Historical Selected Financial Data

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended March 31, 2013 to December 31, 2021

	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) 2021/12	Thousands of U.S. dollars (Except per-share data) 2021/12
Operating Results:											
Net sales	677,727	762,047	777,687	763,058	850,306	1,005,062	1,094,825	1,131,547	920,888	**1,035,165**	**8,992,832**
Cost of sales	166,783	189,559	196,433	196,009	207,553	231,327	231,928	254,844	238,401	**262,959**	**2,284,414**
Selling, general and administrative expenses	484,898	522,843	553,640	529,388	605,972	693,298	754,545	762,871	667,523	**730,619**	**6,347,137**
Operating profit	26,045	49,644	27,613	37,660	36,780	80,437	108,350	113,831	14,963	**41,586**	**361,271**
EBITDA	61,463	91,285	90,703	80,635	90,078	154,741	150,318	169,348	71,393	**172,556**	**1,499,053**
Net profit (loss) attributable to owners of parent	(14,685)	26,149	33,668	23,210	32,101	22,749	61,403	73,562	(11,660)	**42,439**	**368,682**
Financial Position:											
Total assets	715,593	801,346	823,636	808,547	934,590	949,425	1,009,618	1,218,795	1,204,229	**1,179,360**	**10,245,504**
Short-term interest-bearing debt	39,394	64,054	75,615	18,996	16,557	10,662	15,202	144,949	75,565	**25,394**	**220,606**
Long-term interest-bearing debt	145,274	91,864	31,281	67,617	104,022	70,801	60,574	103,159	248,733	**165,588**	**1,438,519**
Interest-bearing debt	184,669	155,918	106,897	86,613	120,580	81,463	75,776	248,108	324,299	**190,983**	**1,659,134**
Equity	287,069	338,561	386,860	391,664	392,963	423,447	448,580	496,437	484,289	**545,022**	**4,734,792**
Cash Flows:											
Cash flows from operating activities	42,040	84,320	32,134	60,529	59,129	95,392	92,577	75,562	64,045	**122,887**	**1,067,561**
Cash flows from investing activities	(25,534)	(16,799)	11,538	(23,137)	(70,640)	(1,061)	(103,112)	(202,823)	(70,084)	**63,739**	**553,722**
Cash flows from financing activities	(24,745)	(47,462)	(58,419)	(30,151)	22,378	(53,117)	(29,722)	113,678	46,880	**(176,222)**	**(1,530,900)**
Free cash flow	16,506	67,521	43,673	37,392	(11,510)	94,331	(10,535)	(127,261)	(6,039)	**186,627**	**1,621,292**
Cash and cash equivalents at end of period	80,253	110,163	100,807	104,926	113,122	156,834	111,767	97,466	136,347	**156,503**	**1,359,595**
Per-Share Data (in yen and U.S. dollars):											
Net profit (loss)	(36.9)	65.7	84.4	58.2	80.4	56.9	153.7	184.2	(29.2)	**106.2**	**0.92**
Net assets	721.2	849.4	970.0	981.4	984.1	1,059.8	1,123.2	1,242.9	1,212.3	**1,364.3**	**11.85**
Cash dividend	50.0	20.0	20.0	20.0	20.0	27.5	45.0	60.0	40.0	**50.0**	**0.43**
Weighted average number of shares outstanding during the period (thousands)	398,007	398,300	398,704	399,026	399,227	399,466	399,409	399,411	399,458	**399,480**	
Financial Ratios:											
Operating margin (%)	3.8	6.5	3.6	4.9	4.3	8.0	9.9	10.1	1.6	**4.0**	
Return on invested capital (%)	3.4	5.9	4.1	4.6	5.0	10.4	13.1	12.9	1.3	**3.3**	
Return on equity (%)	(5.1)	8.4	9.4	6.0	8.2	5.6	14.1	15.6	(2.4)	**8.2**	
Equity ratio (%)	40.1	42.2	47.0	48.4	42.0	44.6	44.4	40.7	40.2	**46.2**	
Net interest-bearing debt to EBITDA ratio (times)	1.5	0.3	(0.2)	(0.5)	(0.1)	(0.6)	(0.3)	0.8	2.4	**0.1**	
Net debt-equity ratio (times)	0.33	0.08	(0.04)	(0.10)	(0.02)	(0.22)	(0.11)	0.28	0.36	**0.03**	
Inventory Turnover (Days)	171.19	168.28	182.97	197.97	194.85	193.78	220.12	236.96	268.80	**217.78**	
CCC (Cash Conversion Cycle) (days)	133	139	143	146	123	114	126	149	199	**169**	
Payout ratio (consolidated) (%)	—	30.5	23.7	34.4	24.9	48.3	29.3	32.6	—	**47.1**	
Dividend yield (%)	3.8	1.1	0.9	0.8	0.7	0.5	0.7	0.8	0.6	**0.8**	
Dividend on equity (%)	6.9	2.6	2.2	2.1	2.0	2.7	4.1	5.1	3.3	**3.9**	
Number of employees at year-end	33,356	33,054	33,000	33,783	36,549	37,438	38,640	40,000	39,035	**35,318**	
Net sales per employee	20.3	23.1	23.6	22.6	23.2	26.8	28.3	28.3	23.6	**29.3**	**255**
Operating profit per employee	0.8	1.5	0.8	1.1	1.0	2.1	2.8	2.8	0.4	**1.2**	**10**

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 ¥115.11 = US$1 prevailing on December 31, 2021. Fractions resulting from the translations are rounded down.
4. EBITDA (Earnings before interest, taxes, depreciation and amortization)* = Profit (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 investment 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. Days Sales of Inventory = Average Inventory ÷ (Cost of Goods Sold ÷ 365)
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* from the fiscal year 2016 to the fiscal year 2020, and *Tory Burch* from the fiscal year 2020. For the fiscal year ended December 31, 2021, the net debt-equity ratio was 0.04, and interest-bearing debt was ¥195,722 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 2021, global economic conditions remained challenging, as economic activity was stagnant due to the COVID-19 pandemic, and consumer sentiment was low due to worsening corporate earnings and employment. In the Japan cosmetics market, consumer traffic was affected by shortened operating hours in the retail sector and consumers staying at home under the intermittent states of emergency. Other factors included a drop in visitors to Japan, which affected inbound demand. Globally, although the impact of the pandemic continued overall, progress in vaccination rollout drove recovery, particularly in Europe and the United States.

In light of rapid changes in the external environment and the results of its previous medium-to-long-term strategy, the Company has launched a new strategy, WIN 2023 and Beyond, and is currently moving forward with a global transformation, positioning premium skin beauty as its core business in a bid to become the world's leader in this area by 2030. In the years 2021 to 2023, the Company will shift from a focus on topline growth to a strategic emphasis on profitability and cash flow management to build a solid foundation as a skin beauty company.

Fiscal 2021, the first year of this phase, was positioned as a period of "Groundwork," during which the Company moved forward with structural reforms centering on streamlining its business portfolio and solidifying the financial base, while ensuring business continuity and evolution in the times of COVID-19. Specifically, we transferred the Personal Care business and three prestige makeup brands (*bareMinerals, BUXOM,* and *Laura Mercier*) and terminated a global license agreement with Dolce&Gabbana S.r.l. In order to accelerate digital transformation (DX), we established Shiseido Interactive Beauty Company, Limited as a joint venture with Accenture and entered into a strategic partnership with Tencent, a major Chinese technology company, in a bid to strengthen our digital marketing strategy on a global scale. We have also started full-fledged operations at our Osaka Ibaraki Factory and West Japan Distribution Center to enhance the production and distribution network.

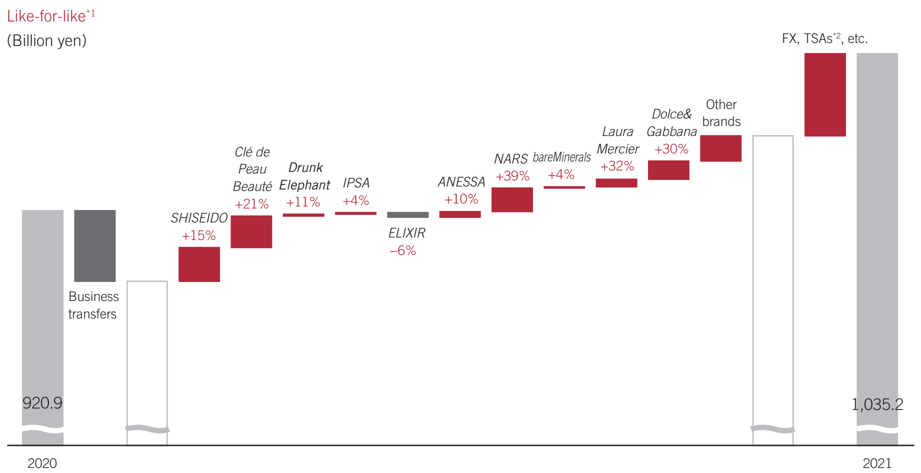
In the fiscal year 2021, the Company was globally affected by the spread of COVID-19 but managed to significantly recover net sales in all regions except Japan thanks in particular to growth in skin beauty brands—our area of focus—and expansion of e-commerce.

ANALYSIS OF OPERATING RESULTS

NET SALES

On a yen basis, net sales increased 12.4% year on year to ¥1,035.2 billion ($8,933.1 million), which increased 7.8% year on year on a local currency basis, and increased 11.9% on a like-for-like basis, excluding such factors as the business transfers. This increase reflects strategic investments in skin beauty brands—our area of focus—as well as expansion of e-commerce. The Company was globally affected by the spread of COVID-19 but managed to significantly recover net sales in all regions except Japan, where market environment were challenging.

FY 2021 Net Sales by Brand



*1. Like-for-like change (%) for each brand is calculated based on initial exchange rate assumptions and excludes the impact of foreign currency exchange, etc.
*2. Result of business transfers

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of Sales

Cost of sales increased by 10.3% year on year, to ¥263.0 billion ($2,284.4 million). The cost of sales ratio decreased 0.5 percentage points compared with the previous consolidated fiscal year, to 25.4%, due to factors such as a more favorable product mix resulting from the transfer of business, improved productivity at factories in Japan, and a decrease in inventory write-off expenses, despite an upturn in the COGS ratio due to the supply of products resulting from the transfer of business. Excluding the increase in the COGS ratio due to the supply of products resulting from the transfer of business, the actual COGS ratio decreased 2.0 percentage points compared with the previous consolidated fiscal year, to 23.9%.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses increased 9.5%, to ¥730.6 billion ($6,347.1 million). The breakdown of this result is as follows.

Marketing Costs

The ratio of marketing costs to net sales increased 0.7 percentage points year on year, to 29.3%. This increase stemmed from ongoing enhancement of marketing investments in growth areas, such as China and e-commerce, despite rigorous efforts to achieve cost efficiency in line with sales fluctuations.

Brand Development / R&D Expenses

The ratio of brand development and R&D expenses to net sales decreased 0.8 percentage point year on year, to 3.5%.

Personnel Expenses

The ratio of personnel expenses to net sales decreased 0.7 percentage points year on year, to 21.3%, as a result of initiatives to optimize personnel expenses through such means as reducing unprofitable counters mainly in Europe and the United States and implementing structural reforms, which outweighed an increase in bonuses paid in line with the Company's business performance.

Other SG&A Expenses

The ratio of other SG&A expenses to net sales decreased 1.1 percentage points year on year, to 16.5%, as a result of a zero-based review of expenses.

Research and development (R&D) investments, which are included in SG&A expenses, stood at ¥25.6 billion ($222.3 million), bringing the ratio of R&D investments to net sales to 2.5%.

Note: The ratio of marketing costs to net sales was 38.2% if expenses related to beauty consultants are included. The ratio of personnel expenses to net sales was 12.4% if the same expenses are not included.

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

	2018/12	2019/12	2020/12	2021/12
Cost of sales ratio (%)	21.2	22.5	25.9	**25.4**
SG&A expenses ratio (%)	68.9	67.4	72.5	**70.6**
Marketing costs	36.6	36.3	37.9	**38.2**
Brand development / R&D expenses	5.8	4.0	4.3	**3.5**
Personnel expenses	11.6	11.3	12.7	**12.4**
Other SG&A expenses	14.9	15.8	17.6	**16.5**
SG&A expenses (billions of yen)	754.5	762.9	667.5	**730.6**
Marketing costs	401.2	410.4	348.4	**395.5**
Brand development / R&D expenses	63.5	45.0	39.8	**36.5**
Personnel expenses	127.1	128.2	117.1	**127.8**
Other SG&A expenses	162.7	179.4	162.2	**170.7**

Note: As of the consolidated fiscal year 2020, 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 consolidated fiscal year 2019 and earlier.

OPERATING PROFIT

Operating profit increased 177.9%, to ¥41.6 billion ($361.2 million).

Operating Profit / Operating Margin

(Billions of yen)	2018/12	2019/12	2020/12	2021/12
Operating Profit	108.4	113.8	15.0	**41.6**
Operating Profit margin (%)	9.9	10.1	1.6	**4.0**

ORDINARY PROFIT

Ordinary profit increased 365.2%, to ¥44.8 billion ($389.4 million), owing to an increase in foreign exchange gain in addition to an increase in operating profit.

NET PROFIT ATTRIBUTABLE TO OWNERS OF PARENT

Net profit attributable to owners of parent increased by ¥54.1 billion ($469.9 million) to ¥42.4 billion ($368.6 million) due to an increase in operating profit and the recording of extraordinary gains from the transfer of the Personal Care business, which offset the recording of impairment losses on trademark rights related to DOLCE&GABBANA and impairment losses on goodwill accompanying the transfer of the three prestige makeup brands.

REVIEW BY REPORTABLE SEGMENT

Results by reportable segment are as follows.

Net Sales by Reportable Segment

Segments[1]

(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[3]	35.6	25.9

Net Sales by Reportable Segment

Segments[2]

(Billions of yen)	2020/12	2021/12
Japan Business	303.0	**276.2**
China Business	235.8	**274.7**
Asia Pacific Business	59.2	**65.0**
Americas Business	91.4	**121.4**
EMEA Business	94.3	**117.0**
Travel Retail Business	98.5	**120.5**
Professional Business	12.8	**15.9**
Other[4]	25.9	**44.5**

Operating Profit by Reportable Segment

Segments[1]

(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[3]	(9.9)	3.5

Operating Profit by Reportable Segment

Segments[2]

(Billions of yen)	2020/12	2021/12
Japan Business	9.7	**9.6**
China Business	18.4	**1.2**
Asia Pacific Business	3.2	**3.7**
Americas Business	(22.7)	**(13.2)**
EMEA Business	(13.2)	**2.5**
Travel Retail Business	14.6	**22.0**
Professional Business	(0.0)	**0.8**
Other[4]	4.7	**31.0**

Operating Margin by Reportable Segment[5]

Segments[1]

(%)	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[3]	(5.6)	2.0

Operating Margin by Reportable Segment[5]

Segments[2]

(%)	2020/12	2021/12
Japan Business	2.9	**3.2**
China Business	7.8	**0.4**
Asia Pacific Business	5.3	**5.6**
Americas Business	(19.5)	**(8.9)**
EMEA Business	(12.9)	**1.9**
Travel Retail Business	14.8	**18.2**
Professional Business	(0.3)	**4.6**
Other[4]	2.7	**13.3**

Notes:
1. Change in Business 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.
2. Change in Business Segment Classification
Effective from the fiscal year 2021, the Group has revised its reportable segment classifications. The business results of global service functions related to digital strategy, which had been included in the "Americas Business", are now included in the "Other" segment, and expenses related mainly to the supply network functions, which had been included in the "Other" segment, are now partially included in the "Japan Business".
3. The Other segment includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., and manufacturing operations, as well as the activities of the Restaurant business, etc.
4. The Other segment includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., manufacturing operations, and 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 strategically strengthened investment in the skin beauty category in line with new consumer needs prompted by the COVID-19 pandemic and achieved market share gains, mainly in base makeup and sun care. In addition, we engaged with a large number of consumers through various omnichannel initiatives in collaboration with business partners, such as live commerce events and online video counseling. Consequently, e-commerce sales grew by double digits. We also continued activities started last year aimed at maximizing the value we provide to consumers, in particular agile development and launch of products that address changes in consumer needs, such as BB cream that stays put even under a mask, and revolutionary products with the Second Skin technology.

Meanwhile, under the declared state of emergency sales were hit by shortened operating hours in the retail sector and a downturn in consumer traffic due to a tendency to stay at home. Other factors included a drop in visitors to Japan, which resulted on low inbound demand.

As a result, net sales decreased 8.9% year on year to ¥276.2 billion ($2,399.2 million). Excluding the impact of the Personal Care business transfer, or like for like, sales declined 1.4% year on year. Operating profit was down 0.9% year on year to ¥9.6 billion ($83.2 million), mainly due to lower margins resulting from a decline in sales, which outweighed higher margins accompanying an increase in intercompany sales in the first half of the fiscal year and effective cost management in line with market changes.

China Business

The China Business was affected by partial retail closures and a drop in consumer traffic due to unprecedented torrential rains in the third quarter and new COVID-19 variant outbreaks in key metropolitan areas. However, e-commerce remained strong thanks to strategic investment and accounted for high 40% of total sales, mainly due to sales growth well above the market for the Singles' Day, China's largest e-commerce event. Moreover, continued strategic investment in prestige brands drove market share gains in the high-end category, specifically for *Clé de Peau Beauté* and *NARS*.

As a result, net sales grew 7.0% on an FX-neutral basis, or 16.5% year on year to ¥274.7 billion ($2,386.5 million) based on reported figures. Excluding such impacts as the Personal Care business transfer, or like for like, sales grew 19.1%. Operating profit dropped by 93.6% year on year to ¥1.2 billion ($10.2 million), due to increased investment in major brands, higher cost of sales, and the impact of the Personal Care business transfer, among other factors.

Asia Pacific Business

In the Asia Pacific Business, while the impact of COVID-19-related lockdowns continued in some countries and regions, we increased our share in e-commerce across Asia, thanks to further expansion into key e-commerce platforms in various regions and robust growth of prestige brands such as *SHISEIDO* and *NARS*.

As a result, net sales increased 3.8% on an FX-neutral basis, or 9.9% year on year to ¥65.0 billion ($564.7 million) based on reported figures. Excluding such impacts as the transfer of the Personal Care business, or like for like, sales increased 5.8%. Operating profit grew 15.1% year on year to ¥3.7 billion ($32.4 million), mainly due to higher margins accompanying an increase in sales.

Americas Business

In the Americas, while impacts from the spread of COVID-19 continued, vaccination rollout drove the recovery of the cosmetics market, including makeup, which had struggled. In this market environment, U.S.-based skincare brand *Drunk Elephant* opened new doors, while *NARS* grew its share due to virtual store openings and other digital marketing initiatives. In addition, *SHISEIDO*, *Clé de Peau Beauté*, and fragrance brands also performed well on the back of strengthened promotions.

As a result, net sales rose 28.4% on an FX-neutral basis, or 32.8% year on year to ¥121.4 billion ($1,054.3 million) based on reported figures. Excluding such impacts as the transfer of the three prestige makeup brands, or like for like, sales grew 29.9%, exceeding 2019 results. Operating loss recovered by ¥9.5 billion ($82.50 million) year on year to ¥13.2 billion ($114.7 million), mainly due to higher margins accompanying an increase in sales and improved profitability from reductions in fixed costs of the commercial business.

EMEA Business

In EMEA, while impacts from the spread of COVID-19 continued, vaccination rollout aided market recovery, mainly in skincare and fragrances. We succeeded in capturing this turnaround to increase share in all categories through further rollout of our *Clé de Peau Beauté* and *Drunk Elephant* brands and e-commerce sales expansion thanks to online video counseling and digital promotions.

As a result, net sales grew 16.4% on an FX-neutral basis, or 24.1% year on year to ¥117.0 billion ($1,016.7 million) based on reported figures. Excluding such impacts as the transfer of the three prestige makeup brands, or like for like, sales increased 16.5% year on year. Operating profit made a long-awaited return to profit at ¥2.5 billion ($21.3 million), an improvement of ¥15.7 billion ($136.3 million) year on year, mainly thanks to higher margins associated with an increase in sales, improved profitability of the commercial business, efficiency of advertising expenses due to focused investment in digital media, and lower fixed costs.

Travel Retail Business

The Travel Retail Business (sales of cosmetics and fragrances mainly through airport and downtown duty-free stores) was continuously affected by considerable reductions in international flights and the resulting decline in travelers worldwide. Hainan Island in China was also impacted by travel restrictions such as flight curbs in response to new COVID-19 variant outbreaks, but sales still accelerated significantly, mainly for e-commerce. Overall, net sales grew substantially, mostly in Asia, as we strengthened the rollout of *Drunk Elephant* and increased the number of counters for major brands on Hainan Island.

As a result, net sales grew 18.4% on an FX-neutral basis, or 22.3% year on year to ¥120.5 billion ($1,046.4 million) based on reported figures. Operating profit increased 49.9% year on year to ¥22.0 billion ($190.6 million), mainly due to higher margins accompanying increased sales.

Professional Business

In the Professional Business, we deliver professional products such as hair care, styling, color, and perm solutions to hair salons in Japan, China, and Asia Pacific. While the impact of COVID-19 continued in some countries and regions, recovery in consumer traffic to hair salons and strengthened e-commerce promotions had an overall positive effect. Successful market debut of *ULTIST*, a new hair color brand, and *HAIR KITCHEN*, a new hair care brand for salons focused on sustainable initiatives, also contributed to growth.

As a result, net sales were up 19.6% on an FX-neutral basis, or 24.4% year on year to ¥15.9 billion ($137.8 million) based on reported figures. Operating profit increased ¥0.8 billion ($6.8 million) year on year to ¥0.8 billion ($6.5 million), allowing the business to return to profit, mainly due to improved margins associated with higher sales.

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

(%)	2018/12	2019/12	2020/12	**2021/12**
Net sales	8.8	5.7	(17.8)	**7.8**

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)	2018/12	2019/12	2020/12	**2021/12**
USD	110.4	109.1	106.8	**110.0**
EUR	130.4	122.1	121.8	**129.9**
CNY	16.7	15.8	15.5	**17.0**

Sales by Region

(Billions of yen)	2018/12	2019/12	2020/12	**2021/12**
Japan	495.4	491.1	333.3	**321.2**
China	216.9	248.4	289.0	**343.7**
Asia (excl.China)	116.0	128.6	104.1	**117.7**
Americas	138.3	130.4	93.1	**127.5**
Europe	128.2	133.1	101.3	**125.1**
Total	1,094.8	1,131.5	920.9	**1,035.2**

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, 2021, cash and time deposits totaled ¥172.1 billion ($1,494.7 million) and represented 2.0 months of consolidated net sales for the fiscal year 2021.

Meanwhile, interest-bearing debt as of December 31, 2021 totaled ¥193.4 billion ($1,680.1 million). Shiseido uses diversified funding methods, which include ¥100.0 billion ($868.7 million) in unused committed lines of credit with financial institutions and authorized but unissued straight bonds in Japan totaling ¥270.0 billion ($2,345.5 million). 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, 2021, 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 February 28, 2022)

ASSETS, LIABILITIES, AND NET ASSETS

Assets

Total assets decreased by ¥24.9 billion ($216.0 million) from the end of the previous fiscal year to ¥1,179.4 billion ($10,245.5 million). This was attributable to a decrease in inventories and intangible fixed assets as a result of business transfers.

Liabilities

Liabilities decreased by ¥85.7 billion ($744.5 million) to ¥611.9 billion ($5,316.0 million), primarily due to repayments of borrowings with funds obtained from business transfers.

Net Assets

Net assets increased by ¥60.8 billion ($528.5 million) to ¥567.4 billion ($4,929.4 million), chiefly due to the recording of net profit attributable to owners of parent and an increase in foreign currency effects associated with the yen depreciation.

As of December 31, 2021, net assets per share were up ¥151.94 ($1.31) from year on year, to ¥1,364.28 ($11.85). The equity ratio increased 6.0 percentage points, to 46.2%.

The net debt-to-equity ratio, which indicates the ratio of interest-bearing debt less cash and cash equivalents to shareholders' equity, and net debt-to-EBITDA ratio, which shows the ratio of interest-bearing debt less cash and cash equivalents to EBITDA, were as follows.

Ratio	Fiscal Year Ended December 31, 2020	Fiscal Year Ended December 31, 2021
Net debt-to-equity (Net D/E) ratio	0.4	0.03
Net debt-to-EBITDA (Net D/EBITDA) ratio	2.4	0.1

CASH FLOWS

The balance of cash and cash equivalents as of December 31, 2021 stood at ¥156.5 billion ($1,359.6 million), ¥20.2 billion ($ 175.1 million) more than at the end of the previous consolidated fiscal year.

Cash Flow Summary

(Billions of yen)	2019/12	2020/12	**2021/12**
Cash flows from operating activities	75.6	64.0	**122.9**
Cash flows from investing activities	(202.8)	(70.1)	**63.7**
Cash flows from financing activities	113.7	46.9	**(176.2)**
Cash and cash equivalents at end of period	97.5	136.3	**156.5**

Cash Flows from Operating Activities

Net cash provided by operating activities increased ¥58.8 billion ($511.1 million) compared with the previous fiscal year, to ¥122.9 billion ($1,067.5 million). Gain on transfer of business came to ¥74.0 billion ($642.4 million), income taxes paid came to ¥23.9 billion ($207.5 million), and payments for structural reform expenses came to ¥22.0 billion ($190.8 million). On the other hand, profit before income taxes was ¥73.3 billion ($636.3 million), non-cash expenses including depreciation and amortization amounted to ¥63.0 billion ($547.1 million), and notes and accounts payable increased ¥34.0 billion ($295.3 million).

Cash Flows from Investing Activities

Net cash provided by investing activities increased ¥133.8 billion ($1,162.5million) year on year, to ¥63.7 billion ($553.7 million). Acquisition of property, plant and equipment used ¥72.5 billion ($630.0 million) and acquisition of intangible assets used ¥19.9 billion ($173.1 million). On the other hand, cash provided included proceeds from transfer of business was ¥149.9 billion ($1,302.5 million).

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥223.1 billion ($1,938.1 million) year on year, to ¥176.2 billion ($1,530.9 million). Proceeds from long-term debt came to ¥10.0 billion ($86.8 million), while repayment of long-term debt used ¥94.7 billion ($822.8 million), a decrease in short-term debt and commercial paper used ¥57.9 billion ($502.8 million), cash dividends paid stood at ¥16.0 billion ($138.8 million), and repayment of lease obligations used ¥10.5 billion ($90.7 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, 2022. Please note that the potential risks are not limited to those listed below.

The risk management of the Group is primarily focused on "building trust with multiple stakeholders and 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 place measures proactively and expeditiously.

The "Global Risk Management & Compliance Committee", chaired by the CEO and composed of Regional CEOs and HQ Executive Officers as well as Global Strategy Committee regularly identify Group risks and deliberate measures toward them.

Risk-related information of the Group is gathered by the Risk Management Department at Global Headquarters (HQ), which reports into the Office of the Chief Legal Officer of the Group.

In 2021, risks were identified through a holistic approach combining multiple and comprehensive methods. Specifically, HQ Risk Management Department interviewed Group CEO, HQ executive officers, and Regional CEOs 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 advisors.

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 three risk categories: "Consumer and Social-related Risks" stemming from external factors, "Operation & Fundamental Risks" stemming from internal activities, and "Other Risks".

We have identified "risk owners" for each risk category in an effort to clarify responsibility for countermeasures. Moreover, we have implemented a transparent monitoring and communicative framework within the Global Risk Management & Compliance Committee and the Board of Directors to regularly discuss and assess our progress in addressing these risks.

As a noteworthy point of the risk assessment results mentioned above, the individual risks identified are more interlinked than in the past and interdependency of the countermeasures is increasing. In addition, "Changes in Consumer Values" and "Corporate Culture and Acquisition /Securing Outstanding Human Resources" have a large impact on the other identified risks.

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, 2022.

*** 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 the 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/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*
Changes in Consumer Values	**[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, price acceptability, and diversifying purchasing behavior including touchpoints. (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., accelerate roll out of Drunk Elephant, BAUM, THE GINZA and EFFECTIM, 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 (e.g., R&D, marketing) for Chinese consumers. • 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 Acceleration	**[Key Strategic Initiatives]** • Strengthen consumer engagement and e-commerce to cultivate loyal consumers in line with structural channel shift behaviors. • Obtain and analyze consumer data in compliant manner to develop more personalized marketing through digital CRM. Strengthen retention and loyalty. **[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]** • Appointment of Chief Digital Officer for the Global HQ and Regional HQs. • Establish Shiseido Interactive Beauty Company, Limited, to innovate business model with digital transformation. • Reinforce hiring, retention, and development of digital marketing experts. • Launch of Group-wide Digital Academy to promote a digital mindset as a core competency. • Promote omni-channel marketing integrating e-commerce and in-store sales. • Promote introduction and development of beauty technology to enhance personalized engagement with customers and improve unique digital content to analyze skin condition. • Promote first-party data acquisition through service and technology offers to consumers online and at store counters. • Accelerate digital marketing through ties with e-commerce platformers in China or other technology startup companies. • BCs dedicated to omni-channel in Japan to start full-fledged operations (YouTube, Instagram, 'team-escort type' beauty program "ONLINE BEAUTY STUDIO," etc.)	8, 9 and 10
Pace of Cutting-Edge Innovation	**[Key Strategic Initiatives]** • Selection and concentration of R&D through introduction of unique R&D philosophy "DYNAMIC HARMONY". • Strengthen R&D in the Premium Skin Beauty area. • Invest in R&D with ca.3% of net sales ratio target. • Strengthen R&D and regulatory compliance activities at each Regional HQs. • 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) • Short-term delay such as launch of new technologies, mid-to long term slowdown in basic research or formula development/alternative ingredients to boost sustainability, or delay in M&A progress and partnerships with third parties could prevent us from achieving planned synergies. This would limit 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]** • Investment/re-expansion of resources in R&D of cosmetics. • Reorganize R&D functions (Brand Value R&D Institute, MIRAI Technology Institute). • Establishment of "Sustainable Technology Acceleration Department" in Brand Value R&D Institute, which oversees eco-friendly R&D (packaging, formula, ingredients) and acts as a hub for technological development/strategy execution to realize rapid commercialization, in collaboration with product development functions. • Established "Regulatory Strategy Department" for global regulatory monitoring and strategy building • Establishment of a new branch of China Innovation Center to drive innovation in collaboration with other companies. • Establish Nasu Factory, Osaka Ibaraki Factory and Fukuoka Kurume Factory leveraging the latest technologies. • Drive innovation through Shiseido Global Innovation Center (GIC) (Yokohama) and Beauty Innovation Hub (Shanghai). • Conduct joint research with external organizations. Harness expertise of U.S. startup ventures. Focus on consumer trends. • Collaborate for innovation with external parties through initiatives such as "fibona" (open innovation program involving startup companies led by GIC). • Define KPIs for measuring the return on Research and Development (such as R&D expenses to net sales ratio, number of researchers, sites, patent applications, and academic papers, etc.) and regularly monitor against competitors.	3, 4, 5, 6, 7, 8 and 9
Corporate and Brand Reputation	**[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 values with consumers, resulting in damage to our brand. (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
Environment and Climate Change	**[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. **[Uncertainties]** • Lack of environmental measures may lead to loss of trust of consumers/society at large and a decline in shopping motivation. (Threat) • Inadequate responses to environmental issues, particularly climate change risks, would negatively affect business, finance, and corporate value. (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]** • Regular meetings held by the Sustainability Committee for medium-to-long-term strategy development/KPI setting, deliberation/resolution on sustainability issues, and monitoring of the strategy implementation progress involving related departments of HQ and RHQs. • Sustainability/SDGs-related activities by each brand (SHISEIDO, Clé de Peau Beauté, etc.). • Promote ISO14001 certification at all factories and distribution centers by end of 2024 • Issue Sustainability Report reflecting corporate policies, initiatives, and KPIs. • 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). Prepare a scenario based on quantitative/qualitative analysis of climate change impact on business and disclose specific actions to be taken, in line with TCFD recommendations.	4,7 and 10
Diversity& Inclusion	**[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. • Focusing on the two strategic pillars of "Empowerment of women" and "Diversity and inclusion through the power of beauty", actions taken by HQ/RHQ/brands in collaboration with external international organizations and NGOs. • Particularly in Japan, where empowerment of women lags behind, Shiseido to provide information to employees as well as external companies, thereby driving transformation of Japanese companies and Japanese society as a whole. **[Uncertainties]** • Possibility of losing the trust of society at large and consumers due to insufficient efforts in Diversity & Inclusion effort, which is a strength of Shiseido. (Threat) • Our efforts to promote Diversity & Inclusion may create new social values, building trust with consumers and society at large. (Opportunity) • Organizational culture rooted in diversity and inclusion may lead to recruitment/retainment of diverse and talented people, promoting innovation and dramatically increasing our corporate value. (Opportunity) **[Response Measures]** • Medium-to-long-term strategy development, setting KPIs, and monitoring of the strategy implementation progress, involving related departments of HQ and RHQs. • Activities by each brand for sustainability and SDGs realization (SHISEIDO, Clé de Peau Beauté, etc.) • Issuance of sustainability report containing corporate policy, initiatives, and KPIs. • Participation in "30% Club Japan" which aims to raise the percentage of women officers in Japanese companies, with our CEO acting as chair to lead the activities of TOPIX Presidents' Association. • Expand opportunities to experience "power of makeup" through "SLQM(Shiseido Life Quality Makeup)"and "Lavender Ring Makeup & Photos with Smiles" programs, supporting QOL improvement of cancer survivors	7 and 10
Natural and Human-Made Disasters	**[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, flood damages, and tornadoes) and other events around the world (such as terrorism and riots) threatening employee safety and/or causing property damage, resulting in negative impact on supply network and business. (Threat) **[Response Measures]** • Formulate business continuity plans (BCPs) for HQ and major regional sites and hold regular training at each site to ensure effectiveness. • Strengthen and leverage our global supply network to allow flexible and continuous supply during a crisis, such as establishment of a new factory.	2 and 10
Infectious Disease	**[Key Strategic Initiatives]** • Reinforce human resources and management infrastructure to rebuild our foundation for growth on a global scale. • Build a digitally driven business model and organization **[Uncertainties]** • Prolonged COVID-19 or outbreak of similar pandemics may lead to decline in consumption, sales, and profits, plus a decline in productivity due to employee health absenteeism. (Threat) • Possibility to secure a competitive advantage in the market by quickly and flexibly addressing the changes in consumer values and needs. (Opportunity) **[Response Measures]** • Putting the safety and security of employees first, taskforce established at HQ and RHQs in response to COVID-19. BCP for infectious diseases revised and response system strengthened.	2, 9 and 10
Geopolitical Tensions	**[Key Strategic Initiatives]** • Focus investment on the growth areas of the Chinese consumers including China mainland, APAC and Travel Retail business • Rebuild the business foundation to boost profitability in Japan Region. • Improve profitability in the Americas and EMEA Region. **[Uncertainties]** • Possibility of boycott on our products due to increased anti-Japan sentiments in Asian countries. (Threat) • Deterioration of business environment due to U.S.-China conflict and political instability in Asia. (Threat) • Our business plans may not be achieved if increased cost of raw materials caused by global price inflation is not absorbed through corporate efforts and the price of goods/services is lifted, as consumers may be less motivated to purchase our products. (Threat) • Unstable political conditions and strained diplomatic relationships of countries and conflicts where we operate could deteriorate our business environment and lead to negative impacts on production, supply, and sales of our products. (Threat) **[Response Measures]** • Further develop our Premium Skin Beauty business in China, Japan, 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*
Corporate Culture and Acquisition/ Securing Outstanding Human Capital	**[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. Due to a lack of IT and digital talent resources, an accelerated shift to a digitally driven business model and organization may take longer. (Threat) • Possibility of securing a competitive advantage by hiring and retaining the best talent. (Opportunity) • Possible increase in productivity of the entire Group through work style 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 work style) and permitting part-time jobs. Improve employee wellbeing. • 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 to ensure transparency in personnel evaluation and improve employee motivation • Establishment of Shiseido Interactive Beauty (SIB) to accelerate a shift to digitally driven business model and reinforce IT/digital capability.	8, 9 and 10

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 is not improved. (Threat) • The Covid-19 exit timing and slower-than-expected recovery of Japan market may result in changed purchasing behavior of cosmetics, negatively affecting management plans. (Threat) • Growth in the cosmetics market may fall below expectations with slowdown of China's economic growth, affecting management plans. (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 establishing a strong growth foundation in China. (Opportunity) **[Response Measures]** • 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. • Complete transfer of personal care business. • Complete transition of Dolce & Gabbana license. • Complete transition services following sale of the prestige makeup brands *bareMinerals*, *BUXOM*, and *Laura Mercier*.	1, 2 and 3
Operating Infrastructure	**[Key Strategic Initiative]** • Globally improve effectiveness of information systems, business management systems, and core business processes related to procurement/production/sales. **[Uncertainties]** • If IT system reconstruction/transition at our local offices do not proceed as planned, or faces issues hindering smooth operation after introduction, the initiative to improve global business base may be hindered and management plans negatively affected. (Threat) • Updating global IT systems contributes to a stronger business foundation and improved competitiveness. (Opportunity) **[Response Measures]** • 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. • Proceed the system implementation based upon the robust methodology to ensure business, system, and people readiness. • Implement a high-availability global Cloud IT infrastructure to ensure resilience. • Activate the Business Contingency Plan, when required, to avoid any operational impact.	2, 9 and 10
Supply Network	**[Key Strategic Initiatives]** • Establishment of three domestic factories and a supply chain base to enable stable production over the medium-to-long-term. • Improve our global supply chain management. • Continuous process improvement and state of the art technology investments in manufacturing and distribution. • Focus on safety and sustainability. **[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 global legal compliance structure as we rebuild business foundation through new business models such as digital and beauty tech, wellness, new M&A, 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, antitrust and competition, data privacy, 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 (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 into 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, anti-trust, anti-harassment and anti-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	**[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]** • Company-wide challenges to the thorough implementation of the Group's high standard of quality assurance at various stages of product lifecycles 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. • Launched Global Quality Transformation Project, directly led by Global CEO, to improve global quality standards by strengthening governance/risk assessment/operating protocols. • 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
Governance Structure	**[Key Strategic Initiative]** • Creation of a matrix organization structure composed of six Regions and brand categories to allow HQ to manage the entire Group business, whilst 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]** • Introduction of a new management system of executive officers, in which officers bear responsibility for the Company-wide execution of business. • 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 foster a spirit of collaboration and enterprise-wide mitigation and communication of risks, as many risks are interdependent and require an enterprise-wide solution approach that is focused on increasing trust among our stakeholders. • We ensure corporate governance within each affiliate structure is linked to oversight and approvals from HQ, in all material matters, through regular reporting and on-going global leadership meetings. • Significant strategic, transformational, and material decisions relating to the Company's business operations, assets, business value, reputation, and compliance is 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
Information Security and Privacy	**[Key Strategic Initiatives]** • Strengthen digital marketing globally by utilizing data and enhancing e-commerce to match consumer needs and fierce competitive environment. • Acquire and utilize more personal data, including sensitive information, to provide new curated experience/services to customers and co-creation. • Shift to Shiseido Hybrid Work Style, a new way of working where productivity is high regardless of place or time. • Further collaboration and co-creation with external partners such as startups to generate innovation. **[Uncertainties]** • Liability for damages and loss of trust in the Company due to system failures caused by cyberattacks and leakage of consumer data. (Threat) • With the increase in access points to important data accompanying new working styles and further collaboration/ co-creation with external partners, information leakage risks may be heightened if management or operation is inadequate. (Threats) • Violation of laws and regulations, fine payments, and loss of trust in the Company due to delayed or inappropriate response to data privacy-related laws and regulations in each country/region. (Threat) • Loss of trust in the Company and business opportunity due to failure to understand the sensitivity of society regarding data privacy and appropriately understand the concerns/ expectations of consumers regarding data privacy. (Threat) • By taking appropriate response measures to the above threats, possibility of contributing to the achievement of business goals; for example, consumers feel safe to entrust their personal data to the Company. (Opportunity) **[Response Measures]** The following measures are implemented, referencing the ISO and NIST frameworks. • Dedicated information security department leading global collaboration, governance, and control. • Appoint a person responsible for data privacy to reestablish and strengthen global collaboration system. • Promote information disclosure and notification regarding protection of data privacy. Promote communication with relevant authorities. • Continuously revise the company's information security/data privacy regulations, considering both internal and external environmental changes. • Identify/securely manage personal data held by the Company. Continuously promote information security awareness among employees. • Reinforce medium-to-long-term response to external cyberattacks increasing in sophistication and diversification (Protect/Detect/Respond/Recover: e.g., stronger security related to filters, computer devices, and cloud use). • Strengthening the establishment and monitoring of the Security Operations Center (SOC) on a global scale, involving external experts, for improved management/operation of increasing amount of sensitive data and diversifying data access points.	5, 6, 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. • 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. • Investments in overseas affiliates could result in reduced net assets due to currency exchange adjustments and the appreciation of the Japanese yen. **[Response Measures]** • Hedge exchange rate fluctuation risks with forward exchange contracts. • Monitor and respond to fluctuations in major global currencies.	3
Business Investment	**[Key Strategic Initiative]** • Promote growth investments that align with Company strategy and improve profitability and strengthen our skin beauty businesses. **[Uncertainties]** • If market/business conditions deteriorate at levels not anticipated at the time of investment decisions and our business plans are not successfully carried out, impairment losses on goodwill and intangible assets recorded through M&A may negatively affect company performance (Threat) **[Response Measures]** • Regular performance monitoring and reporting of monitoring results to the Board. • Consider future directions and countermeasures to improve business performance in cooperation with relevant brands, regions, and functional departments.	1,4 and 6
Material Litigation	**[Key Strategic Initiatives]** • Continuously strengthen legal compliance structure and governance with a risk mitigation focus as we rebuild business foundation and focus on growth through new business models such as digital and beauty tech, transformation initiatives and M&A, beauty wellness, etc. • Robust management and mitigation of material litigation/claims and heightened attention on proper controls and preventative measures, including employee training and employee reporting avenues such as ethics hotlines. **[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) • Significant impact on the Group's business performance, should a major material litigation occur in the future with an unfavorable ruling for the Group; possibility of 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 our 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. • Conduct due diligence on all significant commercial and business transactions.	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 Notes to the Consolidated Financial Statements 04. CONSOLIDATED STATEMENTS OF INCOME, the Group recorded an impairment loss of ¥26,463 million ($229,893 thousand) in the consolidated fiscal year under review.

Goodwill, Trademark rights, and Other Intangible Assets

The Group conducts impairment reviews of goodwill, trademarks, and other intangible assets. Valuation by outside specialists is utilized for estimating fair value of goodwill, trademarks, and other intangible assets, as well as in reviewing for impairment. Estimates of the fair value is calculated by the discounted cash flow method, which uses many estimates and assumptions such as discount rates. These estimates and assumptions may significantly affect the impartment reviews and impairment loss. Management determined that the estimates for the fair value on this test is reasonable, but it is possible that the fair value declines and impairment loss occurs due to unexpectable changes in the future business assumptions. The assessment of goodwill relating to the Shiseido Americas Corporation reporting unit is stated in “Notes to the Consolidated Financial Statements. 02. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (27) Significant Accounting Estimates”.

The impacts of the COVID-19 pandemic vary by region and by business, but we have made an overall assumption that our performance will return to growth track from the second half of 2022, and fully recover in 2023.

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. 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.

FORECAST FOR THE FISCAL YEAR 2022

The economic climate in the next fiscal year may still be affected by slowdown in global economic activities due to the spread of COVID-19, prolonged effects of the pandemic, further delays in market recovery, and risks of new lockdowns, yet the Company expects market recovery within 2022, with the exception of some regions.

In response to these changes in the external environment, we will proceed with our medium-to-long-term business strategy WIN 2023 and Beyond and continue to step investments up in strategic growth areas, such as the premium skin beauty category and digital shift of our business model overall. At the same time, we will restructure our earnings base through global business transformation efforts, including further drastic improvement of the profitability of our Americas and EMEA businesses.

As a result of such initiatives, consolidated net sales in the fiscal year 2022 are expected to reach ¥1,100.0 billion ($9,556.0 million), up 14% like for like, excluding the impact of business transfers, etc. Operating profit is forecast at ¥60.0 billion ($521.2 million). Although increased sales are expected to generate higher margins, the forecast also incorporates proactive strategic investments in line with market recovery. The Company will aim to leverage this recovery momentum and further increase profits through expanding sales, mainly of premium skin beauty brands, improving the cost of sales ratio, and increasing the efficiency of marketing investment. Ordinary profit is forecast at ¥63.5 billion ($551.6 million), and net profit attributable to owners of parent, at ¥40.0 billion ($347.4 million).

Consolidated Financial Results Forecast for the Fiscal Year 2022

	Net Sales	Operating Profit	Net Profit Attributable to Owners of Parent	Net Profit per Share
Forecast (A)	1,100.0	60.0	40.0	100.1
Results for the fiscal year 2021 (B)	1,035.2	41.6	42.4	106.2
Amount of increase or decrease (A–B)	64.8	18.4	(2.4)	
Rate of increase or decrease (%)	6.3	44.3	(5.7)	

As announced on November 10, 2021, the Company will voluntarily adopt International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year 2022, in lieu of the currently applied Generally Accepted Accounting Principles in Japan (“Japanese GAAP”).

Consolidated Financial Statements
Consolidated Balance Sheets

Shiseido Company, Limited and Subsidiaries
As of December 31, 2020 and 2021

	Note	Millions of yen 2020/12	Millions of yen 2021/12	Thousands of U.S. dollars (Note 1) 2021/12
ASSETS				
Current Assets:				
Cash and time deposits	17	130,013	172,056	1,494,709
Notes and accounts receivable		144,728	151,115	1,312,787
Short-term investment securities	10	21,000	—	—
Inventories	03	170,031	143,758	1,248,874
Other current assets		52,634	58,636	509,391
Less: Allowance for doubtful accounts		(3,644)	(4,032)	(35,027)
Total current assets		514,763	521,533	4,530,735
Fixed Assets:				
Property, Plant and Equipment:				
Buildings and structures	17	251,762	279,630	2,429,241
Less: Accumulated depreciation		(103,831)	(113,243)	(983,780)
Buildings and structures, net		147,931	166,387	1,445,460
Machinery, equipment and vehicles	17	118,883	130,920	1,137,346
Less: Accumulated depreciation		(63,344)	(69,670)	(605,247)
Machinery, equipment and vehicles, net		55,538	61,249	532,091
Tools, furniture and fixtures	17	102,657	103,668	900,599
Less: Accumulated depreciation		(60,680)	(65,138)	(565,876)
Tools, furniture and fixtures, net		41,976	38,529	334,714
Land		44,605	46,519	404,126
Leased assets		10,671	12,623	109,660
Less: Accumulated depreciation		(5,251)	(5,812)	(50,490)
Leased assets, net		5,420	6,811	59,169
Right of use assets		29,133	38,401	333,602
Less: Accumulated depreciation		(10,870)	(16,681)	(144,913)
Right of use assets, net		18,262	21,719	188,680
Construction in progress		27,308	16,188	140,630
Total property, plant and equipment		341,044	357,405	3,104,899
Intangible Assets:				
Goodwill		54,429	44,159	383,624
Leased assets		403	300	2,606
Trademark rights		131,636	40,322	350,291
Other intangible assets		54,922	61,707	536,069
Total intangible assets		241,392	146,489	1,272,600
Investments and Other Assets:				
Investment securities	09, 10, 17	13,527	9,717	84,414
Long-term loans receivable	15	0	31,116	270,315
Long-term prepaid expenses		14,125	12,367	107,436
Deferred tax assets	14	42,501	72,968	633,898
Other investments	17	37,014	27,792	241,438
Less: Allowance for doubtful accounts		(140)	(30)	(260)
Total investments and other assets		107,029	153,932	1,337,260
Total Fixed Assets		689,466	657,827	5,714,768
Total Assets		1,204,229	1,179,360	10,245,504

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

	Note	Millions of yen 2020/12	Millions of yen 2021/12	Thousands of U.S. dollars (Note 1) 2021/12
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Notes and accounts payable		21,187	28,021	243,428
Electronically recorded obligations - operating		55,740	40,584	352,567
Short-term debt	17	56,491	—	—
Current portion of long-term debt	17	10,730	730	6,341
Current portion of corporate bonds scheduled for redemption		—	15,000	130,310
Lease obligations	17	8,344	9,664	83,954
Other payables	17	75,695	96,488	838,224
Accrued income taxes		7,374	45,600	396,142
Reserve for sales returns		6,227	3,379	29,354
Refund liabilities		10,518	13,631	118,417
Accrued bonuses for employees		15,024	29,557	256,771
Accrued bonuses for directors		165	169	1,468
Provision for liabilities and charges		545	293	2,545
Provision for loss on business withdrawal		725	95	825
Provision for structural reforms		—	8,524	74,050
Other current liabilities		84,208	92,291	801,763
Total current liabilities		352,977	384,031	3,336,208
Long-Term Liabilities:				
Bonds	17	65,000	50,000	434,367
Long-term debt	17	167,861	95,915	833,246
Lease obligations	17	15,872	19,673	170,906
Long-term payables	17	52,968	4,756	41,317
Liability for retirement benefits	12	27,189	18,587	161,471
Allowance for losses on guarantees		350	350	3,040
Deferred tax liabilities	14	2,944	1,040	9,034
Other long-term liabilities		12,472	37,573	326,409
Total long-term liabilities		344,658	227,896	1,979,810
Total Liabilities		697,635	611,927	5,316,019
NET ASSETS				
Shareholders' Equity:				
Common stock		64,506	64,506	560,385
Authorized: 1,200,000,000 shares as of December 31, 2020 and 2021				
Issued: 400,000,000 shares as of December 31, 2020 and 2021				
Capital surplus		70,741	70,741	614,551
Retained earnings		339,817	366,306	3,182,225
Less: treasury stock, at cost		(2,455)	(2,338)	(20,311)
Treasury stock: 534,198 shares as of December 31, 2020 and 506,767 shares as of December 31, 2021				
Total shareholders' equity		472,610	499,217	4,336,869
Accumulated Other Comprehensive Income:				
Valuation difference on available-for-sale securities		3,054	1,267	11,006
Foreign currency translation adjustments		5,257	37,881	329,085
Accumulated adjustments for retirement benefits	12	3,366	6,656	57,822
Total accumulated other comprehensive income		11,678	45,805	397,923
Stock Acquisition Rights		1,399	1,067	9,269
Non-Controlling Interests in Consolidated Subsidiaries		20,905	21,343	185,413
Total Net Assets		506,593	567,433	4,929,484
Total Liabilities and Net Assets		1,204,229	1,179,360	10,245,504

Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2020 and 2021

CONSOLIDATED STATEMENTS OF INCOME

	Note	2020/12 (Millions of yen)	2021/12 (Millions of yen)	2021/12 (Thousands of U.S. dollars (Note 1))
Net Sales		920,888	1,035,165	8,992,832
Cost of Sales		238,401	262,959	2,284,414
Gross profit		682,487	772,206	6,708,418
Selling, General and Administrative Expenses	04, 13	667,523	730,619	6,347,137
Operating profit		14,963	41,586	361,271
Non-operating Income				
Interest income		762	1,213	10,537
Dividend income		153	273	2,371
Equity in earnings of affiliates		269	—	—
Rental income		638	567	4,925
Subsidy income		2,776	3,362	29,206
Foreign exchange gain		—	2,359	20,493
Other		1,453	1,678	14,577
Total non-operating income		6,054	9,453	82,121
Non-operating Expenses				
Interest expense		2,226	1,881	16,340
Equity in losses of affiliates		—	1,090	9,469
Foreign exchange loss		3,088	—	—
Other interest on debt		1,332	529	4,595
Other		4,732	2,702	23,473
Total non-operating expenses		11,379	6,204	53,896
Ordinary Profit		9,638	44,835	389,497
Extraordinary Gains				
Gain on sales of fixed assets	04	9,716	561	4,873
Gain on transfer of business	04, 15	—	73,954	642,463
Gain on change in equity	04, 15	—	13,520	117,452
Gain on sales of investment securities	10	819	2,733	23,742
Grant income	04	6,018	1,965	17,070
Gain on reversal of share acquisition rights	13	—	331	2,875
Total extraordinary gains		16,554	93,066	808,496
Extraordinary Losses				
Loss on disposal of fixed assets	04	3,665	2,491	21,640
Impairment loss	04	944	26,463	229,893
Structural reform expenses	04	3,196	31,110	270,263
Loss on COVID-19	04	18,696	4,507	39,153
Loss on sales of investment securities	10	4	67	582
Loss on revaluation of investment securities	09	499	4	34
Loss on business withdrawal	04	1,226	—	—
Total extraordinary losses		28,234	64,644	561,584
Profit (Loss) before Income Taxes		(2,040)	73,256	636,399
Income Taxes – Current		6,199	61,923	537,946
Reversal of income taxes for prior years		—	(1,165)	(10,120)
Income Taxes – Deferred	14	880	(32,413)	(281,582)
Total Income Taxes		7,079	28,344	246,234
Net Profit (Loss)		(9,120)	44,912	390,165
Net profit Attributable to Non-Controlling Interests		2,540	2,472	21,475
Net Profit (Loss) Attributable to Owners of Parent		(11,660)	42,439	368,682

		2020/12 (Yen)	2021/12 (Yen)	2021/12 (U.S. dollars (Note 1))
Per Share				
Net profit—basic		(29.2)	106.2	0.92
—diluted		—	106.2	0.92
Cash dividend		40.0	50.0	0.43
Weighted Average Number of Shares (thousands)		399,458	399,480	

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2020 and 2021

	Note	2020/12 (Millions of yen)	2021/12 (Millions of yen)	2021/12 (Thousands of U.S. dollars (Note 1))
Net Profit (Loss)		(9,120)	44,912	390,165
Other Comprehensive Income				
Valuation difference on available-for-sale securities	05	40	(1,779)	(15,454)
Foreign currency translation adjustments	05	(5,562)	34,247	297,515
Adjustments for retirement benefits	05, 12	25,039	3,322	28,859
Share of other comprehensive income of associates accounted for under the equity method	05	34	519	4,508
Total other comprehensive income	05	19,551	36,310	315,437
Comprehensive Income		10,431	81,222	705,603
(Breakdown)				
Comprehensive income attributable to owners of parent		7,672	76,565	665,146
Comprehensive income attributable to non-controlling interests		2,759	4,656	40,448

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, 2020 and 2021

Thousands / Millions of yen

	Number of shares of common stock (Thousands)	Shareholders' equity: Common stock	Shareholders' equity: Capital surplus	Shareholders' equity: Retained earnings	Shareholders' equity: Treasury stock, at cost	Shareholders' equity: Total shareholders' equity	Accumulated other comprehensive income: Valuation difference on available-for-sale securities	Accumulated other comprehensive income: Foreign currency translation adjustments	Accumulated other comprehensive income: Accumulated adjustments for retirement benefits	Accumulated other comprehensive income: Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance as of January 1, 2020	400,000	64,506	70,741	371,435	(2,591)	504,092	3,106	10,839	(21,600)	(7,654)	1,263	20,156	517,857
Cash dividend from retained earnings				(19,972)		(19,972)							(19,972)
Net profit (loss) attributable to owners of parent				(11,660)		(11,660)							(11,660)
Acquisition of treasury stock					(12)	(12)							(12)
Disposal of treasury stock				(76)	148	71							71
Non-controlling interests, capital transactions, others				92		92							92
Net changes of items other than shareholders' equity							(52)	(5,581)	24,967	19,333	136	748	20,218
Balance as of December 31, 2020	400,000	64,506	70,741	339,817	(2,455)	472,610	3,054	5,257	3,366	11,678	1,399	20,905	506,593
Cash dividend from retained earnings				(15,978)		(15,978)							(15,978)
Net profit (loss) attributable to owners of parent				42,439		42,439							42,439
Acquisition of treasury stock					(23)	(23)							(23)
Disposal of treasury stock				(69)	140	71							71
Non-controlling interests, capital transactions, others				98		98							98
Net changes of items other than shareholders' equity							(1,787)	32,623	3,290	34,126	(332)	438	34,232
Balance as of December 31, 2021	400,000	64,506	70,741	366,306	(2,338)	499,217	1,267	37,881	6,656	45,805	1,067	21,343	567,433

Thousands / Thousands of U.S. dollars (Note 1)

	Number of shares of common stock (Thousands)	Shareholders' equity: Common stock	Shareholders' equity: Capital surplus	Shareholders' equity: Retained earnings	Shareholders' equity: Treasury stock, at cost	Shareholders' equity: Total shareholders' equity	Accumulated other comprehensive income: Valuation difference on available-for-sale securities	Accumulated other comprehensive income: Foreign currency translation adjustments	Accumulated other comprehensive income: Accumulated adjustments for retirement benefits	Accumulated other comprehensive income: Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests in consolidated subsidiaries	Total net assets
Balance as of December 31, 2020	400,000	560,385	614,551	2,952,106	(21,327)	4,105,724	26,531	45,669	29,241	101,450	12,153	181,608	4,400,946
Cash dividend from retained earnings				(138,806)		(138,806)							(138,806)
Net profit (loss) attributable to owners of parent				368,682		368,682							368,682
Acquisition of treasury stock					(199)	(199)							(199)
Disposal of treasury stock				(599)	1,216	616							616
Non-controlling interests, capital transactions, others				851		851							851
Net changes of items other than shareholders' equity							(15,524)	283,407	28,581	296,464	(2,884)	3,805	297,385
Balance as of December 31, 2021	400,000	560,385	614,551	3,182,225	(20,311)	4,336,869	11,006	329,085	57,822	397,923	9,269	185,413	4,929,484

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, 2020 and 2021

	Note		Millions of yen	Thousands of U.S. dollars (Note 1)
	Note	2020/12	**2021/12**	**2021/12**
Cash Flows from Operating Activities:				
Profit (Loss) before income taxes		(2,040)	**73,256**	**636,399**
Depreciation and amortization		60,384	**62,987**	**547,189**
Amortization of goodwill		7,064	**6,861**	**59,603**
Impairment loss		944	**26,463**	**229,893**
(Gain) Loss on disposal of fixed assets		(6,051)	**1,930**	**16,766**
(Gain) Loss on sales of investment securities		(814)	**(2,666)**	**(23,160)**
Grant income		(6,018)	**(1,965)**	**(17,070)**
Loss on COVID-19		18,696	**4,507**	**39,153**
Structural reform expenses		3,196	**31,110**	**270,263**
Gain on transfer of business		—	**(73,954)**	**(642,463)**
(Gain) Loss on change in equity		—	**(13,520)**	**(117,452)**
Gain on reversal of share acquisition rights		—	**(331)**	**(2,875)**
Increase (Decrease) in allowance for doubtful accounts		960	**86**	**747**
Increase (Decrease) in reserve for sales returns		896	**(1,967)**	**(17,088)**
Increase (Decrease) in refund liabilities		926	**2,067**	**17,956**
Increase (Decrease) in accrued bonuses for employees		(9,942)	**13,659**	**118,660**
Increase (Decrease) in accrued bonuses for directors		64	**4**	**34**
Increase (Decrease) in provision for liabilities and charges		183	**(267)**	**(2,319)**
Increase (Decrease) in provision for loss on business withdrawal		607	**(635)**	**(5,516)**
Increase (Decrease) in liability for retirement benefits		(5,139)	**(3,799)**	**(33,003)**
Interest and dividend income		(916)	**(1,486)**	**(12,909)**
Interest expense		2,226	**1,881**	**16,340**
Other interest on debt		1,332	**529**	**4,595**
Equity in (earnings) losses of affiliates		(269)	**1,090**	**9,469**
(Increase) Decrease in notes and accounts receivable		28,545	**(1,586)**	**(13,778)**
(Increase) Decrease in inventories		10,758	**10,853**	**94,283**
Increase (Decrease) in notes and accounts payable		(39,678)	**34,000**	**295,369**
Other		10,164	**2,174**	**18,886**
Subtotal		76,081	**171,284**	**1,488,002**
Interest and dividends received		1,107	**1,601**	**13,908**
Interest paid		(2,396)	**(1,929)**	**(16,757)**
Interest paid on other debt		(1,218)	**(493)**	**(4,282)**
Grant received		5,900	**2,083**	**18,095**
Loss paid on COVID-19		(17,156)	**(3,794)**	**(32,959)**
Structural reform expenses paid		(269)	**(21,974)**	**(190,895)**
Income tax refund (paid)		1,997	**(23,889)**	**(207,531)**
Net cash provided by (used in) operating activities		64,045	**122,887**	**1,067,561**
Cash Flows from Investing Activities:				
Transfers to time deposits		(12,778)	**(23,693)**	**(205,829)**
Proceeds from maturity of time deposits		11,221	**24,706**	**214,629**
Acquisition of investment securities		(11)	**(10)**	**(86)**
Proceeds from sales of investment securities		1,062	**3,529**	**30,657**
Proceeds from transfer of business	07	—	**149,936**	**1,302,545**
Acquisition of property, plant and equipment		(56,359)	**(72,525)**	**(630,049)**
Proceeds from sales of property, plant and equipment and intangible assets		10,441	**1,520**	**13,204**
Acquisition of intangible assets		(17,130)	**(19,927)**	**(173,112)**
Payments of long-term prepaid expenses		(6,425)	**(4,241)**	**(36,843)**
Proceeds from sale of investment property		—	**7,916**	**68,769**
Other		(105)	**(3,471)**	**(30,153)**
Net cash provided by (used in) investing activities		(70,084)	**63,739**	**553,722**
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term debt and commercial papers		(63,464)	**(57,885)**	**(502,866)**
Proceeds from long-term debt		110,000	**10,000**	**86,873**
Repayment of long-term debt		(730)	**(94,714)**	**(822,812)**
Proceeds from issuance of bonds		50,000	**—**	**—**
Redemption of bonds		(15,000)	**—**	**—**
Repayment of lease obligations		(9,443)	**(10,451)**	**(90,791)**
Repayment of long-term accounts payable		(1,981)	**(3,437)**	**(29,858)**
Acquisition of treasury stock		(12)	**(23)**	**(199)**
Disposal of treasury stock		71	**71**	**616**
Cash dividends paid		(19,967)	**(15,987)**	**(138,884)**
Cash dividends paid to non-controlling interests		(2,888)	**(3,677)**	**(31,943)**
Other		296	**(117)**	**(1,016)**
Net cash provided by (used in) financing activities		46,880	**(176,222)**	**(1,530,900)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents		(1,959)	**9,751**	**84,710**
Net Change in Cash and Cash Equivalents (Decrease)		38,881	**20,155**	**175,093**
Cash and Cash Equivalents at Beginning of Period		97,466	**136,347**	**1,184,493**
Cash and Cash Equivalents at End of Period	07	136,347	**156,503**	**1,359,595**

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

Notes to the Consolidated Financial Statements

Shiseido Company, Limited and Subsidiaries

01. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

(1) Accounting Principles and Presentation

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

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

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥115.11= US$1 prevailing on December 31, 2021 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. Fractions resulting from the translations are rounded down.

(2) Scope of Consolidation

Number of consolidated subsidiaries: 69

Apart from the change described below, principal subsidiaries are listed in the Group's most recent Annual Securities Report (submitted March 25, 2022). 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: 2 companies

Shiseido Interactive Beauty Company, Limited and Shiseido Creative Company, Limited have been included in the scope of consolidation effective from the fiscal year following their establishment.

Exclusion: 5 companies

Drunk Elephant Holdings, LLC, Drunk Elephant, LLC, and Drunk Elephant Blocker, Inc. were excluded from the scope of consolidation effective from the fiscal year following the absorption-type merger into Shiseido Americas Corporation.

Shanghai Huani Transparent Beauty Soap Co., Ltd. was excluded from the scope of consolidation effective from the fiscal year as its liquidation was completed.

Bare Escentuals K.K. was excluded from the scope of consolidation effective from the fiscal year following the transfer of shares held.

Unconsolidated subsidiaries

Major company name: Shiseido India Private Ltd.
(Reasons for excluding unconsolidated subsidiaries from the scope of 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: 15

Major company names: K.K. Asian Personal Care Holding, Pierre Fabre Japon Co., Ltd.

Addition: 12 companies

K.K. Asian Personal Care Holding and its 11 subsidiaries have been included in the scope of equity method application effective from the fiscal year as the Company acquired shares of the said company.

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

(2) Property, Plant and Equipment (Excluding Leased Assets and Right-of-use Assets)

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

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

(3) Intangible Assets (Excluding Leased Assets)
Intangible assets are mainly amortized using the straight-line method over the following estimated useful lives:

Software:	mainly 5-10 years
Consumer relationships:	mainly 5 years
Trademarks rights:	mainly 9–10 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 depreciated using the straight-line method.

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

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

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

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

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

(9) Net Profit and Cash Dividend per Share
Net income 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 income 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 to 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 consolidated subsidiaries provide a reserve for sales returns for future losses considering the past return ratios and market 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 provides accrued bonuses for members of the Board of Directors who concurrently serve as 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 make provisions, the amounts of which are based on estimated losses to be incurred considering the likelihood of such losses in the future.

(16) Provision 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
To provide for losses related to the discontinuation of some brands and withdrawal from businesses, the amount of loss expected to be incurred in the future is recorded.

(18) Provision for Structural Reforms
To provide for losses related to structural reforms, the amount of losses expected to be incurred in the future is recorded.

(19) Liability for Retirement Benefits
① Method for Attributing Estimated Retirement Benefits to Individual Periods of Service
In calculating the benefit obligation, the benefit formula basis is adopted for the purpose of attributing estimated retirement benefits to the period up to the end of the current fiscal year.

② Calculation of Net Actuarial Gain or Loss and Prior Service Cost
Unrecognized prior 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.

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

(20) Foreign Currency Translation
Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the end of the consolidated fiscal year and resulting exchange gains and losses are included in net profit or loss for the fiscal year.

(21) 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.

(22) Foreign Currency Denominated Financial Statements
The financial statements of overseas consolidated subsidiaries and affiliates are translated into yen at the exchange rate prevailing on the respective balance sheet dates of those subsidiaries for assets and liabilities. All income and expenses are translated at the average rate of exchange during the fiscal year and resulting translation adjustments are included in net assets as foreign currency translation adjustments and non-controlling interests.

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

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

(25) Application of Consolidated Taxation System
The Company and certain domestic consolidated subsidiaries applied a consolidated taxation system with the Company as the taxable parent company.

(26) 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.

(27) Significant Accounting Estimates

Accounting estimates calculate the reasonable amount based on available information at the time that the consolidated financial statements are prepared. Among the amounts recorded based on accounting estimates in the consolidated financial statements for the fiscal year 2021, items which may have risk of significantly affecting the consolidated financial statements for the following fiscal year, are as follows:

1. Valuation of Goodwill related to Shiseido Americas Corporation ("SAC") reporting unit.

(1) The amount recorded in Consolidated Financial Statements for the fiscal year 2021 and ratio of total assets

Goodwill related to SAC reporting unit is ¥20,941 million ($181,921 thousand). A risk of significant estimates for this valuation of goodwill has been identified.

Account	Segments	Amounts (Millions of yen)	Thousands of U.S. dollars (Note 1)	Ratio of total assets
Goodwill	Japan Business	1,544	13,413	0.1%
	China Business	5,693	49,457	0.5%
	Asia Pacific Business	3,631	31,543	0.3%
	Americas Business	20,941	181,921	1.8%
	EMEA Business	5,124	44,513	0.4%
	Travel Retail Business	5,647	49,057	0.5%
	Other	1,575	13,682	0.1%
		44,159	383,624	3.7%

(2) Other information that contributes to the understanding of users of the consolidated financial statements regarding the accounting estimates

Goodwill related to SAC reporting unit is recorded in SAC which is a subsidiary applying generally accepted accounting principles in the United States ("U.S. GAAP"). The goodwill is amortized on a straight-line basis according to the accounting alternative for private company under U.S. GAAP. U.S. GAAP requires that the amortizable goodwill be allocated to reporting units and be subject to impairment test when indication of impairment is identified. Valuation by outside specialists is utilized for goodwill fair value estimation and impairment test. Estimates of the fair value is calculated by the discounted cash flow method, which uses many estimates and assumptions such as discount rates, long-term market growth rate, and future cash flow which considers future projections, past performance, current and expected economic conditions, and market data. These estimates and assumptions may significantly affect the result of impartment test and impairment loss.

In the fiscal year 2021, indication of impairment was identified due to transfer of the three prestige makeup brands, and impairment test was performed, but since the fair value of SAC reporting unit exceeded its carrying value, the impairment loss of goodwill related to SAC reporting unit had not been recognized. Future cash flow used to calculate the fair value is estimated based on the future business plan in SAC reporting unit and long-term market growth rate of 3%, and incorporates the long-term market growth rate of the cosmetics market in the United States and an improvement in each element such as sales and profit margin through sales expansion plan as primary assumptions. In addition, discount rate of 11% which considers the company-specific risk premium and risk-free rate in the United States is used. Management determined that the estimates for the fair value on this test is reasonable, but it is possible that the fair value declines and impairment loss occurs due to unexpectable changes in the future business assumptions. Additionally, regarding the goodwill related to the three transferred brands, the book value of the assets group related to the business is reduced to the recoverable amount, and the reduction is recorded as an extraordinary loss. For details, please refer to "Notes to the Consolidated Financial Statements 04. Consolidated Statements of Income."

Regarding impact of COVID-19 pandemic, although recovery is delayed in some categories, the Company has made certain assumptions that it would recover in earnest in 2023. The above assumption used for the estimates includes many uncertainties, and if the impact to the economic environment from COVID-19 changes, impairment loss may occur, which may affect the group's financial position and operating results.

(28) Changes in Accounting Policies

Not applicable.

(29) Additional Information

Conclusion of Agreement related to manufacturing and distribution

The Company and its subsidiary Beauté Prestige International S.A.S entered into agreement to manufacture and distribute "DOLCE&GABBANA" related products during 2022 with Dolce&Gabbana S.r.l. and Dolce&Gabbana Trademark S.r.l. on December 15, 2021.

(30) Changes in Presentaion

(Consolidated balance sheet)

"Long-term loans receivable," which was included in "other investments" under "investments and other assets" for the previous fiscal year, has been presented separately from the fiscal year ended December 31, 2021, due to an increase 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, ¥37,015 million that was presented as "Other investments" under "Investments and Other Assets" on the consolidated balance sheet for the previous fiscal year has been reclassified as ¥0 million in "Long-term loans receivable" and ¥37,014 million in "Other investments."

(Consolidated Statements of Cash Flows)

"Structural reform expenses" and "Structural reform expenses paid," which were included in "Other" under "Cash flows from operating activities" for the previous fiscal year, are presented separately from the fiscal year under review due to an increase 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, ¥13,091 million that was presented as "Other" under "Cash flows from operating activities" on the consolidated statement of cash flows for the previous fiscal year has been reclassified as ¥3,196 million in "Structural reform expenses," ¥269 million in "Structural reform expenses paid" and ¥10,164 million in "Other."

"Payments for lease and guarantee deposits" under "Cash flows from investing activities," which was presented separately for the previous fiscal year, is included in "Other" from the fiscal year under review 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, ¥758 million that was presented as "Payments for lease and guarantee deposits" under "Cash flows from investing activities" on the consolidated statement of cash flows for the previous fiscal year has been reclassified as "Other."

"Proceeds from share issuance to non-controlling interests" under "Cash flows from financing activities," which was presented separately for the previous fiscal year, is included in "Other" from the fiscal year under review 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, ¥349 million that was presented as "Proceeds from share issuance to non-controlling interests" under "Cash flows from financing activities" on the consolidated statement of cash flows for the previous fiscal year has been re-classified as "Other."

(Application of the "Accounting Standard for Disclosure of Accounting Estimates")

The Group has applied the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the fiscal year 2021, and provided notes to accounting estimates in the consolidated financial statements.

However, pursuant to the transitional treatment prescribed in the proviso to Paragraph 11 of the said accounting standard, the notes do not include information related to the previous fiscal year.

(31) 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" (ASBJ Statement No. 29, March 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 26, 2021)

① Overview

This new standard is the comprehensive accounting standard for revenue recognition. The principles in the standard will be applied using a five step model.

Step1: Identify the contract(s) with a customer
Step2: Identify the separate performance obligations (POs) in the contract
Step3: Determine the transaction price
Step4: Allocate the transaction price to the separate POs
Step5: Recognise revenue when the entity satisfies a PO

② Effective date and impact of the adoption.

As the Company will voluntarily adopt International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ending December 31, 2022, there are no plans to apply the accounting standards and its impact on the consolidated financial statements has not been evaluated.

(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, June 17, 2021)
- "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 and impact of the adoption.

As the Company will voluntarily adopt International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ending December 31, 2022, there are no plans to apply the accounting standards and its impact on the consolidated financial statements has not been evaluated.

(3) Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System

- "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (Practical Issues Task Force (PITF) No. 42, August 12, 2021)

① Overview

This practical solution determines the accounting and disclosure relating to national and local income taxes, and tax effect accounting under the group tax sharing system following transition into the group tax sharing system.

② Effective date and impact of the adoption.

As the Company will voluntarily adopt International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ending December 31, 2022, there are no plans to apply the accounting standards and its impact on the consolidated financial statements has not been evaluated.

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

03. INVENTORIES

Inventories held by the Group as of December 31, 2020 and December 31, 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	**2021/12**	**2021/12**
Merchandise and finished products	113,810	**84,120**	**730,779**
Work in process	6,490	**7,107**	**61,740**
Raw materials and supplies	49,730	**52,530**	**456,346**
	170,031	**143,758**	**1,248,874**

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 ¥26,992 million and ¥25,619 million ($222,561 thousand) for the year 2020 and 2021, respectively.

There are no research and development expenses included in total manufacturing expenses for the fiscal year 2020 and 2021.

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

For the fiscal year 2020

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

For the fiscal year 2021

Mainly due to the sale of buildings resulting from the liquidation of Shanghai Huani Transparent Beauty Soap Co., Ltd.

(3) Gain on transfer of business

For the fiscal year 2021

These are related to the transfer of the Personal Care business and the three prestige makeup brands. For details, please refer to "Notes to the Consolidated Financial Statements 15. BUSINESS COMBINATIONS"

(4) Gain on change in equity

For the fiscal year 2021

These are related to the transfer of the Personal Care business. For details, please refer to "Notes to the Consolidated Financial Statements 15. BUSINESS COMBINATIONS"

(5) 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.

For the fiscal year 2021

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.

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

For the fiscal year 2020

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

For the fiscal year 2021

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

(7) Impairment Loss

For the fiscal year 2020

The Group recognizes an impairment loss on the following asset groups.

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 minimum independent cash-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
Buildings and structures	575
Leased assets	199
Others	168
Total	944

For the fiscal year 2021

The Group recognizes an impairment loss on the following asset groups.

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

Use	Location	Type	Millions of yen	Thousands of U.S. dollars
Assets for business use	Paris, France (Note 1)	Trademark rights	**15,582**	**135,366**
	Madrid, Spain (Note 1)	Other	**18**	**156**
	Subtotal		**15,600**	**135,522**
	Delaware, United States (Note 2)	Goodwill	**7,427**	**64,520**
	Subtotal		**7,427**	**64,520**
	Kakegawa-shi, Shizuoka Pref., Japan (Note 3)	Buildings and structures	**1,829**	**15,889**
		Machinery and equipment	**1,445**	**12,553**
		Other	**51**	**443**
	Subtotal		**3,326**	**28,894**
	Tokyo, Japan (Note 4)	Buildings and structures	**92**	**799**
		Other	**16**	**138**
	Subtotal		**109**	**946**
Total			**26,463**	**229,893**

1. The Company's subsidiary Beauté Prestige International S.A.S. and Dolce&Gabbana S.r.l. have agreed to terminate an exclusive global license agreement which had been recorded as business-use assets. Subsequently, the profitability of the trademark rights, etc. has declined and the Company no longer expects to recover its investment. The book value after the deduction of related liability is therefore reduced to the recoverable amount, and the reduction is recorded as an extraordinary loss. The recoverable amount is determined by value in use after the deduction of related liability and is estimated at zero.
2. With the conclusion of agreements to transfer the related assets for the three prestige makeup brands, the carrying amount of the asset group related to the applicable business has been reduced to the recoverable amount, and the amount of the reduction has been recorded as an extraordinary loss. The recoverable amount is determined by its net realizable value and is calculated based on the transfer price under the agreement.
3. Following the decision to discontinue production of hyaluronic acid, the book value of factory asset groups related to the hyaluronic acid business was reduced to the recoverable amount, and the amount of the reduction is recorded as an extraordinary loss. The recoverable amount is determined by value in use and is estimated at zero.
4. In the Japan subsidiary, the book value of the assets group for the stores whose profit and loss arising from operating activities is continuously negative, is reduced to the recoverable amount, and the reduction is recorded as an extraordinary loss. The recoverable amount is determined by value in use which is calculated based on 6.2% as discount rate.

(8) Structural Reform Expenses

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.

For the fiscal year 2021

Mainly expenses related to termination of an exclusive global license agreement with Dolce&Gabbana S.r.l. and related retirement premiums, etc. of ¥20,930 million ($181,926 thousand); retirement premiums, etc. of ¥2,279 million ($19,798 thousand) related to organizational reform in Europe; advisory fees, etc. of ¥1,688 million ($14,664 thousand) related to transfer of the three prestige makeup brands and partial office and store closing expenses, etc. of ¥2,926 million; retirement premiums, etc. of ¥1,463 million ($12,709 thousand) related to brands transfer of *Za* and *PURE&MILD* ; and transfer incentive, etc. of ¥1,324 million ($11,502 thousand) related to transfer of the Personal Care business.

(9) Loss on COVID-19

For the fiscal year 2020

Loss mainly from fixed costs etc. 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
	2020/12
Salaries and allowances for employees	11,781
Fixed costs for factories and stores	5,016
Cancellation costs, penalties, and others	1,898
Total	18,696

For the fiscal year 2021

Loss mainly from fixed costs etc. due to the suspension of in-store employee dispatchment and the low operation of factories, 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
	2021/12	**2021/12**
Salaries and allowances for employees	**3,756**	**32,629**
Fixed costs for factories and stores	**750**	**6,515**
Total	**4,507**	**39,153**

(10) Loss on Business Withdrawal

For the fiscal year 2020

Expenses for discontinuation of some brands.

05. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income including reclassification adjustments and tax (expense) or benefit for the fiscal years 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	**2021/12**	**2021/12**
Valuation Difference on Available-for-Sale Securities:			
Increase (decrease) during the fiscal year	618	**(75)**	**(651)**
Reclassification adjustments	(643)	**(2,510)**	**(21,805)**
Amount before tax	(25)	**(2,586)**	**(22,465)**
Tax (expense) or benefit	65	**806**	**7,001**
Subtotal	40	**(1,779)**	**(15,454)**
Foreign currency translation adjustments:			
Increase (decrease) during the fiscal year	(5,562)	**34,263**	**297,654**
Reclassification adjustments	—	**(16)**	**(138)**
Amount before tax	(5,562)	**34,247**	**297,515**
Tax (expense) or benefit	—	**—**	**—**
Subtotal	(5,562)	**34,247**	**297,515**
Adjustments for retirement benefits:			
Increase (decrease) during the fiscal year	33,034	**2,953**	**25,653**
Reclassification adjustments	4,641	**2,032**	**17,652**
Amount before tax	37,676	**4,986**	**43,315**
Tax (expense) or benefit	(12,637)	**(1,663)**	**(14,447)**
Subtotal	25,039	**3,322**	**28,859**
Share of other comprehensive income of associates accounted for under the equity method:			
Increase (decrease) during the fiscal year	32	**518**	**4,500**
Reclassification adjustments	2	**1**	**8**
Subtotal	34	**519**	**4,508**
Total other comprehensive income (loss)	19,551	**36,310**	**315,437**

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 in the accompanying consolidated balance sheets. Under the Act, both legal earnings reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the general meeting of shareholders.

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

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act. Under the Act, companies can pay a dividend at any time during the fiscal year in addition to the year-end dividend upon resolution at the general meeting of shareholders. For companies that meet certain criteria such as: (1) being a company with accounting auditors, (2) the term of service of the directors is prescribed as no more than one year, (3) being either a company with a board of company auditors, a company with an audit and supervisory committee, or a company with a nominating committee, and (4) meeting the requirements of the relevant Ministry of Justice Order stipulating that the financial statements for the most recent fiscal year shall fairly present the financial position and results of operations of a stock company in accordance with the applicable laws and regulations and the articles of incorporation (This includes the expression of an unqualified opinion issued by an accounting auditor), 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, 2021 include amounts representing year-end cash dividend of ¥11,984 million ($104,109 thousand), ¥30.0 ($0.26) per share, which was approved at the general meeting of shareholders held on March 25, 2022.

07. CASH FLOW INFORMATION

(1) Reconciliation of Cash and Time Deposits

The reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of December 31, 2020 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Cash and time deposits	130,013	172,056	1,494,709
Short-term investment securities	21,000	—	—
Total	151,013	172,056	1,494,709
Time deposits with maturities exceeding 3 months	(14,665)	(15,553)	(135,114)
Cash and cash equivalents	136,347	156,503	1,359,595

(2) Main Breakdown of Assets and Liabilities Relating to Business Transfer for a Consideration Comprising Cash and Cash Equivalents

For the fiscal year 2021

The breakdown of assets and liabilities, business transfer price, and proceeds from transfer of business accompanying the transfer of the Personal Care business are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	22,273	193,493
Fixed assets	484	4,204
Current liabilities	(11,420)	(99,209)
Long-term liabilities	(366)	(3,179)
Gain on transfer of business	73,058	634,679
Gain on change in equity	13,520	117,452
Unrealized intercompany profit	45,604	396,177
Business transfer price	143,153	1,243,619
Investment in kind	(20,800)	(180,696)
Accounts payable for transfer of business	1,382	12,005
Advances received for transfer of business	1,352	11,745
Accounts receivable for transfer of business	(999)	(8,678)
Foreign currency translation difference	1,609	13,977
Proceeds from transfer of business	125,698	1,091,981

The breakdown of assets and liabilities, business transfer price, and proceeds from transfer of business accompanying the transfers of the three prestige makeup brand businesses are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current assets	11,822	102,701
Fixed assets	52,277	454,148
Current liabilities	(856)	(7,436)
Long-term liabilities	(16)	(138)
Gain on transfer of business	895	7,775
Impairment loss	(7,427)	(64,520)
Working capital contributions resulting from transfer of business	13,582	117,991
Valuation difference on long-term loans receivable	9,382	81,504
Accounts receivable for transfer of business	1,670	14,507
Expenses related to transfer of business	(753)	(6,541)
Business transfer price	80,577	700,000
Long-term loans receivable	(30,905)	(268,482)
Valuation difference on long-term loans receivable	(9,382)	(81,504)
Working capital contributions resulting from transfer of business	(13,582)	(117,991)
Foreign currency translation difference	(1,194)	(10,372)
Cash and cash equivalents	(1,272)	(11,050)
Proceeds from transfer of business	24,238	210,563

(3) Significant Non-Cash Transactions

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Lease assets	2,923	3,370	29,276
Right of use assets	6,816	11,147	96,837
Lease obligations	9,740	14,517	126,114

Related assets and liabilities reduced upon termination of the global license agreement with Dolce&Gabbana S.r.l. are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Trademark rights	—	48,255	419,207
Long-term payables	—	48,255	419,207

Note: Long-term payables include other payables.

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, 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
① As lessee:			
The scheduled maturities of future lease rental payments on such non-cancelable lease contracts are as follows:			
Due within 1 year	6,522	7,677	66,692
Due after 1 year	51,038	46,732	405,976
	57,561	54,409	472,669
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	322	2,797
Due after 1 year	4,911	5,410	46,998
	5,188	5,732	49,795

(3) Leases Applicating IFRS

Mainly rental offices, logistics centers and vehicles.

09. FINANCIAL INSTRUMENTS

(1) Financial Instruments

① Policy for financial instruments

The Shiseido Group limits fund management to short-term deposits, investment securities and other methods. As a matter of policy, the Shiseido Group procures funds using bank loans, commercial papers, bonds and other methods. The Shiseido Group uses 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. The Shiseido Group limits 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, which are operating receivables, are exposed to consumer credit risk. The Shiseido Group mitigates this risk by managing settlement date and amount due for each counterparty.

Investment securities, primarily the equity securities of corporations with which the Shiseido Group does business, are exposed to the risk of fluctuations in market price. The Shiseido Group manages this risk by periodically examining market prices and the financial condition of the issuing entities. Long-term loans receivable are mostly seller notes acquired in connection with the transfer of three prestige makeup brands, which are exposed to credit risk of the transferee. The Shiseido Group manages this risk by periodically monitoring the fulfillment status of contractual conditions and other factors to assess the recoverability of receivables.

Notes payable, electronically recorded obligations-operating, accounts payable and other payables, which are operating payables, are due within one year.

Long-term debt, bonds and lease obligations, which are interest-bearing debt, are primarily used to fund capital expenditures, the acquisition of Drunk Elephant Holdings, LLC 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. The Shiseido Group hedges this risk for specific long-term debt by using derivatives (interest rate swap contracts and interest rate and currency swap contracts) on an individual loan contract basis to avoid the risk of interest rate fluctuations and fix interest payments.

Regarding derivatives, the Shiseido Group uses 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, interest rate swap contracts to hedge the risk of fluctuations in interest rates 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.

The Shiseido Group executes and manages derivatives in accordance with the internal rules and regulations that prescribe transaction authority, and reduces credit risk by limiting counterparties to highly creditworthy financial institutions.

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

(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

	2020/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	130,013	130,013	—
② Notes and accounts receivable (before deducting allowance for doubtful accounts)	144,728	144,728	—
③ Short-term investment securities and investment securities Available-for-sale securities	29,739	29,739	—
④ Notes payable, electronically recorded obligations-operating, accounts payable and other payables	(152,622)	(152,622)	—
⑤ Short-term debt	(56,491)	(56,491)	—
⑥ Bonds	(65,000)	(64,980)	20
⑦ Long-term debt	(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)	—

Millions of yen

	2021/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	172,056	172,056	—
② Notes and accounts receivable (before deducting allowance for doubtful accounts)	151,115	151,115	—
③ Short-term investment securities and investment securities Available-for-sale securities	5,570	5,570	—
④ Long-term loans receivable	31,116	31,116	—
⑤ Notes payable, electronically recorded obligations-operating, accounts payable and other payables	(165,094)	(165,094)	—
⑥ Short-term debt	—	—	—
⑦ Bonds	(65,000)	(64,967)	33
⑧ Long-term debt	(96,645)	(96,559)	45
⑨ Lease obligations	(29,338)	(29,185)	153
⑩ Derivative instruments			
i. Hedge accounting not applied	(501)	(501)	—
ii. Hedge accounting applied	—	(201)	(201)
⑪ Long-term payables	(4,756)	(4,756)	—

Thousands of U.S. dollars (Note 1)

	2021/12		
	Carrying value (*)	Fair value (*)	Variance
① Cash and time deposits	$1,494,709	$1,494,709	—
② Notes and accounts receivable (before deducting allowance for doubtful accounts)	1,312,787	1,312,787	—
③ Short-term investments securities and investments securities Available-for-sale securities	48,388	48,388	—
④ Long-term loans receivable	270,315	270,315	—
⑤ Notes payable, electronically recorded obligations-operating, accounts payable and other payables	(1,434,228)	(1,434,228)	—
⑥ Short-term debt	—	—	—
⑦ Bonds	(564,677)	(564,390)	286
⑧ Long-term debt	(839,588)	(838,841)	390
⑨ Lease obligations	(254,869)	(253,540)	1,329
⑩ Derivative instruments			
i. Hedge accounting not applied	(4,352)	(4,352)	—
ii. Hedge accounting applied	—	(1,746)	(1,746)
⑪ Long-term payables	(41,317)	(41,317)	—

* 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 investment 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 securities and investments securities
Short-term investments 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 Long-term loans receivable
The fair value of long-term loans receivable is calculated by applying a certain interest rate to the discounted gross cash inflows.

⑤ Notes payable, electronically recorded obligations-operating, accounts payable and other payables; ⑥ Short-term debt
Carrying value is used for the fair value of these short-term items because these amounts are approximately the same.

⑦ Bonds
The fair value of bonds issued by the Company is calculated based on market prices.

⑧ Long-term debt
Floating-rate long-term debt reflects market interest rates. In addition, fair value approximates carrying value because the Company's credit-worthiness does not vary significantly after assuming long-term debt. Therefore, carrying value is used for fair value of floating-rate long-term debt. 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.

⑨ 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.

⑩ Derivative instruments
Please refer to Note 11. DERIVATIVE FINANCIAL INSTRUMENTS.

⑪ 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 additional loans are taken out from banks, etc. for future cash flows.

*2: Fair values that are difficult to determine as of December 31, 2020 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
		Carrying value	
Shares of subsidiaries and affiliates	2,243	2,431	21,118
Unlisted equity securities	2,441	1,483	12,883
Investment in limited partnership and others	103	231	2,006

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 investment securities and investment securities, because their fair values are not readily determinable.

The Group incurred an impairment loss of ¥499 million on available-for-sale securities without market value for the previous consolidated fiscal year.

The Group has incurred an impairment loss of ¥4 million ($34 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

	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 investment securities and investment 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	—	—

Millions of yen

	2021/12			
	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	172,056	—	—	—
Notes and accounts receivable	151,115	—	—	—
Long-term loans receivable	—	—	40,288	—
Short-term investment securities and investment 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)	—	231	—	—
Other	—	—	—	—
	323,171	231	40,288	—

Thousands of U.S. dollars (Note 1)

	2021/12			
	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	1,494,709	—	—	—
Notes and accounts receivable	1,312,787	—	—	—
Long-term loans receivable	—	—	349,995	—
Short-term investment securities and investment 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)	—	2,006	—	—
Other	—	—	—	—
	2,807,497	2,006	349,995	—

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, 2020 and 2021 are as follows:

Available-for-sale securities:

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)

Millions of yen

	2021/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	1,977	619	1,399	(41)
Other	3,593	2,892	719	(18)
	5,570	3,511	2,118	(60)

Thousands of U.S. dollars (Note 1)

	2021/12			
	Carrying amount	Acquisition cost	Gross unrealized gains	Gross unrealized losses
Equity securities	17,174	5,377	12,153	(356)
Other	31,213	25,123	6,246	(156)
	48,388	30,501	18,399	(521)

* There is no loss on revaluation of investment securities stated at fair value for the fiscal years 2020 and 2021.

Proceeds from sales, and gross realized gains and losses from sales of available-for-sale securities in the fiscal years 2020 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Proceeds from sales	1,062	3,529	30,657
Gross realized gains	819	2,733	23,742
Gross realized losses	4	67	582

11. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

The contract amount, estimated fair value and unrealized gain (loss) of the derivative instruments as of December 31, 2021 are as follows:

① Derivatives that do not meet the criteria for hedge accounting

Millions of yen

		2021/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	23,284	—	(403)	(403)
	SG$	2,378	—	(87)	(87)
Foreign exchange contracts: Buying	EUR	6,529	—	(10)	(10)
		32,192	—	(501)	(501)

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

Thousands of U.S. dollars (Note 1)

		2021/12			
		Contract amount			
		Total	Settled over 1 year	Estimated fair value	Unrealized gain (loss)
Foreign exchange contracts: Selling	US$	202,276	—	(3,500)	(3,500)
	SG$	20,658	—	(755)	(755)
Foreign exchange contracts: buying	US$	56,719	—	(86)	(86)
		279,662	—	(4,352)	(4,352)

② Derivatives that meet the criteria for hedge accounting

Millions of yen

	2021/12			
		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	16,645	15,915	(201)

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

Thousands of U.S. dollars (Note 1)

	2021/12			
		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	144,600	138,259	(1,746)

12. RETIREMENT BENEFITS

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

The Company and its domestic consolidated subsidiaries have a corporate pension plan for their defined benefit plan and a defined contribution pension plan or prepaid retirement allowance for their defined contribution plans. 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)
	2020/12	2021/12	2021/12
Balance at the beginning of the fiscal year	284,062	256,201	2,225,705
Service cost	8,249	7,239	62,887
Interest cost	1,598	1,682	14,612
Actuarial gain and loss	(1,039)	2,177	18,912
Benefits paid	(11,102)	(10,573)	(91,851)
Past service costs	(25,801)	—	—
Decrease resulting from transfer of business	—	(2,136)	(18,556)
Other	236	277	2,406
Balance at the end of the fiscal year	256,201	254,870	2,214,142

Note:Past service costs for the previous consolidated fiscal year amounted to the total from the past service cost (reduction of retirement benefit obligation) of ¥25,828 million resulting from the revision of the retirement benefit plan for the Company and some of its subsidiaries in Japan, and the past service cost (increase of retirement benefit obligation) incurred at overseas subsidiaries of ¥27 million.

② Change in plan assets

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Balance at the beginning of the fiscal year	214,257	229,012	1,989,505
Expected return on plan assets	6,373	6,774	58,848
Actuarial gain and loss	6,193	5,131	44,574
Contributions paid by the employer	10,289	6,966	60,516
Benefits paid	(8,164)	(10,032)	(87,151)
Decrease resulting from transfer of business	—	(1,773)	(15,402)
Other	63	204	1,772
Balance at the end of the fiscal year	229,012	236,283	2,052,671

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Funded retirement benefit obligations	254,317	252,903	2,197,054
Plan assets	(229,012)	(236,283)	(2,052,671)
	25,305	16,619	144,374
Unfunded retirement benefit obligations	1,884	1,967	17,088
Total net liability for retirement benefits	27,189	18,587	161,471
Liability for retirement benefits	27,189	18,587	161,471
Total net liability for retirement benefits	27,189	18,587	161,471

④ Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Service cost	8,249	7,239	62,887
Interest cost	1,598	1,682	14,612
Expected return on plan assets	(6,373)	(6,774)	(58,848)
Net actuarial gain and loss amortization	5,259	4,682	40,674
Past service costs amortization	(618)	(2,570)	(22,326)
Other	1,386	1,040	9,034
Total retirement benefit costs	9,502	5,299	46,034

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 ¥1,386 million and ¥1,040 million ($9,034 thousand), respectively.

⑤ Adjustments for retirement benefits before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Past service costs	(25,183)	2,793	24,263
Net actuarial gain and loss amortization	(12,493)	(7,779)	(67,578)
Total	(37,676)	(4,986)	(43,315)

⑥ Accumulated adjustments for retirement benefits before tax

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Past service costs that are yet to be recognized	(25,183)	(22,389)	(194,500)
Actuarial gain and loss that are yet to be recognized	19,947	12,292	106,784
Total balance at the end of the year	(5,236)	(10,097)	(87,716)

⑦ Plan assets

I Plan assets comprise:

	2020/12	2021/12
Bonds	55.1%	48.9%
Equity securities	19.9%	17.7%
Alternative	18.3%	25.7%
Other	6.7%	7.7%
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:

	2020/12	2021/12
Discount rate	Primarily 0.7%	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 ¥2,418 million and ¥546 million, respectively, for the fiscal year 2020.

Contributions to defined contribution plans and retirement benefit prepayment plans are ¥2,977 million ($25,862 thousand) and ¥785 million ($6,819 thousand), respectively, for the fiscal year 2021.

13. STOCK OPTION PLAN

(1) Expense Recognized for Stock Options

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	**2021/12**	**2021/12**
Selling, General and Administrative Expenses	205	**69**	**599**
Gain on reversal of share acquisition rights	—	**331**	**2,875**

(2) Summary of Stock Option Granted

Summary of stock options granted as of December 31, 2021 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	4,300 shares	11,600 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	13,500 shares	21,800 shares	35,300 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	15,900 shares	14,700 shares	30,600 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	24,200 shares	36,600 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	18,200 shares	37,700 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	35,900 shares	52,800 shares	88,700 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	28,800 shares	62,500 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 27, 2019	Stock options granted on March 27, 2019	Total
Number of shares for options granted	27,200 shares	31,900 shares	59,100 shares
Number of shares for options outstanding	8,000 shares	8,500 shares	16,500 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 2020 and 2021 is as follows:

	2020/12	**2021/12**
Statutory tax rate	—	**31.0%**
Increase (decrease) due to:		
Permanently non-deductible expenses	—	**0.3%**
Permanently non-taxable incomes	—	**1.6%**
Unrealized intercompany profit	—	**(11.1)%**
Tax credits	—	**(3.8)%**
Differences of statutory tax rates for domestic consolidated subsidiaries	—	**0.3%**
Differences of statutory tax rates for overseas consolidated subsidiaries	—	**(10.2)%**
Change in valuation allowance	—	**27.2%**
Impact of transfer of business	—	**3.8%**
Others	—	**(0.4)%**
Effective tax rate	—	**38.7%**

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

Deferred tax assets and liabilities (both current and non-current) as of December 31, 2020 and December 31, 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	**2021/12**	**2021/12**
Deferred tax assets:			
Liability for retirement benefits	7,996	**5,301**	**46,051**
Unrealized intercompany profit in inventory and property, plant and equipment	2,855	**15,097**	**131,152**
Unrealized intercompany profit resulting from transfer of business	—	**12,599**	**109,451**
Inventories	19,293	**18,854**	**163,791**
Loss on revaluation of financial instruments	402	**281**	**2,441**
Accrued expenses	7,524	**8,302**	**72,122**
Accrued bonuses for employees	3,693	**7,657**	**66,518**
Tax losses carried forward*2	17,557	**27,237**	**236,617**
Depreciation	2,785	**3,982**	**34,592**
Reserve for sales returns	1,627	**571**	**4,960**
Accrued enterprise tax	123	**3,218**	**27,955**
Other	12,542	**17,638**	**153,227**
Total gross deferred tax assets	76,403	**120,741**	**1,048,918**
Valuation allowance for tax losses carried forward	(14,947)	**(24,166)**	**(209,938)**
Valuation allowance for taxable temporary difference	(6,291)	**(17,000)**	**(147,684)**
Subtotal valuation allowance*1	(21,238)	**(41,167)**	**(357,631)**
Total deferred tax assets	55,165	**79,573**	**691,277**
Deferred tax liabilities:			
Goodwill and other intangible assets	(7,599)	**—**	**—**
Valuation Difference on Available-for-Sale Securities	(1,396)	**(618)**	**(5,368)**
Undistributed earnings of overseas consolidated subsidiaries	(2,925)	**(3,215)**	**(27,929)**
Special tax-purpose reserve	(2,649)	**(2,660)**	**(23,108)**
Other	(1,036)	**(1,151)**	**(9,999)**
Total deferred tax liabilities	(15,608)	**(7,646)**	**(66,423)**
Net deferred tax assets	39,557	**71,927**	**624,854**

*1 Valuation allowance increased ¥19,929 million ($173,130 thousand). The main reasons were that the Company's subsidiaries in Europe additionally recognized ¥9,252 million ($80,375 thousand) as valuation allowance for tax losses carried forward and that taxable temporary difference at subsidiaries in the United States decreased by ¥7,690 million ($66,805 thousand).
*2 Amounts by each carry-over year for tax losses carried forward and valuation allowance.

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

(a) Tax losses carried forward are multiplied by statutory tax rate.
(b) Regarding ¥17,557 million tax in losses carried forward, the Group recognized ¥2,610 million as deferred tax assets. These consist mainly of the Company's tax losses carried forward of ¥1,979 million. 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.

For the fiscal year 2021

Millions of yen

	2022/12	2023/12	2024/12	2025/12	2026/12	2027/12 and thereafter	**Total**
Tax losses carried forward (a)	1	19	9	—	138	27,067	**27,237**
Valuation allowance	(1)	(19)	(5)	—	(60)	(24,078)	**(24,166)**
Deferred tax assets	—	—	3	—	77	2,988	**(b) 3,070**

Thousands of U.S. dollars (Note 1)

	2022/12	2023/12	2024/12	2025/12	2026/12	2027/12 and thereafter	**Total**
Tax losses carried forward (a)	8	165	78	—	1,198	235,140	**236,617**
Valuation allowance	(8)	(165)	(43)	—	(521)	(209,173)	**(209,938)**
Deferred tax assets	—	—	26	—	668	25,957	**(b) 26,670**

(a) Tax losses carried forward are multiplied by statutory tax rate.
(b) Regarding ¥27,237 million ($236,617 thousand) tax in losses carried forward, the Group recognized ¥3,070 million ($26,670 thousand) as deferred tax assets. These consist of mainly the Company's domestic subsidiaries tax losses carried forward of ¥2,193 million ($19,051 thousand). Considering the Company's domestic subsidiaries 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 2021.

15. BUSINESS COMBINATIONS

The Transfer of the Personal Care business

On July 1, 2021, the Personal Care business (the "Business") and its subsidiaries in Japan (Shiseido Japan Co., Ltd. ("SJ") and FT Shiseido Co., Ltd. (the "Former FTS") were succeeded by Fine Today Shiseido Co., Ltd. (the "New FTS") through a company split from the Company, and all of the outstanding shares of the New FTS were transferred to Oriental Beauty Holding Co., Ltd. ("OBH"). Additionally, on July 1, 2021, the Company acquired 35% of the shares of K.K. Asian Personal Care Holding, the wholly owning parent company of OBH, through a contribution in kind. As of October 1, 2021, a merger was carried out with OBH as the surviving company and the New FTS as the disappearing company, and the trade name of OBH after the merger was changed to Fine Today Shiseido Co., Ltd.

In addition, on July 1, 2021, two of the Company's Chinese subsidiaries, Shiseido China Co., Ltd. and Shiseido Cosmetics Manufacturing Co., Ltd., and on September 1, 2021, one of its Chinese subsidiaries, Shiseido Hong Kong Ltd., and two Asia Pacific subsidiaries, Shiseido Singapore Co., (Pte.) Ltd. and Shiseido Korea Co., Ltd., transferred their assets of the Business to affiliates of OBH.

In addition to the above transactions, the total consideration for the transfer of shares and assets, adjusted for the decrease in net working capital, etc., is ¥143,153 million ($1,243,619 thousand).

Excluding the above noted subsidiaries, seven of the Company's subsidiaries that operate the Business in Asia Pacific (Taiwan Shiseido Co., Ltd. ("TS"), FLELIS International Inc. ("FI"), Shiseido Thailand Co., Ltd., Shiseido Malaysia Sdn. Bhd., Shiseido Philippines Corporation, PT. Shiseido Cosmetics Indonesia, and Shiseido Cosmetics Vietnam Co., Ltd.) are planning to transfer assets of the Business in 2022 and thereafter.

All operations of the company split, share transfer, asset transfer and contribution in kind of share purchase are pursuant to the Purchase Agreement between the Company and OBH.

The following section details the company split and share transfer of the Business in Japan executed in the fiscal year 2021 and asset transfer related to the Business of three Chinese subsidiaries and two Asia Pacific subsidiaries.

1. Overview of business divestiture

(1) Name of divestee and company to which shares are transferred

a. Name of company to which the Business in Japan is divested through company split:
Fine Today Shiseido Co., Ltd.
b. Name of company to which shares are transferred:
Fine Today Shiseido Co., Ltd. (former Oriental Beauty Holding Co., Ltd.)
c. Name of company to which assets related to the Business of Shiseido China Co., Ltd. and Shiseido Cosmetics Manufacturing Co., Ltd. are transferred:
Shanghai FTS Cosmetics Co., Ltd.
d. Name of company to which assets related to the Business of Shiseido Hong Kong Ltd. are transferred:
Oriental Beauty (HK) Ltd.
e. Name of company to which assets related to the Business of Shiseido Singapore Co., (Pte.) Ltd. are transferred:
Fine Today Singapore Pte. Ltd.
f. Name of company to which assets related to the Business of Shiseido Korea Co., Ltd. are transferred:
Fine Today Korea Co., Ltd.

(2) Details of divested business

Personal Care business

(3) Reasons for business divestiture and objectives of share transfer

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

(4) Date of Company split, share transfer, and asset transfer

a. Company split and share transfer of the Business in Japan
Effective date of company split July, 1, 2021
Date of share transfer July, 1, 2021

b. Asset transfers related to the Business of Shiseido China Co., Ltd. and Shiseido Cosmetics Manufacturing Co., Ltd.
Date of asset transfers July, 1, 2021

c. Asset transfers related to the Business of Shiseido Hong Kong Ltd., Shiseido Singapore Co., (Pte.) Ltd., and Shiseido Korea Co., Ltd.
Date of asset transfers September, 1, 2021

(5) Outline of other transactions including legal formality

Company split of the Business in Japan	The Company, SJ, and the Former FTS are the splitting companies, and the New FTS is the succeeding company that assumes the rights and obligations related to the Business in Japan.
Share transfer of the succeeding company	Share transfer of the succeeding company with consideration received as property such as cash
Asset transfers related to the Business of three Chinese subsidiaries and two Asia Pacific subsidiaries	Transfer of assets related to the Business

2. Overview of accounting treatment

(1) Amount of gain on transfer

	Millions of yen	Thousands of U.S. dollars (Note 1)
Gain on transfer of business	73,058	634,679
Gain on change in equity	13,520	117,452

(2) Appropriate book value of assets and liabilities related to transferred business and its breakdown

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current Assets:	22,273	193,493
Fixed Assets:	484	4,204
Total Assets	22,757	197,697
Current Liabilities:	11,420	99,209
Long-Term Liabilities:	366	3,179
Total Liabilities	11,787	102,397

(3) Accounting treatment

Regarding accounting treatment of the transferred business in the consolidated financial statements, as the Company continues to invest a substantial 35%, any gain on transfer of business which is recognized in the non-consolidated financial statements is accounted for through the elimination of unrealized gains and losses in accordance with ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." In addition, any difference between the increase in the equity of the divesting company related to the affiliated company and decrease in the equity of the divesting company related to the transferred business is accounted for as a gain on change in equity.

3. Reportable segments included in business divestiture

Japan Business, China Business, and Asia Pacific Business

4. Approximate profit or loss related to the Business recorded in Consolidated Statements of Income for the fiscal year 2021

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net Sales	55,152	479,124
Operating Profit	4,201	36,495

5. Overview of continuing involvement

The Company has entered into manufacturing agreements and product procurement agreements for the products related to the Personal Care business.

Transfer of Prestige Makeup Brands *bareMinerals, BUXOM,* and *Laura Mercier*

The Company announced that Shiseido Americas Corporation, the Company's regional headquarters for the Americas and its subsidiary (registered in Delaware, United States; "SAC") transferred the related assets of prestige makeup brands *bareMinerals*, *BUXOM*, and *Laura Mercier* (including shares of a SAC's subsidiary) to an entity owned by independent private equity partnership Advent International (registered in Massachusetts, United States; "Advent") on December 6, 2021.

1. Overview of business divestiture

(1) Name of divestee

AI Beauty Holdings Ltd. (an entity owned by Advent)

(2) Details of divested business

Business of makeup brands *bareMinerals, BUXOM*, and *Laura Mercier*, including all shares of Bare Escentuals K.K. (Japan), a wholly owned subsidiary of SAC and the operating company of *bareMinerals* in Japan

(3) Reasons for business divestiture

Under its medium-to-long-term business strategy "WIN 2023 and Beyond," the Shiseido Group is shifting to a new business structure, with skin beauty positioned as its core category. To that end, we have launched a fundamental business transformation and aim to become a global leader in skin beauty by 2030. Amid an extremely volatile business environment, mostly impacted by the spread of COVID-19, we are making steady progress in shifting from a focus on growth through sales expansion to profitability and cash-flow management in the three years from 2021 to 2023, in order to solidify the business foundation required for a global Skin Beauty Company.

As we are taking steps to prioritize our brands, optimize our portfolio, and strengthen our competitive advantages under this strategy, we have decided to transfer the business of three of the Company's makeup brands—*bareMinerals* and *BUXOM*, acquired in 2010, and *Laura Mercier*, acquired in 2016—to an external party. The transfer of the brands' employees to the new owner along with the businesses is an important consideration and factor in this transaction.

(4) Date of business divestiture

December 6, 2021

(5) Outline of other transactions including legal formality

The transfer price of the assets related to the brands shall be 700 million US dollars (¥80,577 million), of which 350 million US dollars (¥40,288 million) shall be paid in cash upon closing, and the remainder as deferred payment in the form of a seller note* payable on the seventh anniversary of the closing. Relating to the above asset transfer, the Company shall also contribute 118 million US dollars (¥13,582 million) to the transferee, AI Beauty Holdings Ltd., mainly as working capital adjustments and initial funds.

*A type of debt financing in which the seller partially extends credit to the buyer

2. Overview of accounting treatment

(1) Amount of gain on transfer

	Millions of yen	Thousands of U.S. dollars (Note 1)
Gain on transfer of business	895	7,775
Impairment loss	7,427	64,520

(2) Appropriate book value of assets and liabilities related to transferred business and its breakdown

	Millions of yen	Thousands of U.S. dollars (Note 1)
Current Assets:	11,822	102,701
Fixed Assets:	52,277	454,148
Total Assets	64,099	556,849
Current Liabilities:	856	7,436
Long-Term Liabilities:	16	138
Total Liabilities	872	7,575

(3) Accounting treatment

On the date of business divestiture, accounting treatment will be applied based on the "ASC 805 Business Combinations." With the conclusion of this agreement, gain on transfer of business is recorded as extraordinary gains, and impairment losses and structural reform expenses are recorded as extraordinary losses for the fiscal year 2021. For details, please refer to "Notes to the Consolidated Financial Statements 04. CONSOLIDATED STATEMENTS OF INCOME."

3. Reportable segments included in business divestiture

Japan Business, China Business, Asia Pacific Business, Americas Business, EMEA Business, and Travel Retail Business

4. Approximate profit or loss related to the Business recorded in Consolidated Statements of Income for the fiscal year 2021

	Millions of yen	Thousands of U.S. dollars (Note 1)
Net Sales	52,327	454,582
Operating Loss	(7,332)	(63,695)

5. Overview of continuing involvement

Manufacturing agreements and product procurement agreements for the products related to prestige makeup brands *bareMinerals*, *BUXOM*, and *Laura Mercier* has been concluded.

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, etc.).

The Asia Pacific Business covers business in the Asia and Oceania regions excluding Japan and China by brand category (Prestige, Fragrance, Cosmetics, 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 other countries and regions in Asia.

Other includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., manufacturing operations and the Restaurant business, etc.

(Changes in the Method of Classifying Reportable Segments)

The Group has revised its reportable segment classifications from the fiscal year 2021. The business results of global service functions related to digital strategy, which had been included in the "Americas Business", are now included in the "Other" segment, and expenses related mainly to the supply network functions, which had been included in the "Other" segment, are now partially included in the "Japan Business".

(2) Basis of Measurement for Reportable 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, 2022). Segment profit is based on operating profit. Pricing on intersegment transactions and transfers is determined based on market conditions.

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

Segment information as of and for the fiscal periods ended December 31, 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	24,889	8,219	310
Total	329,382	236,808	61,090	116,300	102,500	98,812
Segment Profit / (Loss)	9,671	18,386	3,248	(22,699)	(13,231)	14,640
Other Items						
Depreciation and Amortization	7,755	8,999	3,618	6,614	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	148,507	211,798	(211,798)	—
Total	13,359	174,434	1,132,686	(211,798)	920,888
Segment Profit / (Loss)	(34)	4,722	14,702	261	14,963
Other Items					
Depreciation and Amortization	40	21,091	60,384	—	60,384
Amortization of Goodwill	—	190	7,064	—	7,064

Notes:
1. The EMEA Business includes the Middle East and African regions.
2. The Other segment includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., manufacturing operations, the Frontier Science business and 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. Segment assets and liabilities are not described because they are not subject to regular consideration to evaluate decisions of allocation for management resources and performance.
6. Depreciation and Amortization does not include depreciation of ¥1,481 million included in "Loss on COVID-19" recorded in extraordinary losses.

Segment information as of and for the fiscal periods ended December 31, 2021 is as follows:

Millions of yen

	Reportable Segment					
	Japan Business (*1)	China Business (*1)	Asia Pacific Business (*1)	Americas Business	EMEA Business (*2)	Travel Retail Business
Net Sales						
Sales to Outside Customers	276,173	274,721	65,003	121,369	117,040	120,460
Intersegment Sales or Transfers	24,764	1,108	2,162	26,480	9,898	154
Total	300,938	275,830	67,166	147,849	126,939	120,615
Segment Profit / (Loss)	9,579	1,177	3,737	(13,207)	2,461	21,950
Other Items						
Depreciation and Amortization	8,048	9,237	3,841	7,751	8,259	1,365
Amortization of Goodwill	325	873	442	3,654	624	688

	Reportable Segment	Other (*1, 3)	Total	Adjustments (*4)	Total Shown in Consolidated Financial Statements (*5)
	Professional Business				
Net Sales					
Sales to Outside Customers	15,866	44,528	1,035,165	—	1,035,165
Intersegment Sales or Transfers	607	188,839	254,016	(254,016)	—
Total	16,474	233,367	1,289,182	(254,016)	1,035,165
Segment Profit / (Loss)	757	30,977	57,434	(15,847)	41,586
Other Items					
Depreciation and Amortization	33	24,450	62,987	—	62,987
Amortization of Goodwill	—	250	6,861	—	6,861

Thousands of U.S. dollars (Note 1)

	Reportable Segment					
	Japan Business (*1)	China Business (*1)	Asia Pacific Business (*1)	Americas Business	EMEA Business (*2)	Travel Retail Business
Net Sales						
Sales to Outside Customers	2,399,209	2,386,595	564,703	1,054,374	1,016,766	1,046,477
Intersegment Sales or Transfers	215,133	9,625	18,782	230,040	85,987	1,337
Total	2,614,351	2,396,229	583,494	1,284,414	1,102,762	1,047,823
Segment Profit / (Loss)	83,216	10,225	32,464	(114,733)	21,379	190,687
Other Items						
Depreciation and Amortization	69,915	80,244	33,368	67,335	71,748	11,858
Amortization of Goodwill	2,823	7,584	3,839	31,743	5,420	5,976

	Reportable Segment	Other (*1, 3)	Total	Adjustments (*4)	Total Shown in Consolidated Financial Statements (*5)
	Professional Business				
Net Sales					
Sales to Outside Customers	137,833	386,829	8,992,832	—	8,992,832
Intersegment Sales or Transfers	5,273	1,640,509	2,206,724	(2,206,724)	—
Total	143,115	2,027,339	11,199,565	(2,206,724)	8,992,832
Segment Profit / (Loss)	6,576	269,107	498,948	(137,668)	361,271
Other Items					
Depreciation and Amortization	286	212,405	547,189	—	547,189
Amortization of Goodwill	—	2,171	59,603	—	59,603

Notes:
1. Net sales from regional sales subsidiaries related to the Personal Care business, previously recorded in Japan, China, and Asia Pacific Businesses, are no longer recorded with some exceptions from July 1, 2021 due to the transfer of said business and resulting changes in product distribution. Meanwhile, Personal Care products sales from the Company and its manufacturing subsidiaries to Fine Today Shiseido Co., Ltd. and its affiliates are recorded in the Other segment effective from the same date.
2. The EMEA Business includes the Middle East and African regions.
3. The Other segment includes head office administration departments, IPSA Co., Ltd., Shiseido Beauty Salon Co., Ltd., manufacturing operations, and the Restaurant business, etc.
4. Segment profit (loss) adjustment is mainly intersegment transaction eliminations.
5. Segment profit (loss) is adjusted for operating profit described in the consolidated statements of income.
6. Segment assets and liabilities are not described because they are not subject to regular consideration to evaluate decisions of allocation for management resources and performance.
7. Depreciation and Amortization does not include depreciation of ¥576 million ($5,003 thousand) included in "Loss on COVID-19" recorded in extraordinary losses.

Related Information

For the fiscal year ended December 31, 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

* 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

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 ended December 31, 2021

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

2021/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
321,243	127,524	109,344	125,053	461,344	343,655	1,035,165

Thousands of U.S. dollars (Note 1)

2021/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
2,790,747	1,107,844	949,908	1,086,378	4,007,853	2,985,448	8,992,832

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

II Property, Plant and Equipment

Millions of yen

2021/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
279,374	20,651	20,308	23,375	34,003	17,168	357,405

Thousands of U.S. dollars (Note 1)

2021/12						
Japan	Americas		Europe	Asia / Oceania		Total
		U.S.A.			China	
2,427,017	179,402	176,422	203,066	295,395	149,144	3,104,899

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

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

Millions of yen

2021/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
—	—	—	7,427	15,600	—	—	3,435	26,463

Thousands of U.S. dollars (Note 1)

2021/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
—	—	—	64,520	135,522	—	—	29,841	229,893

(5) Information about segment unamortized goodwill

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

Millions of yen

2021/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
1,544	5,693	3,631	20,941	5,124	5,647	—	1,575	44,159

Thousands of U.S. dollars (Note 1)

2021/12								
Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business	Travel Retail Business	Professional Business	Other	Total
13,413	49,457	31,543	181,921	44,513	49,057	—	13,682	383,624

17. SHORT-TERM AND LONG-TERM DEBT

Short-term and long-term debt as of December 31, 2020 and December 31, 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Short-term borrowings from banks and other financial institutions			
(weighted average interest rate 0.34%)	56,491	—	—
Short-term debt	56,491	—	—
Long-term borrowings from banks and other financial institutions			
(Borrowings due within one year, weighted average interest rate 0.40%)	10,730	730	6,341
(Borrowings due after one year, weighted average interest rate 0.15%)	167,861	95,915	833,246
0.374% unsecured yen bonds due in June 2022	15,000	15,000	130,310
0.08% unsecured yen bonds due in February 2025	20,000	20,000	173,746
0.04% unsecured yen bonds due in December 2023	10,000	10,000	86,873
0.12% unsecured yen bonds due in December 2025	20,000	20,000	173,746
Lease obligations			
(Borrowings due within one year, weighted average interest rate 2.27%)	8,344	9,664	83,954
(Borrowings due after one year, weighted average interest rate 2.33%)	15,872	19,673	170,906
Long-term payables (including other payables)			
(due within and after one year, weighted average interest rate 5.00%)	52,437	2,370	20,589
	320,245	193,353	1,679,723
Less: portion due within one year	(21,583)	(10,674)	(92,728)
Long-term debt	298,661	182,679	1,586,995

The aggregate annual maturities of long-term debt as of December 31, 2021 are as follows:

For the years ending December 31	Millions of yen	Thousands of U.S. dollars (Note 1)
2022	25,673	223,030
2023	33,550	291,460
2024	34,569	300,312
2025	47,771	415,003
2026	2,108	18,312
2027 and thereafter	49,677	431,561
	193,353	1,679,723

Assets pledged as collateral as of December 31, 2020 and December 31, 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Cash and time deposits	1,834	1,736	15,081
Buildings and structures	11,724	11,478	99,713
Machinery and equipment	1	70	608
Investment securities	1,155	1,155	10,033
Other investments	15,200	15,200	132,047
	29,915	29,640	257,492

The above assets are pledged as collateral for derivative transactions (interest rate swaps) and the following collateralized liabilities as of December 31, 2020 and December 31, 2021:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020/12	2021/12	2021/12
Current portion of long-term debt	730	730	6,341
Long-term debt	16,645	15,915	138,259
	18,105	16,645	144,600

18. SIGNIFICANT SUBSEQUENT EVENTS

Fiscal year 2021 (From January 1 to December 31, 2021)

(Company splits and other changes accompanying the transfer of the Professional Business)

The Company has determined to transfer the Professional business (the "Business"). As a result, the assets related to the Business held in Japan will be transferred from the Company to its wholly owned subsidiary Shiseido Professional Inc. ("SPI") through an absorption-type corporate split, followed by a transfer of 80% of its shares to Henkel Nederland B.V. ("HNBV"), a subsidiary of Henkel AG & Co. KGaA ("Henkel"), and the shares and related assets of the subsidiaries operating the Business overseas will be transferred to Henkel Group companies (the "Transaction"). The Company has executed a legally binding agreement pertaining to the above (the "Agreement") on February 9, 2022.

1. Objectives of the Transaction

In its medium-to-long-term business strategy "WIN 2023 and Beyond," the Shiseido Group has positioned the three years from 2021 to 2023 as a period to solidify its business foundation required for a "skin beauty company" and has launched a fundamental business transformation. Henkel operates worldwide with a strong foothold in both professional and consumer hair categories. In recent years, Henkel has expanded its footprint, particularly in the professional hair segment, in Europe and the United States. Therefore, the Company is confident that integration of its Professional business, whose brands are well established in Japan and Asia, with the business of the Henkel Group will foster global competitiveness and expansion.

2. Details of the Transaction Procedures

Global brand holder functions of the Business including the Business in Japan (wholesale to SPI, etc.) and export operations (wholesale to overseas subsidiaries, etc.) will be transferred from the Company to SPI with an effective date on or before December 31, 2022 (planned) through an absorption-type corporate split, followed by a transfer of 80% of the outstanding shares of SPI to HNBV. The overseas assets and operation of the Business will be transferred from the Company's subsidiaries operating in seven countries and regions to Henkel Group companies through a share transfers and asset transfer in accordance with local laws. The Company will continue to support the Business through retaining shares of the company succeeding the assets related to the Business in Japan. 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

Manufacturing and distribution of technical and retail products for hair salons, such as hair care, hair color, perm, straightening, and styling items

(2) Reportable segment included in the business

Professional business

4. Future Outlook

The transfer price of 80% of SPI's shares, other shares, and related business assets is ¥12,300 million ($106,854 thousand). In the fiscal year 2022, the Company expected that gain on transfer of business of ¥10,000 million ($86,873 thousand) (Japanese Standards) would occur. In addition, the valuation amount of the Business used in calculation of transfer price is ¥14,800 million ($128,572 thousand).

(Current Situation in Russia and Ukraine)

On March 9, we decided to suspend exports and shipments from Europe to our subsidiary Shiseido (Rus) LLC in response to the intensifying situation in Russia and Ukraine, and to suspend all business investment activities such as advertising in Russia. We are currently investigating the impact that this situation and decision will have on the Company's consolidated business results.

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, 2021 and 2020, 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 and 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, 2021 and 2020, and its consolidated financial performance and its consolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the Group's judgment on valuation of the goodwill allocated to the Shiseido Americas Corporation reporting unit

The key audit matter	How the matter was addressed in our audit
As described in Note 2, goodwill of ¥44,159 million recognized in the consolidated balance sheet includes goodwill of ¥20,941 million related to the reporting unit of Shiseido Americas Corporation (hereinafter, "SAC"), representing approximately 1.8% of total assets.	In order to assess the appropriateness of the Company's judgment on valuation of goodwill allocated to the SAC reporting unit, we requested the component auditor of SAC to perform an audit. Then we evaluated the results of the following audit procedures among others reported from them to assess whether sufficient and appropriate audit evidence was obtained:

The goodwill was amortized using the straight-line method as amortizable goodwill based on the alternative accounting treatment for private companies under U.S. GAAP. Under U.S. GAAP, goodwill shall be allocated to one or more reporting units, and tested for impairment when an indication of impairment is identified. If fair value of a reporting unit falls below the carrying amount as a result of an impairment testing, the carrying amount is reduced to the fair value, and the resulting decrease in the carrying amount is recognized as a goodwill impairment loss, which shall not exceed the carrying amount of the goodwill included in the reporting unit. Following the transfer of the three prestige makeup brands, the Group identified an indicator of impairment and performed an impairment testing for the SAC reporting unit. Consequently, it determined that the recognition of a goodwill impairment loss was not necessary as the fair value of the reporting unit exceeded its carrying amount. Fair value was calculated by discounting the future cash flows estimated based on the future business plan developed on the premises of U.S long-term market growth rates and sales expansion plans (hereinafter, the "Business Plan") to the present value. Management set the long-term market growth rate as 3%, and the discount rate as 11% in view of the U.S. Risk Free Rate adjusted for the risk premium inherent to SAC. The factors such as increases in sales and profit margins based on the sales expansion plan and long-term market growth rate that formed the basis for measuring fair value involved a high degree of uncertainty, and management's judgment thereon could have a significant effect on the estimate of fair value. In addition, selecting appropriate models and input data for estimating the discount rate used to estimate fair value requires a high degree of expertise in valuation.	(1) Internal control testing They tested the design and implementation of certain of SAC's internal controls relevant to estimating fair value used for the goodwill impairment test with particular attention to the review by senior vice president of finance of long-term market growth and discount rates and the reasonableness of supporting data and of future cash flows. (2) Assessment of the reasonableness of the estimated fair value In order to assess the reasonableness of key assumptions adopted in preparing the Business Plan, which was used as the basis for estimating fair value, they inquired of management of SAC about the basis of those assumptions. In addition, they: • retrospectively assessed the status of achievements by comparing the business plan used for the impairment testing for the previous year with the actual results for the current year; and • independently assessed respective elements of net sales, cost of sales, and selling, general and administrative expenses for the subsequent fiscal years, which were used as the basis for the sales expansion plan, by incorporating a certain degree of uncertainty in view of the past actual results. Then they considered the effect on the Group's judgment that the recognition of an impairment loss was not necessary. In addition, they performed the following procedures among others by engaging enterprise valuation specialists within the network firms of the component auditor of SAC: • assessment of the appropriateness of the model adopted by management to estimate the discount rate based on the requirements of accounting standards; • assessment of the appropriateness of the input data used to calculate the discount rate by comparing it with the estimate independently developed by the enterprise valuation specialists based on external data; and

We, therefore, determined that our assessment of the appropriateness of the Company's judgment on valuation of goodwill allocated to the SAC reporting unit was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	• assessment of the appropriateness of the long-term market growth rate by comparing it with U.S economic growth rates.

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 with regard to 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.

From the matters communicated with corporate auditors and the Audit & Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2021 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.

Masakazu Hattori

Designated Engagement Partner

Certified Public Accountant

Kentaro Hayashi

Designated Engagement Partner

Certified Public Accountant

Unshil Kang

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

April 6, 2022

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.