Historical Selected Financial Data

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended March 31, 2011 to December 31, 2019

										Millions of yen (Except per share data)	Thousands of U.S. dollars (Except per share data)
	2011/3	2012/3	2013/3	2014/3	2015/3	2015/12	2016/12	2017/12	2018/12	**2019/12**	**2019/12**
Operating Results:											
Net sales	670,701	682,385	677,727	762,047	777,687	763,058	850,306	1,005,062	1,094,825	**1,131,547**	**10,425,161**
Cost of sales	168,692	162,989	166,783	189,559	196,433	196,009	207,553	231,327	231,928	**254,844**	**2,347,927**
Selling, general and administrative expenses	457,550	480,260	484,898	522,843	553,640	529,388	605,972	693,298	754,545	**762,871**	**7,028,477**
Operating profit	44,458	39,135	26,045	49,644	27,613	37,660	36,780	80,437	108,350	**113,831**	**1,048,747**
EBITDA	65,576	76,974	61,463	91,285	90,703	80,635	90,078	154,741	150,318	**169,348**	**1,560,235**
Net profit (loss) attributable to owners of parent	12,790	14,515	(14,685)	26,149	33,668	23,210	32,101	22,749	61,403	**73,562**	**677,740**
Financial Position:											
Total assets	739,120	720,707	715,593	801,346	823,636	808,547	934,590	949,425	1,009,618	**1,218,795**	**11,228,993**
Short-term Interest-bearing debt	16,361	9,734	39,394	64,054	75,615	18,996	16,557	10,662	15,202	**144,949**	**1,335,443**
Long-term Interest-bearing debt	181,155	175,418	145,274	91,864	31,281	67,617	104,022	70,801	60,574	**103,159**	**950,423**
Interest-bearing debt	197,517	185,153	184,669	155,918	106,897	86,613	120,580	81,463	75,776	**248,108**	**2,285,866**
Equity	307,269	290,494	287,069	338,561	386,860	391,664	392,963	423,447	448,580	**496,437**	**4,573,770**
Cash Flows:											
Cash flows from operating activities	67,586	52,599	42,040	84,320	32,134	60,529	59,129	95,392	92,577	**75,562**	**696,167**
Cash flows from investing activities	(30,303)	(20,668)	(25,534)	(16,799)	11,538	(23,137)	(70,640)	(1,061)	(103,112)	**(202,823)**	**(1,868,647)**
Cash flows from financing activities	(39,571)	(35,482)	(24,745)	(47,462)	(58,419)	(30,151)	22,378	(53,117)	(29,722)	**113,678**	**1,047,337**
Cash and cash equivalents at end of year	88,592	82,974	80,253	110,163	100,807	104,926	113,122	156,834	111,767	**97,466**	**897,973**
Per Share Data (In yen and U.S. dollars):											
Net profit (loss)	32.1	36.5	(36.9)	65.7	84.4	58.2	80.4	56.9	153.7	**184.2**	**1.70**
Net assets	772.1	729.9	721.2	849.4	970.0	981.4	984.1	1,059.8	1,123.2	**1,242.9**	**11.45**
Cash dividend	50.0	50.0	50.0	20.0	20.0	20.0	20.0	27.5	45.0	**60.0**	**0.55**
Weighted average number of shares outstanding during the period (thousands)	397,864	397,974	398,007	398,300	398,704	399,026	399,227	399,466	399,409	**399,411**	
Financial Ratios:											
Operating margin (%)	6.6	5.7	3.8	6.5	3.6	4.9	4.3	8.0	9.9	**10.1**	
Return on invested capital (%)	4.5	3.5	3.4	5.9	4.1	4.6	5.0	10.4	13.1	**12.9**	
Return on equity (%)	3.9	4.9	(5.1)	8.4	9.4	6.0	8.2	5.6	14.1	**15.6**	
Equity ratio (%)	41.6	40.3	40.1	42.2	47.0	48.4	42.0	44.6	44.4	**40.7**	
Interest-bearing debt to EBITDA ratio (times)	3.1	2.5	3.0	1.9	1.4	1.2	1.2	0.7	0.5	**1.0**	
Debt-equity ratio (times)	0.64	0.64	0.64	0.46	0.28	0.22	0.31	0.19	0.17	**0.50**	
Interest-bearing debt ratio (%)	39.1	38.9	39.1	31.5	21.6	18.1	23.5	16.1	14.5	**33.3**	
CCC (Cash Conversion Cycle) (days)	109	109	133	139	143	146	123	114	126	**149**	
Payout ratio (consolidated) (%)	155.5	137.1	—	30.5	23.7	34.4	24.9	48.3	29.3	**32.6**	
Dividend on equity (%)	6.1	6.7	6.9	2.6	2.2	2.1	2.0	2.7	4.1	**5.1**	
Number of employees at year-end	31,310	32,595	33,356	33,054	33,000	33,783	36,549	37,438	38,640	**40,000**	
Net sales per employee	21.4	20.9	20.3	23.1	23.6	22.6	23.2	26.8	28.3	**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 ¥108.54 = US$1 prevailing on December 31, 2019.
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. Cash Conversion Cycle (days) =Receivables Turnover Period (days) + Inventory Turnover (days) – Payables Turnover Period (days) (average of each indicator during the period)
11. Dividend on equity = Return on equity × Payout ratio (Consolidated)
12. The number of employees at year-end does not include temporary employees.
13. 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.
14. Effective from the fiscal year ended March 31, 2014, certain subsidiaries of the Shiseido Group 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.
15. From the fiscal year 2016, Shiseido has been recognizing payables associated with *Dolce&Gabbana*. For the fiscal year ended December 2019, the interest-bearing debt ratio including these payables was 37.5 percent, the debt-equity ratio was 0.60, and interest-bearing debt was ¥298,475 million.
16. 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 2019, economic conditions in Japan continued along a path of moderate recovery underpinned by improvement in employment and income gains. At the same time, the consumption tax hike from October 1, 2019, and typhoons and other natural disasters led to continued uncertainties over the outlook for consumer spending. In the domestic cosmetics market, inbound demand from tourists visiting Japan, which continued to trend upward, remained firm, and the overall recovery trend continued despite a last-minute surge in demand prior to the consumption tax hike and a subsequent pullback. In the overseas cosmetics markets, performance was weak in Europe, where demand varied by country, and negative growth in the makeup market also continued in the Americas, resulting in weak delivery overall. China and the rest of Asia were affected by the tough market environments in Hong Kong and other factors. However, growth remained firm overall.

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

This fiscal year was the second year of the latter three-year period known as the second phase of VISION 2020. We worked to accomplish the new strategy to accelerate growth. To achieve this, we concentrated marketing investments on the prestige brands, a key driver of growth, and made-in-Japan cosmetics brands, and promoted larger investments in digital marketing and innovation. In addition, we worked on building supply capability and improving profitability in the Americas business and EMEA business, both of which were challenges that needed to be addressed.

As a result, record-high net sales, operating profit, and net profit attributable to owners of parent were reached in the fiscal year 2019.

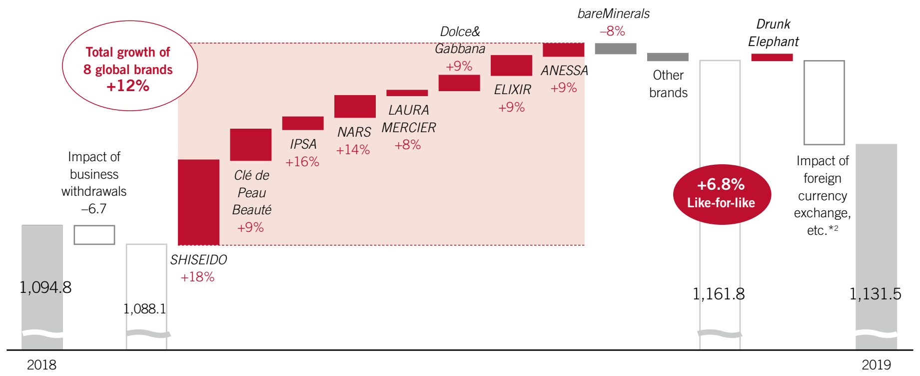
ANALYSIS OF OPERATING RESULTS

NET SALES

Net sales increased 5.7% year on year on a local currency basis. The prestige brands in which the Shiseido Group has continued to step up strategic investments drove overall results. When converted into Japanese yen, net sales reached ¥1,131.5 billion ($10,425.1 million), growing 3.4% from the previous fiscal year. Excluding the impacts of withdrawing from the amenity goods business in the previous fiscal year as well as of adopting Financial Accounting Standards Board Accounting Standards certification Topic 606-Revenue from Contracts with Customers ("ASC606") and acquiring the U.S. skincare brand Drunk Elephant during the period under review, net sales increased 6.8%.

Change in net sales by brand (billion yen)

YoY change (%, excl. the impact of foreign exchange and adoption of the new revenue recognition standard, ASC 606 in the Americas in 2019)



*1. YoY change (%) for each brand is calculated based on initial exchange rate assumptions.
*2. "Impact of foreign currency exchange, etc." includes impacts of (1) foreign currency exchange -26.1 billion yen, (2) the adoption of the new revenue recognition standard, ASC 606 in the Americas in 2019, and (3) business withdrawals (dermatologic agent brands *FERZEA* and *Encron* in 2019) in Japan.

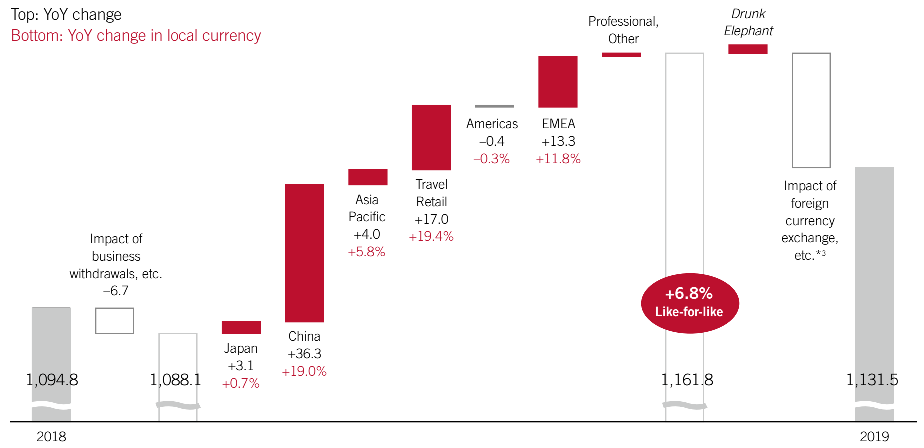
Cumulatively, our eight core brands achieved a total of 12% growth due to ongoing selection and concentration efforts. This growth contributed to an operating margin increase of 0.2 percentage point. Also, we have recorded two months' worth of sales of the Drunk Elephant brand, which the Company acquired in November 2019, although the impact of doing so is excluded in like-for-like comparisons.

In the fiscal year 2019, *SHISEIDO* become our first ever brand to reach sales of ¥200 billion. This brand realized sales growth of 18%, driven by *Ultimune*, an innovative product that has received 151 awards around the world, as well as cross-border marketing activities utilizing digital promotions.

While originating in the United States, the makeup brand *LAURA MERCIER*, which we acquired in 2016, already sees over 50% of its total sales coming from countries and regions other than the U.S. By drawing on the Shiseido Group's worldwide platform, we have been able to turn *LAURA MERCIER* into a truly global brand in only a short time. Going forward, we will take steps to optimize our brand portfolio to further improve our brand profitability.

YoY breakdown of change in net sales by reportable segment (billion yen)

Top: YoY change
Bottom: YoY change in local currency



*1. The year-on-year change in local currency terms for each business was calculated based on the actual exchange rates.
*2. See REVIEW BY REPORTABLE SEGMENT Note 2.
*3. "Impact of foreign currency exchange, etc." includes impacts of (1) foreign currency exchange -26.1 billion yen, (2) the adoption of the new revenue recognition standard, ASC 606 in the Americas in 2019, and (3) business withdrawals (dermatologic agent brands *FERZEA* and *Encron* in 2019) in Japan.

By region, we realized solid growth in the China, Travel Retail, Asia Pacific, and EMEA businesses, despite facing uncertainties in the macro economy. However, sales declined slightly on an like-for-like basis, which excludes the impact of foreign exchange rates and other factors, due to stagnant growth in Japan and the deceleration and structural reforms of the makeup market in Americas.

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of Sales

Cost of sales rose 9.9% year on year, to ¥254.8 billion ($2,347.9 million). The cost of sales ratio increased 1.3 percentage points, to 22.5%. Of the factors behind this increase, the impact of adopting new accounting standards in the United States caused a percentage point increase of 0.4. The remaining 0.9 of a percentage point resulted from an increase in depreciation and amortization following the start of operations at the Nasu Factory, the increase in tariffs between the United States and China, and larger inventories resulting in higher outsourcing costs. These factors offset an improvement in our brand mix that stemmed primarily from the robust growth of our prestige brands.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 1.1%, to ¥762.9 billion ($7,028 million). The breakdown of this result is as follows:

Marketing Costs

The ratio of marketing costs to net sales declined 2.2 of a percentage point, to 34.4%, following efforts to optimize expenses in a manner that catered to the market conditions in Hong Kong and South Korea as well as increased digitalization. These factors offset our continued stable and strategic investments in our core brands as well as an increase in the absolute amount on a local currency basis.

In addition, POS personnel expenses decreased due to the closing of boutiques for the *bareMinerals* brand.

Personnel Expenses

The ratio of personnel expenses to net sales decreased 0.3 percentage points, to 11.3%, as personnel expenses remained nearly flat while sales grew.

Other SG&A Expenses

The ratio of other SG&A expenses to net sales increased 1.0 percentage points, to 21.7%, due to rising logistics costs and the increase in temporal expenses and amortization of goodwill following the acquisition of *Drunk Elephant*.

R&D investments, which are included in SG&A expenses, stood at ¥31.7 billion ($292.1 million) and represented 2.8% of net sales.

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

	2016/12	2017/12	2018/12	**2019/12**
Cost of Sales Ratio (%)	24.4	23.0	21.2	**22.5**
SG&A Expenses Ratio (%)	71.3	69.0	68.9	**67.4**
Marketing Costs	36.3	35.7	36.6	**34.4**
Personnel Expenses	13.2	12.5	11.6	**11.3**
Other SG&A Expenses	21.8	20.7	20.7	**21.7**
SG&A Expenses (Billions of yen)	606.0	693.3	754.5	**762.9**
Marketing Costs	308.8	359.2	401.2	**389.3**
Personnel Expenses	112.0	125.8	127.1	**128.2**
Other SG&A Expenses	185.2	208.3	226.2	**245.4**

Note: Costs of Beauty Consultants are included in marketing costs.

OPERATING PROFIT

Operating profit increased 5.1%, to ¥113.8 billion ($1,048.5 million).

Operating profit / Operating Margin

(Billions of yen)	2016/12	2017/12	2018/12	**2019/12**
Operating Profit	36.8	80.4	108.4	**113.8**
Operating Margin (%)	4.3	8.0	9.9	**10.1**

ORDINARY PROFIT

Ordinary profit declined 0.7%, to ¥108.7 billion ($1,001.5 million), owing to an increase in foreign exchange loss, a decline in revenue from subsidies, and an increase in interest expense due to an increase in loans.

NET PROFIT ATTRIBUTABLE TO OWNERS OF PARENT

Net profit attributable to owners of parent increased 19.8%, to ¥73.6 billion ($678.1 million). This increase was the result of a decline in tax expenses and extraordinary losses, which offset a decrease in ordinary profit and a drop in extraordinary gains caused by a decline in gain on sales of property, plant and equipment.

For the fiscal year 2019, the consolidated operating profit margin was 10.1%. Consolidated ROE (return on equity) was 15.6%, and consolidated ROIC (return on invested capital) was 12.9%.

Major foreign currency exchange rates applicable to income and expense accounting line items in the Group's financial statements are JPY109.1/USD, JPY122.1/EUR, and JPY15.8/CNY for fiscal year 2019.

REVIEW BY REPORTABLE SEGMENT

Results by reportable segment are as follows.

Net Sales by Reportable Segment

Segments[1]

(Billions of yen)	2017/12	2018/12
Japan Business	417.1	454.6
China Business	144.4	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[3]	28.3	28.5

Net Sales by Reportable Segment

Segments[2]

(Billions of yen)	2018/12	**2019/12**
Japan Business	454.5	**451.6**
China Business	190.8	**216.2**
Asia Pacific Business	68.1	**69.8**
Americas Business	131.7	**124.3**
EMEA Business	113.2	**118.4**
Travel Retail Business	87.6	**102.2**
Professional Business	14.1	**14.7**
Other[4]	34.7	**34.3**

Operating Profit by Reportable Segment

Segments[1]

(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[3]	(8.0)	(6.0)

Operating Profit by Reportable Segment

Segments[2]

(Billions of yen)	2018/12	**2019/12**
Japan Business	91.3	**91.1**
China Business	24.5	**29.2**
Asia Pacific Business	7.8	**7.4**
Americas Business	(14.8)	**(11.4)**
EMEA Business	(8.0)	**(2.2)**
Travel Retail Business	17.6	**22.1**
Professional Business	0.4	**0.3**
Other[4]	(5.5)	**(11.1)**

Operating Margin by Reportable Segment[5]

Segments[1]

(%)	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[3]	(7.6)	(4.4)

Operating Margin by Reportable Segment[5]

Segments[2]

(%)	2018/12	**2019/12**
Japan Business	18.8	**18.3**
China Business	12.8	**13.5**
Asia Pacific Business	11.1	**10.2**
Americas Business	(8.7)	**(6.9)**
EMEA Business	(6.4)	**(1.7)**
Travel Retail Business	20.0	**21.5**
Professional Business	2.7	**2.2**
Other[4]	(3.9)	**(7.1)**

Notes:

1. Change in Reportable Segment Classification
Effective from the fiscal year 2018, the Group 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 Business.
We 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 previous fiscal year has been restated in line with changes in the method of classifying reportable segments.
2. Change in Reportable Segment Classification
Effective from the fiscal year 2019, the Group has revised its reportable segment classification method in line with its internal financial management structure. Shiseido Beauty Salon Co., Ltd., which was previously included in the Professional Business, is now included in the Other segment. Shiseido Astech Co., Ltd. and Hanatsubaki Factory Co., Ltd., which were previously included in the Japan Business, are now included in the Other segment. The segment information for the previous fiscal year has been restated in line with the new method of classification.
3. "Other" includes head office administration departments, IPSA Co., Ltd., manufacturing operations and the activities of the Frontier Science business, as well as the Restaurant business and other businesses.
4. "Other" includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., manufacturing operations, the Frontier Science business and the Restaurant business, and other business.
5. "Operating margin by reportable segment" is calculated against sales for the segment, including intersegment sales.

Japan Business

In the Japan Business, we continued to focus on the "skin trinity category" of skincare, base makeup, and sun care, where we have strengths, in order to achieve sustainable growth. Strong sales of *ULTIMUNE* serum and foundation in the *SHISEIDO* brand largely contributed to the increase in sales. *HAKU* and *d program* also achieved sales growth with launches of "Medicated Care-Hybrid Foundation" products that promote both a more beautiful complexion and a beautiful finish. Stronger cross-border marketing throughout the Asian region steadily captured growing inbound demand, despite the negative impact of lower sales to inbound buyers owing to appreciation of the Japanese yen and enactment of a new e-commerce law in China, and the negative effect of unfavorable weather on local demand. Furthermore, rush demand ahead of the consumption tax hike was followed by weakness in consumer sentiment after the hike, which also affected demand.

The above performance resulted in a 0.6% year-on-year decrease in net sales to ¥451.6 billion ($4,160.7 million). Net like-for-like sales growth excluding such factors as the impact of withdrawal from the amenity goods business last fiscal year was 0.7%. Operating profit fell 0.3% year-on-year to ¥91.1 billion ($839.3 million), due to lower margins accompanying a decline in sales and increased investment.

China Business

In the China Business, the strong performance of prestige brands such as *SHISEIDO*, *Clé de Peau Beauté*, *IPSA* and *NARS* continued. Among cosmetics, robust growth was also maintained for made-in-Japan brands *ELIXIR* and *ANESSA*. E-commerce sales recorded strong sales from the roll-out of digital marketing and stronger collaboration with major Chinese online platforms, in addition to an aggressive launch schedule for products in the prestige and cosmetics categories. High consumer demand in mainland China persisted despite the impact of demonstrations in Hong Kong in the latter half of 2019.

As a result, net sales rose 19.0% year-on-year on an FX-neutral basis, or 13.3% year-on-year to ¥216.2 billion ($1,991.9 million) when converted to yen. Operating profit rose 19.2% year-on-year to ¥29.2 billion ($269.0 million) due to higher margins accompanying growth in sales, which more than offset the increased investments in digital marketing.

Asia Pacific Business

In the Asia Pacific Business, sales of the prestige brands *LAURA MERCIER* and *Clé de Peau Beauté* continued to be strong amid uncertain economic conditions, and sales of E*LIXIR, ANESSA* and the fragrance brand *Dolce&Gabbana* grew significantly. Conditions in South Korea were tough due to changes in the market environment; however, sales performance in the Southeast Asian region was strong due to expansion of the number of boutiques and increased investments in marketing.

The above factors resulted in net sales growth of 5.8% year-on-year on an FX-neutral basis, or 2.5% year-on-year growth to ¥69.8 billion ($643.1 million) when converted into yen. Operating profit fell 4.9% year-on-year to ¥7.4 billion ($68.2 million), mainly due to increased marketing investments, despite higher margins accompanying growth in sales.

Americas Business

In the Americas Business, sales of *SHISEIDO* and *Dolce&Gabbana* continued to grow in spite of the severe market environment. For the *bareMinerals* brand, the Group continued to make progress on closing unprofitable boutiques and other structural reforms. We also acquired the *Drunk Elephant* skincare brand in November 2019, which is continuing to see rapid growth, primarily in the U.S. market. The addition of this U.S.-based brand, for which expansion of global demand is anticipated, will further strengthen and expand our core prestige skincare business. It will also strengthen the revenue base of the Americas Business.

The above factors resulted in a 3.9% year-on-year decline in net sales on an FX-neutral basis, or a 5.6% year-on-year decline to ¥124.3 billion ($1,145.2 million) when converted into yen. Net sales excluding the impact from adoption of ASC 606 and the acquisition of Drunk Elephant declined 0.3% on a like-for-like basis. Lower structural reform expenses and other factors resulted in an operating loss of ¥11.4 billion ($105.0 million), an improvement of ¥3.4 billion ($31.3 million) compared to the last fiscal year. Broken down by function, the Americas Business consists of the commercial business in Americas and the makeup brand holder function aimed at global-scale development. It also possesses the Center of Excellence* function that serves as the value creation base for makeup, digital, and technology and assumes the cost of strategic investment in these global functions. The operating margin in the commercial business was in the high-single digit range. The Americas Business turned profitable absorbing the investment in the brand holder function. We will pursue reforms for *bareMinerals*, and strengthen and expand the newly acquired Drunk Elephant in order to improve profitability in the future.

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

EMEA Business

In the EMEA Business, fragrance brands such as *Dolce&Gabbana* and *narciso rodriguez* saw sales growth due to strong performance of new products. The *SHISEIDO* brand achieved solid performance in makeup products, and *NARS* continued to grow. *Clé de Peau Beauté* opened a boutique in London in October 2019 and will pursue further expansion in Europe in the future.

The above factors resulted in net sales growth of 11.8% year-on-year on an FX-neutral basis, or 4.6% year-on-year growth to ¥118.4 billion ($1,090.8 million) when converted to yen. Higher profit margins accompanying sales growth led to an operating loss of ¥2.2 billion ($20.3 million), a substantial improvement of ¥5.8 billion ($53.4 million) versus the previous year. Broken down by function, the EMEA Business consists of the commercial business in EMEA, the fragrance brand holder function, and the Center of Excellence function for fragrances, and assumes the cost of strategic investment in these global functions. The commercial business achieved a double-digit operating margin, leading to significant improvement in profitability after absorbing the investment in the brand holder function. We will improve profitability in the future as we expand sales while accelerating the pace of skincare development in addition to fragrances.

Travel Retail Business

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

During the fiscal year under review, we actively engaged in promotions and advertising in airports around the world. This resulted in continued outstanding 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 expanded the introduction of the *IPSA* and *ELIXIR* brands and strengthened strategic sales counters.

The factors mentioned above resulted in net sales growth of 19.4% year-on-year on an FX-neutral basis. When converted into yen, net sales rose 16.6% to ¥102.2 billion ($941.6 million). Operating profit increased 25.5% year-on-year to ¥22.1 billion ($203.6 million), boosted mainly by higher margins accompanying the sales increase.

Professional Business

In the Professional Business, we sell professional products such as hair care, styling, color and perm products for hair salons. During the fiscal year 2019, we worked to strengthen products and marketing. This resulted in high growth in China and strong performance in Malaysia, Singapore, and other countries.

The above factors resulted in net sales growth of 6.0% year-on-year on an FX-neutral basis, or 3.8% year-on-year growth to ¥14.7 billion ($135.4 million) when converted into yen. Operating profit decreased 15.9% year-on-year to ¥0.3 billion ($2.8 million), due to increased investments in marketing.

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

(%)	2016/12	2017/12	2018/12	**2019/12**
Net Sales	5.2	16.0	8.8	**5.7**

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)	2016/12	2017/12	2018/12	**2019/12**
USD	108.9	112.2	110.4	**109.1**
EUR	120.4	126.7	130.4	**122.1**
CNY	16.4	16.6	16.7	**15.8**

Sales by Region

(Billions of yen)	2016/12	2017/12	2018/12	**2019/12**
Japan	407.7	456.9	495.4	**491.1**
China	129.8	161.0	216.9	**248.4**
Asia (excl. China)	69.1	94.9	116.0	**128.6**
Americas	148.4	163.9	138.3	**130.4**
Europe	95.3	128.3	128.2	**133.1**
Total	850.3	1,005.1	1,094.8	**1,131.5**

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

LIQUIDITY AND CAPITAL RESOURCES

FINANCING AND LIQUIDITY MANAGEMENT

The Group seeks to generate stable operating cash flow and ensure a broad range of funding methods with the aims of securing sufficient capital for its operating activities and maintaining an appropriate level of liquidity and a sound financial position. We fund the working capital, capital expenditures, and investments and loans needed to maintain growth primarily with cash on hand and operating cash flow, supplemented by bank borrowings and bond issues. In terms of fundraising, we aim for a debt-to-equity ratio of 0.3 and an interest-bearing debt to EBITDA ratio of 1.0 for maintaining an A-level credit rating, which enables access to capital on favorable terms. At the same time, we raise funds using optimal, timely methods giving consideration to such factors as the market environment. However, taking into account future profitability and the potential to generate cash flows, we may revise the policies stated above, as well as our shareholder return policy, in an appropriate fashion so that we can establish an optimal capital structure that contributes to further improvements in capital efficiency.

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, 2019, cash and time deposits totaled ¥110.3 billion ($1,016.2 million) and represented 1.2 months of consolidated net sales for the fiscal year 2019. Interest-bearing debt as of December 31, 2019 totaled ¥298.5 billion ($2,750.1 million). The Company uses diversified funding methods, which include authorized but unissued straight bonds in Japan totaling ¥200.0 billion ($1,842.6 million). In addition, Shiseido and two subsidiaries in EMEA and Americas have established a syndicated loan program with authorized but unused commitments totaling $300.0 million.

As of December 31, 2019, the Shiseido Group maintained a sufficient level of liquidity and a high level of financial flexibility through its diversified funding methods.

CREDIT RATINGS

The Group recognizes the need to maintain its credit rating at a certain level to secure financial flexibility consistent with its capital and liquidity policies and to ensure access to sufficient capital resources through capital markets. The Group has acquired ratings from Moody's Japan K.K. (Moody's) to facilitate fund procurement through corporate bonds.

	Moody's
Long-term	A2 (Outlook: Stable)

(As of February 29, 2020)

ASSETS, LIABILITIES, AND NET ASSETS

Assets
Total assets were ¥1,218.8 billion ($11,229.0 million), an increase of ¥209.2 billion ($1,927.4 million) from the end of the previous fiscal year. This was mainly due to investments in property, plant and equipment accompanying the construction of new plants and the Global Innovation Center in Japan, the adoption of IFRS 16, Leases, from the fiscal year 2019, and the goodwill recognized from the acquisition of Drunk Elephant Holdings, LLC.

Liabilities
Total liabilities were ¥700.9 billion ($6,457.5 million), an increase of ¥159.8 billion ($1,472.2 million), resulting mainly from a rise in debt.

Net Assets
Total net assets were ¥517.9 billion ($4,771.5 million), an increase of ¥49.4 billion ($455.1 million), due mainly to the increase in retained earnings.

As of December 31, 2019, net assets per share were up ¥119.66 ($1.1) year on year, to ¥1,242.85 ($11.45). The equity ratio decreased 3.7 percentage points, to 40.7%.

CASH FLOWS

The balance of cash and cash equivalents as of the end of December 31, 2019 stood at ¥97.5 billion ($898.3 million), ¥14.3 billion ($131.7 million) less than the beginning of the fiscal year.

Cash Flows Summary

(Billions of yen)	2017/12	2018/12	**2019/12**
Cash Flows from Operating Activities	95.4	92.6	**75.6**
Cash Flows from Investing Activities	(1.1)	(103.1)	**(202.8)**
Cash Flows from Financing Activities	(53.1)	(29.7)	**113.7**
Cash and Cash Equivalents at End of Year	156.8	111.8	**97.5**

Cash Flows from Operating Activities
Net cash provided by operating activities during the fiscal year 2019 was ¥75.6 billion ($696.5 million).

Income tax paid increased ¥51.7 billion ($476.3 million), inventories increased ¥31.2 billion ($287.5 million), and the increase in notes and accounts receivable was ¥9.2 billion ($84.7 million). On the other hand, profit before income taxes was ¥107.4 billion ($990.8 million), depreciation and amortization was ¥55.7 billion ($513.2 million), and increase in notes and accounts payable was ¥10.2 billion ($94.0 million).

Cash Flows from Investing Activities
Net cash used in investing activities was ¥202.8 billion ($1868.4 million). Proceeds from sales of investment securities provided ¥10.2 billion ($94 million) and proceeds from sales of property, plant and equipment generated ¥1.2 billion ($11.1 million). On the other hand, acquisition of share in a subsidiary resulting in a change in the scope of consolidation used ¥91.8 billion ($845.8 million), acquisition of property, plant and equipment came to ¥92.2 billion ($858.7 million), acquisition of intangible assets was ¥19.6 billion ($180.6 million), payments of long-term prepaid expenses stood at ¥8.3 billion ($76.5 million), and payments for lease and guarantee deposits used ¥2.0 billion ($18.4 million).

Cash Flows from Financing Activities
Net cash provided by financing activities was ¥113.7 billion ($1047.5 million). Net increase in short-term debt and commercial paper generated in a net cash inflow ¥117.8 billion ($1,085.3 million) and proceeds from long-term debt totaled ¥43.6 billion ($401.7 million). Meanwhile, cash dividends paid used ¥22.0 billion ($202.7 million), redemption of bonds was ¥10.0 billion ($92.1 million), repayment of lease obligations used ¥8.3 billion ($76.5 million), and cash dividends paid to non-controlling interests came to ¥5.1 billion ($47.0 million).

BUSINESS AND OTHER RISKS

Among the items listed in our Annual Securities Reports pertaining to our business performance and financial conditions, risks that could potentially impact our business performance and financial position are listed below. We believe that these risks could have a major impact on our investors' decisions. Items that deal with future events are based on our judgment as of the Annual Securities Reports date March 25, 2020. Please note that potential risks are not limited to those listed below.

The Group's risk management is primarily focused on "achieving our medium-to-long-term strategies". We thus consider risks as "uncertainties" that could impact the achievement, both potential threats to business as well as potential opportunities. Based on this approach, we have established a risk management structure and have put into place measures for managing such risks appropriately and effectively.

Risk-related information of the Group is gathered by Risk Management Department at Headquarters (HQ). Also, "Global Risk Management & Compliance Committee", chaired by the CEO and composed of regional CEOs and HQ corporate officers, regularly identifies Group risks and deliberates measures.

In 2019, Risk Management Department held interviews and surveys with the Group 's CEO, HQ corporate officers, and regional CEOs on Group risks. We also conducted Risk Management Officer (RMO) targeted surveys in each region. Based on the findings, we conducted risk assessment to identify key risks facing the Group. Our risk assessment utilized the following three evaluation criteria: "impact on business performance in the event a risk materializes", "timing and likelihood of potential risk materialization", and "adequacy of measures toward a given risk". On the basis of these evaluation criteria, the Global Risk Management & Compliance Committee has identified and prioritized risks that could potentially impact the Group's achievement of the " 2018-20 Five Key Strategies *" and evaluated measures. For evaluation of each risk, we took into consideration the potential impact on people's lives, Shiseido's assets, and overall business continuity, in accordance with the Group's Crisis Management Policy. Impact on reputation was also assessed.

Risks identified through our risk assessment have been organized into the following categories according to the overall nature of each risk: "Business Strategy Risks", "Business Foundation Risks," "Operational Risks", and "Other Risks". We have identified "risk owners" for each risk category in an effort to clarify responsibility for countermeasures. Moreover, we have implemented a monitoring framework within the Global Risk Management & Compliance Committee and the Board of Directors to regularly assess our progress in addressing these risks.

From the risk assessment results mentioned above, the five most impactful risks (threats and opportunities) for 2020 in relation to the realization of our "2018-20 Five Key Strategies*" are: "Geopolitical Risks", "Innovation", "Changes in Consumer Values", "ESC (Environment, Social, and Culture) Unique to Shiseido", and "Information Security".

The following outlines the relationship of individual risk categories and our key strategies, expected risks (threats and opportunities), and countermeasures. Please note that the following is based on our assumptions as of March 25, 2020.

*** 2018-20 Five Key Strategies**
1. Further selection and concentration of brands and businesses
2. Acceleration of digitalization and New business development
3. New value creation through innovation
4. Talent and organization development to be a global winner: "PEOPLE FIRST"
5. New global management structure

<Business Strategy Risks>

Risk categories	Important efforts for realizing our strategies / Uncertainties (threats and opportunities) that could impact such efforts and response measures regarding these uncertainties	Relationship with the five key strategies
Geopolitical Risks	**[Key Strategic Initiatives]** • Focus investment on the growth areas of the China and the Travel Retail businesses **[Uncertainties]** • Business environment deterioration resulting from geopolitical risks such as Brexit and U.S.-China trade tensions. (Threat) • Stable political conditions and diplomatic relationships of countries in which we operate would improve business environment and foster greater business opportunities. (Opportunity) **[Response measures]** • Further develop our prestige business in China and across the APAC Region • Balance sales portfolio across regions. Gain increased support from consumers and expanded sales / profits in Japan, the U.S., and Europe. • Enhance our presence in new markets including Africa and the Middle East	1, 2 and 3

Innovation	**[Key Strategic Initiatives]** • Invest 4% of sales in Research and Innovation (R&I) (target). • Strengthen R&I activities at each Regional Headquarters (RHQ). • Established Centers of Excellence (for skincare, makeup, digital, technology, and fragrance). **[Uncertainties]** • New and competing technologies may make existing technologies obsolete. Pharmaceutical regulations of certain countries could result in restriction of our technologies. (Threat) • Delay in the progress of M&A and partnerships with third parties could prevent us from achieving planned synergies and limit our overall competitiveness. (Threat) • Establishing competitive superiority through the creation of new value via innovation in fields such as services, processes, and organization. (Opportunity) **[Response measures]** • Established Shiseido Global Innovation Center in Yokohama Minato Mirai area. Established Beauty Innovation Hub as an open collaboration site in China. • Define KPIs for measuring the return on Research and Innovation (such as R&I expense to net sales ratio, number of researchers, sites, patent applications and academic papers, etc.) and regularly monitor against competitors • Conduct joint research with external organizations. Harness expertise of U.S. startup ventures. • Develop holistic beauty as a new area of research and competitiveness for the Group.	3
Changes in Consumer Values	**[Key Strategic Initiatives]** • Continue selection and concentration in line with the Prestige First strategy. • Expand cosmetics and personal care brands in Asia. • Global development of cross-border marketing. **[Uncertainties]** • Loss of competitiveness due to delayed or inadequate response to changing consumer values relating to "beauty", changing tastes related to cosmetics, and further diversifying purchasing behaviors. (Threat) • Successful marketing strategies leading to higher-than-expected sales and profits. (Opportunity) **[Response measures]** • Set up Consumer and Market Intelligence Department to gather consumer information in an accurate and timely manner. • Acquisitions reinforcing our brand portfolio to respond to diversifying consumer values (Drunk Elephant Holdings, LLC) • Established "China Business Innovation & Investment Representative Office (CBI)" as an operational hub to promote innovations in existing businesses and new business development responding to Chinese market trends.	1 and 3
ESC (Environment, Social, and Culture) Unique to Shiseido	**[Key Strategic Initiatives]** • Promote our corporate values from the aspects of the environment, society and culture with a core focus on beauty. Select materiality issues from two perspectives: impact on our stakeholders and on the Group's business. **[Uncertainties]** • Possibility of losing the trust of society at large and consumers due to insufficient ESC efforts. (Threat) • Efforts in this field could establish greater trust with consumers and society at large, create new social value in beauty, and rapidly increase corporate value. (Opportunity) **[Response measures]** • Establishment of "Social Value Creation Division", regular meetings held by the Sustainability Committee, medium-to-long-term strategy development and monitoring of the strategy progress, involving related departments of HQ and RHQs. Environment • Adopt eco-friendly packaging (co- developed Kaneka's biodegradable polymer PHBH and joined "Loop" rollout in Japan). • Promote switch to certified palm oil and paper. • Set and disclose medium-term targets for major environmental load reduction items (CO2, palm oil, paper, water, waste) and work toward achieving them. • Support "Task Force on Climate-related Financial Disclosures (TCFD)". • Develop products for protecting skin from harmful effects of ultraviolet rays. Society • Support and participate in "30% Club Japan" aimed to increase female representation among leaders of Japanese companies. • The Life Quality Center was established in Singapore as part of the Shiseido Life Quality Makeup Program for people suffering from skin concerns including discoloration and burn marks. • Expansion of "Lavender Ring", a project to support cancer patients in their return to daily life. Culture • Established an experiential museum "S/PARK Museum" in the Global Innovation Center in Yokohama. • Continue support for next-generation artists through our gallery. • Established "Japanese Beauty Institute" to organize events and share beauty-related contents online.	3
Changes in Competitive Environment	**[Key strategic initiatives]** • Reinforce digitalization and e-commerce in line with structural channel shifts. • Implement our Prestige First strategy globally. **[Uncertainties]** • Emphasis on response to demand from inbound tourists in Japan could result in the loss of existing consumers to new entrants from other industries and/or to existing competitors. (Threat) • Potential decrease in inbound tourist demand in Japan. (Threat) **[Response measures]** • Strengthen digital marketing through alliance with e-commerce platformers in China and venture companies. • Strengthen brand portfolio by acquiring brands responding to market changes and fragrance brand licenses. • Strengthen product development, marketing and sales activities that capture the needs of consumers in Japan.	1, 2 and 4

<Business Foundation Risks>

Risk Category	Important measures for realizing our strategies / Uncertainties (threats/opportunities) with the potential to impact these initiatives / Response measures	Relationship with Shiseido's Five Key Strategies
Information Security	**[Key Strategic Initiatives]** • Globally centralize and reinforce digital marketing in response to changes in consumer needs and competitive landscape, through global collection/sharing of big data and strengthened e-commerce. **[Uncertainties]** • Liability for damages and loss of trust in the Company as a result of system failures caused by cyber attacks and leakage of customer data. (Threat) • Possibility of countries further strengthening regulations on personal data handling and data sovereignty, resulting in restrictions on global sharing of applicable data. (Threat) • Significant improvements in digital marketing through globally centralized digitalization and effective use of information could lead to higher consolidated net sales and operating profits. (Opportunity) **[Response measures]** • Set up a dedicated information security department and a system to support global collaboration within the Company. Continue strengthening information security overall and information technology (IT) security in particular by positioning information security as a component of IT governance. Conduct IT audits of offices in each country. • Improved IT security for Company PCs and cloud computing services, and improved filtering against external cyber attacks. • Develop and promote compliance rules and regulations regarding cloud computing services and promote employee information security awareness globally.	2 and 5

Organizational Management and Governance	**[Key Strategic Initiatives]** • Creation of a matrix organization structure composed of six regions and brand categories to allow the global headquarters to manage the entire Group business, whilst also transferring greater authority to regional headquarters overseeing Japan, China, APAC, the Americas, EMEA, and Travel Retail. We will promote the localization of responsibilities and authority. **[Uncertainty]** • If regional headquarters push through decisions that do not align with the Group's overall policies, or, conversely, if authority is not appropriately delegated to regional headquarters and they are unable to effectively fulfill their responsibilities, it may become increasingly challenging to maintain efficient and legally-compliant operations and damage the organization's sustainability. (Threat) **[Response measures]** • Create and disseminate rules for responsibility and authority of global headquarters/ regional headquarters for each function and brand. • Establish permanent risk management and compliance-related committees to form a global internal control structure with regular reporting to the Board of Directors, etc.	1
Global Information Network	**[Key Strategic Initiatives]** • Globally standardize information systems, business management systems, and core business processes related to procurement, production, and sales. **[Uncertainties]** • Delays in updating IT systems across global business units may limit our global management capabilities. (Threat) • Updating global IT systems contributes to a stronger business foundation and improved competitiveness. (Opportunity) **[Response measures]** • Established a specialized team at global headquarters dedicated to standardizing and updating IT systems and business processes globally, in line with the overall objectives of the "FOCUS" project.	
Supply Network	**[Key Strategic Initiatives]** • Construction of three new factories in Japan to establish a stable production system medium-to-long term. • Improve our global supply chain management. **[Uncertainties]** • Possible delays in raw material supply for certain products from specific suppliers and unstable production due to elevated demand for raw materials, price hikes, business withdrawals, natural disasters, and other factors affecting the supply chain. (Threat) • Leverage Japan's high-quality manufacturing strengths to increase consumer value at the six factories in Japan. (Opportunity) **[Response measures]** • Establish stable supply chain by securing multiple suppliers and strategic collaborations with suppliers. • Strengthen our monitoring capabilities to ensure compliance with "Shiseido Group Supplier Code of Conduct".	5
Corporate Culture and Acquisition/ Securing Outstanding Human Resources	**[Key Strategic Initiatives]** • Established the following working principles for all Shiseido employees to follow, as OUR PRINCIPLES (TRUST 8): "THINK BIG", "TAKE RISKS", "HANDS ON", "COLLABORATE", "BE OPEN", "ACT WITH INTEGRITY", "BE ACCOUNTABLE", and "APPLAUD SUCCESS". **[Uncertainties]** • Inability to attract and retain the best talent may lead to talent shortages in realizing our business objectives. (Threat) • Possibility of securing a competitive advantage by hiring and retaining the best talent. (Opportunity) **[Response measures]** • Strengthen leadership and governance at global headquarters. • Improve infrastructure for human resources (HR) information, introduce the global HR database "MIRAI", and unify employee performance management. • Promote workforce diversity through recruitment, training, and allocation. • Introduce a role-based rating system and a remuneration system commensurate with individual contributions. • Provide programs to develop global business leadership and business insight. • Enhance employee health management and create a workplace of diverse and flexible workstyles, including Activity-Based Working (ABW), remote working, and working a second job	4 and 5

<Operational Risks>

Risk Category	Important measures for realizing our strategies / Uncertainties (threats/opportunities) with the potential to impact these initiatives / Response measures	Relationship with Shiseido's Five Key Strategies
Quality Assurance and Control	**[Key Strategic Initiatives]** • Provide safe products as an essential Shiseido value and the foundation of our business strategies, taking thorough measures to ensure high quality assurance and management from product design to production and sale. **[Uncertainties]** • Increased M&A activity may result in challenges to the thorough implementation of the Group's high standard of quality assurance at various stages of product lifecycle and providing safe products to consumers. (Threat) [Response measures] • Developed "Basic Guidelines on Quality Assurance" and "Global Quality Policy and Guidance" and established Shiseido's own quality and safety assurance standards. Confirm adherence to such guidelines and standards at all stages, including new product design and development, management of raw materials, production, and delivery. Established a dedicated quality assurance department. • Set up a customer service desk and a dedicated internal system for reporting and responding to potential quality risks, in addition to conducting regular simulation training.	1
Brand Image	**[Key Strategic Initiatives]** •Aggressive marketing activities including digital marketing to increase brand value. • Proactive marketing activities to create both corporate brand and product brand images using models and social media influencers. **[Uncertainties]** • Rumors, whether true or unfounded, regarding our official communications or comments and actions by models and social media influencers associated with Shiseido could result in public criticism of the Group and damage our reputation. (Threat) • Sale of counterfeit products can damage our ability to share our values with consumers, resulting in damage to our brand. (Threat) **[Response measures]** • Formulate a strict social media policy and ensure familiarization among employees in charge. • Provide in-house training on maintaining and enhancing brand image for brand holder marketing and communications staff. • Introduced a review system for language used in advertising and promotional materials, as well as selection of models and social media influencers, to avoid behavior/messaging leading to criticism on the grounds of ethical, geopolitical, or social norms. • Perform website and social media monitoring to discover and respond to negative information in an accurate and timely manner. • Coordinate with government authorities to combat counterfeit products.	5
Natural and Human-Made Disasters	**[Uncertainties and Key Strategic Initiatives]** • Recent natural disasters and other events in Japan resulting in human and/or material damage, and resulting impact on supply chain and business. (Threat) • Expansion of infectious diseases and other events may cause consumption slowdown, leading to sales and profits decline. (Threat) **[Response measures]** • Formulate business continuity plans (BCPs) for HQ and major regional sites and hold regular training at each site to ensure effectiveness.	5

Compliance	**[Uncertainties and Key Strategic Initiatives]** • To further strengthen our global management structure, we continue to improve and develop our compliance systems. Insufficiency of compliance system may limit our ability to prevent inappropriate decision-making by the Group or management which may cause damage to stakeholders or lower reputation. (Threat) **[Response measures]]** • Appointed a Chief Legal Officer (CLO) and clarified the Group's legal and regulatory compliance systems. • Regularly provide compliance training to the Group's officers. • Defined "Shiseido Group Standards of Business Conduct and Ethics" to foster greater compliance awareness among employees around the world. • Established departments at HQ specializing in legal compliance and compliance of Pharmaceuticals and Medical Devices Act*. Support communications and cooperation. Strengthened communication between HQ and RHQ legal teams/local person in charge of cosmetic regulations. * Pharmaceuticals and Medical Devices Act: act on securing quality, efficacy and safety of pharmaceuticals and medical devices	5

<Other Risks>

Risk Category	Important measures for realizing our strategies / Uncertainties (threats/opportunities) with the potential to impact these initiatives / Response measures	Relationship with Shiseido's Five Key Strategies
Exchange Rate Fluctuations	**[Key Strategic Initiatives]** • Increase our ratio of overseas sales as a global beauty company. **[Uncertainties]** • Fluctuations in exchange rates for settlements in foreign currencies relating to import/export transactions. • Where transaction figures reported in local currencies for an overseas affiliate are converted into Japanese yen at the time of preparing the consolidated financial statements, the appreciation of the Japanese yen may adversely affect business results, where revenues exceed costs. • Investments in foreign affiliates could result in reduced net assets as a result of currency exchange adjustments and the appreciation of the Japanese yen. **[Response measures]]** • Hedge exchange rate fluctuation risks through the use of forward exchange contracts. • Monitor and respond to fluctuations in major global currencies.	—
Material Litigation	**[Uncertainties and Key Strategic Initiatives]** • With a presence across 120 countries/regions globally, there is a possibility that we will face lawsuits under different legal systems of each country. (Threat) • During the current fiscal year, there was no material litigation with significant impact on the Group's business performance. Should a major material litigation occur in the future with unfavorable ruling for the Group, there is a potential of an adverse effect on our financial position and business performance(Threat) **[Response measures]** • Established a division specializing in legal affairs at our global headquarters and ensure effective collaboration with each regional legal division. Additionally, establish relationships with external parties around the world.	—

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 2020

Regarding the business for 2020, we initially planned to accelerate growth by sustaining growth in prestige brands, expanding the China and Travel Retail Businesses, improving profitability in the Americas and EMEA Businesses, steadily growing the Japan Business, establishing a stronger supply base, and integrating and expanding *Drunk Elephant*, which is continuing to see rapid growth.

However, from the second half of 2019, the economic environment remained uncertain due to deterioration in the Hong Kong and South Korean markets, the impact of trade friction between the U.S. and China, and fluctuations in the exchange rate. In addition, the Japan Business fell below our plan before and after the consumption tax hike.

In response to these changes in the business environment, taking into account the impact of *Drunk Elephant*, which was acquired in November 2019, we forecast consolidated net sales of ¥1,220 billion ($11,240.0 million) and operating profit of ¥117 billion ($1,077.9 million) for the fiscal 2020.

It should be noted that the above forecast does not take into account the spread of a novel coronavirus which has become a worldwide concern since the end of January 2020. We are evaluating the impact on our business and companies in Japan, China, and Travel Retail. We plan to more carefully assess this impact, reflect it in our business forecasts and disclose at appropriate timing.

Consolidated Financial Results Forecast for the Fiscal Year 2020

	Net Sales	Operating Profit	Net Profit Attributable to Owners of Parent	Net Profit per Share
Forecast for the fiscal year 2020 (A)	Billions of yen 1,220.0	Billions of yen 117.0	Billions of yen 77.5	Yen 194.0
Results for the fiscal year 2019 (B)	1,131.5	113.8	73.6	184.2
Amount of increase or decrease (A–B)	88.5	3.2	3.9	—
Rate of increase or decrease (%)	7.8	2.8	5.4	—

Consolidated Financial Statements
Consolidated Balance Sheets

Shiseido Company, Limited and Subsidiaries
As of December 31, 2018 and 2019

	Note	Millions of yen 2018/12	Millions of yen 2019/12	Thousands of U.S. dollars (Note 1) 2019/12
ASSETS				
Current Assets:				
Cash and time deposits	18	125,891	**110,342**	**1,016,602**
Notes and accounts receivable		166,491	**172,905**	**1,593,007**
Inventories	03	149,788	**181,104**	**1,668,546**
Other current assets		42,811	**71,012**	**654,247**
Less: Allowance for doubtful accounts		(1,989)	**(2,741)**	**(25,253)**
Total current assets		482,994	**532,623**	**4,907,158**
Fixed Assets:				
Property, Plant and Equipment:				
Buildings and structures	18	191,335	**223,611**	**2,060,171**
Less: Accumulated depreciation		(103,727)	**(101,735)**	**(937,304)**
Buildings and structures, net		87,607	**121,875**	**1,122,857**
Machinery, equipment and vehicles	18	84,055	**104,566**	**963,386**
Less: Accumulated depreciation		(61,867)	**(60,284)**	**(555,408)**
Machinery, equipment and vehicles, net		22,188	**44,281**	**407,969**
Tools, furniture and fixtures		81,024	**94,939**	**874,691**
Less: Accumulated depreciation		(51,968)	**(53,840)**	**(496,038)**
Tools, furniture and fixtures, net		29,055	**41,099**	**378,653**
Land		49,795	**45,040**	**414,962**
Leased assets		8,231	**9,643**	**88,842**
Less: Accumulated depreciation		(3,630)	**(4,394)**	**(40,482)**
Leased assets, net		4,601	**5,248**	**48,350**
Right of use assets		—	**26,395**	**243,182**
Less: Accumulated depreciation		—	**(6,702)**	**(61,746)**
Right of use assets, net		—	**19,693**	**181,435**
Construction in progress		41,937	**37,518**	**345,660**
Total property, plant and equipment		235,185	**314,757**	**2,899,917**
Intangible Assets:				
Goodwill		12,610	**64,499**	**594,241**
Leased assets		233	**536**	**4,938**
Trademarks		111,001	**135,209**	**1,245,706**
Other intangible assets		41,561	**48,963**	**451,105**
Total intangible assets		165,406	**249,209**	**2,296,010**
Investments and Other Assets:				
Investments in securities	18	23,026	**13,915**	**128,201**
Long-term prepaid expenses		15,363	**16,690**	**153,768**
Deferred tax assets		59,691	**55,313**	**509,609**
Other investments	18	28,016	**36,317**	**334,595**
Less: Allowance for doubtful accounts		(66)	**(31)**	**(285)**
Total investments and other assets		126,031	**122,205**	**1,125,898**
Total Fixed Assets		526,624	**686,172**	**6,321,835**
Total Assets		1,009,618	**1,218,795**	**11,228,993**

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

	Note	Millions of yen 2018/12	Millions of yen 2019/12	Thousands of U.S. dollars (Note 1) 2019/12
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Notes and accounts payable		56,870	**31,336**	**288,704**
Electronically recorded obligations–operating		45,422	**65,601**	**604,394**
Short-term debt	18	2,725	**120,496**	**1,110,152**
Current portion of long-term debt	18	730	**730**	**6,725**
Current portion of corporate bonds scheduled for redemption		10,000	**15,000**	**138,197**
Lease obligations	18	1,746	**8,722**	**80,357**
Other payables	18	73,836	**89,124**	**821,116**
Accrued income taxes		20,129	**11,951**	**110,106**
Reserve for sales returns		10,795	**5,333**	**49,133**
Refund liabilities		4,741	**9,899**	**91,201**
Accrued bonuses for employees		30,782	**25,132**	**231,545**
Accrued bonuses for directors		211	**101**	**930**
Provision for liabilities and charges		471	**341**	**3,141**
Provision for loss on business withdrawal		3,204	**117**	**1,077**
Other current liabilities		78,272	**80,383**	**740,584**
Total current liabilities		339,940	**464,273**	**4,277,436**
Long-Term Liabilities:				
Bonds	18	30,000	**15,000**	**138,197**
Long-term debt	18	28,105	**70,791**	**652,211**
Lease obligations	18	2,469	**17,368**	**160,014**
Long-term payables	18	54,639	**49,153**	**452,856**
Liability for retirement benefits		76,877	**69,804**	**643,117**
Allowance for losses on guarantees		350	**350**	**3,224**
Allowance for environmental measures		144	**54**	**497**
Deferred tax liabilities		3,316	**2,712**	**24,986**
Other long-term liabilities		5,312	**11,430**	**105,306**
Total long-term liabilities		201,215	**236,665**	**2,180,440**
Total Liabilities		541,156	**700,938**	**6,457,877**
NET ASSETS				
Shareholders' Equity:				
Common stock		64,506	**64,506**	**594,306**
Authorized: 1,200,000,000 shares as of December 31, 2018 and 2019				
Issued: 400,000,000 shares as of December 31, 2018 and 2019				
Capital surplus		70,748	**70,741**	**651,750**
Retained earnings		319,001	**371,435**	**3,422,102**
Less: treasury stock, at cost		(2,829)	**(2,591)**	**(23,871)**
Treasury stock: 618,049 shares as of December 31, 2018 and 564,455 shares as of December 31, 2019				
Total shareholders' equity		451,427	**504,092**	**4,644,297**
Accumulated Other Comprehensive Income:				
Unrealized gains (losses) on available-for-sale securities		4,992	**3,106**	**28,616**
Foreign currency translation adjustments		15,645	**10,839**	**99,861**
Accumulated adjustments for retirement benefits		(23,484)	**(21,600)**	**(199,004)**
Total accumulated other comprehensive income		(2,846)	**(7,654)**	**(70,517)**
Stock Acquisition Rights		952	**1,263**	**11,636**
Non-Controlling Interests in Consolidated Subsidiaries		18,929	**20,156**	**185,701**
Total Net Assets		468,462	**517,857**	**4,771,116**
Total Liabilities and Net Assets		1,009,618	**1,218,795**	**11,228,993**

Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2018 and 2019

CONSOLIDATED STATEMENTS OF INCOME

	Note	2018/12 (Millions of yen)	2019/12 (Millions of yen)	2019/12 (Thousands of U.S. dollars (Note 1))
Net Sales		1,094,825	**1,131,547**	**10,425,161**
Cost of Sales		231,928	**254,844**	**2,347,927**
Gross Profit		862,896	**876,703**	**8,077,234**
Selling, General and Administrative Expenses	04	754,545	**762,871**	**7,028,477**
Operating Profit		108,350	**113,831**	**1,048,747**
Other Income				
Interest income		1,227	**1,243**	**11,451**
Dividend income		490	**333**	**3,067**
Equity in earnings of affiliates		301	**330**	**3,040**
Rental income		734	**625**	**5,758**
Subsidy income		2,783	**1,056**	**9,729**
Other		1,575	**2,086**	**19,218**
Total other income		7,113	**5,674**	**52,275**
Other Expenses				
Interest expense		769	**2,292**	**21,116**
Foreign exchange loss		2,900	**5,375**	**49,520**
Other interest on debt		1,392	**1,266**	**11,663**
Other		910	**1,831**	**16,869**
Total other expenses		5,974	**10,766**	**99,189**
Ordinary Profit		109,489	**108,739**	**1,001,833**
Extraordinary Gains				
Gain on sales of property, plant and equipment	04	2,853	**654**	**6,025**
Gain on sales of investments in securities		2,739	**3,449**	**31,776**
Gain on transfer of business	04	48	**—**	**—**
Total extraordinary gains		5,641	**4,103**	**37,801**
Extraordinary Losses				
Loss on disposal of property, plant and equipment		1,698	**1,683**	**15,505**
Loss on sales of investments in securities		—	**165**	**1,520**
Loss on valuation of investments in securities		—	**27**	**248**
Business structure improvement expenses	04	—	**1,637**	**15,081**
Structural reform expenses	04	3,739	**1,483**	**13,663**
Loss on liquidation of subsidiaries and affiliates	04	936	**466**	**4,293**
Loss on business withdrawal	04	4,446	**—**	**—**
Total extraordinary losses		10,821	**5,465**	**50,350**
Profit before Income Taxes		104,310	**107,378**	**989,294**
Income taxes – current		41,249	**22,538**	**207,646**
Income taxes for prior years	04	—	**4,504**	**41,496**
Income taxes – deferred		(1,844)	**3,033**	**27,943**
Total income taxes		39,405	**30,076**	**277,096**
Net Profit		64,905	**77,301**	**712,189**
Net profit attributable to non-controlling interests		3,501	**3,739**	**34,448**
Net profit attributable to owners of parent		61,403	**73,562**	**677,740**

			Yen	U.S. dollars (Note 1)
Per Share				
Net profit — basic		153.7	**184.2**	**1.70**
— diluted		153.6	**184.0**	**1.70**
Cash dividend		45.0	**60.0**	**0.55**
Weighted average number of shares (thousands)		399,409	**399,411**	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2018 and 2019

	Note	2018/12 (Millions of yen)	2019/12 (Millions of yen)	2019/12 (Thousands of U.S. dollars (Note 1))
Net Profit		64,905	**77,301**	**712,189**
Other Comprehensive Income				
Unrealized gains (losses) on available-for-sale securities	05	(3,600)	**(1,756)**	**(16,178)**
Foreign currency translation adjustments	05	(14,151)	**(4,801)**	**(44,232)**
Adjustments for retirement benefits	05	(3,373)	**1,904**	**17,541**
Share of other comprehensive income of associates accounted for under the equity method	05	(4)	**4**	**36**
Total other comprehensive income (loss)	05	(21,129)	**(4,648)**	**(42,822)**
Comprehensive Income		43,775	**72,653**	**669,366**
(Breakdown)				
Comprehensive income attributable to owners of parent		41,230	**68,754**	**633,443**
Comprehensive income attributable to non-controlling interests		2,544	**3,898**	**35,913**

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 2018 and 2019

	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, 2018	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**
Cumulative effects of changes in accounting policies	**—**	**—**	**—**	**1,049**	**—**	**—**	**—**	**—**	**—**	**—**
Restated balance	**400,000**	**64,506**	**70,748**	**320,050**	**(2,829)**	**4,992**	**15,645**	**(23,484)**	**952**	**18,929**
Cash dividend from retained earnings	**—**	**—**	**—**	**(21,966)**	**—**	**—**	**—**	**—**	**—**	**—**
Net profit attributable to owners of parent	**—**	**—**	**—**	**73,562**	**—**	**—**	**—**	**—**	**—**	**—**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**(22)**	**—**	**—**	**—**	**—**	**—**
Disposal of treasury stock	**—**	**—**	**—**	**(145)**	**259**	**—**	**—**	**—**	**—**	**—**
Equity transactions with non-controlling interests and others	**—**	**—**	**(6)**	**(64)**	**—**	**—**	**—**	**—**	**—**	**—**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(1,885)**	**(4,805)**	**1,883**	**311**	**1,227**
Balance as of December 31, 2019	**400,000**	**64,506**	**70,741**	**371,435**	**(2,591)**	**3,106**	**10,839**	**(21,600)**	**1,263**	**20,156**

	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, 2019	**400,000**	**594,306**	**651,814**	**2,939,017**	**(26,064)**	**45,992**	**144,140**	**(216,362)**	**8,770**	**174,396**
Cumulative effects of changes in accounting policies	**—**	**—**	**—**	**9,664**	**—**	**—**	**—**	**—**	**—**	**—**
Restated balance	**400,000**	**594,306**	**651,814**	**2,948,682**	**(26,064)**	**45,992**	**144,140**	**(216,362)**	**8,770**	**174,396**
Cash dividend from retained earnings	**—**	**—**	**—**	**(202,377)**	**—**	**—**	**—**	**—**	**—**	**—**
Net profit attributable to owners of parent	**—**	**—**	**—**	**677,740**	**—**	**—**	**—**	**—**	**—**	**—**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**(202)**	**—**	**—**	**—**	**—**	**—**
Disposal of treasury stock	**—**	**—**	**—**	**(1,335)**	**2,386**	**—**	**—**	**—**	**—**	**—**
Equity transactions with non-controlling interests and others	**—**	**—**	**(55)**	**(589)**	**—**	**—**	**—**	**—**	**—**	**—**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(17,366)**	**(44,269)**	**17,348**	**2,865**	**11,304**
Balance as of December 31, 2019	**400,000**	**594,306**	**651,750**	**3,422,102**	**(23,871)**	**28,616**	**99,861**	**(199,004)**	**11,636**	**185,701**

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, 2018 and 2019

		Millions of yen		Thousands of U.S. dollars (Note 1)
	Note	2018/12	2019/12	2019/12
Cash Flows from Operating Activities:				
Profit before income taxes		104,310	**107,378**	**989,294**
Depreciation and amortization		41,994	**55,732**	**513,469**
Amortization of goodwill		1,851	**2,678**	**24,672**
(Gain) Loss on disposal of property, plant and equipment		(1,155)	**1,028**	**9,471**
(Gain) Loss on sales of investments in securities		(2,739)	**(3,283)**	**(30,246)**
Gain on transfer of business		(48)	**—**	**—**
Increase (Decrease) in allowance for doubtful accounts		176	**770**	**7,094**
Increase (Decrease) in reserve for sales returns		(2,977)	**(5,626)**	**(51,833)**
Increase (Decrease) in refund liabilities		4,860	**5,306**	**48,885**
Increase (Decrease) in accrued bonuses for employees		6,190	**(5,637)**	**(51,934)**
Increase (Decrease) in accrued bonuses for directors		91	**(109)**	**(1,004)**
Increase (Decrease) in provision for liabilities and charges		(1,453)	**(110)**	**(1,013)**
Increase (Decrease) in liability for retirement benefits		(1,991)	**(3,859)**	**(35,553)**
Increase (Decrease) in allowance for environmental measures		(116)	**(90)**	**(829)**
Increase (Decrease) in provision for loss on business withdrawal		3,204	**(3,086)**	**(28,431)**
Interest and dividend income		(1,718)	**(1,576)**	**(14,519)**
Interest expense		769	**2,292**	**21,116**
Other interest on debt		1,392	**1,266**	**11,663**
Equity in (earnings) losses of affiliates		(301)	**(330)**	**(3,040)**
(Increase) Decrease in notes and accounts receivable		(10,659)	**(9,209)**	**(84,844)**
(Increase) Decrease in inventories		(24,291)	**(31,217)**	**(287,608)**
Increase (Decrease) in notes and accounts payable		13,916	**10,190**	**93,882**
Other		4,939	**6,408**	**59,038**
Subtotal		136,245	**128,914**	**1,187,709**
Interest and dividends received		1,867	**1,673**	**15,413**
Interest paid		(795)	**(2,021)**	**(18,619)**
Interest paid on other debt		(1,392)	**(1,266)**	**(11,663)**
Income tax paid		(43,347)	**(51,736)**	**(476,653)**
Net cash provided by operating activities		92,577	**75,562**	**696,167**
Cash Flows from Investing Activities:				
Transfers to time deposits		(20,999)	**(9,833)**	**(90,593)**
Proceeds from maturity of time deposits		21,750	**10,781**	**99,327**
Acquisition of investments in securities		(1,694)	**(462)**	**(4,256)**
Proceeds from sales of investment securities		4,664	**10,181**	**93,799**
Proceeds from transfer of business		606	**—**	**—**
Payments for acquisition of business		(2,250)	**(1,090)**	**(10,042)**
Acquisition of property, plant and equipment		(80,596)	**(92,202)**	**(849,474)**
Proceeds from sales of property, plant and equipment and intangible assets		4,352	**1,190**	**10,963**
Acquisition of intangible assets		(17,084)	**(19,598)**	**(180,560)**
Payments of long-term prepaid expenses		(8,108)	**(8,305)**	**(76,515)**
Payments for lease and guarantee deposits		(4,016)	**(1,997)**	**(18,398)**
Payment for acquisition of shares in a subsidiary resulting in a change in the scope of consolidation	07	—	**(91,768)**	**(845,476)**
Other		264	**282**	**2,598**
Net cash used in investing activities		(103,112)	**(202,823)**	**(1,868,647)**
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt and commercial papers		(5,140)	**117,751**	**1,084,862**
Proceeds from long-term debt		—	**43,624**	**401,916**
Repayment of long-term debt		(730)	**(730)**	**(6,725)**
Redemption of bonds		—	**(10,000)**	**(92,131)**
Repayment of lease obligations		(2,116)	**(8,278)**	**(76,266)**
Acquisition of treasury stock		(2,431)	**(22)**	**(202)**
Disposal of treasury stock		255	**114**	**1,050**
Cash dividends paid		(13,940)	**(22,028)**	**(202,948)**
Cash dividends paid to non-controlling interests		(4,112)	**(5,133)**	**(47,291)**
Repayment of long-term accounts payable		(1,478)	**(1,618)**	**(14,906)**
Other		(27)	**—**	**—**
Net cash provided by (used in) financing activities		(29,722)	**113,678**	**1,047,337**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(4,809)	**(693)**	**(6,384)**
Net Change in Cash and Cash Equivalents (Decrease)		(45,066)	**(14,276)**	**(131,527)**
Decrease in Cash and Cash Equivalents Resulting from Exclusion of Subsidiaries from Consolidation		—	**(24)**	**(221)**
Cash and Cash Equivalents at Beginning of Term		156,834	**111,767**	**1,029,730**
Cash and Cash Equivalents at End of Term	07	111,767	**97,466**	**897,973**

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 ("IFRS") 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 ¥108.54 = US$1 prevailing on December 31, 2019 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: 73

Apart from the change described below, principal subsidiaries are listed in the Group's most recent Annual Securities Report (submitted March 25, 2020). 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://corp.shiseido.com/en/

Addition: 4 companies

Drunk Elephant Holdings, LLC., together with its three group companies, have been included in the scope of consolidation effective from the fiscal year following the acquisition of this company.

Exclusions: 8 companies

Bare Escentuals, Inc., Bare Escentuals Beauty, Inc., MD formulations and MATCHCo. were excluded from the scope of consolidation effective from the fiscal year following the absorption-type merger into Shiseido Americas Corporation.

Shiseido (N.Z.) Ltd. was excluded from the scope of consolidation effective from the fiscal year following the transfer of shares held.

Shiseido (Australia) Pty., Ltd. and Gurwitch UK Limited were excluded from the scope of consolidation effective from the fiscal year as their liquidation was completed.

PT Shiseido Professional Indonesia was excluded from the scope of consolidation effective from the fiscal year as it is immaterial.

Name of main subsidiaries excluded from consolidation

Main unconsolidated subsidiary: Beauté Prestige International Ltd. (UK)
Reason: Excluding from consolidation
Since these companies are small in scale or do not engage in full-scale operations, total assets, net sales, net profit (the Company's share), retained earnings (the Company's share), have a minimal impact on the Company's consolidated financial statements, and they are immaterial, thus they are not included in the scope of consolidation.

(3) Application of the Equity Method

Affiliates accounted for under the equity method: 3

Major company name: Pierre Fabre Japon Co., Ltd.
Since the unconsolidated subsidiaries (Beauté Prestige International Ltd. (UK) and others) and affiliates not accounted for under the equity method are small in scale or do not engage in full-scale operations, their net profit (the Company's share), retained earnings (the Company's share), and other are immaterial and have a minimal impact on the Company's consolidated financial statements, thus they are not included in the scope of equity method application.

(4) Fiscal Year of Consolidated Subsidiaries

The balance sheet dates of all consolidated subsidiaries are the same as the consolidated balance sheet date.

02. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Inventories

Inventories held by the Company are generally stated 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 and Right-of-Use Assets)

Property, plant and equipment are mainly depreciated using the straight-line method over the following estimated useful lives:

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

(3) Intangible Assets (Excluding Leased Assets)

Intangible assets are mainly amortized using the straight-line method over the following estimated useful lives:

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

(4) Leased Assets

Leased assets associated with finance lease transactions that do not transfer ownership are depreciated using the straight-line method over the period of the lease, with zero residual value.

(5) Right-of-Use Assets
Right-of-use assets are amortized using the straight-line method.

(6) Long-Term Prepaid Expenses
Long-term prepaid expenses are primarily amortized using the straight-line method.

(7) 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.

(8) 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.

(9) 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.

(10) Accounting for Consumption Tax
In Japan, consumption tax is imposed at two rates 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.

(11) Allowance for Doubtful Accounts
The Company and its domestic consolidated subsidiaries provide an allowance for doubtful accounts based on the historical percentage of actual bad debt losses as compared to the balance of total receivables and the amount of uncollectible receivables estimated on an individual basis. Overseas consolidated subsidiaries record an allowance based primarily on the amount of uncollectible receivables estimated on an individual basis.

(12) Reserve for Sales Returns
The Company and its domestic subsidiaries provide a reserve for sales returns for future losses considering the past return ratios and distributors' stock.

(13) 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.

(14) 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.

(15) 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.

(16) 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.

(17) 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".

(18) 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.

(19) Liability for Retirement Benefits
① Periodic allocation method for the 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 and 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 and 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.

(20) 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.

(21) Derivatives and Hedging Activities
The Companies 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 Companies 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.

(22) 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 translated 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.

(23) 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.

(24) 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.

(25) Application of Consolidated Taxation System
The Company and certain domestic consolidated subsidiaries applied a consolidated taxation system.

(26) Changes in Accounting Policies
Adoption of IFRS 16, Leases
The Company's subsidiaries that have adopted IFRS have implemented IFRS 16, Leases, from the first quarter of fiscal year 2019.

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

Right-of-use assets and lease obligations recognized under this standard are included in the Consolidated Balance Sheets in the amounts of ¥19,693 million as right-of-use assets, net, ¥6,691 million in lease obligations under current liabilities, and ¥14,848 million in lease obligations under long-term liabilities. Furthermore, the cumulative total amount of depreciation of right-of-use assets as of December 31, 2019 was ¥6,702 million.

The impact of these changes on the profit and loss for the fiscal year 2019 is insignificant.

For the adoption of this standard, we have adopted a method in which the cumulative impact from the application is recognized as a transitional measure on the first day on which the standard is applied. To measure the right-of-use assets, we have adopted the method of adjusting the measurement of lease obligations by prepaid or accrued lease prepayments. As a result, there is no impact on retained earnings at the beginning of the fiscal year 2019.

Adoption of ASC 606, Revenue from Contracts with Customers
The Company's subsidiaries that apply U.S. accounting standards are applying ASC 606, Revenue from Contracts with Customers, from the fiscal year 2019. Because the subsidiaries subject to adoption of this standard are private companies, they are applying this standard from the fiscal year 2019, as permitted in the U.S. accounting standards.

As a result of adopting this standard, some customer payments treated as SG&A expenses have been excluded from net sales in the consolidated financial statements for the fiscal year 2019. Some expenses associated with the sale of goods are also posted to cost of sales and inventories. The adoption of this standard has resulted in a decrease in net sales of ¥6,900 million, an increase in cost of sales of ¥3,758 million, a decrease in SG&A expenses of ¥10,812 million, and an increase in inventories of ¥1,197 million, compared to the amounts under the previous accounting standard.

In addition, following the adoption of this standard, we have made changes to the presentation method of the Consolidated Balance Sheet. As a result, the reserve for sales returns in the Consolidated Balance Sheet as of December 31, 2019 declined ¥5,455 million and refund liabilities increased ¥5,455 million compared to the amounts under the formerly applied accounting standards.

Furthermore, in applying this standard, we have adopted the method of recognizing the impact from adoption of this accounting standard from the date on which it was first applied as a permitted transitional measure. Retained earnings at the beginning of the fiscal year 2019 have been adjusted by ¥1,049 million and the previous fiscal years consolidated financial statements have not been revised for comparison.

(27) Changes in Presentation

The Company and its domestic subsidiaries have applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) from the fiscal year 2019. Accordingly, deferred tax assets are presented in the category of investments and other assets and deferred tax liabilities are presented in the category of long-term liabilities.

Reclassifications of the consolidated financial statements for the previous fiscal year have been made to reflect this change in presentation. As a result, ¥29,690 million that was presented as "deferred tax assets" under current assets in the previous fiscal year has been reclassified as "deferred tax assets" under investments and other assets. In addition, ¥0 million that was presented as "other current liabilities" under current liabilities has been reclassified as "deferred tax liabilities" under long-term liabilities.

(28) Accounting Standard Issued but Not Yet Adopted

1. The Company and its domestic subsidiaries
- "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 the comprehensive accounting standard for revenue recognition. The principles in the standard will be applied using a five step model.
Step1: Identify the contract(s) with a customer
Step2: Identify the separate performance obligations (PO) in the contract
Step3: Determine the transaction price
Step4: Allocate the transaction price to the separate POs
Step5: Recognise revenue when the entity satisfies a PO

② Effective date

Adoption of the standard is scheduled from the beginning of the fiscal year 2022.

③ Effects of application of the standard and the guidance.

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

2. Foreign subsidiaries

Standard / interpretation		Outline of the new / revised standards	To be adopted by the Group
ASU 2016-02	Lease	Revision to accounting treatment for lease	From the beginning of the fiscal year 2021

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

03. INVENTORIES

Inventories as of December 31, 2018 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	**2019/12**	**2019/12**
Merchandise and finished products	103,941	**126,342**	**1,164,013**
Work in process	6,181	**7,045**	**64,906**
Raw materials and supplies	39,665	**47,716**	**439,616**
	149,788	**181,104**	**1,668,546**

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 ¥29,130 million and ¥31,697 million ($292,030 thousand) for the years 2018 and 2019, respectively.

There are no research and development expenses included in total manufacturing expenses for the fiscal year 2018 and 2019.

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

For the fiscal year 2018

Mainly the gain on the sale of lands and buildings for the domestic office environment reform.

For the fiscal year 2019

Mainly the gain on the sale of intellectual property rights.

(3) Gain on Transfer of Business

For the fiscal year 2018

This gain is attributed mainly to the net proceeds from the sale of shares in Zotos International, Inc.

(4) Business Structural Improvement Expenses

For the fiscal year 2019

These expenses include manufacturing compensation expenses and lease cancellation expenses incurred as a result of initiatives aimed at improving the profitability of some brands.

(5) Structural Reform Expenses

For the fiscal year 2018

Structural reform expenses mainly reflect closure of the company stores of Bare Escentuals Beauty, Inc. and early retiree retirement premiums included in temporary expenses incurred as a result of ongoing structural reforms across all global regions.

For the fiscal year 2019

Structural reform expenses mainly reflect expenses from office relocation included in temporary expenses incurred as a result of ongoing structural reforms across all global regions.

(6) Loss on Liquidation of Subsidiaries and Affiliates

For the fiscal year 2018

A loss on liquidation of subsidiaries in China and Oceania.

For the fiscal year 2019

A loss follows from foreign currency translation adjustments accompanying the liquidation of an overseas consolidated subsidiary.

(7) Loss on Business Withdrawal

For the Fiscal year 2018

Expenses related to discontinuation of some brands and withdrawal from the commercial cosmetics sales business and other businesses.

(8) Income Taxes for Prior Years

For the Fiscal year 2019

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

05. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income including reclassification adjustments and tax (expense) or benefit for the fiscal years 2018 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
Unrealized gains (losses) on available-for-sale securities:			
Increase (decrease) during the fiscal year	(2,124)	**508**	**4,680**
Reclassification adjustments	(2,681)	**(3,161)**	**(29,122)**
Amount before tax	(4,806)	**(2,652)**	**(24,433)**
Tax (expense) or benefit	1,205	**896**	**8,255**
Subtotal	(3,600)	**(1,756)**	**(16,178)**
Foreign currency translation adjustments:			
Increase (decrease) during the fiscal year	(14,151)	**(5,138)**	**(47,337)**
Reclassification adjustments	—	**482**	**4,440**
Amount before tax	(14,151)	**(4,656)**	**(42,896)**
Tax (expense) or benefit	0	**(144)**	**(1,326)**
Subtotal	(14,151)	**(4,801)**	**(44,232)**
Adjustments for retirement benefits:			
Increase (decrease) during the fiscal year	(12,392)	**(2,214)**	**(20,398)**
Reclassification adjustments	7,131	**5,074**	**46,747**
Amount before tax	(5,261)	**2,860**	**26,349**
Tax (expense) or benefit	1,888	**(955)**	**(8,798)**
Subtotal	(3,373)	**1,904**	**17,541**
Share of other comprehensive income of associates accounted for under the equity method:			
Increase (decrease) during the fiscal year	(9)	**(0)**	**(0)**
Reclassification adjustments	5	**4**	**36**
Subtotal	(4)	**4**	**36**
Total other comprehensive income (loss)	(21,129)	**(4,648)**	**(42,822)**

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 general meeting of shareholders.

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 general meeting of shareholders. 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 the general meeting of shareholders approval has been obtained.

Retained earnings at December 31, 2019 include amounts representing year-end cash dividend of ¥11,983 million ($110,401 thousand), ¥30.0 ($0.27) per share, which was approved at the general meeting of shareholders held on March 25, 2020.

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, 2018 and 2019 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
Cash and time deposits	125,891	**110,342**	**1,016,602**
Total	125,891	**110,342**	**1,016,602**
Time deposits with maturities exceeding 3 months	(14,124)	**(12,876)**	**(118,629)**
Cash and cash equivalents	111,767	**97,466**	**897,973**

(2) Main Breakdown of Assets and Liabilities Possessed by a Company Newly Consolidated as a Result of the Acquisition of Equity

For the fiscal year 2019

The main breakdown of assets, liabilities and the acquisition cost of Drunk Elephant Holdings, LLC., which was newly consolidated as a result of the acquisition of equity, is as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	**5,691**	**52,432**
Non-current assets	**89,886**	**828,137**
Current liabilities	**(2,040)**	**(18,794)**
Non-current liabilities	**(674)**	**(6,209)**
Acquisition cost of newly consolidated subsidiaries	**92,863**	**855,564**
Cash and cash equivalents of newly consolidated subsidiaries	**(1,094)**	**(10,079)**
Acquisition of shares in subsidiaries resulting in change in scope of consolidation	**91,768**	**845,476**

(3) Significant Non-Cash Transactions

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
Lease assets	3,281	**3,469**	**31,960**
Right-of-use assets	—	**26,395**	**243,182**
Lease obligations	3,281	**31,247**	**287,884**

* Due to the first time adoption of IFRS16, right of use assets and lease obligations increased ¥22,909 million ($211,065 thousand) and ¥24,393 million ($224,737 thousand), respectively.

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, 2018 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
① As lessee:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	11,823	6,750	62,189
Due after 1 year	70,741	54,377	500,985
	82,565	61,128	563,184
② As lessor:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	276	276	2,542
Due after 1 year	5,464	5,188	47,798
	5,740	5,464	50,340

(3) Lease Transactions under IFRS

Right-of-use assets mainly consist of office rental and vehicles.

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 paper, which we use to procure funds for operating transactions and bridge loans related to the acquisition of Drunk Elephant, 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.

(22) 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

	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, Electronically 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)	—

Millions of yen

	2019/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	110,342	110,342	—
② Notes and accounts receivable	172,905	172,905	—
③ Short-term investments in securities and Investments in securities Available-for-sale securities	8,976	8,976	—
④ Notes and accounts payable, Electronically recorded obligations and Other payables	(186,063)	(186,063)	—
⑤ Short-term borrowings from banks and other financial institutions	(120,496)	(120,496)	—
⑥ Bonds	(30,000)	(30,094)	(94)
⑦ Long-term borrowings from banks and other financial institutions	(71,521)	(71,521)	(0)
⑧ Lease obligations	(26,090)	(25,894)	196
⑨ Derivative instruments			
i. Hedge accounting not applied	(423)	(423)	—
ii. Hedge accounting applied	—	(422)	(422)
⑩ Long-term payables	(49,153)	(49,153)	—

Thousands of U.S. dollars (Note 1)

	2019/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	1,016,602	1,016,602	—
② Notes and accounts receivable (less allowance for doubtful accounts)	1,593,007	1,593,007	—
③ Short-term investments in securities and Investments in securities Available-for-sale securities	82,697	82,697	—
④ Notes and accounts payable, Electronically recorded obligations and Other payables	(1,714,234)	(1,714,234)	—
⑤ Short-term borrowings from banks and other financial institutions	(1,110,152)	(1,110,152)	—
⑥ Bonds	(276,395)	(277,261)	(866)
⑦ Long-term borrowings from banks and other financial institutions	(658,936)	(658,936)	(0)
⑧ Lease obligations	(240,372)	(238,566)	1,805
⑨ Derivative instruments			
i. Hedge accounting not applied	(3,897)	(3,897)	—
ii. Hedge accounting applied	—	(3,887)	(3,887)
⑩ Long-term payables	(452,856)	(452,856)	—

* 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, Electronically 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, etc. for future cash flows.

*2: Fair values that are difficult to determine as of December 31, 2018 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
	Carrying value		
Shares of subsidiaries and affiliates	2,291	2,276	20,969
Unlisted equity securities	2,195	2,556	23,548
Investment in limited partnership and others	1,009	105	967

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 2018 and 2019.

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

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	—

Millions of yen

	2019/12			
	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	110,342	—	—	—
Notes and accounts receivable	172,905	—	—	—
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)	—	—	105	—
Other	—	—	—	—
	283,248	—	105	—

Thousands of U.S. dollars (Note 1)

	2019/12			
	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	**1,016,602**	—	—	—
Notes and accounts receivable	**1,593,007**	—	—	—
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)	—	—	**967**	—
Other	—	—	—	—
	2,609,618	—	**967**	—

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, 2018 and 2019 are as follows:
Available-for-sale securities:

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)

Millions of yen

	2019/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	**5,813**	**1,670**	**4,173**	**(30)**
Other	**3,163**	**3,163**	—	—
	8,976	**4,833**	**4,173**	**(30)**

Thousands of U.S. dollars (Note 1)

	2019/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	**53,556**	**15,386**	**38,446**	**(276)**
Other	**29,141**	**29,141**	—	—
	82,697	**44,527**	**38,446**	**(276)**

* There is no loss on revaluation of investments in securities stated at fair value for the fiscal years 2018 and 2019.

Proceeds from sales, and gross realized gains and losses from sales of available-for-sale securities for the fiscal years 2018 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	**2019/12**	**2019/12**
Proceeds from sales	4,664	**10,181**	**93,799**
Gross realized gains	2,739	**3,449**	**31,776**
Gross realized losses	—	**165**	**1,520**

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of December 31, 2019 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

Millions of yen

		2019/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	118,381	—	47	47
	RUB	7,547	—	(437)	(437)
	GBP	2,858	—	(29)	(29)
	SG$	1,412	—	(0)	(0)
Foreign exchange contracts: Buying	US$	655	—	(2)	(2)
		—	—	(423)	(423)

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

Thousands of U.S. dollars (Note 1)

		2019/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	1,090,667	—	433	433
	RUB	69,531	—	(4,026)	(4,026)
	GBP	26,331	—	(267)	(267)
	SG$	13,009	—	(0)	(0)
Foreign exchange contracts: Buying	US$	6,034	—	(18)	(18)
		—	—	(3,897)	(3,897)

② Derivatives that meet the criteria for hedge accounting

Millions of yen

	2019/12			
		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	18,105	17,375	(422)

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

Thousands of U.S. dollars (Note 1)

	2019/12			
		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	166,804	160,079	(3,887)

12. RETIREMENT BENEFITS

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

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

① Change in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
Balance at the beginning of the fiscal year	273,940	274,593	2,529,878
Service cost	7,468	7,713	71,061
Interest cost	2,116	2,015	18,564
Actuarial gain and loss	2,227	10,913	100,543
Benefits paid	(10,737)	(11,126)	(102,505)
Other	(422)	(47)	(433)
Balance at the end of the fiscal year	274,593	284,062	2,617,118

② Change in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
Balance at the beginning of the fiscal year	200,195	197,715	1,821,586
Expected return on plan assets	5,961	5,891	54,274
Actuarial gain and loss	(10,165)	8,699	80,145
Contributions paid by the employer	9,977	10,200	93,974
Benefits paid	(8,109)	(8,203)	(75,575)
Other	(144)	(45)	(414)
Balance at the end of the fiscal year	197,715	214,257	1,973,991

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
Funded retirement benefit obligations	222,357	231,904	2,136,576
Plan assets	(197,715)	(214,257)	(1,973,991)
	24,642	17,647	162,585
Unfunded retirement benefit obligations	52,235	52,157	480,532
Total net liability for retirement benefits	76,877	69,804	643,117
Liability for retirement benefits	76,877	69,804	643,117
Total net liability for retirement benefits	76,877	69,804	643,117

④ Retirement benefit costs

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2018/12	**2019/12**	**2019/12**
Service cost	7,468	**7,713**	**71,061**
Interest cost	2,116	**2,015**	**18,564**
Expected return on plan assets	(5,961)	**(5,891)**	**(54,274)**
Net actuarial gain and loss amortization	7,131	**5,074**	**46,747**
Past service costs amortization	—	**—**	**—**
Other	1,203	**750**	**6,909**
Total retirement benefit costs	11,957	**9,662**	**89,017**

⑤ Adjustments for retirement benefits before tax

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2018/12	**2019/12**	**2019/12**
Net actuarial gain and loss amortization	5,261	**(2,860)**	**(26,349)**

⑥ Accumulated adjustments for retirement benefits before tax

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2018/12	**2019/12**	**2019/12**
Past service costs that are yet to be recognized	—	**—**	**—**
Actuarial gain and loss that are yet to be recognized	35,252	**32,354**	**298,083**
Total balance at the end of the fiscal year	35,252	**32,354**	**298,083**

⑦ Plan assets

I Plan assets comprise:

	2018/12	**2019/12**
Bonds	56.3%	**55.9%**
Alternative	20.5%	**19.4%**
Equity securities	14.5%	**17.8%**
Other	8.7%	**6.9%**
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:

	2018/12	**2019/12**
Discount rate	0.5~0.8%	**0.4~0.6%**
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 ¥2,097 million and ¥483 million, respectively, for the fiscal year 2018.

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥2,142 million ($19,734 thousand) and ¥517 million ($4,763 thousand), respectively, for the fiscal year 2019.

13. STOCK OPTION PLAN

(1) Expense Recognized for Stock Options

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2018/12	**2019/12**	**2019/12**
Selling, General and Administrative Expenses	330	**424**	**3,906**

(2) Summary of Stock Options Granted

Summary of stock options granted as of December 31, 2019 is as follows:

① 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	

② 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	13,200 shares	20,500 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2014 – July 31, 2026	August 1, 2014 – July 31, 2026	

③ 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	27,500 shares	43,700 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2015 – July 31, 2027	August 1, 2015 – July 31, 2027	

④ 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	14,700 shares	34,400 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2016 – July 31, 2028	August 1, 2016 – July 31, 2028	

⑤ 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	12,400 shares	30,500 shares	42,900 shares
Exercise price	¥1	¥1	
Exercisable period	August 1, 2017 – July 31, 2029	August 1, 2017 – July 31, 2029	

⑥ 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	19,500 shares	28,900 shares	48,400 shares
Exercise price	¥1	¥1	
Exercisable period	September 1, 2018 – February 28, 2031	September 1, 2018 – February 28, 2031	

⑦ 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	38,400 shares	60,900 shares	99,300 shares
Exercise price	¥1	¥1	
Exercisable period	September 1, 2019 – February 29, 2032	September 1, 2019 – February 29, 2032	

⑧ 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	

⑨ Stock option plan approved by the shareholders on March 27, 2018 and resolved by the Board of Directors on February 21, 2019

	Stock options granted on March 30, 2018	Stock options granted on March 30, 2018	Total
Number of shares for options granted	27,200 shares	31,900 shares	59,100 shares
Number of shares for options outstanding	27,200 shares	31,900 shares	59,100 shares
Exercise price	¥1	¥1	
Exercisable period	September 1, 2021 – February 28, 2034	September 1, 2021 – February 28 , 2034	

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 year 2019.
Reconciliation of the statutory tax rate and the effective tax rate for the fiscal years 2018 and 2019 is as follows:

	2018/12	**2019/12**
Statutory tax rate	31.0%	**31.0%**
Increase (decrease) due to:		
Permanently non-deductible expenses including entertainment expenses	0.5	**0.6**
Permanently non-taxable incomes including dividends received	2.2	**1.0**
Unrealized intercompany profit	0.3	**5.5**
Tax credits	(2.1)	**(1.9)**
Differences of statutory tax rates for domestic consolidated subsidiaries	2.4	**2.1**
Differences of statutory tax rates for overseas consolidated subsidiaries	(1.1)	**(6.3)**
Change in valuation allowance	3.5	**3.4**
Income taxes for prior years	—	**4.2**
Deductible expenses related to capital reduction from the subsidiary	—	**(12.6)**
Other	1.1	**1.0**
Effective tax rate	37.8%	**28.0%**

Deferred tax assets and liabilities (both current and non-current) as of December 31, 2018 and December 31, 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	**2019/12**	**2019/12**
Deferred tax assets:			
Liability for retirement benefits	25,040	**22,429**	**206,642**
Unrealized intercompany profit in inventory and property, plant and equipment	7,406	**5,443**	**50,147**
Inventories	13,484	**15,170**	**139,764**
Loss on revaluation of financial instruments	292	**372**	**3,427**
Accrued expenses	10,455	**10,532**	**97,033**
Accrued bonuses for employees	7,029	**5,045**	**46,480**
Tax losses carried forward*2	4,011	**6,524**	**60,106**
Depreciation	2,252	**2,664**	**24,543**
Reserve for sales returns	1,172	**1,282**	**11,811**
Accrued enterprise tax	1,599	**442**	**4,072**
Other	8,994	**10,224**	**94,195**
Total gross deferred tax assets	81,738	**80,133**	**738,280**
Valuation allowance for tax losses carried forward	—	**(5,530)**	**(50,948)**
Valuation allowance for taxable temporary difference	—	**(5,915)**	**(54,496)**
Subtotal valuation allowance*1	(7,767)	**(11,446)**	**(105,454)**
Total deferred tax assets	73,971	**68,686**	**632,817**
Deferred tax liabilities:			
Goodwill and other intangible assets	8,295	**7,446**	**68,601**
Unrealized gains (losses) on available-for-sale securities	2,406	**1,526**	**14,059**
Undistributed earnings of overseas consolidated subsidiaries	3,448	**3,694**	**34,033**
Special tax-purpose reserve	2,679	**2,664**	**24,543**
Other	766	**753**	**6,937**
Total deferred tax liabilities	17,595	**16,086**	**148,203**
Net deferred tax assets	56,375	**52,600**	**484,613**

*1 Valuation allowance increased ¥3,679 million ($33,895 thousand). The main reason is that the Company's subsidiary in the United States additionally recognized ¥3,589 million ($33,066 thousand) as valuation allowance for tax losses carried forward.
*2 Amounts by each carry-over years for tax losses carried forward and valuation allowance.

Millions of yen

	2020/12	2021/12	2022/12	2023/12	2024/12	2025/12 and thereafter	**Total**
Tax losses carried forward(a)	0	2	26	23	21	6,449	**6,524**
Valuation allowance	(0)	(2)	(26)	(23)	(21)	(5,456)	**(5,530)**
Deferred tax assets	—	—	—	—	—	993	**(b) 993**

Thousands of U.S. dollars (Note 1)

	2020/12	2021/12	2022/12	2023/12	2024/12	2025/12 and thereafter	**Total**
Tax losses carried forward(a)	0	18	239	211	193	59,415	**60,106**
Valuation allowance	(0)	(18)	(239)	(211)	(193)	(50,267)	**(50,948)**
Deferred tax assets	—	—	—	—	—	9,148	**(b) 9,148**

(a) Tax losses carried forward is multiplied statutory tax rate.
(b) Regarding ¥6,524 million ($60,106 thousand) tax losses carried forward, the Group recognized ¥993 million ($9,148 thousand) as deferred tax assets. This consists mainly the Company's tax losses carried forward ¥745 million ($6,863 thousand).
Considering the Company's taxation prospect for the future, this carry-forward loss can be recoverable. Thus, the Company did not recognize any valuation allowance for the deferred tax assets in the fiscal year 2019.

15. BUSINESS COMBINATIONS

Business combination through acquisition

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

1. Overview of business combination

(1) Name and business description of the Acquiree

Name: Drunk Elephant Holdings, LLC.*

Business description: Cosmetics marketing, etc.

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

(2) Reason for business combination

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

(3) Date of business combination

November 7, 2019

(4) Legal form of business combination

Cash share acquisition

(5) Name after combination

No change

(6) Percentage of equity acquired

100%

(7) Main basis for selecting this company for acquisition

SAC acquired the shares and cosmetics brand by cash.

2. Acquiree's results included in the consolidated financial statements for the following period

From November 7, 2019 to December 31, 2019

3. Detailed breakdown of acquisition cost and payment method

Payment method: Cash payment ¥92,863 million ($855,564 thousand)

Acquisition cost: ¥92,863 million ($855,564 thousand)

4. Main acquisition-related expenses and amount

Advisory fees, etc.: ¥1,277 million ($11,765 thousand)

5. Amount of goodwill, reason for recognition of goodwill, and amortization method and period

(1) Goodwill recognized

Goodwill: ¥55,007 million ($506,790 thousand)

The amount noted above was calculated on a provisional basis because only a short amount of time remained before the fiscal year-end settlement date following the business combination. The specification and valuation estimates of identifiable assets and liabilities as of the date of the business combination and the allocation of acquisition costs was therefore not complete.

(2) Reason for recognition

To recognize the additional future earning power anticipated from future development of the business.

(3) Amortization method and period

Straight-line over 10 years

6. Breakdown of main assets and liabilities received on the date of the business combination

Current assets: ¥5,691 million ($52,432 thousand)
Fixed assets: ¥34,879 million ($321,346 thousand)
Total assets: ¥40,571 million ($373,788 thousand)

Current liabilities: ¥2,040 million ($18,794 thousand)
Long-term liabilities: ¥674 million ($6,209 thousand)
Total liabilities: ¥2,715 million ($25,013 thousand)

7. Amount allocated for intangible assets other than goodwill, breakdown by main asset category, and weighted average amortization period for total intangible assets and by main category

Breakdown by main asset category	Millions of yen	Thousands of U.S. dollars	Amortization period
Trademark rights	32,682	301,105	Not amortized
Customer-related intangible assets	1,573	14,492	5 years

8. Approximate amount of impact on the consolidated statement of income for the fiscal year assuming that the business combination was completed on the first day of the fiscal year, and the calculation method

Net sales: ¥10,991 million ($101,262 thousand)
Operating Loss: ¥4,436 million ($40,869 thousand)

(Method of calculating the approximate amount)
The approximate amount of impact is the difference between the amounts of net sales and profits and loss information calculated assuming that the business combination was completed on the first day of the fiscal year and the amounts of net sales and profits and loss information on the consolidated statement of income. In addition, the amortization is calculated by assuming the goodwill and other intangible assets recognized upon the business combination were incurred on the first day of the fiscal year.
This note was not under the audit.

16. SEGMENT INFROMATION

(1) Overview of Reportable Segments

With respect to its reportable segments, the Company is able to obtain delineated financial data from its structural units through co-administration. 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. In specific terms, 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 mainly comprises the domestic business by brand category (Prestige, Fragrance, Cosmetics, Personal Care, etc.) 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, etc.).

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

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

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

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

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., manufacturing operations, the Frontier Science business and the Restaurant business, and other businesses.

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

The accounting treatment method for the Company's reported business segments is generally the same as described in "Basis of Presenting Consolidated Financial Statements" of the Company's most recent Annual Securities Report (filed on March 25, 2020). Segment profit is based on operating profit. Pricing on 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 as of and 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	454,535	190,799	68,120	131,733	113,164	87,621
Intersegment Sales or Transfers	32,179	467	2,289	37,362	11,856	216
Total	486,715	191,267	70,409	169,096	125,020	87,838
Segment Profit / (Loss)	91,326	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 Professional Business	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
Net Sales					
Sales to Outside Customers	14,145	34,704	1,094,825	—	1,094,825
Intersegment Sales or Transfers	692	107,871	192,937	(192,937)	—
Total	14,838	142,576	1,287,762	(192,937)	1,094,825
Segment Profit / (Loss)	400	(5,508)	113,384	(5,034)	108,350
Other Items					
Depreciation and Amortization	72	10,586	41,994	—	41,994
Amortization of Goodwill	—	—	1,851	—	1,851

*1 The EMEA Business includes the Middle East and African regions.
*2 "Other" includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., manufacturing operations, the Frontier Science business and the Restaurant business, and other businesses.
*3 Segment profit / (loss) adjustment is mainly intersegment transaction eliminations.
*4 Segment profit / (loss) is adjusted for operating profit described 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 as of and for the fiscal year 2019 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	451,587	216,241	69,835	124,323	118,417	102,204
Intersegment Sales or Transfers	45,395	853	2,642	41,069	11,485	372
Total	496,982	217,094	72,477	165,393	129,902	102,576
Segment Profit / (Loss)	91,094	29,225	7,426	(11,385)	(2,187)	22,091
Other Items						
Depreciation and Amortization	7,613	7,981	3,342	9,727	10,179	751
Amortization of Goodwill	172	393	132	1,638	103	113

	Reportable Segment	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
	Professional Business				
Net Sales					
Sales to Outside Customers	14,685	34,252	1,131,547	—	1,131,547
Intersegment Sales or Transfers	696	123,026	225,540	(225,540)	—
Total	15,381	157,279	1,357,088	(225,540)	1,131,547
Segment Profit / (Loss)	336	(11,148)	125,453	(11,621)	113,831
Other Items					
Depreciation and Amortization	48	16,088	55,732	—	55,732
Amortization of Goodwill	—	124	2,678	—	2,678

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	4,160,558	1,992,270	643,403	1,145,411	1,090,998	941,625
Intersegment Sales or Transfers	418,232	7,858	24,341	378,376	105,813	3,427
Total	4,578,791	2,000,128	667,744	1,523,797	1,196,812	945,052
Segment Profit / (Loss)	839,266	269,255	68,417	(104,892)	(20,149)	203,528
Other Items						
Depreciation and Amortization	70,140	73,530	30,790	89,616	93,781	6,919
Amortization of Goodwill	1,584	3,620	1,216	15,091	948	1,041

	Reportable Segment	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
	Professional Business				
Net Sales					
Sales to Outside Customers	135,295	315,570	10,425,161	—	10,425,161
Intersegment Sales or Transfers	6,412	1,133,462	2,077,943	(2,077,943)	—
Total	141,708	1,449,041	12,503,114	(2,077,943)	10,425,161
Segment Profit / (Loss)	3,095	(102,708)	1,155,822	(107,066)	1,048,747
Other Items					
Depreciation and Amortization	442	148,221	513,469	—	513,469
Amortization of Goodwill	—	1,142	24,672	—	24,672

*1 The EMEA Business includes the Middle East and African regions.
*2 "Other" includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., manufacturing operations, the Frontier Science business and the Restaurant business, and other businesses.
*3 Segment profit / (loss) adjustment is mainly intersegment transaction eliminations.
*4 Segment profit / (loss) is adjusted for operating profit described 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 2018

① Information on products and services

Sales to outside customers in the cosmetics business exceed 90% of net sales of 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		Europe	Asia / Oceania		Total
		U.S.A.			China	
495,372	138,305	115,583	128,238	332,908	216,866	1,094,825

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

II Property, Plant and Equipment

Millions of yen

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

③ Main customers information

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 2019

① Information on products and services

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

② Geographical information

I Net sales

Millions of yen

2019/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
491,063	130,429	110,278	133,059	376,995	248,401	1,131,547

Thousands of U.S. dollars (Note 1)

2019/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
4,524,258	1,201,667	1,016,012	1,225,898	3,473,327	2,288,566	10,425,161

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

II Property, Plant and Equipment

Millions of yen

2019/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
230,706	26,148	25,877	20,721	37,181	18,899	314,757

Thousands of U.S. dollars (Note 1)

2019/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
2,125,538	240,906	238,409	190,906	342,555	174,120	2,899,917

③ Main customers information

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) Information about segment unamortized goodwill

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

Millions of yen

2019/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
2,105	7,093	4,300	36,264	6,068	6,685	—	1,980	64,499

Thousands of U.S. dollars (Note 1)

2019/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
19,393	65,349	39,616	334,107	55,905	61,590	—	18,242	594,241

17. TRANSACTIONS WITH RELATED PARTIES

(1) Director and auditor of the company's significant subsidiaries

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	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

18. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of December 31, 2018 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
Short-term borrowings from banks and other financial institutions			
(weighted average interest rate 0.23%)	2,725	120,496	1,110,152
Short-term debt	2,725	120,496	1,110,152
Long-term borrowings from banks and other financial institutions			
(Borrowings due within one year, weighted average interest rate 0.5%)	730	730	6,725
(Borrowings due after one year, weighted average interest rate 1.76%)	28,105	70,791	652,211
0.001% unsecured yen bonds due in December 2019	10,000	—	—
0.237% unsecured yen bonds due in June 2020	15,000	15,000	138,197
0.374% unsecured yen bonds due in June 2022	15,000	15,000	138,197
Lease obligations			
(Borrowings due within one year, weighted average interest rate 2.96%)	1,746	8,722	80,357
(Borrowings due after one year, weighted average interest rate 2.98%)	2,469	17,368	160,014
Long-term payables (including other payables)			
(due within and after one year, weighted average interest rate 2.50%)	54,162	50,367	464,040
	127,214	177,979	1,639,754
Less: portion due within one year	(14,163)	(26,437)	(243,569)
Long-term debt	113,050	151,541	1,396,176

The aggregate annual maturities of long-term debt as of December 31, 2019 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2020/12	26,437	243,569
2021/12	62,137	572,480
2022/12	22,352	205,933
2023/12	21,514	198,212
2024/12	5,570	51,317
2025/12 and thereafter	39,965	368,205
	177,979	1,639,754

Assets pledged as collateral as of December 31, 2018 and 31, 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
Cash and time deposits	1,783	**1,737**	**16,003**
Buildings and structures	12,396	**12,078**	**111,276**
Machinery and equipment	0	**1**	**9**
Investments in securities	1,155	**1,155**	**10,641**
Other investments	15,200	**15,200**	**140,040**
	30,535	**30,173**	**277,989**

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of December 31, 2018 and 2019:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018/12	2019/12	2019/12
Current portion of long-term debt	730	**730**	**6,725**
Long-term debt	18,105	**17,375**	**160,079**
	18,835	**18,105**	**166,804**

Independent Auditor's Report

To the 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, 2018 and 2019, 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, 2018 and 2019, 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, 2019 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 31, 2020
Tokyo, Japan