investments	17	25,131	**28,016**	**252,601**
Less: Allowance for doubtful accounts		(241)	**(66)**	**(595)**
Total investments and other assets		95,910	**96,341**	**868,641**
Total Fixed Assets		423,179	**496,933**	**4,480,506**
Total Assets		949,425	**1,009,618**	**9,103,038**

The accompanying notes are an integral part of the consolidated financial statements.

	Note	2017/12	2018/12	2018/12
			Millions of yen	Thousands of U.S. dollars (Note 1)
LIABILITIES				
Current Liabilities:				
Notes and accounts payable		49,140	**56,870**	**512,758**
Electronically recorded obligations–operating		37,892	**45,422**	**409,539**
Short-term debt	17	8,540	**2,725**	**24,569**
Current portion of long-term debt	17	731	**730**	**6,581**
Current portion of corporate bonds scheduled for redemption		—	**10,000**	**90,163**
Lease obligations	17	1,391	**1,746**	**15,742**
Other payables	17	59,903	**73,836**	**665,728**
Accrued income taxes		25,032	**20,129**	**181,489**
Reserve for sales returns		14,012	**10,795**	**97,331**
Refund liabilities		—	**4,741**	**42,746**
Accrued bonuses for employees		25,019	**30,782**	**277,540**
Accrued bonuses for directors		119	**211**	**1,902**
Provision for liabilities and charges		2,005	**471**	**4,246**
Provision for loss on business withdrawal		—	**3,204**	**28,888**
Other current liabilities		67,590	**78,272**	**705,725**
Total current liabilities		291,379	**339,940**	**3,065,007**
Long-Term Liabilities:				
Bonds	17	40,000	**30,000**	**270,489**
Long-term debt	17	28,835	**28,105**	**253,403**
Lease obligations	17	1,966	**2,469**	**22,261**
Long-term payables	17	59,255	**54,639**	**492,642**
Liability for retirement benefits		73,745	**76,877**	**693,147**
Allowance for losses on guarantees		350	**350**	**3,155**
Allowance for environmental measures		260	**144**	**1,298**
Deferred tax liabilities		3,762	**3,316**	**29,898**
Other long-term liabilities		3,998	**5,312**	**47,894**
Total long-term liabilities		212,173	**201,215**	**1,814,218**
Total Liabilities		503,552	**541,156**	**4,879,235**
NET ASSETS				
Shareholders' Equity:				
Common stock		64,506	**64,506**	**581,606**
Authorized: 1,200,000,000 shares as of December 31, 2017 and 2018				
Issued: 400,000,000 shares as of December 31, 2017 and 2018				
Capital surplus		70,808	**70,748**	**637,886**
Retained earnings		271,681	**319,001**	**2,876,214**
Treasury stock		(874)	**(2,829)**	**(25,507)**
Treasury stock: 460,033 shares as of December 31, 2017 and 618,049 shares as of December 31, 2018				
Total shareholders' equity		406,121	**451,427**	**4,070,210**
Accumulated Other Comprehensive Income:				
Unrealized gains (losses) on available-for-sale securities		8,664	**4,992**	**45,009**
Foreign currency translation adjustments		28,726	**15,645**	**141,060**
Accumulated adjustments for retirement benefits		(20,064)	**(23,484)**	**(211,739)**
Total accumulated other comprehensive income		17,326	**(2,846)**	**(25,660)**
Stock Acquisition Rights		874	**952**	**8,583**
Non-Controlling Interests in Consolidated Subsidiaries		21,550	**18,929**	**170,669**
Total Net Assets		445,872	**468,462**	**4,223,803**
Total Liabilities and Net Assets		949,425	**1,009,618**	**9,103,038**

Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2017 and 2018

CONSOLIDATED STATEMENTS OF INCOME

	Note	2017/12 (Millions of yen)	2018/12 (Millions of yen)	2018/12 (Thousands of U.S. dollars (Note 1))
Net Sales		1,005,062	1,094,825	9,871,292
Cost of Sales		231,327	231,928	2,091,136
Gross Profit		773,735	862,896	7,780,146
Selling, General and Administrative Expenses	04	693,298	754,545	6,803,218
Operating Profit		80,437	108,350	976,918
Other Income				
Interest income		882	1,227	11,063
Dividend income		557	490	4,417
Equity in earnings of affiliates		284	301	2,713
Rental income		743	734	6,617
Subsidy income		10	2,783	25,092
Other		1,069	1,575	14,200
Total other income		3,547	7,113	64,133
Other Expenses				
Interest expense		991	769	6,933
Foreign exchange loss		216	2,900	26,147
Other interest on debt		1,382	1,392	12,550
Other		1,068	910	8,204
Total other expenses		3,658	5,974	53,863
Ordinary Profit		80,327	109,489	987,187
Extraordinary Gains				
Gain on sales of property, plant and equipment	04	1,168	2,853	25,723
Gain on sales of investments in securities		1,173	2,739	24,695
Gain on transfer of business	04	36,787	48	432
Gain on sales of shares in subsidiaries and affiliates	04	211	—	—
Total extraordinary gains		39,341	5,641	50,861
Extraordinary Losses				
Loss on disposal of property, plant and equipment		2,181	1,698	15,309
Impairment loss	04	70,922	—	—
Loss on sales of investments in securities		27	—	—
Loss on business withdrawal	04	—	4,446	40,086
Structural reform expenses	04	4,479	3,739	33,712
Loss on liquidation of subsidiaries and affiliates	04	136	936	8,439
Voluntary product recall-related expenses	04	3,233	—	—
Temporary expenses associated with reforms to human resource systems	04	130	—	—
Total extraordinary losses		81,112	10,821	97,565
Profit before Income Taxes		38,555	104,310	940,492
Income Taxes — Current		29,416	41,249	371,914
Income Taxes — Deferred		(16,215)	(1,844)	(16,626)
Total Income Taxes		13,200	39,405	355,288
Net Profit		25,355	64,905	585,204
Net Profit Attributable to Non-Controlling Interests		2,606	3,501	31,566
Net Profit Attributable to Owners of Parent		22,749	61,403	553,629

		2017/12 (Yen)	2018/12 (Yen)	2018/12 (U.S. dollars (Note 1))
Per Profit				
Net profit — basic		56.9	153.7	1.38
— diluted		56.9	153.6	1.38
Cash dividend		27.5	45.0	0.40
Weighted Average Number of Shares (thousands)		399,466	399,409	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2017 and 2018

	Note	2017/12 (Millions of yen)	2018/12 (Millions of yen)	2018/12 (Thousands of U.S. dollars (Note 1))
Net Profit		25,355	64,905	585,204
Other Comprehensive Income				
Unrealized gains (losses) on available-for-sale securities	05	1,166	(3,600)	(32,458)
Foreign currency translation adjustments	05	3,073	(14,151)	(127,589)
Adjustments for retirement benefits	05	12,890	(3,373)	(30,412)
Share of other comprehensive income of associates accounted for under the equity method	05	(30)	(4)	(36)
Total other comprehensive income (loss)	05	17,100	(21,129)	(190,505)
Comprehensive Income		42,456	43,775	394,689
(Breakdown)				
Comprehensive income attributable to owners of parent		39,145	41,230	371,742
Comprehensive income attributable to non-controlling interests		3,310	2,544	22,937

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Shiseido Company, Limited and Subsidiaries
For the fiscal years 2017 and 2018

	Thousands	Millions of yen								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries
Balance as of January 1, 2017	400,000	64,506	70,846	258,005	(1,325)	7,389	26,516	(32,975)	818	20,087
Cash dividend from retained earnings	—	—	—	(8,986)	—	—	—	—	—	—
Net profit attributable to owners of parent	—	—	—	22,749	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(17)	—	—	—	—	—
Disposal of treasury stock	—	—	43	—	468	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	(81)	(87)	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	1,275	2,210	12,910	55	1,462
Balance as of December 31, 2017	400,000	64,506	70,808	271,681	(874)	8,664	28,726	(20,064)	874	21,550
Cash dividend from retained earnings	—	—	—	(13,979)	—	—	—	—	—	—
Net profit attributable to owners of parent	—	—	—	61,403	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(2,431)	—	—	—	—	—
Disposal of treasury stock	—	—	(55)	(165)	476	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	(4)	61	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(3,672)	(13,081)	(3,419)	78	(2,621)
Balance as of December 31, 2018	400,000	64,506	70,748	319,001	(2,829)	4,992	15,645	(23,484)	952	18,929

	Thousands	Thousands of U.S. dollars (Note 1)								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries
Balance as of January 1, 2018	400,000	581,606	638,427	2,449,562	7,880	78,117	259,002	180,903	7,880	194,301
Cash dividend from retained earnings	—	—	—	(126,039)	—	—	—	—	—	—
Net profit attributable to owners of parent	—	—	—	553,629	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(21,918)	—	—	—	—	—
Disposal of treasury stock	—	—	(495)	(1,487)	4,291	—	—	—	—	—
Equity transactions with non-controlling interests and others	—	—	(36)	(549)	—	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	(33,107)	(117,942)	(30,826)	703	(23,631)
Balance as of December 31, 2018	400,000	581,606	637,886	2,876,214	(25,507)	45,009	141,060	(211,739)	8,583	170,669

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2017 and 2018

	Note		Millions of yen	Thousands of U.S. dollars (Note 1)
	Note	2017/12	**2018/12**	**2018/12**
Cash Flows from Operating Activities:				
Profit before income taxes		38,555	**104,310**	**940,492**
Depreciation and amortization		39,614	**41,994**	**378,631**
Amortization of goodwill		4,235	**1,851**	**16,689**
Impairment loss		70,922	**—**	**—**
(Gain) Loss on disposal of property, plant and equipment		1,013	**(1,155)**	**(10,413)**
(Gain) Loss on sales of investments in securities		(1,146)	**(2,739)**	**(24,695)**
(Gain) Loss on transfer of business		(36,787)	**(48)**	**(432)**
(Gain) Loss on sales of shares in subsidiaries and affiliates		(211)	**—**	**—**
Increase (Decrease) in allowance for doubtful accounts		17	**176**	**1,586**
Increase (Decrease) in reserve for sales returns		934	**(2,977)**	**(26,841)**
Increase (Decrease) in refund liabilities		—	**4,860**	**43,819**
Increase (Decrease) in accrued bonuses for employees		3,207	**6,190**	**55,811**
Increase (Decrease) in accrued bonuses for directors		19	**91**	**820**
Increase (Decrease) in provision for liabilities and charges		(207)	**(1,453)**	**(13,100)**
Increase (Decrease) in liability for retirement benefits		(2,472)	**(1,991)**	**(17,951)**
Increase (Decrease) in allowance for environmental measures		(115)	**(116)**	**(1,045)**
Increase (Decrease) in provision for loss on business withdrawal		—	**3,204**	**28,888**
Interest and dividend income		(1,439)	**(1,718)**	**(15,490)**
Interest expense		991	**769**	**6,933**
Other interest on debt		1,382	**1,392**	**12,550**
Equity in (earnings) losses of affiliates		(284)	**(301)**	**(2,713)**
(Increase) Decrease in notes and accounts receivable		(25,447)	**(10,659)**	**(96,104)**
(Increase) Decrease in inventories		(13,287)	**(24,291)**	**(219,015)**
Increase (Decrease) in notes and accounts payable		22,082	**13,916**	**125,471**
Other		4,916	**4,939**	**44,531**
Subtotal		106,494	**136,245**	**1,228,428**
Interest and dividends received		1,516	**1,867**	**16,833**
Interest paid		(984)	**(795)**	**(7,167)**
Interest paid on other debt		(1,736)	**(1,392)**	**(12,550)**
Income tax paid		(9,898)	**(43,347)**	**(390,830)**
Net cash provided by operating activities		95,392	**92,577**	**834,703**
Cash Flows from Investing Activities:				
Transfers to time deposits		(17,439)	**(20,999)**	**(189,333)**
Proceeds from maturity of time deposits		15,148	**21,750**	**196,104**
Acquisition of short-term investments in securities		(3)	**—**	**—**
Acquisition of investments in securities		(4)	**(1,694)**	**(15,273)**
Proceeds from sales of investment securities		1,922	**4,664**	**42,052**
Proceeds from transfer of business	07	53,549	**606**	**5,463**
Payments for acquisition of business		—	**(2,250)**	**(20,286)**
Acquisition of property, plant and equipment		(36,015)	**(80,596)**	**(726,679)**
Proceeds from sales of property, plant and equipment		1,703	**4,352**	**39,239**
Acquisition of intangible assets		(8,618)	**(17,084)**	**(154,034)**
Payments of long-term prepaid expenses		(6,581)	**(8,108)**	**(73,104)**
Payments for lease and guarantee deposits		(697)	**(4,016)**	**(36,209)**
Payment for acquisition of shares in a subsidiary resulting in a change in the scope of consolidation		(5,226)	**—**	**—**
Proceeds from sale of shares in a subsidiary resulting in a change in the scope of consolidation		500	**—**	**—**
Other		702	**264**	**2,380**
Net cash used in investing activities		(1,061)	**(103,112)**	**(929,690)**
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt and commercial papers		(3,170)	**(5,140)**	**(46,343)**
Proceeds from long-term debt		10,000	**—**	**—**
Repayment of long-term debt		(45,762)	**(730)**	**(6,581)**
Repayment of lease obligations		(2,125)	**(2,116)**	**(19,078)**
Acquisition of treasury stock		(17)	**(2,431)**	**(21,918)**
Disposal of treasury stock		511	**255**	**2,299**
Cash dividends paid		(8,977)	**(13,940)**	**(125,687)**
Cash dividends paid to non-controlling interests		(2,390)	**(4,112)**	**(37,075)**
Repayment of long-term payables		(1,145)	**(1,478)**	**(13,326)**
Other		(39)	**(27)**	**(243)**
Net cash used in financing activities		(53,117)	**(29,722)**	**(267,983)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		2,498	**(4,809)**	**(43,359)**
Net Change in Cash and Cash Equivalents (Decrease)		43,711	**(45,066)**	**(406,329)**
Cash and Cash Equivalents at Beginning of Term		113,122	**156,834**	**1,414,065**
Cash and Cash Equivalents at End of Term	07	156,834	**111,767**	**1,007,726**

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements

Shiseido Company, Limited and Subsidiaries

01. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Principles and Presentation

The financial statements of Shiseido Company, Limited (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and Companies Act and in conformity with accounting principles generally accepted in Japan. Therefore, application and disclosure requirements are different from International Financial Reporting Standards in certain respects.

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of the reader.

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥110.91 = US$1 prevailing on December 31, 2018 has been used in translating the consolidated financial statements expressed in Japanese yen into U.S. dollars. Such translations should not be construed as representations that the Japanese yen amounts could be readily converted, realized or settled in U.S. dollars at this rate.

(2) Scope of Consolidation

Number of consolidated subsidiaries: 77

Apart from the change described below, principal subsidiaries are listed in the Group's most recent Securities Report (submitted March 26, 2019). Since there are no other major changes, the list is omitted from this report. Please refer to the following website for the list of principal subsidiaries.
https://www.shiseidogroup.jp/ir/library/syoken/ (Japanese only)

Additions: 1 company

Shiseido Philippines Corporation has been included in the scope of consolidation since it was established as a subsidiary.

Exclusions: 3 companies

Bare Escentuals Germany GmbH was excluded from the scope of consolidation following absorption-type mergers into Shiseido Group Germany GmbH. Beauté Prestige International (Singapore) Ltd. and Shiseido United Kingdom were excluded from the scope of consolidation due to their liquidations.

Names of main subsidiaries excluded from consolidation

Main unconsolidated subsidiary: Beauté Prestige International Ltd. (UK)

Reason for Exclusion from Consolidation

Unconsolidated subsidiaries are excluded from the scope of consolidation because they are small in size or are not involved in the main business of the company. They are materially insignificant in terms of total assets, net sales, net profit (portion attributable to equity interest), and retained earnings (portion attributable to equity interest), have a minimal impact on the consolidated financials, and are materially insignificant in general.

(3) Matters Concerning Application of the Equity Method

Number of affiliated companies accounted for under the equity method: 3

Major company name: Pierre Fabre Japon Co., Ltd.

Nonconsolidated subsidiaries that are not accounted for under the equity method

Nonconsolidated subsidiaries that are not accounted for under the equity method including Beauté Prestige International Ltd. (UK) are small in scale and do not engage in full-scale operations, and net profit (the Company's share) and retained earnings (the Company's share) have a minimal effect on the Company's consolidated financial statements. Also, these subsidiaries are insignificant in general, thus these companies are excluded from the scope of equity method application.

Financial periods of consolidated subsidiaries

The accounts settlement dates of consolidated subsidiaries match the consolidated account settlement date.

02. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Inventories

Inventories are generally valued at cost, determined by the periodic average method. The carrying amount in the balance sheet is calculated with consideration of write-downs due to decreased profitability.

(2) Property, Plant and Equipment (Excluding Leased Assets)

Tangible fixed assets are, in principle, depreciated using the straight-line method. The main estimated useful lives are as follows:

Buildings and structures:	2-50 years
Machinery, equipment and vehicles:	2-12 years
Tools, furniture and fixtures:	2-15 years

(3) Intangible Assets (Excluding Leased Assets)

Intangible assets are, in principle, amortized using the straight-line method. The main estimated useful lives are as follows:

Software:	5 years
Customer relationships:	10 years
Trademarks:	10-15 years (except for those with indefinite useful lives)

(4) Leased Assets

Finance leased assets that are not deemed to transfer ownership of the leased property to the lessee are depreciated using the straight-line method over the period of the lease, with zero residual value.

(5) Long-Term Prepaid Expenses

Long-term prepaid expenses are primarily amortized using the straight-line method.

(6) Goodwill

Amortization of goodwill is determined on a case by case basis and is generally amortized using the straight-line method over a period not exceeding 20 years.

(7) Securities

The Company and its consolidated subsidiaries categorize their existing securities as available-for-sale securities. Those securities with market prices are carried at fair value prevailing at the fiscal year end, with net unrealized gains and losses, net of taxes, reported separately in net assets. The cost of securities sold is mainly calculated using the moving-average method.

If fair value is not available, securities are carried at cost, which is determined mainly by the moving-average method. Investments in limited partnerships are recorded as investments in securities at the amount of interest in such partnerships calculated based on ownership percentage. Investment gain or loss is included in net profit or loss in proportion to the ownership interests in the net asset value of the partnership.

Securities with remaining maturities of one year or less and securities that are recognized as cash equivalents are classified as short-term investments in securities. Those with maturities extending beyond one year are included in investments in securities as non-current assets.

(8) Net Profit and Cash Dividend per Share

Net profit per share of common stock is based on the weighted average number of shares of common stock outstanding during each year. The computation of diluted net profit per share of common stock reflects the maximum possible dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock.

Cash dividend per share shown for each year in the consolidated statements of income represents the dividend declared as applicable to the respective year, rather than that paid in each year.

(9) Accounting for Consumption Tax

In Japan, consumption tax is imposed at a flat rate on all domestic consumption of goods, assets and services (with certain exemptions). The consumption tax withheld upon sales is recorded as a liability. Consumption tax, which is paid by the Company and its domestic consolidated subsidiaries on purchases of goods, assets and services, is offset against the balance withheld, and the net amount is subsequently paid to the national government.

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(10) Allowance for Doubtful Accounts

The Company and its domestic consolidated subsidiaries provide an allowance for doubtful accounts based on the historic percentage of actual bad debt losses against the balance of total receivables and the amount of uncollectible receivables estimated on an individual basis. Overseas consolidated subsidiaries record the allowance based primarily on the amount of uncollectible receivables estimated on an individual basis.

(11) Reserve for Sales Returns

The Company and its subsidiaries provide a reserve for sales returns for future losses considering the past return ratios and distributors' stock.

(12) Accrued Bonuses for Employees

The Company and its subsidiaries provide accrued bonuses for employees based on the estimated amounts to be paid in respect of the fiscal year. This reserve includes bonuses for corporate officers who are non-Board members, for whom the calculations are the same as those described in Accrued Bonuses for Directors.

(13) Accrued Bonuses for Directors

The Company and its subsidiaries provide accrued bonuses for members of the Board of Directors who concurrently serve as corporate executive officers based on the estimated amounts to be paid in respect of the fiscal year.

(14) Provision for Liabilities and Charges

To provide for losses due to legal risks, product guarantee risks, tax risks, and other factors, certain overseas consolidated subsidiaries record provisions, the amount of which is based on estimated losses to be incurred considering the likelihood of such losses in the future.

(15) Allowance for Losses on Guarantees

The Company provides an allowance for estimated probable losses on guarantees based on the financial status of the parties for which guarantees have been provided.

(16) Allowance for Environmental Measures

The Company and its domestic consolidated subsidiaries provide a reserve for the estimated cost to treat polychlorinated biphenyl (PCB) waste as required by the "Act on Special Measures Concerning Promotion of Proper Treatment of PCB Wastes".

(17) Provision for Loss on Business Withdrawal

The Company provides a reserve for the estimated amount of expenses and losses to be incurred related to discontinuation of some brands and withdrawal from the commercial cosmetics sales business and other businesses.

(18) Liability for Retirement Benefits

① Periodic allocation method for estimated retirement benefits
The retirement benefit obligation is calculated by allocating the estimated retirement benefits until the end of the current fiscal year on a benefit formula basis.

② Amortization of past service cost and actuarial gains/losses
Past service cost is primarily amortized on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

Net actuarial gain or loss is primarily amortized from the following year on a straight-line basis over a 10-year period, which is shorter than the average remaining years of service of the eligible employees.

(19) Foreign Currency Translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing on the respective balance sheet dates, and resulting exchange gains or losses are included in net profit or loss for the fiscal year.

(20) Derivatives and Hedging Activities

The Company and its subsidiaries use derivatives such as foreign exchange forward contracts, foreign currency options, interest rate swap contracts, and interest rate and currency swap contracts to reduce market risks and maintain stable profits. The Companies limit their use of derivative transactions to the amounts of foreign currency denominated receivables and payables and actual requirements, and do not use derivatives for speculative trading.

The Company and its subsidiaries execute and manage derivatives within the limits of established internal rules and regulations, and reduce credit risk by limiting counterparties to highly creditworthy financial institutions.

Derivatives are carried at fair value with gains or losses recognized in the consolidated statements of income. For derivatives used for hedging purposes, if derivatives meet the requirements for hedge accounting, gains or losses on derivatives are deferred until recognition of the hedged transactions.

If interest rate swap contracts are used as a hedge and meet certain hedging criteria, the interest rate swaps are not stated at fair value, and instead the amount to be received under the interest rate swap contract is added to or deducted from the interest on the liabilities for which the swap contract was executed (special accounting).

If interest rate and currency swap contracts are used as a hedge and meet certain hedging criteria, the interest rate and currency swap contracts are not stated at fair value, and instead the amount to be received under the interest rate and currency swap contracts is added to or deducted from the interest on the liabilities for which the swap contracts were executed, and the liabilities denominated in foreign currencies, for which the interest rate and currency swap contracts were executed, are translated at the contracted rate (integral accounting).

Measurement of hedge effectiveness is not considered necessary for interest rate swap contracts that meet the requirements for special accounting and interest rate and currency swap contracts that meet the requirements for integral accounting.

(21) Foreign Currency Denominated Financial Statements

Financial statements of overseas consolidated subsidiaries and affiliates that are denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates of those subsidiaries for assets and liabilities, and at the historical exchange rates for shareholders' equity. All income and expense amounts are translate at the average rates of exchange during the fiscal year of those subsidiaries and affiliates.

The resulting translation adjustments are included in net assets as foreign currency translation adjustments and non-controlling interests.

(22) Definition of "Cash and Cash Equivalents" in Consolidated Statements of Cash Flows

Cash and cash equivalents as shown in the consolidated statements of cash flows are composed of cash in hand, readily available time deposits, and short-term investments with maturities of 3 months or less at the time of purchase that are exposed to insignificant risk of change in value.

(23) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

The Company has applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18) and necessary modifications have been made for consolidation.

(24) Application of Consolidated Taxation System

The Company and certain domestic consolidated subsidiaries applied a consolidated taxation system.

(25) Changes in Accounting Policies

The Company's subsidiaries that have adopted International Financial Reporting Standards ("IFRS") have implemented IFRS 15, Revenue from Contracts with Customers, from the first quarter of the fiscal year 2018.

As a result of adoption of this standard, payments to some customers which were previously recognized as selling, general and administrative expenses are deducted from net sales from the first quarter of the fiscal year 2018.

The impact of these changes on the profit and loss for the fiscal year 2018 is insignificant.

In addition, the method of presentation in the Consolidated Balance Sheets has changed with the application of this standard.

As a result, the reserve for sales returns has decreased by ¥4,741 million ($42,746 thousands) and refund liabilities has increased by ¥4,741 million ($42,746 thousands) in the Consolidated Balance Sheets for the fiscal year 2018 compared to the amounts under the previous accounting standard.

Please note that the transition method adopted in applying this standard is to recognize the cumulative impact on the initial date of application.

(26) Changes in Presentaion

Due to the increase in quantitative significance of "Payments for lease and guarantee deposits" which was included in "Other" in "Cash Flows from Investing Activities" in the previous fiscal year, the Group has changed to record it separately for this fiscal year.

In order to reflect this change, the consolidated financial statements for the fiscal year 2018 has been rearranged. As a result, ¥4 million recorded as "Other" listed in the "Cash Flows from Investing Activities" on the Consolidated Statements of Cash Flows for the previous fiscal year has been reclassified into ¥697 million of "Payments for lease and guarantee deposits" and ¥702 million cash-in of "Other, net" respectively.

(27) Accounting Standard Issued but Not Yet Adopted

1. The Company and its domestic subsidiaries

- "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018)
- "Implementation Guidance on Recoverability of Deferred Tax Assets"(ASBJ Guidance No. 26, February 16, 2018)

① Overview
The treatment of taxable temporary differences relating to shares, etc., of subsidiaries in non-consolidated financial statements was changed and clarification was made on recoverability of deferred tax assets for the Company and the domestic subsidiaries which classified as Type 1.
② Effective date
Application of the standard is scheduled from the beginning of the fiscal year 2019.
③ Effects on application of the standard and guidance
The impact of Group's consolidated financial statements from the adoption of implementation guidance on tax effect accounting and recoverability of deferred tax assets is under evaluation at the time of the preparation of consolidated financial statements.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018)

① Overview
This new standard is a comprehensive accounting standard for revenue recognition. The principles in the standard will be applied using a five step model as follows:
Step 1: Identify the contract(s) with a customer
Step 2: Identify the separate performance obligations (PO) in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the separate POs
Step 5: Recognise revenue when or as the entity satisfies a PO
② Effective date
Application of the standard is scheduled from the beginning of the fiscal year 2022.
③ Effects on the application of the standard and guidance
The impact on the Group's consolidated financial statements from the adoption of the revenue recognition standard is under evaluation at the time of the preparation of these consolidated financial statements.

2. Foreign Subsidiaries

Standard / interpretation		Outline of the new / revised standards	To be adopted by the Group
IFRS 16	Lease	Revision to accounting treatment for lease	From the beginning of the fiscal year 2019
ASU 2016-12	Lease	Revision to accounting treatment for lease	From the beginning of the fiscal year 2020

The impact on the Company's consolidated financial statements from the adoption of the new lease standard is under evaluation at the time of preparation of these consolidated financial statements.

03. INVENTORIES

Inventories held by the Companies as of December 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	**2018/12**	**2018/12**
Merchandise and finished products	88,620	**103,941**	**937,165**
Work in process	5,450	**6,181**	**55,729**
Raw materials and supplies	35,884	**39,665**	**357,632**
	129,954	**149,788**	**1,350,536**

04. CONSOLIDATED STATEMENTS OF INCOME

(1) Research and Development Expenses

Research and development expenses are expensed as incurred.

Research and development expenses, which are included in selling, general and administrative expenses, totaled ¥24,230 million and ¥29,130 million ($262,645 thousand) for the fiscal years 2017 and 2018 respectively.

There are no research and development expenses included in total manufacturing expenses for the fiscal years 2017 and 2018.

(2) Gain on Sales of Property, Plant and Equipment

For the fiscal year 2017
Mainly includes the gain on sale of an office building which was located in Boulogne, France.
For the fiscal year 2018
Mainly includes the gain on sale of lands and buildings as part of the domestic office reform.

(3) Gain on Transfer of Business

For the fiscal year 2017
This gain is attributed mainly to the transfer of shares in Zotos International, Inc. and related business assets.
For the fiscal year 2018
This gain is attributed mainly to net proceeds from the sale of shares in Zotos International, Inc.

(4) Gain on Sales of Shares in Subsidiaries and Affiliates

For the fiscal year 2017
The gain is attributed to the transfer of KINARI Inc.

(5) Impairment Loss

For the fiscal year 2017
The Group recognized impairment losses on the fixed assets of domestic and overseas subsidiaries.

Use	Type	Location
Assets for business use	Goodwill, trademarks, other intangible assets, and buildings and structures, etc.	United States
Idle assets, etc.	Other intangible assets	China, and others

The Group groups its business-use assets according to the minimum independent cash-flow-generating units, based on business classifications. Idle assets are grouped by the individual property.

Goodwill and other assets recorded at the time Bare Escentuals, Inc. was acquired in the Americas business, which are assets for business use, were written down to fair value after an impairment test based on U.S. accounting standards was performed, after consideration of all facts, including the fact that sales were trending below the plan. The breakdown is shown below. Primarily, fair value was determined by the income approach, and a discount rate of 10% was used.

	Millions of yen
Goodwill	43,195
Trademarks	23,711
Customer-related intangible assets	2,418
Buildings and structures, etc.	1,548
	70,874

Idle group assets that are no longer expected to be used in the future have been written down to their recoverable value, resulting in a ¥48 million extraordinary loss. The recoverable amount is estimated based on the net sales value, which was assessed based on the expected selling price.

(6) Loss on Business Withdrawal

For the fiscal year 2018
Loss on business withdrawal included expenses related to discontinuation of some brands and withdrawal from the commercial cosmetics sales business and other businesses.

(7) Structural Reform Expenses

For the fiscal year 2017
Structural reform expenses mainly relate to early retirement premiums and the closure of *bareMinerals* boutiques operated by Bare Escentuals Beauty, Inc. included in expenses incurred as a result of ongoing structural reforms across all global regions.

For the fiscal year 2018
Structural reform expenses mainly reflect closure of *bareMinerals* boutiques operated by Bare Escentuals Beauty, Inc. and early retirement premiums included in expenses incurred as a result of ongoing structural reforms across all global regions.

(8) Loss on Liquidation of Subsidiaries and Affiliates

For the fiscal year 2017

Loss on the ongoing liquidation of a subsidiary in India.

For the fiscal year 2018

Loss on liquidation of subsidiaries in China and Oceania.

(9) Voluntary Product Recall-Related Expenses

For the fiscal year 2017

The expenses reflect voluntary recalls of products that do not meet the Company's quality standards.

(10) Temporary Expenses Associated with Reforms to Human Resource Systems

For the fiscal year 2017

Temporary expenses associated with the reorganization of the human resource systems of certain employees working at the Company's factories.

05. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income including reclassification adjustments and tax (expense) or benefit for the fiscal years 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Unrealized gains (losses) on available-for-sale securities, net of taxes:			
Increase (decrease) during the fiscal year	3,003	**(2,124)**	**(19,150)**
Reclassification adjustments	(1,000)	**(2,681)**	**(24,172)**
Amount before tax	2,002	**(4,806)**	**(43,332)**
Tax (expense) or benefit	(835)	**1,205**	**10,864**
Subtotal	1,166	**(3,600)**	**(32,458)**
Foreign currency translation adjustments:			
Increase (decrease) during the fiscal year	3,037	**(14,151)**	**(127,589)**
Reclassification adjustments	97	**—**	**—**
Amount before tax	3,135	**(14,151)**	**(127,589)**
Tax (expense) or benefit	(62)	**0**	**0**
Subtotal	3,073	**(14,151)**	**(127,589)**
Adjustments for retirement benefits:			
Increase (decrease) during the fiscal year	10,097	**(12,392)**	**(111,730)**
Reclassification adjustments	8,956	**7,131**	**64,295**
Amount before tax	19,054	**(5,261)**	**(47,434)**
Tax (expense) or benefit	(6,164)	**1,888**	**17,022**
Subtotal	12,890	**(3,373)**	**(30,412)**
Share of other comprehensive income of associates accounted for under the equity method:			
Increase (decrease) during the fiscal year	(49)	**(9)**	**(81)**
Reclassification adjustments	19	**5**	**45**
Subtotal	(30)	**(4)**	**(36)**
Total other comprehensive income (loss)	17,100	**(21,129)**	**(190,505)**

06. NET ASSETS

Under Japanese laws and regulations, the entire amount paid for new shares must be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act ("the Act"), in cases where dividend distribution of surplus is made, the lesser of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve, must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Act, both legal earnings reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and legal earnings reserve may be transferred to other capital surplus and retained earnings under certain conditions.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. Under the Act, companies can pay a dividend at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having accounting auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years as the normal term by its articles of incorporation, the Board of Directors may declare a dividend if the company has prescribed so in its articles of incorporation.

A semi-annual interim dividend may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Cash dividends charged to retained earnings during the fiscal year were the year-end cash dividend for the preceding fiscal year and the interim cash dividend for the current fiscal year.

Appropriations are not accrued in the consolidated financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' meeting approval has been obtained.

Retained earnings at December 31, 2018 include amounts representing year-end cash dividend of ¥9,984 million ($90,018 thousand), ¥25.0 ($0.22) per share, which was approved at the shareholders' meeting held on March 26, 2019.

07. CASH FLOW INFORMATION

(1) Reconciliation of Cash and Time Deposits

The reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of December 31, 2017 and 2018 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Cash and time deposits	166,698	**125,891**	**1,135,073**
Short-term investments in securities	7,781	**—**	**—**
Total	174,479	**125,891**	**1,135,073**
Time deposits with maturities exceeding 3 months	(15,863)	**(14,124)**	**(127,346)**
Debt securities with maturities exceeding 3 months	(1,781)	**—**	**—**
Cash and cash equivalents	156,834	**111,767**	**1,007,726**

(2) The Main Breakdown of Assets and Liabilities for a Transfer or Acquisition of Business Exchange for Cash and Cash Equivalents

For the fiscal year 2017

The main breakdown of assets and liabilities transferred and the transfer price and cash in-flow from the transfer of Zotos International Inc. is as follows:

	Millions of yen
Current assets	**11,578**
Fixed assets	**11,647**
Current liabilities	**(3,752)**
Long-term liabilities	**(987)**
Gain on transfer of business	**35,999**
Transfer price of business	**54,485**
Other	**(595)**
Cash and cash equivalents	**(1,541)**
Proceeds from transfer of business	**52,348**

For the fiscal year 2018

Presentation is omitted because of its minimal effect on the Company's consolidated financial statements.

(3) Significant Non-Cash Transactions

Newly recorded assets and liabilities related to finance lease transactions are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	**2018/12**	**2018/12**
Lease assets	1,917	**3,281**	**29,582**
Lease obligations	1,917	**3,281**	**29,582**

08. LEASES

The Company and its consolidated subsidiaries have various lease agreements whereby we act both as a lessee and a lessor.

(1) Finance Leases

Non-ownership-transfer finance lease transactions

① As lessee:

Leased assets mainly consist of molds, tools, fixtures, and software.

② As lessor:

None.

(2) Operating Leases

Lease obligations under operating leases at December 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	**2018/12**	**2018/12**
① As lessee:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	9,994	**11,823**	**106,599**
Due after 1 year	68,211	**70,741**	**637,823**
	78,205	**82,565**	**744,432**
② As lessor:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	172	**276**	**2,488**
Due after 1 year	3,580	**5,464**	**49,265**
	3,753	**5,740**	**51,753**

09. FINANCIAL INSTRUMENTS

(1) Financial Instruments

① Policy for financial instruments

The Company and its consolidated subsidiaries limit fund management to short-term deposits, investments in securities and other methods.

As a matter of policy, we procure funds using bank loans, commercial paper, bonds and other methods.

We use derivatives to avoid the risk of foreign exchange rate fluctuations associated with receivables and payables denominated in foreign currencies and the risk of interest rate fluctuations associated with loans. We limit the use of derivatives to the volume of receivables and payables and actual requirements, and do not engage in speculative transactions.

② Types of financial instruments, risks and risk management system

Notes and accounts receivable are exposed to customer credit risk. We mitigate this risk by managing settlement date and amount due for each counterparty.

Investments in securities, primarily the equity securities of corporations with which we do business, are exposed to the risk of fluctuations in market price. We manage this risk by periodically examining market prices and the financial condition of the issuing entities.

Notes, electronically recorded obligations and accounts payable are due within one year.

Interest-bearing debt includes short-term borrowings and commercial papers, which we use to procure funds for operating transactions, as well as long-term borrowings, bonds and lease obligations, which we use to fund investments and loans, capital expenditures and operating transactions. Long-term payables, which are mostly liabilities incurred in connection with the execution of a license agreement, are not exposed to foreign exchange risk and interest rate risk. Floating-rate debt is exposed to the risk of interest rate fluctuations. We hedge this risk for specific long-term borrowings by using derivatives (interest rate swap contracts and interest rate and currency swap contracts) to avoid the risk of interest rate fluctuations and fix interest payments.

We use foreign exchange forward contracts and foreign currency options to hedge the risk of foreign exchange fluctuations associated with receivables and payables denominated in foreign currencies and interest rate swap contracts to hedge the risk of interest rate fluctuations associated with floating-rate debt, and interest rate and currency swap contracts to hedge the risk of foreign exchange fluctuations and fluctuations in interest rates associated with debt in foreign currencies.

(20) Derivatives and Hedging Activities in Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES explains hedge accounting, hedging instruments and methods, hedging policy, hedged items, and assessment of hedging effectiveness.

We execute and manage derivatives within the limits of established internal rules and regulations, and reduce credit risk by limiting counterparties to highly creditworthy financial institutions.

Payables and interest-bearing debt are exposed to liquidity risk that the Companies manage in ways such as preparing monthly capital deployment reports.

③ Supplemental information on the fair value of financial instruments
We calculate the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors, and are subject to fluctuation due to changes in the underlying assumptions. The contract amounts of the derivatives discussed in Note 11. DERIVATIVE FINANCIAL INSTRUMENTS are not an indicator of the market risk associated with derivative transactions.

(2) Fair Value of Financial Instruments

Fair value and variance with carrying value presented on the consolidated balance sheets are as follows. Fair values that are not readily determinable are not included in the following table (See *2 for additional information).

Millions of yen

	2017/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	166,698	166,698	—
② Notes and accounts receivable	162,058	162,058	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	30,325	30,325	—
④ Notes and accounts payable, electrically recorded obligations and other payables	(146,936)	(146,936)	—
⑤ Short-term borrowings from banks and other financial institutions	(8,540)	(8,540)	—
⑥ Bonds	(40,000)	(40,128)	(128)
⑦ Long-term borrowings from banks and other financial institutions	(29,566)	(29,566)	(0)
⑧ Lease obligations	(3,357)	(3,380)	(23)
⑨ Derivative instruments			
i. Hedge accounting not applied	53	53	—
ii. Hedge accounting applied	—	(611)	(611)
⑩ Long-term payables	(59,255)	(59,255)	—

Millions of yen

	2018/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	125,891	125,891	—
② Notes and accounts receivable	166,491	166,491	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	17,529	17,529	—
④ Notes and accounts payable, electrically recorded obligations and other payables	(176,129)	(176,129)	—
⑤ Short-term borrowings from banks and other financial institutions	(2,725)	(2,725)	—
⑥ Bonds	(40,000)	(40,126)	(126)
⑦ Long-term borrowings from banks and other financial institutions	(28,835)	(28,836)	(0)
⑧ Lease obligations	(4,215)	(4,222)	(7)
⑨ Derivative instruments			
i. Hedge accounting not applied	179	179	—
ii. Hedge accounting applied	—	(524)	(524)
⑩ Long-term payables	(54,639)	(54,639)	—

Thousands of U.S. dollars (Note 1)

	2018/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	1,135,073	1,135,073	—
② Notes and accounts receivable (less allowance for doubtful accounts)	1,501,136	1,501,136	—
③ Short-term investments in securities and investments in securities Available-for-sale securities	158,047	158,047	—
④ Notes and accounts payable, electrically recorded obligations and other payables	(1,588,035)	(1,588,035)	—
⑤ Short-term borrowings from banks and other financial institutions	(24,569)	(24,569)	—
⑥ Bonds	(360,652)	(361,788)	(1,136)
⑦ Long-term borrowings from banks and other financial institutions	(259,985)	(259,994)	(0)
⑧ Lease obligations	(38,003)	(38,066)	(63)
⑨ Derivative instruments			
i. Hedge accounting not applied	1,613	1,613	—
ii. Hedge accounting applied	—	(4,724)	(4,724)
⑩ Long-term payables	(492,642)	(492,642)	—

* Liabilities are in parentheses. Derivative instruments are presented as net amounts receivable or payable, with net amounts payable in parentheses.

*1: Method for calculating the fair value of financial instruments, derivative instruments and securities

① Cash and time deposits; ② Notes and accounts receivable
Carrying value is used for fair value for these short-term items because these amounts are approximately the same.

③ Short-term investments in securities and investments in securities
Short-term investments in securities are held as available-for-sale securities. Market prices on exchanges are used to determine the fair value of equity securities. Prices quoted by financial institutions are used to determine the fair value of bonds. Carrying value is used for fair value for instruments with short-term maturities included in available-for-sale securities because these amounts are approximately the same.

④ Notes and accounts payable, electrically recorded obligations and other payables; ⑤ Short-term borrowings from banks and other financial institutions;
Carrying value approximates fair value for these short-term items.

⑥ Bonds
Fair value of bonds issued by the Company is calculated based on market prices.

⑦ Long-term borrowings from banks and other financial institutions
Floating-rate long-term borrowing reflects market interest rates. In addition, fair value approximates carrying value because the Company's creditworthiness does not vary significantly after assuming long-term borrowings. Therefore, carrying value is used for fair value of floating-rate long-term borrowing. Fair value of fixed-rate long-term borrowing is the discounted value of total principal and interest using an assumed interest rate on equivalent new borrowings.

⑧ Lease obligations
The fair value of lease obligations is the discounted present value of total principal and interest using an assumed interest rate on equivalent new lease transactions.

⑨ Derivative instruments
Please refer to Note 11. DERIVATIVE FINANCIAL INSTRUMENTS.

⑩ Long-term payables
Carrying value and fair value of long-term payables are measured and calculated as the present value discounted using the interest rate that is assumed to be applied when an additional loan is taken out from banks.

*2: Fair values that are difficult to determine as of December 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
	Carrying value		
Shares of subsidiaries and affiliates	2,310	**2,291**	**20,656**
Unlisted equity securities	516	**2,195**	**19,790**
Investment in limited partnership and others	910	**1,009**	**9,097**

Market prices do not exist for these items, or the cost of estimating future cash flows is considered prohibitive. These items are not included in ③ Short-term investments in securities and investments in securities, because their fair values are not readily determinable.
There are no revaluation of securities for the fiscal years 2017 and 2018.

*3: Maturity dates of financial assets are as follows:

Millions of yen

	2017/12			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and time deposits	166,698	—	—	—
Notes and accounts receivable	162,058	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	6,000	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	—
Available-for-sale securities with maturity (Investment trust)	1,781	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	910	—	—	—
Other	—	—	—	—
	337,448	—	—	—

Millions of yen

	2018/12			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and time deposits	**125,891**	—	—	—
Notes and accounts receivable	**166,491**	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	—	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	—
Available-for-sale securities with maturity (Investment trust)	—	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	**898**	—	**110**	—
Other	—	—	—	—
	293,281	—	**110**	—

Thousands of U.S. dollars (Note 1)

	2018/12			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and time deposits	**1,135,073**	—	—	—
Notes and accounts receivable	**1,501,136**	—	—	—
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	—	—	—	—
Available-for-sale securities with maturity (Corporate bonds)	—	—	—	—
Available-for-sale securities with maturity (Investment trust)	—	—	—	—
Available-for-sale securities with maturity (Investment in limited partnership and others)	**8,096**	—	**991**	—
Other	—	—	—	—
	2,644,315	—	**991**	—

10. SECURITIES

The acquisition cost, carrying amount, and gross unrealized gains and losses for securities stated at fair value by security type on December 31, 2017 and 2018 are as follows:
Available-for-sale securities:

Millions of yen

	2017/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	21,387	9,382	12,032	(27)
Other	8,937	8,875	62	—
	30,325	18,257	12,094	(27)

Millions of yen

	2018/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	**16,373**	**9,111**	**7,493**	**(231)**
Other	**1,155**	**1,155**	—	—
	17,529	**10,267**	**7,493**	**(231)**

Thousands of U.S. dollars (Note 1)

	2018/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	**147,624**	**82,147**	**67,559**	**(2,082)**
Other	**10,413**	**10,413**	—	—
	158,047	**92,570**	**67,559**	**(2,082)**

* There is no loss on revaluation of investments in securities stated at fair value for the fiscal years 2017 and 2018.

Proceeds from sales, and gross realized gains and losses from sales of available-for-sale securities in the fiscal years 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Proceeds from sales	1,922	4,664	42,052
Gross realized gains	1,173	2,739	24,695
Gross realized losses	27	—	—

11. DERIVATIVE FINANCIAL INSTRUMENTS

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of December 31, 2017 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

Millions of yen

		2017/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	24,447	—	69	69
	EUR	3,915	—	(2)	(2)
	GBP	3,049	—	(6)	(6)
	AU$	157	—	(0)	(0)
Foreign exchange contracts: Buying	US$	677	—	(1)	(1)
	GBP	469	—	(3)	(3)
		—	—	53	53

* Calculation method of fair value
Based on the amount presented by the counterparty financial institution

② Derivatives that meet the criteria for hedge accounting

Millions of yen

	2017/12			
		Contract amount		
	Main hedged item	Total	Settled over 1 year	Estimated fair value
Interest rate swap contracts: To pay fixed / receive variable	Long-term debt	19,565	18,835	(611)

* Calculation method of fair value
Based on the amount presented by the counterparty financial institution

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of December 31, 2018 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

Millions of yen

		2018/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	18,443	—	114	114
	EUR	9,392	—	(0)	(0)
	RUB	5,438	—	132	132
	AU$	154	—	2	2
	SG$	764	—	(0)	(0)
Foreign exchange contracts: Buying	US$	10,066	—	(11)	(11)
	RUB	1,418	—	(57)	(57)
		—	—	179	179

* Calculation method of fair value
Based on the amount presented by the counterparty financial institution

Thousands of U.S. dollars (Note 1)

		2018/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	166,287	—	1,027	1,027
	EUR	84,681	—	(0)	(0)
	RUB	49,030	—	1,190	1,190
	AU$	1,388	—	18	18
	SG$	6,888	—	(0)	(0)
Foreign exchange contracts: Buying	US$	90,758	—	(99)	(99)
	RUB	12,785	—	(513)	(513)
		—	—	1,613	1,613

② Derivatives that meet the criteria for hedge accounting

Millions of yen

	2018/12			
		Contract amount		
	Main hedged item	Total	Settled over 1 year	Estimated fair value
Interest rate swap contracts: To pay fixed / receive variable	Long-term debt	18,835	18,105	(524)

* Calculation method of fair value
Based on the amount presented by the counterparty financial institution

Thousands of U.S. dollars (Note 1)

	2018/12			
		Contract amount		
	Main hedged item	Total	Settled over 1 year	Estimated fair value
Interest rate swap contracts: To pay fixed / receive variable	Long-term debt	169,822	163,240	(4,724)

12. RETIREMENT BENEFITS

(1) Overview of the Defined Benefit Plan Used by Shiseido

The Company and its domestic consolidated subsidiaries have contributory funded pension plans, unfunded termination allowance plans, defined contribution plans and a retirement benefit prepayment plan. In some cases, additional voluntary retirement benefits were paid when an employee retired, which were accounted for as retirement benefit expenses when incurred. In addition, certain overseas subsidiaries have defined benefit plans, retirement allowance plans and defined contribution plans. The Company and certain consolidated subsidiaries use a simplified method for calculating retirement benefits.

(2) Details of Defined Benefit Plans, Including Plans Applying a Simplified Method as of December 31, 2017 and 2018

① Change in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Balance at the beginning of the year	282,348	273,940	2,469,930
Service cost	7,075	7,468	67,333
Interest cost	1,931	2,116	19,078
Actuarial loss (gain)	(5,289)	2,227	20,079
Benefits paid	(10,520)	(10,737)	(96,808)
Other	(1,605)	(422)	(3,804)
Balance at the end of the year	273,940	274,593	2,475,818

② Change in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Balance at the beginning of the year	187,859	200,195	1,805,022
Expected return on plan assets	5,595	5,961	53,746
Actuarial loss (gain)	4,806	(10,165)	(91,650)
Contributions paid by the employer	9,657	9,977	89,955
Benefits paid	(7,907)	(8,109)	(73,113)
Other	183	(144)	(1,298)
Balance at the end of the year	200,195	197,715	1,782,661

③ Reconciliation of retirement benefit obligations and plan assets to liability for retirement benefits

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Funded retirement benefit obligations	221,291	222,357	2,004,841
Plan assets	(200,195)	(197,715)	(1,782,661)
	21,096	24,642	222,180
Unfunded retirement benefit obligations	52,649	52,235	470,967
Total net liability for retirement benefits	73,745	76,877	693,147
Liability for retirement benefits	73,745	76,877	693,147
Total net liability for retirement benefits	73,745	76,877	693,147

④ Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Service cost	7,075	7,468	67,333
Interest cost	1,931	2,116	19,078
Expected return on plan assets	(5,595)	(5,961)	(53,746)
Net actuarial gain and loss amortization	8,930	7,131	64,295
Past service costs amortization	25	—	—
Other	1,330	1,203	10,846
Total retirement benefit costs	13,698	11,957	107,808

⑤ Adjustments for retirement benefits before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Net actuarial gain and loss amortization	(19,054)	5,261	47,434

⑥ Accumulated adjustments for retirement benefits before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Past service costs that are yet to be recognized	—	—	—
Actuarial gain and loss that are yet to be recognized	30,152	35,252	317,843
Total balance at the end of the year	30,152	35,252	317,843

⑦ Plan assets

I Plan assets comprise:

	2017/12	2018/12
Bonds	51.0%	56.3%
Equity securities	22.6%	14.5%
Other	26.4%	29.2%
Total	100.0%	100.0%

II Long-term expected rate of return on plan assets

Terms of payment, portfolio of plan assets, historical returns, operating policy, market trends and other factors have been considered in determining the long-term expected rate of return.

⑧ Actuarial assumptions

The principal actuarial assumptions (expressed as weighted averages) are as follows:

	2017/12	2018/12
Discount rate	0.5%~0.8%	0.5%~0.8%
Long-term expected rate of return	3.0%	3.0%

(3) Defined Contribution Plans

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥3,479 million and ¥457 million, respectively, for the fiscal year 2017.

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥2,097 million ($18,907 thousand) and ¥483 million ($4,354 thousand), respectively, for the fiscal year 2018.

13. STOCK OPTION PLAN

(1) Expense Recognized for Stock Options

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Selling, General and Administrative Expenses	298	**330**	**2,975**

(2) Summary of Stock Options Granted

Summary of stock options granted as of December 31, 2018 is as follows:

① Stock option plan approved by the shareholders on June 24, 2009 and resolved by the Board of Directors on July 30, 2009

	Stock options granted on August 28, 2009	Stock options granted on August 28, 2009	Total
Number of shares for options granted	81,400 shares	53,500 shares	134,900 shares
Number of shares for options outstanding	1,700 shares	4,500 shares	6,200 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2012 – July 31, 2019	August 1, 2012 – July 31, 2019	

② Stock option plan approved by the shareholders on June 25, 2010 and resolved by the Board of Directors on July 29, 2010

	Stock options granted on August 30, 2010	Stock options granted on August 30, 2010	Total
Number of shares for options granted	59,100 shares	46,800 shares	105,900 shares
Number of shares for options outstanding	5,400 shares	3,900 shares	9,300 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2013 – July 31, 2020	August 1, 2013 – July 31, 2020	

③ Stock option plan approved by the shareholders on June 24, 2011 and resolved by the Board of Directors on July 29, 2011

	Stock options granted on August 30, 2011	Stock options granted on August 30, 2011	Total
Number of shares for options granted	90,800 shares	63,600 shares	154,400 shares
Number of shares for options outstanding	7,300 shares	18,600 shares	25,900 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2014 – July 31, 2026	August 1, 2014 – July 31, 2026	

④ Stock option plan approved by the shareholders on June 26, 2012 and resolved by the Board of Directors on July 31, 2012

	Stock options granted on August 30, 2012	Stock options granted on August 30, 2012	Total
Number of shares for options granted	108,600 shares	100,400 shares	209,000 shares
Number of shares for options outstanding	16,200 shares	32,500 shares	48,700 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2015 – July 31, 2027	August 1, 2015 – July 31, 2027	

⑤ Stock option plan approved by the shareholders on June 25, 2013 and resolved by the Board of Directors on July 31, 2013

	Stock options granted on August 29, 2013	Stock options granted on August 29, 2013	Total
Number of shares for options granted	44,100 shares	39,500 shares	83,600 shares
Number of shares for options outstanding	19,700 shares	20,500 shares	40,200 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2016 – July 31, 2028	August 1, 2016 – July 31, 2028	

⑥ Stock option plan approved by the shareholders on June 25, 2014 and resolved by the Board of Directors on July 31, 2014

	Stock options granted on August 28, 2014	Stock options granted on August 28, 2014	Total
Number of shares for options granted	76,900 shares	57,400 shares	134,300 shares
Number of shares for options outstanding	18,600 shares	36,300 shares	54,900 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2017 – July 31, 2029	August 1, 2017 – July 31, 2029	

⑦ Stock option plan approved by the shareholders on June 23, 2015 and resolved by the Board of Directors on February 23, 2016

	Stock options granted on March 30, 2016	Stock options granted on March 30, 2016	Total
Number of shares for options granted	23,700 shares	46,300 shares	70,000 shares
Number of shares for options outstanding	23,700 shares	33,800 shares	57,500 shares
Exercise price	¥1	¥1	
Exercisable period	September 1, 2018 – February 28, 2031	September 1, 2018 – February 28, 2031	

⑧ Stock option plan approved by the shareholders on March 25, 2016 and resolved by the Board of Directors on February 23, 2017

	Stock options granted on March 30, 2017	Stock options granted on March 30, 2017	Total
Number of shares for options granted	40,400 shares	71,600 shares	112,000 shares
Number of shares for options outstanding	40,400 shares	71,600 shares	112,000 shares
Exercise price	¥1	¥1	
Exercisable period	September 1, 2019 – February 29, 2032	September 1, 2019 – February 29, 2032	

⑨ Stock option plan approved by the shareholders on March 28, 2017 and resolved by the Board of Directors on March 6, 2018

	Stock options granted on March 28, 2018	Stock options granted on March 28, 2018	Total
Number of shares for options granted	33,700 shares	32,500 shares	66,200 shares
Number of shares for options outstanding	33,700 shares	32,500 shares	66,200 shares
Exercise price	¥1	¥1	
Exercisable period	September 1, 2020 – February 28, 2033	September 1, 2020 – February 28, 2033	

14. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants and enterprise taxes. The statutory income tax rate was 31% for the fiscal years 2017 and 2018.

Reconciliation of the statutory tax rate and the effective tax rate for the fiscal years 2017 and 2018 is as follows:

	2017/12	2018/12
Statutory tax rate	31.0%	**31.0%**
Increase (decrease) due to:		
Permanently non-deductible expenses including entertainment expenses	0.3	**0.5**
Permanently non-taxable incomes including dividends received	1.3	**2.2**
Unrealized intercompany profit	(0.4)	**0.3**
Tax credits	(3.5)	**(2.1)**
Differences of statutory tax rates for domestic consolidated subsidaries	5.3	**2.4**
Differences of statutory tax rates for overseas consolidated subsidiaries	(10.1)	**(1.1)**
Change in valuation allowance	(0.1)	**3.5**
Impairment of goodwill	34.7	**—**
Gain on transfer of business in tax	(17.6)	**—**
Impact of the Tax Reform Act in the United States	(8.1)	**—**
Others	1.4	**1.1**
Effective tax rate	34.2%	**37.8%**

Deferred tax assets and liabilities (both current and non-current) as of December 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Deferred tax assets:			
Liability for retirement benefits	23,921	25,040	225,768
Unrealized intercompany profit in inventory and property, plant and equipment	6,240	7,406	66,774
Inventories	12,149	13,484	121,576
Loss on revaluation of financial instruments	405	292	2,632
Accrued expenses	8,548	10,455	94,265
Accrued bonuses for employees	5,872	7,029	63,375
Tax losses carried forward	2,753	4,011	36,164
Depreciation	3,024	2,252	20,304
Reserve for sales returns	724	1,172	10,567
Accrued enterprise tax	2,056	1,599	14,417
Other	9,246	8,994	81,092
Total gross deferred tax assets	74,943	81,738	736,975
Less: valuation allowance	(4,137)	(7,767)	(70,029)
Total deferred tax assets	70,805	73,971	666,946
Deferred tax liabilities:			
Goodwill and other intangible assets	9,136	8,295	74,790
Unrealized gains (losses) on available-for-sale securities	3,636	2,406	21,693
Undistributed earnings of overseas consolidated subsidiaries	2,167	3,448	31,088
Special tax-purpose reserve	2,511	2,679	24,154
Other	991	766	6,906
Total deferred tax liabilities	18,444	17,595	158,642
Net deferred tax assets	52,361	56,375	508,295

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	2018/12	2018/12
Current assets–deferred tax assets	25,467	29,690	267,694
Investments and other assets–deferred tax assets	30,658	30,001	270,498
Current liabilities–deferred tax liabilities	(2)	(0)	(0)
Long-term liabilities–deferred tax liabilities	(3,762)	(3,316)	(29,898)
Net deferred tax assets	52,361	56,375	508,295

15. SEGMENT INFORMATION

(1) General Information About Reportable Segments

With respect to its reportable segments, the Company is able to obtain discrete financial data from its structural units. Accordingly, its segments are subject to regular examination in order to assist decision-making on allocation of managerial resources and evaluation of business performance by the Board of Directors.

Shiseido's main business is the production and sale of cosmetics. The Company engages in business activities under a matrix organization encompassing five brand categories based on consumer purchasing style (Prestige, Fragrance, Cosmetics, Personal Care and Professional) and six regions (Japan, China, Asia Pacific, the Americas, EMEA and Travel Retail). This matrix organization gives the leader in each region broad authority as well as responsibility for sales and profits to ensure flexible decision-making. The Company's seven reportable segments, which mainly refer to regions, are the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail Business" and "Professional Business."

The Japan Business is mainly comprised of the domestic business by brand category (Prestige, Fragrance, Cosmetics, Personal Care and others) and the healthcare business (sale of health & beauty foods as well as over-the-counter drugs).

The China Business covers business in China by brand category (Prestige, Fragrance, Cosmetics, Personal Care and others).

The Asia Pacific Business covers business in the Asia and Oceania regions excluding Japan and China by brand category (Prestige, Fragrance, Cosmetics, Personal Care and others).

The Americas Business covers business in the Americas region by brand category (Prestige and Fragrance).

The EMEA Business covers business in Europe, the Middle East and African regions by brand category (Prestige, Fragrance and others).

The Travel Retail Business covers the operation of worldwide duty-free stores excluding Japan by brand category (Prestige, Fragrance and others).

The Professional Business encompasses the sale of hair and beauty salon products in Japan, China, and the rest of Asia.

Other includes head office administration departments, IPSA Co., Ltd., the manufacturing business, the frontier science business (cosmetic raw materials and medical-use drugs), and the restaurant business.

Changes in the Method of Classifying Reportable Segment

In the fiscal year 2018, the Group has revised its reportable segment classification method in line with the Group's internal financial management structure. The result of IPSA Co., Ltd., which was previously included in the Japan Business, is now included in the Other segment. The fragrance business in the Asia Pacific region, which was previously included in the EMEA Business, is now included in the Asia Pacific Business. The travel retail fragrance business, which was previously included in the EMEA Business, is now included in the Travel Retail Business. *NAVISION* and *2e*, which were previously included in the Other segment, are now included in the Japan Business.

The Group has also made some revisions to the categories used to monitor business performance. The business of some distributors for *NARS*, *bareMinerals*, and *LAURA MERCIER* in each region, which were previously included in the Americas Business, are now included in the Asia Pacific Business, the EMEA Business, or the Travel Retail Business.

The segment information for the fiscal year 2017 has been restated to conform to the revised reportable segments.

(2) Basis of Measurement for Reported Segment Sales, Profit or Loss and Other Material Items

The accounting treatment for the Group's reported business segments is generally the same as described in "2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. Segment profit is based on operating profit. Pricing of intersegment transactions and transfers is determined based on market conditions.

(3) Information About Reported Segment Sales, Profit or Loss and Other Material Items

Segment information for the fiscal year 2017 is as follows:

Millions of yen

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (*1)	Travel Retail Business
Net Sales						
Sales to Outside Customers	417,074	144,266	59,819	134,130	108,517	65,028
Intersegment Sales or Transfers	28,633	305	1,471	19,000	9,153	349
Total	445,708	144,572	61,290	153,131	117,671	65,377
Segment Profit / (Loss)	78,207	11,329	7,183	(11,768)	(5,822)	15,046
Other Items						
Depreciation and Amortization	6,815	3,964	1,933	9,795	6,679	396
Amortization of Goodwill	141	396	61	3,304	—	—

	Reportable Segment	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
	Professional Business				
Net Sales					
Sales to Outside Customers	47,959	28,265	1,005,062	—	1,005,062
Intersegment Sales or Transfers	399	77,076	136,390	(136,390)	—
Total	48,359	105,342	1,141,453	(136,390)	1,005,062
Segment Profit / (Loss)	2,958	(7,979)	89,154	(8,716)	80,437
Other Items					
Depreciation and Amortization	856	9,173	39,614	—	39,614
Amortization of Goodwill	331	—	4,235	—	4,235

*1 The EMEA Business includes the Middle East and African regions.
*2 "Other" includes head office administration departments, IPSA Co., Ltd., manufacturing operations and the activities of the Frontier Science business (cosmetic raw materials, medical-use drugs, and production and sales of purification and analytical equipment), as well as the Restaurant business and other businesses.
*3 Segment profit / (loss) adjustment is mainly intersegment transaction eliminations.
*4 Segment profit / (loss) is based on operating profit in the consolidated statements of income.
*5 Assets and liabilities by segment are not provided because they are not subject to reallocation and appraisal of management resources on a periodic basis.

Segment information for the fiscal year 2018 is as follows:

Millions of yen

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (*1)	Travel Retail Business
Net Sales						
Sales to Outside Customers	454,558	190,799	68,120	131,733	113,164	87,621
Intersegment Sales or Transfers	32,596	467	2,289	37,362	11,856	216
Total	487,155	191,267	70,409	169,096	125,020	87,838
Segment Profit / (Loss)	91,430	24,514	7,808	(14,775)	(7,988)	17,606
Other Items						
Depreciation and Amortization	6,958	3,728	2,071	10,020	8,107	448
Amortization of Goodwill	141	373	60	1,275	—	—

	Reportable Segment	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
	Professional Business				
Net Sales					
Sales to Outside Customers	20,324	28,503	1,094,825	—	1,094,825
Intersegment Sales or Transfers	418	107,209	192,417	(192,417)	—
Total	20,742	135,712	1,287,242	(192,417)	1,094,825
Segment Profit / (Loss)	817	(6,029)	113,384	(5,034)	108,350
Other Items					
Depreciation and Amortization	74	10,584	41,994	—	41,994
Amortization of Goodwill	—	—	1,851	—	1,851

Thousands of U.S. dollars (Note 1)

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (*1)	Travel Retail Business
Net Sales						
Sales to Outside Customers	4,098,440	1,720,304	614,191	1,187,746	1,020,322	790,018
Intersegment Sales or Transfers	293,895	4,210	20,638	336,867	106,897	1,947
Total	4,392,345	1,724,524	634,830	1,524,623	1,127,220	791,975
Segment Profit / (Loss)	824,362	221,026	70,399	(133,216)	(72,022)	158,741
Other Items						
Depreciation and Amortization	62,735	33,612	18,672	90,343	73,095	4,039
Amortization of Goodwill	1,271	3,363	540	11,495	—	—

	Reportable Segment	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
	Professional Business				
Net Sales					
Sales to Outside Customers	183,247	256,992	9,871,292	—	9,871,292
Intersegment Sales or Transfers	3,768	966,630	1,734,893	(1,734,893)	—
Total	187,016	1,223,622	11,606,185	(1,734,893)	9,871,292
Segment Profit / (Loss)	7,366	(54,359)	1,022,306	(45,388)	976,918
Other Items					
Depreciation and Amortization	667	95,428	378,631	—	378,631
Amortization of Goodwill	—	—	16,689	—	16,689

*1 The EMEA Business includes the Middle East and African regions.
*2 "Other" includes head office administration departments, IPSA Co., Ltd., manufacturing operations and the activities of the Frontier Science business (cosmetic raw materials and medical-use drugs), as well as the Restaurant business and other businesses.
*3 Segment profit / (loss) adjustment is mainly intersegment transaction eliminations.
*4 Segment profit / (loss) is based on operating profit in the consolidated statements of income.
*5 Assets and liabilities by segment are not provided because they are not subject to reallocation and appraisal of management resources on a periodic basis.

Related Information

For the fiscal year 2017

① Information on products and services

Sales to outside customers in the cosmetics business exceed 90% of net sales in the consolidated statement of income and, therefore, the Company omits this disclosure.

② Geographical information

I Net sales

Millions of yen

2017/12						
Japan	Americas	U.S.A.	Europe	Asia / Oceania	China	Total
456,929	163,934	137,788	128,334	255,865	160,951	1,005,062

*Classification of net sales is determined by country or geographical location.

II Property, Plant and Equipment

Millions of yen

2017/12						
Japan	Americas	U.S.A.	Europe	Asia / Oceania	China	Total
111,601	15,195	15,119	8,606	23,278	10,901	158,681

③ Main customers

There is no outside customer representing 10% or more of net sales of the consolidated statement of income and, therefore, the Company omits this disclosure.

For the fiscal year 2018

① Information on products and services

Sales to outside customers in the cosmetics business exceed 90% of net sales in the consolidated statement of income and, therefore, the Company omits this disclosure.

② Geographical information

I Net sales

Millions of yen

2018/12						
Japan	Americas	U.S.A.	Europe	Asia / Oceania	China	Total
495,372	138,305	115,583	128,238	332,908	216,866	1,094,825

Thousands of U.S. dollars (Note 1)

2018/12						
Japan	Americas	U.S.A.	Europe	Asia / Oceania	China	Total
4,466,432	1,247,002	1,042,133	1,156,234	3,001,604	1,955,333	9,871,292

* Classification of net sales is determined by country or geographical location.

II Property, Plant and Equipment

Millions of yen

2018/12						
Japan	Americas	U.S.A.	Europe	Asia / Oceania	China	Total
180,826	20,205	20,037	11,257	22,896	10,075	235,185

Thousands of U.S. dollars (Note 1)

2018/12						
Japan	Americas	U.S.A.	Europe	Asia / Oceania	China	Total
1,630,384	182,174	180,659	101,496	206,437	90,839	2,120,503

③ Main customers

There is no outside customer representing 10% or more of net sales of the consolidated statement of income and, therefore, the Company omits this disclosure.

(4) Segment Loss on Impairment of Fixed Assets

Millions of yen

2017/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
—	47	—	70,874	—	—	0	—	70,922

Not applicable for the fiscal year 2018.

(5) Segment Unamortized Goodwill

Millions of yen

2017/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
603	2,331	128	9,100	2	—	—	—	12,166

Millions of yen

2018/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
461	1,907	61	10,177	2	—	—	—	12,610

Thousands of U.S. dollars (Note 1)

2018/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
4,156	17,194	549	91,759	18	—	—	—	113,695

16. TRANSACTIONS WITH RELATED PARTIES

Key Directors, Auditors and Supervisory Board Members and Officers of the Consolidated Subsidiaries

For the fiscal year 2017

Type	Name	Location	Capital or Investments	Business or Profession	Voting Rights Held (%)	Relationship with the Related Parties	Transactions	Amount	Account Name	Balance as of December 31, 2017
Company with a majority of the voting rights held by an executive or close relative	Lucien Henri S.A.S (*1)	France	130 thousand EUR	Sales of cosmetics and fragrances	—	Sales of products	Sales of cosmetics and fragrances (*2)	¥24 million	Account Receivable	¥0 million

*1 100% directly held by an executive of BPI S.A., Mr. Eric HENRY and close relatives
*2 Transactions are under normal terms and conditions, and considered as independent third-party transactions.

For the fiscal year 2018

Type	Name	Location	Capital or Investments	Business or Profession	Voting Rights Held (%)	Relationship with the Related Parties	Transactions	Amount	Account Name	Balance as of December 31, 2018
Company with a majority of the voting rights held by an executive or close relative	**Lucien Henri S.A.S (*1)**	**France**	**130 thousand EUR**	**Sales of cosmetics and fragrances**	**—**	**Sales of products**	**Sales of cosmetics and fragrances (*2)**	**¥23 million ($207 thousand)**	**Account Receivable**	**¥0 million ($0 thousand)**

*1 100% directly held by an executive of BPI S.A., Mr. Eric HENRY and close relatives
*2 Transactions are under normal terms and conditions, and considered as independent third-party transactions.

17. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of December 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	**2018/12**	**2018/12**
Short-term borrowings from banks and other financial institutions			
(weighted average interest rate 5.03%)	8,540	**2,725**	**24,569**
Short-term debt	8,540	**2,725**	**24,569**
Long-term borrowings from banks and other financial institutions			
(Borrowings due within one year, weighted average interest rate 0.56%)	731	**730**	**6,581**
(Borrowings due after one year, weighted average interest rate 0.38%)	28,835	**28,105**	**253,403**
0.001% unsecured yen bonds due in December 2019	10,000	**10,000**	**90,163**
0.237% unsecured yen bonds due in June 2020	15,000	**15,000**	**135,244**
0.374% unsecured yen bonds due in June 2022	15,000	**15,000**	**135,244**
Lease obligations			
(Borrowings due within one year, weighted average interest rate 2.63%)	1,391	**1,746**	**15,742**
(Borrowings due after one year, weighted average interest rate 2.81%)	1,966	**2,469**	**22,261**
Long-term payables (including other payables)			
(due with in and after one year, weighted average interest rate 2.50%)	59,151	**54,162**	**488,341**
	132,075	**127,214**	**1,147,002**
Less: portion due within one year	(3,663)	**(14,163)**	**(127,698)**
Long-term debt	128,411	**113,050**	**1,019,294**

The aggregate annual maturities of short-term and long-term debt as of December 31, 2018 are as follows:

For the fiscal years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2019	**16,889**	**152,276**
2020	**18,966**	**171,003**
2021	**13,721**	**123,712**
2022	**19,008**	**171,382**
2023	**19,499**	**175,809**
2024 and thereafter	**41,855**	**377,378**
	129,939	**1,171,571**

Assets pledged as collateral as of December 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	**2018/12**	**2018/12**
Cash and time deposits	1,815	**1,783**	**16,076**
Buildings and structures	12,709	**12,396**	**111,766**
Machinery and equipment	0	**0**	**0**
Investments in securities	1,155	**1,155**	**10,413**
Other investments	15,200	**15,200**	**137,048**
	30,881	**30,535**	**275,313**

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of December 31, 2017 and 2018:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017/12	**2018/12**	**2018/12**
Current portion of long-term debt	730	**730**	**6,581**
Long-term debt	18,835	**18,105**	**163,240**
	19,565	**18,835**	**169,822**

18. CONTINGENT LIABILITIES

There are no significant contingent liabilities to be disclosed.

Independent Auditor's Report

KPMG

To the Shareholders and Board of Directors of
Shiseido Company, Limited:

We have audited the accompanying consolidated financial statements of Shiseido Company, Limited and its consolidated subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and 2018, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatements of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Shiseido Company, Limited and its consolidated subsidiaries as at December 31, 2017 and 2018, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

March 26, 2019
Tokyo, Japan