Historical Selected Financial Data

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended March 31, 2012 to December 31, 2020

	2012/3	2013/3	2014/3	2015/3	2015/12	2016/12	2017/12	2018/12	2019/12	**2020/12** Millions of yen (Except per-share data)	**2020/12** Thousands of U.S. dollars (Except per-share data)
Operating Results:											
Net sales	682,385	677,727	762,047	777,687	763,058	850,306	1,005,062	1,094,825	1,131,547	**920,888**	**8,937,189**
Cost of sales	162,989	166,783	189,559	196,433	196,009	207,553	231,327	231,928	254,844	**238,401**	**2,313,674**
Selling, general and administrative expenses	480,260	484,898	522,843	553,640	529,388	605,972	693,298	754,545	762,871	**667,523**	**6,478,289**
Operating profit	39,135	26,045	49,644	27,613	37,660	36,780	80,437	108,350	113,831	**14,963**	**145,215**
EBITDA	76,974	61,463	91,285	90,703	80,635	90,078	154,741	150,318	169,348	**71,393**	**692,866**
Net profit (loss) attributable to owners of parent	14,515	(14,685)	26,149	33,668	23,210	32,101	22,749	61,403	73,562	**(11,660)**	**(113,159)**
Financial Position:											
Total assets	720,707	715,593	801,346	823,636	808,547	934,590	949,425	1,009,618	1,218,795	**1,204,229**	**11,687,005**
Short-term interest-bearing debt	9,734	39,394	64,054	75,615	18,996	16,557	10,662	15,202	144,949	**75,565**	**733,355**
Long-term interest-bearing debt	175,418	145,274	91,864	31,281	67,617	104,022	70,801	60,574	103,159	**248,733**	**2,413,946**
Interest-bearing debt	185,153	184,669	155,918	106,897	86,613	120,580	81,463	75,776	248,108	**324,299**	**3,147,311**
Equity	290,494	287,069	338,561	386,860	391,664	392,963	423,447	448,580	496,437	**484,289**	**4,700,009**
Cash Flows:											
Cash flows from operating activities	52,599	42,040	84,320	32,134	60,529	59,129	95,392	92,577	75,562	**64,045**	**621,554**
Cash flows from investing activities	(20,668)	(25,534)	(16,799)	11,538	(23,137)	(70,640)	(1,061)	(103,112)	(202,823)	**(70,084)**	**(680,163)**
Cash flows from financing activities	(35,482)	(24,745)	(47,462)	(58,419)	(30,151)	22,378	(53,117)	(29,722)	113,678	**46,880**	**454,968**
Free cash flow	31,932	16,506	67,521	43,673	37,392	(11,510)	94,331	(10,535)	(127,261)	**(6,039)**	**(58,608)**
Cash and cash equivalents at end of year	82,974	80,253	110,163	100,807	104,926	113,122	156,834	111,767	97,466	**136,347**	**1,323,243**
Per-Share Data (in yen and U.S. dollars):											
Net profit (loss)	36.5	(36.9)	65.7	84.4	58.2	80.4	56.9	153.7	184.2	**(29.2)**	**(0.28)**
Net assets	729.9	721.2	849.4	970.0	981.4	984.1	1,059.8	1,123.2	1,242.9	**1,212.3**	**11.77**
Cash dividend	50.0	50.0	20.0	20.0	20.0	20.0	27.5	45.0	60.0	**40.0**	**0.39**
Weighted average number of shares outstanding during the period (thousands)	397,974	398,007	398,300	398,704	399,026	399,227	399,466	399,409	399,411	**399,458**	
Financial Ratios:											
Operating margin (%)	5.7	3.8	6.5	3.6	4.9	4.3	8.0	9.9	10.1	**1.6**	
Return on invested capital (%)	3.5	3.4	5.9	4.1	4.6	5.0	10.4	13.1	12.9	**1.3**	
Return on equity (%)	4.9	(5.1)	8.4	9.4	6.0	8.2	5.6	14.1	15.6	**(2.4)**	
Equity ratio (%)	40.3	40.1	42.2	47.0	48.4	42.0	44.6	44.4	40.7	**40.2**	
Net interest-bearing debt to EBITDA ratio (times)	1.2	1.5	0.3	(0.2)	(0.5)	(0.1)	(0.6)	(0.3)	0.8	**2.4**	
Net debt-equity ratio (times)	0.31	0.33	0.08	(0.04)	(0.10)	(0.02)	(0.22)	(0.11)	0.28	**0.36**	
Interest-bearing debt ratio (%)	38.9	39.1	31.5	21.6	18.1	23.5	16.1	14.5	33.3	**40.1**	
CCC (Cash Conversion Cycle) (days)	109	133	139	143	146	123	114	126	149	**199**	
Payout ratio (consolidated) (%)	137.1	—	30.5	23.7	34.4	24.9	48.3	29.3	32.6	**—**	
Dividend yield (%)	3.5	3.8	1.1	0.9	0.8	0.7	0.5	0.7	0.8	**0.6**	
Dividend on equity (%)	6.7	6.9	2.6	2.2	2.1	2.0	2.7	4.1	5.1	**3.3**	
Number of employees at year-end	32,595	33,356	33,054	33,000	33,783	36,549	37,438	38,640	40,000	**39,035**	
Net sales per employee	20.9	20.3	23.1	23.6	22.6	23.2	26.8	28.3	28.3	**23.6**	**229**

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 of less than one million yen are omitted.
3. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥103.04 = US$1 prevailing on December 31, 2020.
4. EBITDA (Earnings before interest, taxes, depreciation and amortization)* = Net income (loss) before income taxes + Interest expense + Depreciation and amortization expense + Impairment loss
   * EBITDA includes depreciation and amortization and impairment loss included in the loss on COVID-19 recorded in extraordinary losses.
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 (loss) before income tax ** (Interest-bearing debt + Equity) is the average of the beginning and the ending balances.
7. Interest-bearing debt to net EBITDA ratio = (Interest-bearing debt* – Cash and time deposits**) / EBITDA*
   * Interest-bearing debt is the ending balance. ** Cash and time deposits are the term-end sum of cash and time deposits and short-term investments in securities in current assets.
8. Net debt-equity ratio = (Interest-bearing debt – Cash and time deposits) / 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 period (days) – Payables turnover period (days) (average of each indicator during the period)
11. Payout ratio (consolidated) is omitted as the Shiseido Group recorded a net loss in the consolidated fiscal years ended March 31, 2013 and December 31, 2020.
12. Dividend on equity = Total dividends paid (full year) / Equity* *Equity is the average of the beginning and the ending balances.
13. The number of employees at year-end does not include temporary employees.
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. Shiseido has been recognizing payables associated with *Dolce&Gabbana* and *Tory Burch* from the fiscal years 2016 and 2020, respectively. For the fiscal year ended December 31, 2020, the interest-bearing debt ratio including these payables was 43.8%, the net debt-equity ratio was 0.47, and interest-bearing debt was ¥376,736 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

In the fiscal year 2020, global economic conditions remained challenging, as economic activity stagnated due to the COVID-19 outbreak, and consumer sentiment declined due to worsening corporate earnings and employment. In the domestic cosmetics market, consumer traffic dropped as a result of temporary retail closures under a state of emergency, shortened operating hours following its lifting, and consumers staying at home. Other factors included restrictions on entry into Japan issued by the Japanese government, such as the cancellation of visas to citizens of approximately 150 countries and regions as well as reductions in international flights, all of which significantly decreased demand from inbound tourists. Overseas cosmetics markets decelerated sharply: from February, in Asia, and from March, in Europe and the United States. Although the number of new COVID-19 cases temporarily stabilized in summer, it resurged from September, mainly in Europe and the United States, and the situation remained challenging amid reinforced measures restricting economic activity. Meanwhile, in China, new infections slowed from late March, and stay-at-home restrictions were relaxed. As a result, the market began to recover from April.

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.

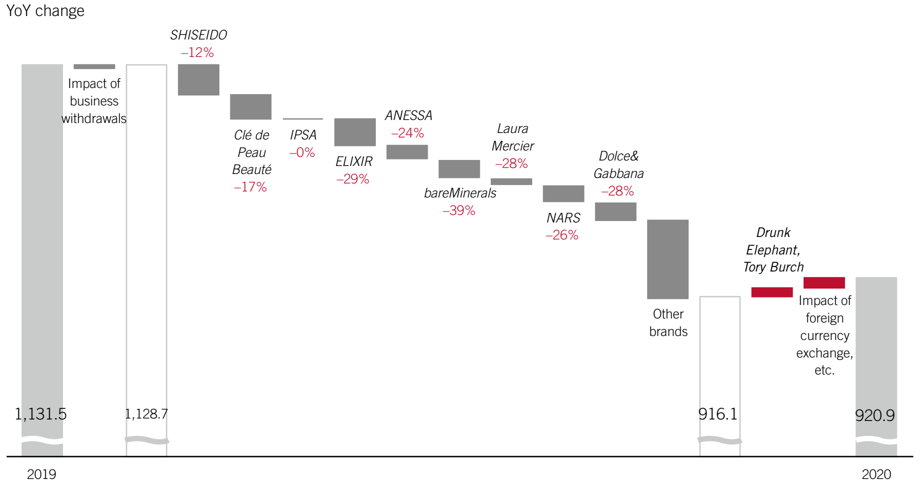
The fiscal year under review is the final year of VISION 2020, however, as outlined above, the business environment was extremely challenging. Despite such circumstances, we continued the selection and concentration of our businesses and brands, investing in targeted brands for sustainable growth, and reviewing expenses throughout the year on a zero basis, while formulating and taking measures to restore business performance.

ANALYSIS OF OPERATING RESULTS

NET SALES

Net sales declined 17.8% year on year on a local currency basis, and fell 18.8% year on year on a like-for-like basis, excluding such factors as the acquisition of *Drunk Elephant*. This decline was attributable to the spread of the COVID-19 pandemic, despite expansions in growth for prestige brands in China and the Travel Retail Business in Asia, an increase in the skincare sales ratio stemming from the growth of skin beauty brands, and an increase in e-commerce sales, all of which were achieved as a result of investments in strategic growth areas. On a yen basis, net sales fell 18.6% year on year, to ¥920.9 billion ($8,937.2 million).

Changes in Net Sales by Brand (Billions of yen)



* YoY change (%) for each brand is calculated based on initial exchange rate assumptions, excluding the impact of foreign currency exchange, etc.

Net sales for our core brands declined compared with the previous consolidated fiscal year as a result of the COVID-19 pandemic. This comparison is on an actual basis that excludes the contributions of the *Drunk Elephant* brand, the acquisition of which we completed in November 2019, and the *Tory Burch* brand, for which we have been recording sales since January 2020. Among our core brands, net sales for our prestige brands, *SHISEIDO* and *Clé de Peau Beauté*, were down 12% and 17%, respectively, year on year. In addition to the impact of temporary store closures because of the state of emergency declaration and a decline in customer traffic due to consumers staying at home, these decreases were in large part attributable to a contraction in sales in the Japan Business, which was a consequence of the sharp fall in inbound demand accompanying a significant decrease in the number of tourists visiting Japan. Sales for these prestige brands, however, were favorable in China, which saw a sustained recovery following a decline in COVID-19 infections from late March.

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of Sales

Cost of sales decreased by 6.5% year on year, to ¥238.4 billion ($2,313.7 million). The cost of sales ratio increased 3.4 percentage points compared with the previous consolidated fiscal year, to 25.9%, due to factors that included a deterioration of the product mix and an increase in inventory write-off expenses.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased 12.5%, to ¥667.5 billion ($6,478.3 million). The breakdown of this result is as follows.

Please note that, as of the consolidated fiscal year 2020, we partially amended the presentation method for "selling, general and administrative expenses" following revision of our consolidated statements of income on a global basis. As such, in the following year-on-year comparisons, the figures for the previous consolidated fiscal year have been reclassified in accordance with the revision.

Marketing Costs

The ratio of marketing costs to net sales increased 1.6 percentage points year on year, to 37.9%. This increase stemmed from ongoing enhancement of marketing investments in growth areas, such as China and e-commerce, despite rigorous efforts of cost efficiency in line with sales fluctuations.

Brand Development / R&D Expenses

The ratio of brand development and R&D expenses to net sales increased 0.3 percentage point year on year, to 4.3%. Although these expenses decreased in the consolidated fiscal year under review due to a one-off cost incurred in the previous year associated with the start of operations of the Global Innovation Center, the ratio increased as the decrease in these expenses was outweighed by the decline in net sales.

Personnel Expenses

The ratio of personnel expenses to net sales increased 1.4 percentage points year on year, to 12.7%, due primarily to the decrease in net sales.

Other SG&A Expenses

The ratio of other SG&A expenses to net sales increased 1.8 percentage points, to 17.6%. Although these expenses were down year on year due to a decrease in travel expenses as a result of the COVID-19 pandemic and a decline in business outsourcing expenses driven by cost reductions, the ratio was up as the decrease in these expenses was outweighed by the decline in net sales.

Research and development (R&D) investments, which are included in SG&A expenses, stood at ¥27.0 billion ($262.0 million), bringing the ratio of R&D investments to net sales to 2.9%.

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

	2017/12	2018/12	2019/12	**2020/12**
Cost of sales ratio (%)	23.0	21.2	22.5	**25.9**
SG&A expenses ratio (%)	69.0	68.9	67.4	**72.5**
Marketing costs	35.7	36.6	36.3	**37.9**
Brand development / R&D expenses	5.4	5.8	4.0	**4.3**
Personnel expenses	12.5	11.6	11.3	**12.7**
Other SG&A expenses	15.4	14.9	15.8	**17.6**
SG&A expenses (billions of yen)	693.3	754.5	762.9	**667.5**
Marketing costs	359.2	401.2	410.4	**348.4**
Brand development / R&D expenses	53.9	63.5	45.0	**39.8**
Personnel expenses	125.8	127.1	128.2	**117.1**
Other SG&A expenses	154.4	162.7	179.4	**162.2**

Note: As of the consolidated fiscal year under review, we partially amended the presentation method for major items and amounts included in "selling, general and administrative expenses," following revision of our consolidated statements of income on a global basis. To reflect this change in the presentation method, we have also reclassified major items and amounts included in "selling, general and administrative expenses" for the previous consolidated fiscal year.

OPERATING PROFIT

Operating profit decreased 86.9%, to ¥15.0 billion ($145.2 million).

Operating Profit / Operating Margin

(Billions of yen)	2017/12	2018/12	2019/12	**2020/12**
Operating profit	80.4	108.4	113.8	**15.0**
Operating margin (%)	8.0	9.9	10.1	**1.6**

ORDINARY PROFIT

Ordinary profit declined 91.1%, to ¥9.6 billion ($93.5 million), owing to a decrease in operating profit.

NET PROFIT ATTRIBUTABLE TO OWNERS OF PARENT

Net loss attributable to owners of parent of ¥11.7 billion ($113.2 million) due to the operating loss and extraordinary losses related to COVID-19, such as compensation of employees on leave and maintenance costs for store counters and factories.

REVIEW BY REPORTABLE SEGMENT

Results by reportable segment are as follows.

Net Sales by Reportable Segment

Segments[1]

(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[3]	34.7	34.3

Net Sales by Reportable Segment

Segments[2]

(Billions of yen)	2019/12	**2020/12**
Japan Business	431.0	**303.0**
China Business	216.2	**235.8**
Asia Pacific Business	69.8	**59.2**
Americas Business	123.0	**91.4**
EMEA Business	118.4	**94.3**
Travel Retail Business	122.8	**98.5**
Professional Business	14.7	**12.8**
Other[4]	35.6	**25.9**

Operating Profit by Reportable Segment

Segments[1]

(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[3]	(5.5)	(11.1)

Operating Profit by Reportable Segment

Segments[2]

(Billions of yen)	2019/12	**2020/12**
Japan Business	76.5	**10.5**
China Business	29.2	**18.4**
Asia Pacific Business	7.4	**3.2**
Americas Business	(7.6)	**(22.3)**
EMEA Business	(2.2)	**(13.2)**
Travel Retail Business	31.3	**14.6**
Professional Business	0.3	**(0.0)**
Other[4]	(9.9)	**3.5**

Operating Margin by Reportable Segment[5]

Segments[1]

(%)	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[3]	(3.9)	(7.1)

Operating Margin by Reportable Segment[5]

Segments[2]

(%)	2019/12	**2020/12**
Japan Business	16.7	**3.2**
China Business	13.5	**7.8**
Asia Pacific Business	10.2	**5.3**
Americas Business	(4.6)	**(18.8)**
EMEA Business	(1.7)	**(12.9)**
Travel Retail Business	25.4	**14.8**
Professional Business	2.2	**(0.3)**
Other[4]	(5.6)	**2.0**

Notes:
1. 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 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.
2. Change in Reportable Segment Classification
Effective from the fiscal year 2020, the Group has revised its reportable segment classifications. The business results of the airport duty-free business in Japan of The Ginza Co., Ltd., which were previously included in the Japan Business, are now included in the Travel Retail Business, and the business results related to the brand holder functions of *THE GINZA*, the same subsidiary's brand, are now included in the Other segment.
In addition, the business results of Bare Escentuals K.K., which operates in Japan, and the business results and other costs associated with the Technology Acceleration Hub, previously included in the Americas Business, are now included in the Other segment. Furthermore, following the transfer of brand holder functions of the *ELIXIR* and *ANESSA* brands from Shiseido Japan Co., Ltd. to Shiseido Co., Ltd., the business results related to the brand holder functions of both brands, previously included in the Japan Business, are now included in the Other segment.
3. "Other" includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., and manufacturing operations, as well as the activities of the Frontier Science business, the Restaurant business, etc.
4. "Other" includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., and manufacturing operations, as well as the activities of the Frontier Science business, the Restaurant business, etc.
5. "Operating margin by reportable segment" is calculated against sales for the segment, including intersegment sales.

Japan Business

In the Japan Business, we focused on consumer-oriented activities to address changes in consumer values and purchasing behavior. These resulted in launches of new products in line with new consumer needs prompted by the COVID-19 pandemic, such as hand creams, which are in high demand, and BB cream that stays put even under a mask. Also, we focused on providing beauty information to consumers. At the same time, we proceeded with business foundation restructuring, such as optimizing inventories. In addition, we worked on omni-channel initiatives and strengthened digital marketing, which drove double-digit growth of e-commerce sales. However, reduced consumer traffic from temporary retail closures under declared state of emergency and shortened operating hours following the lifting of that emergency, as well as consumer tendency to stay at home, negatively affected sales, mainly for prestige and premium brands. Furthermore, a significant decline in the number of tourists to Japan led to a sharp drop in inbound demand.

As a result, net sales decreased 29.7% year on year to ¥303.0 billion ($2,940.9 million). Operating profit fell 86.3% year on year to ¥10.5 billion ($101.6 million), mainly due to lower margins accompanying a decline in sales, unfavorable product mix, and revision in inventory provision in line with enhanced management of inventory optimization, which could not be offset despite relentless cost-reduction measures.

China Business

The China Business was largely affected by COVID-19 from the latter half of January. However, due to the decline in infections from late March, the market started to recover, particularly in mainland China. Prestige brands such as *SHISEIDO*, *Clé de Peau Beauté*, *IPSA* and *NARS* grew significantly and expanded their market shares on the back of new counter openings and strengthened investment in e-commerce. Sales from Singles' Day (or "Double 11"), China's largest e-commerce holiday promotion, more than doubled year on year. As a result, the ratio of e-commerce sales in China exceeded 40%.

As a result, net sales grew 11.0% on an FX-neutral basis, or 9.0% year on year to ¥235.8 billion ($2,288.5 million) based on reported figures. Operating profit contracted 37.1% year on year to ¥18.4 billion ($178.4 million), due to higher marketing expenses.

Asia Pacific Business

In the Asia Pacific Business, we continued to expand our made-in-Japan brands and increase counters in Southeast Asia. In addition, e-commerce sales grew significantly, driven by *SHISEIDO* and *SENKA*, thanks to strengthened collaboration with major e-commerce platforms in various regions. However, overall performance was hit by COVID-19, particularly in South Korea and Thailand. Vietnam saw relatively little impact, with sales outperforming year on year due to steady recovery.

As a result, net sales decreased 14.7% on an FX-neutral basis, or 15.3% year on year to ¥59.2 billion ($574.3 million) based on reported figures. Operating profit declined 56.3% year on year to ¥3.2 billion ($31.5 million), mainly due to lower margins accompanying a decline in sales.

Americas Business

In the Americas Business, we took efforts to strengthen our earnings base by restructuring *bareMinerals* through closures of unprofitable boutiques and by strengthening marketing of the prestige skincare brand *Drunk Elephant*, which we acquired in the previous fiscal year. However, from March onward, performance, especially in the offline channel, was significantly affected by measures to curb the spread of COVID-19 such as lockdowns and stay-at-home orders, and an increase in retailers filing for Chapter 11 (United States Bankruptcy Code). By category, makeup was particularly challenging. Meanwhile, e-commerce sales were strong, driven by *Drunk Elephant*.

The above factors resulted in a net sales decrease of 23.8% on an FX-neutral basis, or 25.7% year on year to ¥91.4 billion ($887.1 million) based on reported figures. Net sales excluding the impact from the acquisition of *Drunk Elephant*, or like-for-like, declined 33.7%. Operating loss deteriorated by ¥14.7 billion ($142.7 million) from the previous fiscal year to ¥22.3 billion ($216.0 million), mainly due to lower margins accompanying a decline in sales and an increase in expenses associated with goodwill amortization of *Drunk Elephant*.

EMEA Business

In EMEA, the number of new COVID-19 cases temporarily stabilized in summer but resurged from September onward, triggering new measures restricting economic activity, such as lockdowns and night-time curfews. Against this backdrop, the cosmetics market saw significant growth in e-commerce. Our e-commerce business outpaced the market, with *SHISEIDO* skincare performing particularly well. Launches of *Clé de Peau Beauté* in Italy and Spain, and of *Drunk Elephant* in Germany, also contributed to sales. Overall, however, performance was strongly affected by the COVID-19 outbreak.

As a result, net sales decreased 20.2% on an FX-neutral basis, or 20.4% year on year to ¥94.3 billion ($915.0 million) based on reported figures. Operating loss deteriorated by ¥11.0 billion ($106.8 million) from the previous fiscal year to ¥13.2 billion ($128.4 million), mainly due to a decline in margins accompanying lower sales.

Travel Retail Business

From the fiscal year under review, the Travel Retail Business (sales of cosmetics and fragrances mainly through airport and downtown duty-free stores) included duty-free sales in Japan's airports, consolidating Travel Retail sales around the world. However, it was severely hit by a considerable reduction of international flights due to the spread of COVID-19 and the resulting decline in the number of travelers worldwide. Meanwhile, consumer purchases in Asia grew year on year, as the number of domestic tourists to Hainan Island in China and demand at South Korean downtown duty-free stores and in e-commerce remained high. Another positive factor was new counter openings, mainly for *IPSA* and *ELIXIR*.

These factors resulted in a net sales decrease of 18.2% on an FX-neutral basis. Based on reported figures, net sales declined 19.8% year on year to ¥98.5 billion ($955.9 million). Operating profit contracted 53.2% year on year to ¥14.6 billion ($142.1 million), mainly due to lower margins accompanying weaker sales and higher inventory write-off expenses.

Professional Business

The Professional Business was affected by stay-at-home policies and closures of hair salons in Japan, China, and Asia Pacific, to which we deliver professional products such as hair care, styling, color and perm products. Among these, the China market saw positive sales trends mainly due to strengthening of the online channel.

As a result, net sales were down 12.2% on an FX-neutral basis, or 13.1% year on year to ¥12.8 billion ($123.8 million) based on reported figures. The segment posted an operating loss of ¥34 million ($0.3 million), mainly due to lower margins accompanying a decline in sales.

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

(%)	2017/12	2018/12	2019/12	**2020/12**
Net sales	16.0	8.8	5.7	**(17.8)**

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

(Yen)	2017/12	2018/12	2019/12	**2020/12**
USD	112.2	110.4	109.1	**106.8**
EUR	126.7	130.4	122.1	**121.8**
CNY	16.6	16.7	15.8	**15.5**

Sales by Region

(Billions of yen)	2017/12	2018/12	2019/12	**2020/12**
Japan	456.9	495.4	491.1	**333.3**
China	161.0	216.9	248.4	**289.0**
Asia (excl. China)	94.9	116.0	128.6	**104.1**
Americas	163.9	138.3	130.4	**93.1**
Europe	128.3	128.2	133.1	**101.3**
Total	1,005.1	1,094.8	1,131.5	**920.9**

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 net debt-to-equity ratio of 0.2 and a net interest-bearing debt to EBITDA ratio of 0.5 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, 2020, cash and time deposits and short-term investments in securities totaled ¥151.0 billion ($1,465.5 million) and represented 2.0 months of consolidated net sales for the fiscal year 2020. Meanwhile, interest-bearing debt as of December 31, 2020 totaled ¥376.7 billion ($3,655.9 million). Shiseido uses diversified funding methods, which include ¥100.0 billion in unused committed lines of credit with financial institutions and authorized but unissued straight bonds in Japan totaling ¥270.0 billion. In addition, Shiseido and two subsidiaries in EMEA and the Americas have established a syndicated loan program with authorized but unused commitments totaling $300.0 million.

As of December 31, 2020, 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: Negative)

(As of March 8, 2021)

ASSETS, LIABILITIES, AND NET ASSETS

Assets

Total assets decreased ¥14.6 billion ($141.7 million) from the end of the previous fiscal year, to ¥1,204.2 billion ($11,687.0 million). This was attributable to a decline in current assets due to a drop in sales as a result of the spread of COVID-19 and a decline in deferred tax assets owing to the revision of the retirement benefit plan for the Company and some of its subsidiaries in Japan, while fixed assets increased mainly due to investment in property, plant and equipment.

Liabilities

Liabilities decreased by ¥3.3 billion ($32.0 million), to ¥697.6 billion ($6,770.5 million), mainly due to a decline in liability for retirement benefits resulting from the revision of the retirement benefit plan described above, which offset an increase due to the issuance of bonds and borrowings for the purpose of raising working capital.

Net Assets

Net assets decreased ¥11.3 billion ($109.7 million), to ¥506.6 billion ($4,916.5 million), mainly due to decreases in retained earnings and foreign currency translation adjustments.

As of December 31, 2020, net assets per share were down ¥30.51 ($0.30) year on year, to ¥1,212.34 ($11.77). The equity ratio decreased 0.5 percentage point, to 40.2%.

The net debt-to-equity ratio, which indicates the ratio of pure interest-bearing debt (interest-bearing debt – cash and time deposits) to shareholders' equity, was 0.36.

CASH FLOWS

The balance of cash and cash equivalents as of December 31, 2020 stood at ¥136.3 billion ($1,323.2 million), ¥38.9 billion ($377.5 million) more than at the end of the previous consolidated fiscal year.

Cash Flow Summary

(Billions of yen)	2018/12	2019/12	**2020/12**
Cash flows from operating activities	92.6	75.6	**64.0**
Cash flows from investing activities	(103.1)	(202.8)	**(70.1)**
Cash flows from financing activities	(29.7)	113.7	**46.9**
Cash and cash equivalents at end of year	111.8	97.5	**136.3**

Cash Flows from Operating Activities

Net cash provided by operating activities declined ¥11.5 billion ($111.6 million) compared with the previous fiscal year, to ¥64.0 billion ($621.6 million). Non-cash expenses including depreciation and amortization decreased ¥60.4 billion ($586.0 million), notes and accounts receivable declined ¥28.5 billion ($277.0 million), and inventories were down ¥10.8 billion ($104.4 million). On the other hand, notes and accounts payable decreased ¥39.7 billion ($385.1 million) and accrued bonuses for employees declined ¥9.9 billion ($96.5 million).

Cash Flows from Investing Activities

Net cash used in investing activities declined ¥132.7 billion ($1,287.8 million) year on year, to ¥70.1 billion ($680.2 million). Proceeds from sales of property, plant and equipment and intangible assets provided ¥10.4 billion ($101.3 million). On the other hand, acquisition of property, plant and equipment used ¥56.4 billion ($547.0 million), acquisition of intangible assets came to ¥17.1 billion ($166.2 million), and payments of long-term prepaid expenses stood at ¥6.4 billion ($62.4 million).

Cash Flows from Financing Activities

Net cash provided by financing activities decreased ¥66.8 billion ($648.3 million) year on year, to ¥46.9 billion ($455.2 million). Proceeds from long-term debt came to ¥110.0 billion ($1.067.5 million) and proceeds from issuance of bonds stood at ¥50.0 billion ($485.2 million). Meanwhile, a decrease in short-term debt and commercial paper used ¥63.5 billion ($615.9 million), cash dividends paid stood at ¥20.0 billion ($193.8 million), redemption of bonds was ¥15.0 billion ($145.6 million), and repayment of lease obligations used ¥9.4 billion ($91.6 million).

BUSINESS AND OTHER RISKS

Our Annual Securities Report pertaining to our business performance and financial condition includes risks that may potentially impact on our business performance and financial positions are listed below. We believe that these risks could have a major impact on our investors' decisions.

Such items associated with future events are based on our judgment as of the Annual Securities Reports dated March 25, 2021. Please note that the potential risks are not limited to those listed below.

The risk management of the Group is primarily focused on "achieving our medium-to-long-term strategies". We thus consider risks as "uncertainties" that may 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 the Risk Management Department at Global Headquarters (HQ). Also, the "Global Risk Management & Compliance Committee", chaired by the CEO and composed of Regional CEOs and HQ Executive Officers as well as Executive Committee regularly identify Group risks and deliberate measures towards them.

In 2020, risks were identified through a holistic approach combining multiple and comprehensive methods. Specifically, HQ Risk Management Department interviewed Group CEO, HQ corporate officers, Regional CEOs and External Board Members, for their view on Group risks. Regional risk assessments and input from relevant functions were also taken into consideration as HQ Risk Management Department identified material risks affecting WIN 2023 Key Strategies*, with the input from external experts.

The identified material risks were evaluated with three measurements of "the impact on business in case of risk manifestation", "likelihood and timing of risk manifestation", "preparedness to the risk", followed by confirmation of prioritization and countermeasures through the above committee meetings and other individual meetings**.

Risks identified through our risk assessment have been organized into four risk categories. COVID-19 changed the business environment surrounding Shiseido in 2020, and such risks stemming from external factors are categorized as "Consumer-related Risks" and "Social-related Risks". In addition to appropriately handling of the changing environment, a strong business foundation must be in place to realize WIN 2023 Key Strategies. The risks related to the realization are categorized as "Operation & Fundamental Risks". Lastly, "Other Risks" sit as the fourth risk category.

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 most impactful risks (Threats and Opportunities) for the fiscal year 2021 in relation to the realization of our "WIN 2023 Key Strategies" are: "Innovation Risks", "Changes in Consumer Values", "Business Structure Transformation", "Speed of Digital Shift", "Natural and Man-Made Disasters", and "ESC (Environment, Society, and Culture) Unique to Shiseido".

The following outlines the relationships of individual risks 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, 2021.

*** WIN 2023 Key Strategies**

Improve Profitability	1. Rebuild profit structure through fundamental reforms 2. Increase cost competitiveness and improve factory productivity 3. Accelerate growth in Asia, especially China
Focus on Skin Beauty	4. Build a powerful portfolio centered on skin beauty brands 5. Accelerate innovation through external collaborations 6. Develop the inner beauty category
Rebuild Business Foundation	7. Become a truly sustainability-focused company 8. Strengthen brands through innovative marketing and robust organization 9. Build a digitally driven business model and organization 10. Enhance talent and organization through diversity and upskilling

* Due to the spread of COVID-19, face-to-face Committee meetings were at times held via alternative methods, such as one-to-one online meetings between the Risk Management Department and Committee members.

<Consumer-related Risks /Social-related Risks>

Risk	Important efforts for realizing our Strategies / uncertainties (Threats and Opportunities) that could impact such efforts and response measures regarding these uncertainties	Relationship with WIN 2023 Key Strategies*
Innovation Risks (Consumer-related Risks)	**[Key Strategic Initiatives]** • Strengthen R&D in the Premium Skin Beauty area. • Invest in R&D with ca.3% of net sales ratio target. • Strengthen R&D activities at each Regional Headquarters (RHQ). • Effectively share innovation-related information with consumers and clients, including successful R&D initiatives. **[Uncertainties]** • New and competing technologies may make existing technologies obsolete. Pharmaceutical regulations of certain countries could result in restriction of our technologies, making it difficult to provide new value to consumers. (Threat) • Delay in the progress of M&A and partnerships with third parties could prevent us from achieving planned synergies, limiting our overall competitiveness and ability to meet the needs of consumers. (Threat) • Establishing competitive superiority through the creation of new value via innovation in fields such as services, processes, and organization. (Opportunity) **[Response Measures]** • Drive innovation through Shiseido Global Innovation Center (GIC) (Yokohama) and Beauty Innovation Hub (Shanghai). • Establish Nasu Factory, Osaka Ibaraki Factory and Fukuoka Kurume Factory leveraging the latest technologies. • Conduct joint research with external organizations. Harness expertise of U.S. start-up ventures. Focus on consumer trends. • Create new values and business through establishment of EFFECTIM Co., Ltd., a joint venture with a beauty device company. • Collaborate for innovation with external parties through initiatives such as “fibona” (open innovation program involving start-up companies led by GIC). • Define KPIs for measuring the return on Research and Development (such as R&I expenses to net sales ratio, number of researchers, sites, patent applications, and academic papers, etc.) and regularly monitor against competitors.	4, 5, 6, 7, 8 and 9
Changes in Consumer Values (Consumer-related Risks)	**[Key Strategic Initiatives]** • Focus on the Premium Skin Beauty area. • Strengthen business portfolio combining the Company’s R&D with open innovation and strategic M&A. • Develop the inner beauty category. • Develop 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 or inner beauty, and further diversifying purchasing behaviors. (Threat) • Successful marketing strategies addressing changing consumer values may lead to higher-than-expected sales and profits. (Opportunity) **[Response Measures]** • Expand live e-commerce and online counseling across brands and Regions. • Strengthen brand portfolio to respond to diversifying consumer values (e.g., *Drunk Elephant*, development of new brands and M&A). • Set up Consumer and Market Intelligence Department to gather consumer information in an accurate and timely manner. • Strengthen value development functions in China (e.g., R&D, marketing). • Through China Business Innovation & Investment (CBI), promote innovation from existing businesses and new business development. • Accelerate diversity of human resources, especially at HQ. • Accelerate value creation and business development through open innovation with other companies.	4, 5, 6, 7, 8 and 9
Speed of Digital Shift (Consumer-related Risks)	**[Key Strategic Initiatives]** • Strengthen consumer engagement and e-commerce to cultivate loyal consumers in line with structural channel shift. • Obtain consumer data and develop more focused marketing by digital CRM to accomplish consumer engagement and retention. **[Uncertainties]** • Possibility of decline in market share due to lack of speed in shifting to digital business model and losing existing/new consumers to competitors. (Threat) • Offer unique value through combination of e-commerce and store-counter sales. (Opportunity) **[Response Measures]** • Promote omni-channel marketing integrating e-commerce and in-store sales. • Appointment of Chief Digital Officer for the Japan Region. • Increased hiring of digital marketing experts and launch of Groupwide Digital Academy to promote a digital mindset as a core competency. • Accelerate digital marketing through ties with e-commerce platformers in China or other technology start-up companies.	8, 9 and 10
ESC (Environment, Society, and Culture) Unique to Shiseido (Consumer-and Society-related Risks)	**[Key Strategic Initiatives]** • As part of our initiatives to realize a Better World, execute actions contributing to a happier society or solutions for social issues through beauty, our core business. • Promote actions from the aspects of the environment, society and culture with a core focus on beauty. Select material issues from the perspectives of 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 such as development of sustainable products 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 setting KPIs. Monitoring of the strategy implementation progress, involving related departments of HQ and RHQs. • Sustainability/SDG-related activities by each brand (*SHISEIDO*, *Clé de Peau Beauté*, etc.). • Issue Sustainability Report reflecting corporate policies, initiatives, and KPIs. **Clean Environment** • Adopt eco-friendly packaging (co-developed Kaneka’s biodegradable polymer Green Planet™ 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 (CO_2, palm oil, paper, water, waste) and work toward achieving them. • Support the Task Force on Climate-related Financial Disclosures (TCFD), preparing a scenario analyzing climate change risk impact on business and disclosing information based on TCFD recommendations. **Respectful Society** • Donation of skin care products for medical professionals fighting the spread of COVID-19, start of production/sales of hand sanitizer and disclosure of its formula. • Support and participate in “30% Club Japan” aimed at increasing female representation among leaders of Japanese companies. Shiseido Group CEO leads the activities of TOPIX CEO club as Chair. • Provide more opportunities to experience the power of makeup through the expansion of “LAVENDER RING MAKEUP & PHOTOS WITH SMILES,” a project to support cancer survivors in their return to daily life. **Enriched Culture** • Established an experiential museum, S/PARK Museum, in the Global Innovation Center in Yokohama. • Established “Japanese Beauty Institute” to organize events and share beauty-related contents online. • Contribute to new value creation through discovery and support of next-generation artists with Shiseido gallery.	4, 7 and 10
Natural and Human-Made Disasters (Social-related Risks)	**[Key Strategic Initiative]** • Reinforce human resources and management infrastructure to rebuild our foundation for growth on a global scale. **[Uncertainties]** • Recent natural disasters (such as earthquakes) and other events around the world resulting in human and/or material damage, and resulting impact on supply network and business. (Threat) • Prolonged COVID-19 or outbreak of similar pandemics may lead to decline in consumption, sales, and profits. (Threat) **[Response Measures]** • Formulate business continuity plans (BCPs) for HQ and major regional sites and hold regular training at each site to ensure effectiveness. • Taskforce established at HQ and RHQs in response to COVID-19. BCP for infectious diseases revised and response system strengthened.	2 and 10
Brand Image (Social-related Risks)	**[Key Strategic Initiatives]** • Aggressive marketing activities including digital marketing to increase brand value. • Proactive marketing activities to create both corporate brand and each brand images using ambassadors and social media influencers. **[Uncertainties]** • Rumors, whether true or unfounded, regarding our official communications or comments and actions by ambassadors 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 value with consumers, resulting in damage to our brands. (Threat) **[Response Measures]** • Formulate and implement a strict social media policy and ensure familiarization among employees. • 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 ambassadors and social media influencers, to avoid behavior/messaging leading to criticism on the grounds of ethical 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.	4, 8, and 9
Geopolitical Risks (Social-related Risks)	**[Key Strategic Initiatives]** • Focus investment on the growth areas of the China and the Travel Retail businesses. • Rebuild the business foundation to boost profitability in Japan Region. • Improve profitability in the Americas and EMEA Regions. **[Uncertainties]** • Possibility of deteriorating business environment or increase in costs associated with additional tariff implementation and legislation due to U.S.—China trade friction. (Threat) • Possibility of boycott on our products due to increased anti-Japan sentiments in Asian countries. (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 Premium Skin Beauty business in China and across the APAC Region. • Further acceleration of growth in China through new businesses and new brands. • Balance sales portfolio across Regions. Gain increased support from consumers and expanded sales / profits in Japan, the U.S., and Europe. • Strengthen and leverage the scale of our global supply network to be able to be flexible at a time of crisis, without interrupting supply.	3

<Operation & Fundamental Risks>

Risk	Important efforts for realizing our Strategies / uncertainties (Threats and Opportunities) that could impact such efforts and response measures regarding these uncertainties	Relationship with WIN 2023 Key Strategies*
Business Structure Transformation	**[Key Strategic Initiative]** • Improve profitability through reduction of COGS and SG&A expenses. **[Uncertainties]** • Business plan achievement may be negatively affected if regional/divisional business restructuring does not progress as targeted and profitability and cash flow are not improved. (Threat) • Possibility of competitive advantage in the global market by improving profitability in EMEA and the Americas, rebuilding the foundation around local business in Japan, and expanding the organizational capacity of the “Second HQ” in China. (Opportunity) **[Response Measure]** • Establish and promote the Global Transformation Committee led by the CEO to establish, implement, manage and expedite decision-making for corporate strategy and to formulate/implement reform proposals for each regional structure or division.	1, 2 and 3
Information Security	**[Key Strategic Initiative]** • Strengthen digital marketing globally by utilizing data and enhancing e-commerce to match consumer needs and fierce competitive environment. **[Uncertainties]** • Liability for damages and loss of trust in the Company as a result of system failures caused by cyberattacks and leakage of consumer 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]** • Reinforce medium-to-long-term response to external cyberattacks increasing in sophistication and diversification (e.g., stronger security related to filters, computer devices, and cloud use). • 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. • Develop and promote compliance rules and regulations regarding cloud computing services and promote employee information security awareness globally. • Revisit global information security framework to suit the current situation.	9 and 10
Corporate Culture and Acquisition / Securing Outstanding Human Resources	**[Key Strategic Initiatives]** • Under the “PEOPLE FIRST” Principle, acquire/develop human resources as catalysts for change and sources of innovation. • 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) • Possible increase in productivity of the entire Group through workstyle reforms tailored to each task. (Opportunity) **[Response Measures]** • Continue to reinforce a strong culture of transparent leadership and governance globally and reinforce the culture through employee communications and town halls. • Promote workplace with flexibility and diversity, such as a new workstyle combining office and remote work to achieve maximum results (Shiseido hybrid workstyle) and permitting part-time jobs. Improve employee well-being. • Improve infrastructure for human resource (HR) information, introduce the global HR database “MIRAI,” and unify employee performance management. • Introduce the Job Grade HR System and a remuneration system commensurate with individual contributions. • Provide programs to develop global business leadership and business insight. • Provide employee mobility opportunities to promote a global mindset and best practices. • Increase diversity to enhance talent and organizational capabilities.	8, 9 and 10

Global Information Network	**[Key Strategic Initiative]** • Globally improve effectiveness of information systems, business management systems, and core business processes related to procurement/production/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 Measure]** • Establishment of the Business Transformation Department at HQ and dedication to standardizing and updating IT systems and business processes globally, in line with the overall objectives of the FOCUS project.	2, 9 and 10
Supply Network	**[Key Strategic Initiatives]** • Three domestic factories newly built to establish stable production over the 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 our six factories in Japan. (Opportunity) **[Response Measures]** • Reinforce supply structure of important ingredients by using multiple suppliers, securing emergency stocks, and creating strategic alliances with suppliers. • Strengthen our monitoring capabilities to ensure compliance with the Shiseido Group Supplier Code of Conduct.	2 and 10
Compliance	**[Key Strategic Initiative]** • Strengthen legal compliance structure as we rebuild business foundation through new business models such as digital, transformation initiatives, etc. **[Uncertainty]** • Shiseido is subject to laws and regulations in countries in which we operate around the world relating to product safety, ingredients and labeling, employee health and safety, intellectual property, competition, data privacy, the environment, employment and labor, taxes, product claims, corporate governance, TSE listing and disclosure. Unexpected changes to these laws and regulations could have a material impact on the cost of doing business. Failure to comply with these laws and regulations could expose the Company to civil and/or criminal fines, penalties and sanctions impacting our corporate reputation. (Threat) **[Response Measures]** • Our Shiseido Group Standards of Business Conduct and Ethics (the Standards) govern the behaviors of our employees globally. • We appointed a Chief Legal Officer, in addition to a dedicated Global Risk Management Team that reports to the CLO, to ensure global compliance with the Standards and with laws and regulations impacting our business. • We foster an ethical culture and a framework of our ways of working that set out our non-negotiable Standards expected from all employees. We also provide training and awareness of compliance areas such as anti-corruption, antitrust, discrimination and privacy, in addition to developing areas concerning the use of consumer data. • The Company provides an anonymous employee reporting system via phone or online, to report and respond to alleged Standards violations. • The Company has dedicated team members within functions who monitor compliance and our rigorous standards in areas such as regulatory, safety, quality, employment, claim substantiation, and product labeling to ensure compliance with all laws and regulations. Incident management teams are activated in any affected regions or markets to ensure timely and effective actions in protecting the safety of our consumers and our employees.	10
Quality Assurance and Control	**[Key Strategic Initiative]** • Offering safe products is a core Shiseido value and the foundation of our business strategies and competitive advantage; thorough measures are taken to ensure high quality throughout product design, production, and sales. **[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 life cycles and providing safe products to consumers. (Threat) • Globally provide Japan-standard quality, leading to improved brand image and increase in consumers, especially outside Japan. (Opportunity) **[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. • Implementation of Global Quality System, a system allowing global sharing of voice of consumers collected at consumer centers. • Set up a consumer service desk and a dedicated internal system for reporting and responding to potential quality risks, in addition to conducting regular simulation training.	4, 5, 6 and 10
Organizational Management and Governance	**[Key Strategic Initiative]** • Creation of a matrix organization structure composed of six Regions and brand categories to allow HQ to manage the entire Group's business, while also transferring greater authority to RHQs overseeing Japan, China, APAC, the Americas, EMEA, and Travel Retail. We will promote the localization of responsibilities and authority. **[Uncertainties]** • If RHQs push through decisions that do not align with the Group's overall policies, or, conversely, if authority is not appropriately delegated to RHQs 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 reputation and sustainability. (Threat) • Possibility of increased consumer loyalty as RHQs practice "Think Global, Act Local" in their area of responsibility and make speedy decisions or successfully execute marketing strategies to address local market needs. (Opportunity) **[Response Measures]** • We create and disseminate rules for responsibility and authority of HQ/RHQs for each function and brand. • For all significant risks, we established a continuous risk management framework detailing the controls we have in place and who is responsible for managing such risk. The Global Risk Management team considers both short-term and long-term risks, together with emerging risks in forming a global internal control structure with regular reporting to the Executive Leadership and senior management, including the Board of Directors. • We ensure corporate governance within each affiliate structure is linked to oversight and approvals from HQ, in all material matters, through regular reporting and ongoing global leadership meetings. • Significant strategic, transformational, and material decisions relating to the Company's business operations, assets, business value, reputation, and compliance are regularly reviewed by the Company's Executive Officers and presented to the Board of Directors as part of our governance structure.	7, 8, 9 and 10

<Other Risks>

Risk	Important efforts for realizing our Strategies / uncertainties (Threats and Opportunities) that could impact such efforts and response measures regarding these uncertainties	Relationship with WIN 2023 Key Strategies*
Exchange Rate Fluctuations	**[Key Strategic Initiative]** • Increase our ratio of overseas sales as a global beauty company. **[Uncertainties]** • Significant fluctuations in exchange rates for settlements in foreign currencies, related to import/export transactions. (Threat and Opportunity) • When 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, when revenues exceed costs. (Threat) • Investments in overseas affiliates could result in reduced net assets as a result of currency exchange adjustments and the appreciation of the Japanese yen. (Threat) **[Response Measures]** • Hedge exchange rate fluctuation risks through the use of forward exchange contracts. • Monitor and respond to fluctuations in major global currencies.	3
Material Litigation	**[Key Strategic Initiatives]** • Strengthen legal compliance structure as we rebuild business foundation through new business models such as digital, transformation initiatives, etc. • Robust management and mitigation of material litigation/claims. **[Uncertainties]** • With a presence across approximately 120 countries/regions globally, there is a possibility that we will face lawsuits and/or claims and/or government investigations under the different legal systems of each country. (Threat) • While, during the current fiscal year, there was no material litigation with a significant impact on the Group's business performance, should a major material litigation occur in the future with an unfavorable ruling for the Group, there is potential of an adverse effect on our financial position and business performance. (Threat) **[Response Measures]** • Established legal teams at our HQ and Regional Affiliates, led by the Company's Chief Legal Officer to ensure effective strategies and defenses. Subject matter legal experts / external law firms are retained in support of all legal strategies and defenses in material matters. • Continuously provide legal training to employees regarding legal environment and country-specific laws and regulations impacting the business in areas of legal impact to the business, such as anti-corruption, antitrust, anti-discrimination. • Ensure all commercial agreements have clear business terms that include indemnification and other protections to reduce the threat of disputes. • Proactively ensure all IP is protected globally to guard against infringement claims.	10

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 Group considers the following significant accounting estimates that 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.

As stated in 04. CONSOLIDATED STATEMENTS OF INCOME, (4) Impairment Loss, the Group recorded an impairment loss of ¥944 million in the consolidated fiscal year under review. The recoverable amount is measured at its net realizable value. Due to the difficulty of selling the assets, the recoverable amount is recognized as zero.

Goodwill, Trademarks, and Other Intangible Assets

The Group conducts impairment reviews of trademarks with an indefinite useful life every fiscal year and of other types of goodwill, trademarks, and other intangible assets when there is an indication of impairment. In estimating fair value and value in use of goodwill, trademarks, and other intangible assets, as well as in reviewing for impairment, the Group utilizes the assessments of external experts and other specialists. The Group estimates fair value and value in use primarily using the discounted cash flow method. This method relies extensively on estimates and assumptions, such as those regarding future cash flow, discount rate, and long-term growth rate, taking into consideration current and expected economic conditions, market data, and other information. These estimates and assumptions may significantly affect the impairment review and the recording of the amount of impairment loss recognized. In the fiscal year 2020, the Group recognized indications of impairment for certain types of goodwill, trademarks, and other intangible assets and carried out an impairment review given that results for net sales and operating profit fell short of target and conditions were uncertain due to the impact of COVID-19. However, impairment loss was not recognized for goodwill, trademarks, and other intangible assets as fair value and value in use exceeded the carrying amount in all cases. Management considers the estimates of fair value and value in use used for impairment reviews to be rational. However, changes in estimates due to unforeseen changes in underlying business assumptions could cause fair value and value in use to decline and an impairment loss to occur.

Securities

The Group recognizes loss on revaluation for securities reported as available-for-sale securities for which the 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% below acquisition cost as of the balance sheet date are deemed unrecoverable. The recoverability of securities with a fair value from 30%–50% 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 the actual value has fallen to more than 50% 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's 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. The 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. The 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.

As stated in 12. RETIREMENT BENEFITS, the Group and certain domestic consolidated subsidiaries decided to revise the retirement benefit plan in October 2020. As a result of the revision, the lump-sum retirement payment plan in Japan, which is the primary retirement plan, was converted to the corporate pension plan. Accordingly, the prior service cost (reduction of retirement benefit obligation) to be recorded in the fourth quarter consolidated accounting period is ¥25,828 million ($250,659 thousand).

Accounting Estimates Associated with the Spread of COVID-19

Details are as stated in 02. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (27) Additional Information.

FORECAST FOR THE FISCAL YEAR 2021

The economic climate in the next fiscal year will most probably be affected by slowdown in global economic activity due to the spread of COVID-19. The outlook is expected to remain uncertain as a result of declining consumer sentiment due to stay-at-home policies and sluggish consumption, particularly influenced by a significant decrease in the number of foreign visitors to Japan.

In this context, all regions are expected to face a continued severe economic environment in the first half of the next fiscal year and to recover moderately from the second half, with the exception of China where market recovery has already begun.

In response to these changes in the business environment, we are stepping up investments in strategic growth areas, such as the premium skin beauty category and digital shift of our business model overall, while restructuring our earnings base through business transformation.

As a result of such initiatives, consolidated net sales are expected to reach ¥1,100.0 billion ($10,675.5 million). Profit will be impacted by strategic investments as well as an increase in fixed costs, which were recorded by transfer in extraordinary losses related to COVID-19 in 2020, while at the same time we expect a positive impact from higher sales. Operating profit is forecast at ¥35.0 billion ($339.7 million); ordinary profit at ¥31.0 billion ($300.9 million); and net profit attributable to owners of parent at ¥11.5 billion ($111.6 million).

Consolidated Financial Results Forecast for the Fiscal Year 2021

	Net Sales	Operating Profit	Net Profit (Loss) Attributable to Owners of Parent	Net Profit per Share
Forecast for the fiscal year 2021 (A)	1,100.0	35.0	11.5	28.8
Results for the fiscal year 2020 (B)	920.9	15.0	(11.7)	(29.2)
Amount of increase or decrease (A–B)	179.1	20.0	23.2	—
Rate of increase or decrease (%)	19.4	133.9	—	—

As announced on February 3, 2021, although we plan to transfer the Personal Care business in the future, the impact on our consolidated financial results is currently being assessed. Since the expected amount of impact on net sales, operating profit and other items cannot be accurately estimated at this time, the forecast announced does not incorporate the impact of the Personal Care business transfer.

Consolidated Financial Statements
Consolidated Balance Sheets

Shiseido Company, Limited and Subsidiaries
As of December 31, 2019 and 2020

	Note	Millions of yen 2019/12	Millions of yen 2020/12	Thousands of U.S. dollars (Note 1) 2020/12
ASSETS				
Current Assets:				
Cash and time deposits	17	110,342	**130,013**	**1,261,772**
Notes and accounts receivable		172,905	**144,728**	**1,404,580**
Short-term investments in securities	10	—	**21,000**	**203,804**
Inventories	03	181,104	**170,031**	**1,650,145**
Other current assets		71,012	**52,634**	**510,811**
Less: Allowance for doubtful accounts		(2,741)	**(3,644)**	**(35,364)**
Total current assets		532,623	**514,763**	**4,995,758**
Fixed Assets:				
Property, Plant and Equipment:				
Buildings and structures	17	223,611	**251,762**	**2,443,342**
Less: Accumulated depreciation		(101,735)	**(103,831)**	**(1,007,676)**
Buildings and structures, net		121,875	**147,931**	**1,435,665**
Machinery, equipment and vehicles	17	104,566	**118,883**	**1,153,755**
Less: Accumulated depreciation		(60,284)	**(63,344)**	**(614,751)**
Machinery, equipment and vehicles, net		44,281	**55,538**	**538,994**
Tools, furniture and fixtures	17	94,939	**102,657**	**996,282**
Less: Accumulated depreciation		(53,840)	**(60,680)**	**(588,897)**
Tools, furniture and fixtures, net		41,099	**41,976**	**407,375**
Land		45,040	**44,605**	**432,890**
Leased assets		9,643	**10,671**	**103,561**
Less: Accumulated depreciation		(4,394)	**(5,251)**	**(50,960)**
Leased assets, net		5,248	**5,420**	**52,600**
Right-of-use assets		26,395	**29,133**	**282,734**
Less: Accumulated depreciation		(6,702)	**(10,870)**	**(105,493)**
Right-of-use assets, net		19,693	**18,262**	**177,232**
Construction in progress		37,518	**27,308**	**265,023**
Total property, plant and equipment		314,757	**341,044**	**3,309,821**
Intangible Assets:				
Goodwill		64,499	**54,429**	**528,231**
Leased assets		536	**403**	**3,911**
Trademarks		135,209	**131,636**	**1,277,523**
Other intangible assets		48,963	**54,922**	**533,016**
Total intangible assets		249,209	**241,392**	**2,342,701**
Investments and Other Assets:				
Investments in securities	9, 10, 17	13,915	**13,527**	**131,279**
Long-term prepaid expenses		16,690	**14,125**	**137,082**
Deferred tax assets	14	55,313	**42,501**	**412,470**
Other investments	17	36,317	**37,015**	**359,229**
Less: Allowance for doubtful accounts		(31)	**(140)**	**(1,358)**
Total investments and other assets		122,205	**107,029**	**1,038,713**
Total Fixed Assets		686,172	**689,466**	**6,691,246**
Total Assets		1,218,795	**1,204,229**	**11,687,005**

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

	Note	Millions of yen 2019/12	Millions of yen 2020/12	Thousands of U.S. dollars (Note 1) 2020/12
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Notes and accounts payable		31,336	**21,187**	**205,619**
Electronically recorded obligations–operating		65,601	**55,740**	**540,954**
Short-term debt	17	120,496	**56,491**	**548,243**
Current portion of long-term debt	17	730	**10,730**	**104,134**
Current portion of corporate bonds scheduled for redemption		15,000	**—**	**—**
Lease obligations	17	8,722	**8,344**	**80,978**
Other payables	17	89,124	**75,695**	**734,617**
Accrued income taxes		11,951	**7,374**	**71,564**
Reserve for sales returns		5,333	**6,227**	**60,432**
Refund liabilities		9,899	**10,518**	**102,076**
Accrued bonuses for employees		25,132	**15,024**	**145,807**
Accrued bonuses for directors		101	**165**	**1,601**
Provision for liabilities and charges		341	**545**	**5,289**
Provision for loss on business withdrawal		117	**725**	**7,036**
Other current liabilities		80,383	**84,208**	**817,236**
Total current liabilities		464,273	**352,977**	**3,425,630**
Long-Term Liabilities:				
Bonds	17	15,000	**65,000**	**630,822**
Long-term debt	17	70,791	**167,861**	**1,629,085**
Lease obligations	17	17,368	**15,872**	**154,037**
Long-term payables	17	49,153	**52,968**	**514,052**
Liability for retirement benefits	12	69,804	**27,189**	**263,868**
Allowance for losses on guarantees		350	**350**	**3,396**
Deferred tax liabilities	14	2,712	**2,944**	**28,571**
Other long-term liabilities		11,485	**12,472**	**121,040**
Total long-term liabilities		236,665	**344,658**	**3,344,895**
Total Liabilities		700,938	**697,635**	**6,770,526**
NET ASSETS				
Shareholders' Equity:				
Common stock Authorized: 1,200,000,000 shares as of December 31, 2019 and 2020 Issued: 400,000,000 shares as of December 31, 2019 and 2020		64,506	**64,506**	**626,028**
Capital surplus		70,741	**70,741**	**686,539**
Retained earnings		371,435	**339,817**	**3,297,913**
Less: treasury stock, at cost Treasury stock: 564,455 shares as of December 31, 2019 and 534,198 shares as of December 31, 2020		(2,591)	**(2,455)**	**(23,825)**
Total shareholders' equity		504,092	**472,610**	**4,586,665**
Accumulated Other Comprehensive Income:				
Unrealized gains (losses) on available-for-sale securities		3,106	**3,054**	**29,638**
Foreign currency translation adjustments		10,839	**5,257**	**51,019**
Accumulated adjustments for retirement benefits	12	(21,600)	**3,366**	**32,666**
Total accumulated other comprehensive income		(7,654)	**11,678**	**113,334**
Stock Acquisition Rights		1,263	**1,399**	**13,577**
Non-Controlling Interests in Consolidated Subsidiaries		20,156	**20,905**	**202,882**
Total Net Assets		517,857	**506,593**	**4,916,469**
Total Liabilities and Net Assets		1,218,795	**1,204,229**	**11,687,005**

Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2019 and 2020

CONSOLIDATED STATEMENTS OF INCOME

	Note	2019/12 (Millions of yen)	2020/12 (Millions of yen)	2020/12 (Thousands of U.S. dollars (Note 1))
Net Sales		1,131,547	**920,888**	**8,937,189**
Cost of Sales		254,844	**238,401**	**2,313,674**
Gross Profit		876,703	**682,487**	**6,623,515**
Selling, General and Administrative Expenses	04, 13	762,871	**667,523**	**6,478,289**
Operating Profit		113,831	**14,963**	**145,215**
Other Income				
Interest income		1,243	**762**	**7,395**
Dividend income		333	**153**	**1,484**
Equity in earnings of affiliates		330	**269**	**2,610**
Rental income		625	**638**	**6,191**
Subsidy income		1,056	**2,776**	**26,940**
Other		2,086	**1,453**	**14,101**
Total other income		5,674	**6,054**	**58,753**
Other Expenses				
Interest expense		2,292	**2,226**	**21,603**
Foreign exchange loss		5,375	**3,088**	**29,968**
Other interest on debt		1,266	**1,332**	**12,927**
Other		1,831	**4,732**	**45,923**
Total other expenses		10,766	**11,379**	**110,432**
Ordinary Profit		108,739	**9,638**	**93,536**
Extraordinary Gains				
Gain on sales of property, plant and equipment	04	654	**9,716**	**94,293**
Grant income	04	—	**6,018**	**58,404**
Gain on sales of investments in securities	10	3,449	**819**	**7,948**
Total extraordinary gains		4,103	**16,554**	**160,656**
Extraordinary Losses				
Loss on disposal of property, plant and equipment		1,683	**3,665**	**35,568**
Impairment loss	04	—	**944**	**9,161**
Loss on COVID-19	04	—	**18,696**	**181,444**
Structural reform expenses	04	1,483	**3,196**	**31,017**
Loss on business withdrawal	04	—	**1,226**	**11,898**
Loss on valuation of investments in securities	09	27	**499**	**4,842**
Loss on sales of investments in securities	10	165	**4**	**38**
Business structure improvement expenses	04	1,637	**—**	**—**
Loss on liquidation of subsidiaries and affiliates	04	466	**—**	**—**
Total extraordinary losses		5,465	**28,234**	**274,010**
Profit (Loss) before Income Taxes		107,378	**(2,040)**	**(19,798)**
Income taxes—current		22,538	**6,199**	**60,161**
Income taxes for prior years	04	4,504	**—**	**—**
Income taxess—deferred	14	3,033	**880**	**8,540**
Total income taxes		30,076	**7,079**	**68,701**
Net Profit (Loss)		77,301	**(9,120)**	**(88,509)**
Net profit attributable to non-controlling interests		3,739	**2,540**	**24,650**
Net profit (loss) attributable to owners of parent		73,562	**(11,660)**	**(113,159)**

		2019/12 (Yen)	2020/12 (Yen)	2020/12 (U.S. dollars (Note 1))
Per Share				
Net profit—basic		184.2	**(29.2)**	**(0.28)**
—diluted		184.0	**—**	**—**
Cash dividend		60.0	**40.0**	**0.39**
Weighted average number of shares (thousands)		399,411	**399,458**	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2019 and 2020

	Note	2019/12 (Millions of yen)	2020/12 (Millions of yen)	2020/12 (Thousands of U.S. dollars (Note 1))
Net Profit (Loss)		77,301	**(9,120)**	**(88,509)**
Other Comprehensive Income				
Unrealized gains (losses) on available-for-sale securities	05	(1,756)	**40**	**388**
Foreign currency translation adjustments	05	(4,801)	**(5,562)**	**(53,979)**
Adjustments for retirement benefits	05, 12	1,904	**25,039**	**243,002**
Share of other comprehensive income of associates accounted for under the equity method	05	4	**34**	**329**
Total other comprehensive income (loss)	05	(4,648)	**19,551**	**189,741**
Comprehensive Income		72,653	**10,431**	**101,232**
(Breakdown)				
Comprehensive income attributable to owners of parent		68,754	**7,672**	**74,456**
Comprehensive income attributable to non-controlling interests		3,898	**2,759**	**26,776**

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 ended December 31, 2019 and 2020

	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, 2019	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 (loss) 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**
Cash dividend from retained earnings	**—**	**—**	**—**	**(19,972)**	**—**	**—**	**—**	**—**	**—**	**—**
Net profit (loss) attributable to owners of parent	**—**	**—**	**—**	**(11,660)**	**—**	**—**	**—**	**—**	**—**	**—**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**(12)**	**—**	**—**	**—**	**—**	**—**
Disposal of treasury stock	**—**	**—**	**—**	**(76)**	**148**	**—**	**—**	**—**	**—**	**—**
Equity transactions with non-controlling interests and others	**—**	**—**	**—**	**92**	**—**	**—**	**—**	**—**	**—**	**—**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(52)**	**(5,581)**	**24,967**	**136**	**748**
Balance as of December 31, 2020	**400,000**	**64,506**	**70,741**	**339,817**	**(2,455)**	**3,054**	**5,257**	**3,366**	**1,399**	**20,905**

	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, 2020	**400,000**	**626,028**	**686,539**	**3,604,765**	**(25,145)**	**30,143**	**105,192**	**(209,627)**	**12,257**	**195,613**
Cash dividend from retained earnings	**—**	**—**	**—**	**(193,827)**	**—**	**—**	**—**	**—**	**—**	**—**
Net profit (loss) attributable to owners of parent	**—**	**—**	**—**	**(113,159)**	**—**	**—**	**—**	**—**	**—**	**—**
Acquisition of treasury stock	**—**	**—**	**—**	**—**	**(116)**	**—**	**—**	**—**	**—**	**—**
Disposal of treasury stock	**—**	**—**	**—**	**(737)**	**1,436**	**—**	**—**	**—**	**—**	**—**
Non-controlling interests, capital transactions, others	**—**	**—**	**—**	**892**	**—**	**—**	**—**	**—**	**—**	**—**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(504)**	**(54,163)**	**242,303**	**1,319**	**7,259**
Balance as of December 31, 2020	**400,000**	**626,028**	**686,539**	**3,297,913**	**(23,825)**	**29,638**	**51,019**	**32,666**	**13,577**	**202,882**

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, 2019 and 2020

	Note	2019/12	2020/12 (Millions of yen)	2020/12 (Thousands of U.S. dollars (Note 1))
Cash Flows from Operating Activities:				
Profit (loss) before income taxes		107,378	**(2,040)**	**(19,798)**
Depreciation and amortization		55,732	**60,384**	**586,024**
Amortization of goodwill		2,678	**7,064**	**68,555**
Impairment loss		—	**944**	**9,161**
(Gain) loss on sales and disposal of property, plant and equipment		1,028	**(6,051)**	**(58,724)**
(Gain) loss on sales of investments in securities		(3,283)	**(814)**	**(7,899)**
Grant income		—	**(6,018)**	**(58,404)**
Loss on COVID-19		—	**18,696**	**181,444**
Increase (decrease) in allowance for doubtful accounts		770	**960**	**9,316**
Increase (decrease) in reserve for sales returns		(5,626)	**896**	**8,695**
Increase (decrease) in refund liabilities		5,306	**926**	**8,986**
Increase (decrease) in accrued bonuses for employees		(5,637)	**(9,942)**	**(96,486)**
Increase (decrease) in accrued bonuses for directors		(109)	**64**	**621**
Increase (decrease) in provision for liabilities and charges		(110)	**183**	**1,776**
Increase (decrease) in provision for loss on business withdrawal		(3,086)	**607**	**5,890**
Increase (decrease) in liability for retirement benefits		(3,859)	**(5,139)**	**(49,873)**
Interest and dividend income		(1,576)	**(916)**	**(8,889)**
Interest expense		2,292	**2,226**	**21,603**
Other interest on debt		1,266	**1,332**	**12,927**
Equity in (earnings) losses of affiliates		(330)	**(269)**	**(2,610)**
(Increase) decrease in notes and accounts receivable		(9,209)	**28,545**	**277,028**
(Increase) decrease in inventories		(31,217)	**10,758**	**104,406**
Increase (decrease) in notes and accounts payable		10,190	**(39,678)**	**(385,073)**
Other		6,318	**13,091**	**127,047**
Subtotal		128,914	**75,811**	**735,743**
Interest and dividends received		1,673	**1,107**	**10,743**
Interest paid		(2,021)	**(2,396)**	**(23,253)**
Interest paid on other debt		(1,266)	**(1,218)**	**(11,820)**
Grant received		—	**5,900**	**57,259**
Loss paid on COVID-19		—	**(17,156)**	**(166,498)**
Income taxes refund (paid)		(51,736)	**1,997**	**19,380**
Net cash provided by (used in) operating activities		75,562	**64,045**	**621,554**
Cash Flows from Investing Activities:				
Transfers to time deposits		(9,833)	**(12,778)**	**(124,010)**
Proceeds from maturity of time deposits		10,781	**11,221**	**108,899**
Acquisition of investments in securities		(462)	**(11)**	**(106)**
Proceeds from sales of investments in securities		10,181	**1,062**	**10,306**
Payments for acquisition of business		(1,090)	**—**	**—**
Acquisition of property, plant and equipment		(92,202)	**(56,359)**	**(546,962)**
Proceeds from sales of property, plant and equipment and intangible assets		1,190	**10,441**	**101,329**
Acquisition of intangible assets		(19,598)	**(17,130)**	**(166,246)**
Payments of long-term prepaid expenses		(8,305)	**(6,425)**	**(62,354)**
Payments for lease and guarantee deposits		(1,997)	**(758)**	**(7,356)**
Payment for acquisition of shares in a subsidiary resulting in a change in the scope of consolidation	07	(91,768)	**—**	**—**
Other		282	**653**	**6,337**
Net cash provided by (used in) investing activities		(202,823)	**(70,084)**	**(680,163)**
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt and commercial paper		117,751	**(63,464)**	**(615,916)**
Proceeds from long-term debt		43,624	**110,000**	**1,067,546**
Repayment of long-term debt		(730)	**(730)**	**(7,084)**
Proceeds from issuance of bonds		—	**50,000**	**485,248**
Redemption of bonds		(10,000)	**(15,000)**	**(145,574)**
Repayment of lease obligations		(8,278)	**(9,443)**	**(91,644)**
Repayment of long-term accounts payable		(1,618)	**(1,981)**	**(19,225)**
Acquisition of treasury stock		(22)	**(12)**	**(116)**
Disposal of treasury stock		114	**71**	**689**
Cash dividends paid		(22,028)	**(19,967)**	**(193,779)**
Cash dividends paid to non-controlling interests		(5,133)	**(2,888)**	**(28,027)**
Proceeds from share issuance to non-controlling interests		—	**349**	**3,387**
Other		—	**(53)**	**(514)**
Net cash provided by (used in) financing activities		113,678	**46,880**	**454,968**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(693)	**(1,959)**	**(19,012)**
Net Change in Cash and Cash Equivalents (Decrease)		(14,276)	**38,881**	**377,338**
Cash and Cash Equivalents at Beginning of Period		111,767	**97,466**	**945,904**
Decrease in Cash and Cash Equivalents Resulting from Exclusion of Subsidiaries from Consolidation		(24)	**—**	**—**
Cash and Cash Equivalents at End of Period	07	97,466	**136,347**	**1,323,243**

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 (collectively referred to as the "Group") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act and Companies Act and in conformity with accounting principles generally accepted in Japan. Therefore, application and disclosure requirements are different from those under 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 ¥103.04 = US$1 prevailing on December 31, 2020 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: 72

Apart from the change described below, principal subsidiaries are listed in the Group's most recent Annual Securities Report (submitted March 25, 2021). 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: 1 company

EFFECTIM Co., Ltd. has been included in the scope of consolidation effective from the fiscal year following its establishment.

Exclusions: 2 companies

Shiseido Amenity Goods Co., Ltd. and d'icilà Co., Ltd. were excluded from the scope of consolidation effective from the fiscal year as their liquidation was completed.

Name of main subsidiaries excluded from consolidation

Main unconsolidated subsidiary: Shiseido India Private Ltd.
Reason for exclusion 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), etc., 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 (Shiseido India Private Ltd. 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), etc., 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 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
Customer relationships:	5-10 years
Trademarks:	9-15 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 the 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 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 a flat rate on all domestic consumption of goods, assets, and services (with certain exemptions). The consumption tax withheld upon sales is recorded as a liability. Consumption tax, which is paid by the Company and its domestic consolidated subsidiaries on purchases of goods, assets, and services, is offset against the balance withheld, and the net amount is subsequently paid to the national government.

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

(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 with the balance of total receivables and the amount of uncollectible receivables estimated on an individual basis. Overseas consolidated subsidiaries provide an allowance for doubtful accounts on expected credit losses mainly pertaining to notes and accounts receivable and loans receivable.

(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) Provision for Loss on Business Withdrawal
The Company and its subsidiaries provide a reserve for the estimated amount of expenses and losses to be incurred related to discontinuation of some brands and withdrawal from the commercial cosmetics sales business and other businesses.

(18) Liability for Retirement Benefits
① Periodic allocation method for 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.

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

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

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

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

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

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

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

(21) Foreign Currency-Denominated Financial Statements
Financial statements of overseas consolidated subsidiaries and affiliates that are denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the respective balance sheet dates of those subsidiaries for assets and liabilities, and at the historical exchange rates for shareholders' equity. All income and expense amounts are 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.

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

(23) Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements
The Company has applied "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (ASBJ Practical Issues Task Force No. 18, Amended on June 28, 2019), and necessary modifications have been made for consolidation.

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

(25) Application of Tax Effect Accounting Pertaining to the Transition from Consolidated Taxation System to Group Tax Sharing System
With regard to the transition into the group tax sharing system established under "the Act for Partial Amendment of the Income Tax Act, etc." (Act No. 8 of 2020) and items for which the consolidated taxation system has been revised upon the transition to the group tax sharing system, based on the practical solution in Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (Practical Issues Task Force (PITF) No. 39, March 31, 2020), the Company and its domestic consolidated subsidiaries do not apply the provisions of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Guidance No. 28, February 16, 2018), and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of tax laws prior to the revisions.

(26) Changes in Accounting Policies
Not applicable.

(27) Additional Information
(Accounting estimates associated with the spread of COVID-19)
The Group reflects accounting estimates such as fixed asset impairment and recoverability of deferred tax assets based on information available at the time that the consolidated financial statements are prepared. Accounting estimates assume that the impact of COVID-19 in terms of Group performance will subside from the second half of 2021 to the first half of 2022, for a full recovery within 2023, where impact varies by region and business. However, due to uncertainties in the application of such an assumption to the estimates above, unexpected changes in the recovery time for COVID-19 or its impact on the economic environment may affect the financial position, operating results and cash flows of the Group in the future.

(28) Changes in Presentation

"Allowance for environmental measures" under "Long-term liabilities," which was presented separately for the previous fiscal year, is included in "Other Long-term liabilities" from the fiscal year due to a decline in financial materiality.

Reclassifications of the consolidated financial statements for the previous fiscal year have been made to reflect this change in presentation. As a result, ¥54 million that was presented as "Allowance for environmental measures" under "Long-term liabilities" on the consolidated balance sheet for the previous fiscal year has been reclassified as "Other long-term liabilities."

(29) Accounting Standard Issued but Not Yet Adopted

1. The Company and its domestic subsidiaries

(1) Accounting Standard for Revenue Recognition

- "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020)

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.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the separate performance obligations (POs) in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the separate POs
Step 5: Recognize 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 Company's consolidated financial statements from the adoption of the above revenue recognition standard is under evaluation at the time of the preparation of consolidated financial statements.

(2) Accounting Standards for Fair Value Measurement, etc.

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

① Overview

In order to enhance comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (together, hereinafter referred to as "Fair Value Accounting Standards, etc.") were developed and guidance on fair value measurement was issued. Fair Value Accounting Standards, etc., are applicable to the fair value measurement of the following items:

- Financial instruments in "Accounting Standard for Financial Instruments"; and
- Inventories held for trading purposes in "Accounting Standard for Measurement of Inventories."

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised to include a note regarding the breakdown by level of fair values of financial instruments, etc.

② Effective date

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

③ Impact of the adoption

The impact of the adoption is under evaluation at the time of the preparation of these consolidated financial statements.

(3) Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections

- "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No. 24, March 31, 2020)

① Overview

The purpose of this accounting standard is to clarify the principles and summarize the procedures of the accounting treatment adopted, in cases when the provisions of relevant accounting standards, etc., are unclear.

② Effective date

Adoption of the standard is scheduled from the end of the fiscal year 2021.

(4) Accounting Standard for Disclosure of Accounting Estimates

- "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020)

① Overview

The purpose of this accounting standard is to disclose information enabling readers to better understand the financial statements, particularly regarding items of accounting estimates recorded in the financial statements for the current fiscal year that may significantly impact the financial statements for the following fiscal year.

② Effective date

Adoption of the standard is scheduled from the end of the fiscal year 2021.

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 2022

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

03. INVENTORIES

Inventories as of December 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	**2020/12**	**2020/12**
Merchandise and finished products	126,342	**113,810**	**1,104,522**
Work in process	7,045	**6,490**	**62,985**
Raw materials and supplies	47,716	**49,730**	**482,628**
	181,104	**170,031**	**1,650,145**

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 ¥31,697 million and ¥26,992 million ($261,956 thousand) for the year 2019 and 2020, respectively.

There are no research and development expenses included in total manufacturing expenses for the fiscal year 2019 and 2020.

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

For the fiscal year 2019

Mainly the gain on the sale of intellectual property rights.

For the fiscal year 2020

Mainly the gain on the sale of the land and buildings of the Yoyogi and northern Tokyo offices.

(3) Grant Income

For the fiscal year 2020

Income mainly from grants and subsidies provided by governments and local municipalities for the employment maintenance and compensation of employees in relation to COVID-19.

(4) Loss on disposal of property, plant and equipment

For the fiscal year 2019

Mainly due to the disposal of plants and equipment in Japan.

For the fiscal year 2020

Mainly due to the disposal of software and of plants and equipment in Japan.

(5) Impairment Loss

For the fiscal year 2020

The Company recognized impairment losses on the fixed assets of domestic subsidiaries.

Use	Type	Location
Assets for business use	Buildings, leased assets, etc.	Tokyo, Kanagawa and others

The Group organizes its business-use assets into groups according to the minimum independent cash-flow generating units, based on business classifications. Store assets among business-use assets are grouped by each of the stores.

As a result, the book values of stores with continuously negative loss from operating activities and with the decision to be closed are reduced to the recoverable amount at the domestic subsidiaries, and the amount of the reduction is recorded as an extraordinary loss. The breakdown is shown below. The recoverable amount is measured at its net realizable value. Due to the difficulty of sales of the assets, the recoverable amount is recognized as zero.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Buildings and structures	575	5,580
Leased assets	199	1,931
Others	168	1,630
Total	944	9,161

(6) Loss on COVID-19

For the fiscal year 2020

Loss mainly from fixed costs due to the suspension of in-store employee dispatchment and the low operation of factories, and cancellation costs of events, at the request of various governments to prevent the spread of COVID-19. The breakdown is as follows.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Salaries and allowances for employees	11,781	114,334
Fixed costs for factories and stores	5,016	48,680
Cancellation costs, penalties, and others	1,898	18,420
Total	18,696	181,444

(7) Structural Reform Expenses

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.

For the fiscal year 2020

Structural reform expenses mainly reflect the closure of offices and early retirement premiums included in temporary expenses incurred as a result of organizational reforms.

(8) Loss on Business Withdrawal

For the fiscal year 2020

Expenses for discontinuation of some brands.

(9) 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.

(10) Loss on Liquidation of Subsidiaries and Affiliates

For the fiscal year 2019

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

(11) 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 2019 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	**2020/12**	**2020/12**
Unrealized gains (losses) on available-for-sale securities, net of taxes:			
Increase (decrease) during the fiscal year	508	**618**	**5,997**
Reclassification adjustments	(3,161)	**(643)**	**(6,240)**
Amount before tax	(2,652)	**(25)**	**(242)**
Tax (expense) or benefit	896	**65**	**630**
Subtotal	(1,756)	**40**	**388**
Foreign currency translation adjustments:			
Increase (decrease) during the fiscal year	(5,138)	**(5,562)**	**(53,979)**
Reclassification adjustments	482	**—**	**—**
Amount before tax	(4,656)	**(5,562)**	**(53,979)**
Tax (expense) or benefit	(144)	**—**	**—**
Subtotal	(4,801)	**(5,562)**	**(53,979)**
Adjustments for retirement benefits:			
Increase (decrease) during the fiscal year	(2,214)	**33,034**	**320,593**
Reclassification adjustments	5,074	**4,641**	**45,040**
Amount before tax	2,860	**37,676**	**365,644**
Tax (expense) or benefit	(955)	**(12,637)**	**(122,641)**
Subtotal	1,904	**25,039**	**243,002**
Share of other comprehensive income of associates accounted for under the equity method:			
Increase (decrease) during the fiscal year	(0)	**32**	**310**
Reclassification adjustments	4	**2**	**19**
Subtotal	4	**34**	**329**
Total other comprehensive income (loss)	(4,648)	**19,551**	**189,741**

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 its 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 on 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 an Audit & Supervisory Board, (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,their boards of directors may declare a dividend if such companies have prescribed so in their articles of incorporation.

A semi-annual interim dividend may also be paid once a year upon resolution by a 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 approved by the general meeting of shareholders has been obtained.

Retained earnings at December 31, 2020 include amounts representing year-end cash dividend of ¥7,989 million ($77,532 thousand), ¥20.0 ($0.19) per share, which was approved at the general meeting of shareholders held on March 25, 2021.

07. CASH FLOW INFORMATION

(1) Reconciliation of Cash and Time Deposits

The reconciliation of cash and time deposits shown on the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of December 31, 2019 and 2020 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	2020/12	2020/12
Cash and time deposits	110,342	**130,013**	**1,261,772**
Short-term investments in securities	—	**21,000**	**203,804**
Total	110,342	**151,013**	**1,465,576**
Time deposits with maturities exceeding 3 months	(12,876)	**(14,665)**	**(142,323)**
Cash and cash equivalents	97,466	**136,347**	**1,323,243**

(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
Current assets	5,691
Non-current assets	89,886
Current liabilities	(2,040)
Non-current liabilities	(674)
Acquisition cost of newly consolidated subsidiaries	92,863
Cash and cash equivalents of newly consolidated subsidiaries	(1,094)
Acquisition of shares in subsidiaries resulting in change in scope of consolidation	91,768

(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)
	2019/12	2020/12	2020/12
Leased assets	3,469	**2,923**	**28,367**
Right-of-use assets	26,395	**6,816**	**66,149**
Lease obligations	31,247	**9,740**	**94,526**

* For the fiscal year 2019, due to the first-time adoption of IFRS 16, right-of-use assets and lease obligations increased ¥22,909 million and ¥24,393 million, 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 mold tools, fixtures, and software.

② As lessor:

None.

(2) Operating Leases

Lease obligations under operating leases at December 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	2020/12	2020/12
① As lessee:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	6,750	**6,522**	**63,295**
Due after 1 year	54,377	**51,038**	**495,322**
	61,128	**57,561**	**558,627**
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**	**2,678**
Due after 1 year	5,188	**4,911**	**47,661**
	5,464	**5,188**	**50,349**

(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.

Short-term investments in securities are short-term negotiable certificates of deposit, which have high stability and liquidity, and are held for the purpose of temporarily managing surplus funds.

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 debt, which is primarily used to procure funds for operating transactions, as well as long-term debt, bonds and lease obligations, which the Shiseido Group primarily uses to fund capital expenditures, the acquisition of *Drunk Elephant* and operating transactions.

Long-term payables, which are mostly liabilities incurred in connection with the execution of a license agreement, are not exposed to foreign exchange risk and interest rate risk. Floating-rate debt is exposed to the risk of interest rate fluctuations. We hedge this risk for specific long-term borrowings by using derivatives (interest rate swap contracts and interest rate and currency swap contracts) to avoid the risk of interest rate fluctuations and fix interest payments.

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

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

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

Operating payables and interest-bearing debt are exposed to liquidity risk that the Companies manage in ways such as preparing monthly cash flow plan.

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

	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)	—

Millions of yen

	2020/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	**130,013**	**130,013**	**—**
② Notes and accounts receivable	**144,728**	**144,728**	**—**
③ Short-term investments in securities and Investments in securities Available-for-sale securities	**29,739**	**29,739**	**—**
④ Notes and accounts payable, Electronically recorded obligations and Other payables	**(152,622)**	**(152,622)**	**—**
⑤ Short-term borrowings from banks and other financial institutions	**(56,491)**	**(56,491)**	**—**
⑥ Bonds	**(65,000)**	**(64,980)**	**20**
⑦ Long-term borrowings from banks and other financial institutions	**(178,591)**	**(178,591)**	**(0)**
⑧ Lease obligations	**(24,216)**	**(24,944)**	**(727)**
⑨ Derivative instruments			
i. Hedge accounting not applied	**291**	**291**	**—**
ii. Hedge accounting applied	**—**	**(344)**	**(344)**
⑩ Long-term payables	**(52,968)**	**(52,968)**	**—**

Thousands of U.S. dollars (Note 1)

	2020/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	**1,261,772**	**1,261,772**	**—**
② Notes and accounts receivable	**1,404,580**	**1,404,580**	**—**
③ Short-term investments in securities and Investments in securities Available-for-sale securities	**288,616**	**288,616**	**—**
④ Notes and accounts payable, Electronically recorded obligations and Other payables	**(1,481,191)**	**(1,481,191)**	**—**
⑤ Short-term borrowings from banks and other financial institutions	**(548,243)**	**(548,243)**	**—**
⑥ Bonds	**(630,822)**	**(630,628)**	**194**
⑦ Long-term borrowings from banks and other financial institutions	**(1,733,220)**	**(1,733,220)**	**(0)**
⑧ Lease obligations	**(235,015)**	**(242,080)**	**(7,055)**
⑨ Derivative instruments			
i. Hedge accounting not applied	**2,824**	**2,824**	**—**
ii. Hedge accounting applied	**—**	**(3,338)**	**(3,338)**
⑩ Long-term payables	**(514,052)**	**(514,052)**	**—**

* 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, short-term investments in securities and derivative transactions

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. Carrying value is used for the fair value of negotiable certificates of deposit included in available-for-sale securities, because these are instruments with short-term maturities and 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 is used for the fair value of these short-term items because these amounts are approximately the same.

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 debt reflects market interest rates. In addition, fair value approximates carrying value because the Company's creditworthiness does not vary significantly after assuming long-term debt. Therefore, carrying value is used for the fair value of floating-rate long-term debt. The fair value of fixed-rate long-term debt 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, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	2020/12	2020/12
	Carrying value		
Shares of subsidiaries and affiliates	2,276	**2,243**	**21,768**
Unlisted equity securities	2,556	**2,441**	**23,689**
Investment in limited partnership and others	105	**103**	**999**

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 2019.

The Group has incurred an impairment loss of ¥499 million ($4,842 thousand) on available-for-sale securities without market value for the consolidated fiscal year under review.

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

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	—

Millions of yen

	2020/12			
	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	**130,013**	**—**	**—**	**—**
Notes and accounts receivable	**144,728**	**—**	**—**	**—**
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	**21,000**	**—**	**—**	**—**
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)	**—**	**103**	**—**	**—**
Other	**—**	**—**	**—**	**—**
	295,741	**103**	**—**	**—**

Thousands of U.S. dollars (Note 1)

	2020/12			
	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	**1,261,772**	**—**	**—**	**—**
Notes and accounts receivable	**1,404,580**	**—**	**—**	**—**
Short-term investments in securities and investments in securities				
Available-for-sale securities with maturity (Negotiable certificate of deposit)	**203,804**	**—**	**—**	**—**
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)	**—**	**999**	**—**	**—**
Other	**—**	**—**	**—**	**—**
	2,870,157	**999**	**—**	**—**

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, 2019 and 2020 are as follows:

Available-for-sale securities:

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)

Millions of yen

	2020/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	**5,374**	**1,438**	**3,990**	**(55)**
Other	**24,364**	**24,364**	**—**	**—**
	29,739	**25,803**	**3,990**	**(55)**

Thousands of U.S. dollars (Note 1)

	2020/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	**52,154**	**13,955**	**38,722**	**(533)**
Other	**236,451**	**236,451**	**—**	**—**
	288,616	**250,417**	**38,722**	**(533)**

* There is no loss on revaluation of investments in securities stated at fair value for the fiscal years 2019 and 2020.

Proceeds from sales, and gross realized gains and losses from sales of available-for-sale securities in the fiscal years 2019 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	**2020/12**	**2020/12**
Proceeds from sales	10,181	**1,062**	**10,306**
Gross realized gains	3,449	**819**	**7,948**
Gross realized losses	165	**4**	**38**

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

① Derivatives which hedge accounting is applied

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)
		130,855	—	(423)	(423)

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

② Derivatives which hedge accounting is not applied

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

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of December 31, 2020 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

Millions of yen

		2020/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	**23,772**	**—**	**308**	**308**
	SG$	**1,541**	**—**	**(16)**	**(16)**
		25,314	**—**	**291**	**291**

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

Thousands of U.S. dollars (Note 1)

		2020/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	**230,706**	**—**	**2,989**	**2,989**
	SG$	**14,955**	**—**	**(155)**	**(155)**
		245,671	**—**	**2,824**	**2,824**

② Derivatives that meet the criteria for hedge accounting

Millions of yen

	2020/12			
		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**	**17,375**	**16,645**	**(344)**

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

Thousands of U.S. dollars (Note 1)

	2020/12			
		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**	**168,623**	**161,539**	**(3,338)**

12. RETIREMENT BENEFITS

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

The Company and its domestic consolidated subsidiaries had a corporate pension plan and lump-sum retirement payment plan for their defined benefit plans and a defined contribution pension plan or prepaid retirement allowance for their defined contribution plans. However, the Company and certain domestic consolidated subsidiaries decided to revise the retirement benefit plan in October 2020. As a result of the revision, the lump-sum retirement payment plan was converted to the existing defined benefit pension plan (corporate pension plan) and the existing defined contribution pension plan from January 2021.

The Company previously had three retirement benefit plans: a lump-sum payment plan, a defined benefit pension plan (corporate pension plan), and a defined contribution pension plan. These three plans have been transferred and consolidated into the aforementioned two plans. In addition, to coincide with the transfer and consolidation, the Company partially revised the conditions of the two consolidated plans. As a result, the past service cost (reduction of retirement benefit obligation) to be recorded in the fourth quarter consolidated accounting period is ¥25,828 million ($250,659 thousand).

In some cases, additional voluntary retirement benefits are paid when an employee retires, which are accounted for as retirement benefit expenses when incurred. In addition, certain overseas consolidated subsidiaries have defined benefit pension plans, lump-sum payment 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)
	2019/12	**2020/12**	**2020/12**
Balance at the beginning of the fiscal year	274,593	**284,062**	**2,756,812**
Service cost	7,713	**8,249**	**80,056**
Interest cost	2,015	**1,598**	**15,508**
Actuarial gain and loss	10,913	**(1,039)**	**(10,083)**
Benefits paid	(11,126)	**(11,102)**	**(107,744)**
Past service costs	—	**(25,801)**	**(250,379)**
Other	(47)	**236**	**2,290**
Balance at the end of the fiscal year	284,062	**256,201**	**2,486,422**

Note: The amount of prior service costs incurred includes prior service costs (increase in retirement benefit obligation) of ¥27 million ($262 thousand) incurred at overseas subsidiaries.

② Change in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	**2020/12**	**2020/12**
Balance at the beginning of the fiscal year	197,715	**214,257**	**2,079,357**
Expected return on plan assets	5,891	**6,373**	**61,849**
Actuarial gain and loss	8,699	**6,193**	**60,102**
Contributions paid by the employer	10,200	**10,289**	**99,854**
Benefits paid	(8,203)	**(8,164)**	**(79,231)**
Other	(45)	**63**	**611**
Balance at the end of the fiscal year	214,257	**229,012**	**2,222,554**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	**2020/12**	**2020/12**
Funded retirement benefit obligations	231,904	**254,317**	**2,468,138**
Plan assets	(214,257)	**(229,012)**	**(2,222,554)**
	17,647	**25,305**	**245,584**
Unfunded retirement benefit obligations	52,157	**1,884**	**18,284**
Total net liability for retirement benefits	69,804	**27,189**	**263,868**
Liability for retirement benefits	69,804	**27,189**	**263,868**
Total net liability for retirement benefits	69,804	**27,189**	**263,868**

④ Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	**2020/12**	**2020/12**
Service cost	7,713	**8,249**	**80,056**
Interest cost	2,015	**1,598**	**15,508**
Expected return on plan assets	(5,891)	**(6,373)**	**(61,849)**
Net actuarial gain and loss amortization	5,074	**5,259**	**51,038**
Past service costs amortization	—	**(618)**	**(5,997)**
Other	750	**1,386**	**13,451**
Total retirement benefit costs	9,662	**9,502**	**92,216**

Note: Amounts exceeding the allowances for retirement premiums and lump-sum retirement payments are included in the Other segment. Amounts included in the previous fiscal year and the fiscal year were ¥750 million and ¥1,386 million, respectively.

⑤ Adjustments for retirement benefits before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	**2020/12**	**2020/12**
Past service costs	—	**(25,183)**	**(244,400)**
Net actuarial gain and loss amortization	(2,860)	**(12,493)**	**(121,244)**
Total	(2,860)	**(37,676)**	**(365,644)**

⑥ Accumulated adjustments for retirement benefits before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	**2020/12**	**2020/12**
Past service costs that are yet to be recognized	—	**(25,183)**	**(244,400)**
Actuarial gain and loss that are yet to be recognized	32,354	**19,947**	**193,585**
Total balance at the end of the fiscal year	32,354	**(5,236)**	**(50,815)**

⑦ Plan assets

I Plan assets comprise:

	2019/12	2020/12
Bonds	55.9%	**55.1%**
Equity securities	17.8%	**19.9%**
Alternative	19.4%	**18.3%**
Other	6.9%	**6.7%**
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:

	2019/12	2020/12
Discount rate	0.4–0.6%	**Primarily 0.7%**
Long-term expected rate of return	Primarily 3.0%	**Primarily 3.0%**

(3) Defined Contribution Plans

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥2,142 million and ¥517 million, respectively, for the fiscal year 2019.

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥2,418 million ($23,466 thousand) and ¥546 million ($5,298 thousand), respectively, for the fiscal year 2020.

13. STOCK OPTION PLAN

(1) Expense Recognized for Stock Options

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	2020/12	2020/12
Selling, General and Administrative Expenses	424	**205**	**1,989**

(2) Summary of Stock Option Granted

Summary of stock options granted as of December 31, 2020 is as follows:

① 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	

② 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	

③ 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	

④ 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	

⑤ 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	

⑥ 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	

⑦ 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	

⑧ 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.

Reconciliation of the statutory tax rate and the effective tax rate for the fiscal years 2019 and 2020 is as follows:

	2019/12	**2020/12**
Statutory tax rate	31.0%	—
Increase (decrease) due to:		
Permanently non-deductible expenses including entertainment expenses	0.6	—
Permanently non-taxable incomes including dividends received	1.0	—
Unrealized intercompany profit	5.5	—
Tax credits	(1.9)	—
Differences of statutory tax rates for domestic consolidated subsidiaries	2.1	—
Differences of statutory tax rates for overseas consolidated subsidiaries	(6.3)	—
Change in valuation allowance	3.4	—
Income taxes for prior years	4.2	—
Deductible expenses related to capital reduction from the subsidiary	(12.6)	—
Others	1.0	—
Effective tax rate	28.0%	—

Note: This information is omitted as the Group recorded a loss before income taxes in the consolidated fiscal year under review.

Deferred tax assets and liabilities as of December 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	**2020/12**	**2020/12**
Deferred tax assets:			
Liability for retirement benefits	22,429	**7,996**	**77,600**
Unrealized intercompany profit in inventory and property, plant and equipment	5,443	**2,855**	**27,707**
Inventories	15,170	**19,293**	**187,237**
Loss on revaluation of financial instruments	372	**402**	**3,901**
Accrued expenses	10,532	**8,546**	**82,938**
Accrued bonuses for employees	5,045	**2,671**	**25,921**
Tax losses carried forward*2	6,524	**17,557**	**170,390**
Depreciation and amortization	2,664	**2,785**	**27,028**
Reserve for sales returns	1,282	**1,627**	**15,789**
Accrued enterprise tax	442	**123**	**1,193**
Other	10,224	**12,542**	**121,719**
Total gross deferred tax assets	80,133	**76,403**	**741,488**
Valuation allowance for tax losses carried forward	(5,530)	**(14,947)**	**(145,060)**
Valuation allowance for taxable temporary difference	(5,915)	**(6,291)**	**(61,053)**
Subtotal valuation allowance*1	(11,446)	**(21,238)**	**(206,114)**
Total deferred tax assets	68,686	**55,165**	**535,374**
Deferred tax liabilities:			
Goodwill and other intangible assets	7,446	**7,599**	**73,748**
Unrealized gains (losses) on available-for-sale securities	1,526	**1,396**	**13,548**
Undistributed earnings of overseas consolidated subsidiaries	3,694	**2,925**	**28,387**
Special tax-purpose reserve	2,664	**2,649**	**25,708**
Other	753	**1,036**	**10,054**
Total deferred tax liabilities	16,086	**15,608**	**151,475**
Net deferred tax assets	52,600	**39,557**	**383,899**

*1 Valuation allowance increased ¥9,792 million ($95,031 thousand). The main reason is that the Company's subsidiaries in the United States and Europe additionally recognized ¥9,223 million ($89,509 thousand) as valuation allowance for tax losses carried forward.

*2 Amounts by each carry-over year for tax losses carried forward and valuation allowance.

For the fiscal year 2019

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

(a) Tax losses carried forward is multiplied by using the respective statutory tax rate.

(b) Regarding ¥6,524 million tax losses carried forward, the Group recognized ¥993 million as deferred tax assets. This consists mainly the Company's tax losses carried forward ¥745 million. 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.

For the fiscal year 2020

Millions of yen

	2021/12	2022/12	2023/12	2024/12	2025/12	2026/12 and thereafter	**Total**
Tax losses carried forward (a)	38	43	11	—	116	17,347	**17,557**
Valuation allowance	(38)	(43)	(11)	—	(116)	(14,736)	**(14,947)**
Deferred tax assets	—	—	—	—	—	2,610	**(b) 2,610**

Thousands of U.S. dollars (Note 1)

	2021/12	2022/12	2023/12	2024/12	2025/12	2026/12 and thereafter	**Total**
Tax losses carried forward (a)	368	417	106	—	1,125	168,352	**170,390**
Valuation allowance	(368)	(417)	(106)	—	(1,125)	(143,012)	**(145,060)**
Deferred tax assets	—	—	—	—	—	25,329	**(b) 25,329**

(a) Tax losses carried forward is multiplied by using the respective statutory tax rate.
(b) Regarding ¥17,557 million ($170,390 thousand) tax losses carried forward, the Group recognized ¥2,610 million ($25,329 thousand) as deferred tax assets. This consists mainly of the Company's tax losses carried forward of ¥1,979 million ($19,206 thousand). Considering the Company's taxation prospects for the future, this carry-forward loss can be recoverable. Thus, the Company did not recognize any valuation allowance for deferred tax assets in the fiscal year 2020.

15. BUSINESS COMBINATIONS

The business combination of Drunk Elephant Holdings, LLC, which took place on November 7, 2019, was provisionally accounted for in the previous fiscal year and finalized in the fiscal year 2020.

Following the finalization of the provisional accounting treatment, the initial allocation of acquisition costs was revised in the comparative information included in the consolidated financial statements for the fiscal year 2020. As a result, there is no impact on the consolidated financial statements.

16. SEGMENT INFORMATION

(1) Overview of Reportable Segment

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 domestic business by brand category (Prestige, Fragrance, Premium, Lifestyle, 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 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., Shiseido Beauty Salon Co., Ltd., manufacturing operations, the Frontier Science business and the Restaurant business, etc.

(Changes in the Method of Classifying Reportable Segments)

The Group has partially revised the internal classification of its business results, effective from the consolidated fiscal year under review. Accordingly, the business results of the airport duty-free business in Japan of The Ginza Co., Ltd., which were previously included in the Japan Business, are now included in the Travel Retail Business, and the business results related to the brand-holder functions of *THE GINZA*, the same subsidiary's brand, are now included in the Other segment.

In addition, the business results of Bare Essentials K.K., which operates in Japan, and the business results of the Technology Acceleration Hub, both of which were previously included in the Americas Business, are now included in the Other segment.

Furthermore, following the transfer of the brand holder functions of the *ELIXIR* and *ANESSA* brands from Shiseido Japan Co., Ltd. to Shiseido Co., Ltd., the business results related to the brand-holder functions of both brands, previously included in the Japan Business, are now included in the Other segment.

The segment information for the previous consolidated fiscal year has been restated in line with the new method of classification.

(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 Securities Report (filed on March 25, 2021). 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 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	430,998	216,241	69,835	123,004	118,417	122,793
Intersegment Sales or Transfers	26,125	853	2,642	41,322	11,485	372
Total	457,123	217,094	72,477	164,326	129,902	123,165
Segment Profit / (Loss)	76,503	29,225	7,426	(7,570)	(2,187)	31,295
Other Items						
Depreciation and Amortization	7,434	7,981	3,342	9,601	10,179	785
Amortization of Goodwill	172	393	132	1,513	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	35,572	1,131,547	—	1,131,547
Intersegment Sales or Transfers	696	141,769	225,265	(225,265)	—
Total	15,381	177,341	1,356,813	(225,265)	1,131,547
Segment Profit / (Loss)	336	(9,871)	125,157	(11,325)	113,831
Other Items					
Depreciation and Amortization	48	16,359	55,732	—	55,732
Amortization of Goodwill	—	248	2,678	—	2,678

*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 2020 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	303,035	235,804	59,173	91,410	94,280	98,501
Intersegment Sales or Transfers	26,346	1,003	1,916	27,254	8,219	310
Total	329,382	236,808	61,090	118,665	102,500	98,812
Segment Profit / (Loss)	10,473	18,386	3,248	(22,254)	(13,231)	14,640
Other Items						
Depreciation and Amortization	7,755	8,999	3,618	7,134	10,912	1,351
Amortization of Goodwill	320	848	432	3,997	606	668

	Reportable Segment	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
	Professional Business				
Net Sales					
Sales to Outside Customers	12,755	25,927	920,888	—	920,888
Intersegment Sales or Transfers	604	146,597	212,253	(212,253)	—
Total	13,359	172,524	1,133,142	(212,253)	920,888
Segment Profit / (Loss)	(34)	3,475	14,702	261	14,963
Other Items					
Depreciation and Amortization	40	20,571	60,384	—	60,384
Amortization of Goodwill	—	190	7,064	—	7,064

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	2,940,945	2,288,470	574,272	887,131	914,984	955,949
Intersegment Sales or Transfers	255,687	9,734	18,594	264,499	79,765	3,008
Total	3,196,642	2,298,214	592,876	1,151,640	994,759	958,967
Segment Profit / (Loss)	101,640	178,435	31,521	(215,974)	(128,406)	142,080
Other Items						
Depreciation and Amortization	75,262	87,335	35,112	69,235	105,900	13,111
Amortization of Goodwill	3,105	8,229	4,192	38,790	5,881	6,482

	Reportable Segment	Other (*2)	Total	Adjustments (*3)	Total Shown in Consolidated Financial Statements (*4)
	Professional Business				
Net Sales					
Sales to Outside Customers	123,786	251,620	8,937,189	—	8,937,189
Intersegment Sales or Transfers	5,861	1,422,719	2,059,908	(2,059,908)	—
Total	129,648	1,674,340	10,997,107	(2,059,908)	8,937,189
Segment Profit / (Loss)	(329)	33,724	142,682	2,532	145,215
Other Items					
Depreciation and Amortization	388	199,640	586,024	—	586,024
Amortization of Goodwill	—	1,843	68,555	—	68,555

*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., and manufacturing operations, as well as the activities of the Frontier Science business, the Restaurant business, etc.
*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.
*6 Depreciation and amortization does not include depreciation and amortization of ¥1,481 million ($14,373 thousand) included in loss on COVID-19 recorded in extraordinary losses.

Related Information

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

*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

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 2020

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

2020/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
333,348	93,137	81,147	101,295	393,107	289,020	920,888

Thousands of U.S. dollars (Note 1)

2020/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
3,235,131	903,891	787,529	983,064	3,815,091	2,804,930	8,937,189

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

II Property, Plant and Equipment

Millions of yen

2020/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
262,976	23,658	23,166	20,041	34,369	17,514	341,044

Thousands of U.S. dollars (Note 1)

2020/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
2,552,173	229,600	224,825	194,497	333,550	169,972	3,309,821

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 impairment loss

For the fiscal year 2019

Not applicable.

For the fiscal year 2020

Millions of yen

2020/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
704	—	—	—	—	—	—	240	944

Thousands of U.S. dollars (Note 1)

2020/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
6,832	—	—	—	—	—	—	2,329	9,161

(5) Information about segment unamortized goodwill

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

Millions of yen

2020/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
1,700	5,921	3,665	30,568	5,175	5,701	—	1,696	54,429

Thousands of U.S. dollars (Note 1)

2020/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
16,498	57,463	35,568	296,661	50,223	55,328	—	16,459	528,231

17. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of December 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	2020/12	2020/12
Short-term borrowings from banks and other financial institutions			
(weighted average interest rate 0.34%)	120,496	56,491	548,243
Short-term debt	120,496	56,491	548,243
Long-term borrowings from banks and other financial institutions			
(Borrowings due within one year, weighted average interest rate 0.08%)	730	10,730	104,134
(Borrowings due after one year, weighted average interest rate 0.31%)	70,791	167,861	1,629,085
0.237% unsecured yen bonds due in June 2020	15,000	—	—
0.374% unsecured yen bonds due in June 2022	15,000	15,000	145,574
0.08% unsecured yen bonds due in February 2025	—	20,000	194,099
0.04% unsecured yen bonds due in December 2023	—	10,000	97,049
0.12% unsecured yen bonds due in December 2025	—	20,000	194,099
Lease obligations			
(Borrowings due within one year, weighted average interest rate 3.05%)	8,722	8,344	80,978
(Borrowings due after one year, weighted average interest rate 3.12%)	17,368	15,872	154,037
Long-term payables (including other payables)			
(due within and after one year, weighted average interest rate 2.62%)	50,367	52,437	508,899
	177,979	320,245	3,107,967
Less: portion due within one year	(26,437)	(21,583)	(209,462)
Long-term debt	151,541	298,661	2,898,495

The aggregate annual maturities of long-term debt as of 2020 are as follows:

For the years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2021	21,583	209,462
2022	24,845	241,119
2023	74,752	725,465
2024	36,748	356,638
2025	56,060	544,060
2026 and thereafter	106,254	1,031,191
	320,245	3,107,967

Assets pledged as collateral as of December 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	2020/12	2020/12
Cash and time deposits	1,737	1,834	17,798
Buildings and structures	12,078	11,724	113,781
Machinery and equipment tools, furniture and fixtures	1	1	9
Investments in securities	1,155	1,155	11,209
Other investments	15,200	15,200	147,515
	30,173	29,915	290,324

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of December 31, 2019 and 2020:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019/12	**2020/12**	**2020/12**
Current portion of long-term debt	730	**730**	**7,084**
Long-term debt	17,375	**16,645**	**161,539**
	18,105	**17,375**	**168,623**

18. SIGNIFICANT SUBSEQUENT EVENTS

Company splits and other changes accompanying the transfer of the Personal Care business

The Company has determined to transfer the Personal Care business (the "Business") and participate in its operation as a shareholder of the holding company of the company operating the Business (the "Transaction"). As part of the Transaction the Business will be transferred from the Company and its subsidiaries, through absorption-type corporate splits, to be succeeded by a newly established company (the "New Company"), whose shares will be subsequently transferred to Oriental Beauty Holding Company, Limited ("OBH"), financed by funds advised by CVC Capital Partners ("CVC"). The Company has executed a legally binding agreement pertaining to the above on February 3, 2021.

1. Objectives of the Transaction

We have positioned the skin beauty as our core business category. In view of this strategy, the Company has considered a number of various strategic options for further growth and development of the Business, and as a result determined that a spin-off of the Business will promote further development of its brands and employees and bolster investment in its growth, resulting in flexible strategies and fast decision-making attuned to the mass business segment, nurturing of human resources exceptional in value creation, and benefits for consumers and business partners.

2. Details of the Transaction Procedure

The part of the Business operating in Japan will be transferred from the Company and its wholly owned subsidiaries Shiseido Japan Company, Limited and FT Shiseido Company, Limited to the New Company with an effective date of July 1, 2021 (planned) through absorption-type corporate splits, followed by a transfer of all outstanding shares of the New Company to OBH on the same date (planned; the "Share Transfer"). The overseas parts of the Business will be transferred from the Company's subsidiaries operating in 10 countries and regions to OBH subsidiaries through asset transfers in accordance with local laws.

Following the Share Transfer, on the same date (planned) the Company will acquire 35% of the shares of K.K. Asian Personal Care Holding, the wholly owning parent company of OBH, and will cooperate with CVC to operate the Business. After the Share Transfer, the Business will be excluded from the scope of consolidation of the Company. Obtaining approval from relevant authorities based on domestic and international competition laws is a prerequisite for carrying out the Transaction.

3. Overview of the Business to be Split and Transferred

(1) Details of the business to be split and transferred

Business related to sale of personal care products

(2) Reportable segments containing the business to be split and transferred

Japan Business, China Business, and Asia Pacific Business

4. Transfer Price and the Impact of the Transaction on the Company's Consolidated Performance

The transfer price of all shares of the New Company and related business assets is ¥160,000 million ($1,552,795 thousand). The Company is currently analyzing the impact of the Transaction on its consolidated performance.

Independent Auditor's Report

Independent auditor's report

To the Board of Directors of Shiseido Company, Limited:

Opinion

We have audited the accompanying consolidated financial statements of Shiseido Company, Limited ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at December 31, 2020 and 2019, the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 18. Significant Subsequent Event under the Note to the consolidated financial statements. On February 3, 2021, the Company entered into an agreement to transfer its Personal Care business through company splits and asset transfers. Following the transfer of shares of the company which is subject to company split, the Company will newly acquire shares of the parent company of transferee and plan to include as associated company.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Corporate Auditors and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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 misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Corporate auditors and the Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Koichi Kohori

Designated Engagement Partner

Certified Public Accountant

Masakazu Hattori

Designated Engagement Partner

Certified Public Accountant

Kentaro Hayashi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

March 25, 2021

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.