Historical Selected Financial Data

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended March 31, 2014 to December 31, 2022

	Japanese GAAP								Millions of yen (Except per-share data)
	2014/3	2015/3	2015/12	2016/12	2017/12	2018/12	2019/12	2020/12	2021/12
Operating Results:									
Net sales	762,047	777,687	763,058	850,306	1,005,062	1,094,825	1,131,547	920,888	1,035,165
Cost of sales	189,559	196,433	196,009	207,553	231,327	231,928	254,844	238,401	262,959
Selling, general and administrative expenses	522,843	553,640	529,388	605,972	693,298	754,545	762,871	667,523	730,619
Operating profit	49,644	27,613	37,660	36,780	80,437	108,350	113,831	14,963	41,586
EBITDA	91,285	90,703	80,635	90,078	154,741	150,318	169,348	71,393	172,556
Net profit (loss) attributable to owners of parent	26,149	33,668	23,210	32,101	22,749	61,403	73,562	(11,660)	42,439
Financial Position:									
Total assets	801,346	823,636	808,547	934,590	949,425	1,009,618	1,218,795	1,204,229	1,179,360
Short-term interest-bearing debt	64,054	75,615	18,996	16,557	10,662	15,202	144,949	75,565	25,394
Long-term interest-bearing debt	91,864	31,281	67,617	104,022	70,801	60,574	103,159	248,733	165,588
Interest-bearing debt	155,918	106,897	86,613	120,580	81,463	75,776	248,108	324,299	190,983
Equity	338,561	386,860	391,664	392,963	423,447	448,580	496,437	484,289	545,022
Cash Flows:									
Cash flows from operating activities	84,320	32,134	60,529	59,129	95,392	92,577	75,562	64,045	122,887
Cash flows from investing activities	(16,799)	11,538	(23,137)	(70,640)	(1,061)	(103,112)	(202,823)	(70,084)	63,739
Cash flows from financing activities	(47,462)	(58,419)	(30,151)	22,378	(53,117)	(29,722)	113,678	46,880	(176,222)
Free cash flow	67,521	43,673	37,392	(11,510)	94,331	(10,535)	(127,261)	(6,039)	186,627
Cash and cash equivalents at end of period	110,163	100,807	104,926	113,122	156,834	111,767	97,466	136,347	156,503
Per-Share Data (in yen and U.S. dollars):									
Net profit (loss)	65.7	84.4	58.2	80.4	56.9	153.7	184.2	(29.2)	106.2
Net assets	849.4	970.0	981.4	984.1	1,059.8	1,123.2	1,242.9	1,212.3	1,364.3
Cash dividend	20.0	20.0	20.0	20.0	27.5	45.0	60.0	40.0	50.0
Weighted average number of shares outstanding during the period (thousands)	398,300	398,704	399,026	399,227	399,466	399,409	399,411	399,458	399,480
Financial Ratios:									
Operating margin (%)	6.5	3.6	4.9	4.3	8.0	9.9	10.1	1.6	4.0
Return on invested capital (%)	5.9	4.1	4.6	5.0	10.4	13.1	12.9	1.3	3.3
Return on equity (%)	8.4	9.4	6.0	8.2	5.6	14.1	15.6	(2.4)	8.2
Equity ratio (%)	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)	0.3	(0.2)	(0.5)	(0.1)	(0.6)	(0.3)	0.8	2.4	0.1
Net debt-equity ratio (times)	0.08	(0.04)	(0.10)	(0.02)	(0.22)	(0.11)	0.28	0.36	0.03
Inventory Turnover (Days)	168.28	182.97	197.97	194.85	193.78	220.12	236.96	268.80	217.78
CCC (Cash Conversion Cycle) (days)	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 (%)	1.1	0.9	0.8	0.7	0.5	0.7	0.8	0.6	0.8
Dividend on equity (%)	2.6	2.2	2.1	2.0	2.7	4.1	5.1	3.3	3.9
Number of employees at year-end	33,054	33,000	33,783	36,549	37,438	38,640	40,000	39,035	35,318
Net sales per employee	23.1	23.6	22.6	23.2	26.8	28.3	28.3	23.6	29.3
Operating profit per employee	1.5	0.8	1.1	1.0	2.1	2.8	2.8	0.4	1.2

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. 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.
4. 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.
5. 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.
6. 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
7. 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
8. Days Sales of Inventory = Average Inventory ÷ (Cost of Goods Sold ÷ 365)
9. Cash Conversion Cycle (days) = Receivables turnover period (days) + Inventory turnover period (days) – Payables turnover period (days) (average of each indicator during the period)
10. Dividend on equity = Total dividends paid (full year) / Equity* *Equity is the average of the beginning and the ending balances.
11. The number of employees at year-end does not include temporary employees.
12. Shiseido has been recognizing payables associated with *Dolce&Gabbana* and *Tory Burch* from the fiscal years 2016 and 2020, respectively. For the fiscal year ended December 31, 2021, the interest-bearing debt ratio including these payables was 26.4%, the net debt-equity ratio was 0.04, and interest-bearing debt was ¥195,722 million.
13. 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.

	IFRS	Millions of yen (Except per-share data)	Thousands of U.S. dollars (Except per-share data)
	2021/12	**2022/12**	**2022/12**
Opereating Results:			
Net Sales	1,009,966	**1,067,355**	**8,093,380**
Cost of sales	271,808	**323,191**	**2,450,645**
Selling, general and administrative expenses	767,007	**721,722**	**5,472,566**
Core operating profit	42,553	**51,340**	**389,293**
EBITDA	94,516	**102,371**	**776,244**
Profit attributable to owners of parent	46,909	**34,202**	**259,342**
Financial Position:			
Total assets	1,300,979	**1,307,661**	**9,915,537**
Short-term interest-bearing debt	41,013	**49,747**	**377,214**
Long-term interest-bearing debt	264,824	**250,026**	**1,895,860**
Interest-bearing debt	305,837	**299,774**	**2,273,082**
Equity attributable to owners of parent	540,695	**604,259**	**4,581,885**
Cash Flows:			
Cash flows from operating activities	134,249	**46,735**	**354,375**
Cash flows from investing activities	66,733	**(41,308)**	**(313,224)**
Cash flows from financing activities	(190,575)	**(52,418)**	**(397,467)**
Free cash flow	200,983	**5,427**	**41,151**
Cash and cash equivalents at end of period	156,503	**119,036**	**902,608**
Per-Share Data (in yen and U.S. dollars):			
Basic earnings per share	117.4	**85.6**	**0.65**
Equity attributable to owners of parent per share	1,353.5	**1,512.4**	**11.47**
Cash dividend	50.0	**100.0**	**0.76**
Weighted average number of shares outstanding during the period (thousands)	399,480	**399,538**	
Financial Rations:			
Core Opereating margin (%)	4.2	**4.8**	
Return on invested capital (%)	2.9	**5.2**	
Return on equity attributable to owners of parent (%)	9.3	**6.0**	
Ratio of equity attributable to owners of parent (%)	41.6	**46.2**	
Net Interest-bearing dect to EBITDA ratio (times)	(0.1)	**0.3**	
Net debt-equity ratio (times)	(0.02)	**0.05**	
Inventory Turnover (Days)	199.51	**149.69**	
CCC (Cash Conversion Cycle) (days)	155	**128**	
Dividend Payout ratio (consolidated) (%)	42.6	**116.8**	
Dividend yield (%)	0.8	**1.5**	
Dividends on equity attributable to owners of parent (%)	4.0	**7.0**	
Number of employees at year-end	35,318	**33,414**	
Net sales per employee	28.6	**31.9**	**242**
Core operating profit per employee	1.2	**1.5**	**12**

Notes: 1. Amounts of less than one million yen are omitted.
2. U.S. dollar amounts are converted from yen, for convenience only, at the rate of ¥131.88 = US$1 prevailing on December 31, 2022 Fractions resulting from the translations are rounded.
3. EBITDA = Core operating profit + Depreciation and amortization
4. Basic Earnings per Share is based on the average number of shares outstanding during the fiscal year. Equity Attributable to Owners of Parent per Share is calculated using the number of shares outstanding as of the balance sheet date. Basic Earnings per Share is calculated before dilution.
5. ROIC = Core operating profit × (1 – tax rate) ÷ (Interest-bearing debt (average of the beginning and the ending balances, excluding lease liabilities) + Equity attributable to owners of parent (average of the beginning and the ending balances))
6. Net interest-bearing debt to EBITDA ratio = (Outstanding interest-bearing debt (excluding lease liabilities) – Cash and cash equivalents – Time deposits over three months) ÷ EBITDA*1 *1 EBITDA = Core operating profit + Depreciation and amortization
7. Net debt-equity ratio = (Interest-bearing debt (excluding lease liabilities) – Cash and time deposits) / Equity attributable to owners of parent
8. Days Sales of Inventory = Average Inventory ÷ (Cost of Goods Sold ÷ 365)
9. Cash Conversion Cycle (days) = Receivables turnover period (days) + Inventory turnover period (days) – Payables turnover period (days) (average of each indicator during the period)
10. Dividends on Equity Attributable to Owners of Parent = Total dividends paid (full year) / Equity Attributable to Owners of Parent* *Equity Attributable to Owners of Parent is the average of the beginning and the ending balances.
11. The number of employees at year-end does not include temporary employees.

Operating Results and Financial Condition

OPERATING RESULTS

In the consolidated fiscal year 2022, the global economy as a whole experienced a normalization of economic activities in line with the relaxation of COVID-19-related restrictions. Conversely, uncertain conditions continued to persist due to intermittent lockdowns in China, the prolonged conflict in Ukraine, surging resource and energy costs, and the appreciation of the U.S. dollar.

Japan's domestic cosmetics market, while price increases in a wide range of areas weighed upon cosmetics purchases, achieved gradual recovery thanks to the relaxation of restrictions and increased opportunities to go out of home. In terms of overseas cosmetics markets, the market environment in China continued to be sluggish due to restrictions on retail operations and supply chain disruptions caused by lockdowns primarily in Shanghai and Hainan Island. Meanwhile, in the Europe and Americas regions, consumption continued to recover steadily as economic activities resumed, and the cosmetics market likewise showed strong growth across all categories.

Driven by its corporate mission, BEAUTY INNOVATIONS FOR A BETTER WORLD, the Shiseido Group (the "Group") actively promotes innovations aimed at resolving environmental and social issues, such as diversity and inclusion. We thus strive to realize our vision for 2030: a sustainable world where people can enjoy happiness through the power of beauty.

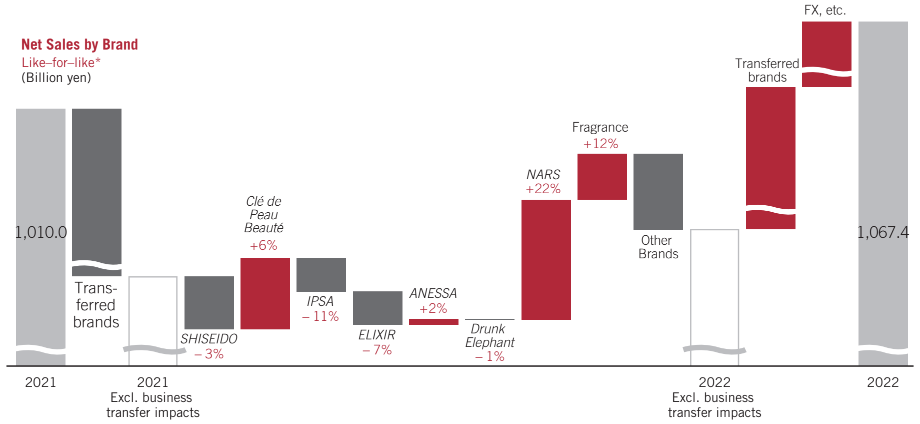
In 2021, we launched our medium- to long-term strategy "WIN 2023 and Beyond" in response to challenges caused by the COVID-19 pandemic. Under this strategy, we have executed a global transformation reform with an emphasis on profitability and cash flow, through focusing on the skin beauty area, which is our competitive advantage, restructuring our business portfolio, and improving profitability particularly in the Americas and EMEA. We positioned 2022, our second year of the strategy, as a "Back to Growth" year and have worked to promote the growth of our global brands and to accelerate digital transformation.

ANALYSIS OF OPERATING RESULTS

NET SALES

Net sales increased 5.7% year on year to ¥1,067.4 billion ($8,093.4 million) on reported figures, down 3.9% year on year on an FX-neutral basis, or up 0.9% year on year on a like-for-like basis, which excludes the impacts of foreign exchange translation and business transfers. The result primarily reflected the recovery in the EMEA, Americas, and Travel Retail Business, despite the continuing uncertain situation in China caused by the COVID-19 pandemic.

***Clé de Peau Beauté, NARS* and Fragrance Showed Strong Growth While Most Skincare Brands Struggled amid Headwinds in Japan and China Markets**



* YoY change (%) for each brand is calculated based on foreign exchange rate assumptions as of Feb 2022 and excludes exchange rate differences etc.

COST OF SALES AND SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Cost of Sales

Cost of sales increased by 18.9% year on year to ¥323.2 billion ($2,450.6 million). The cost of sales ratio increased 3.4 percentage points year on year to 30.3% mainly due to an increase in the cost of sales ratio caused by the supply of products during the transitional period for business transfers and an impairment loss of factories resulting from the transfer of the personal care manufacturing business. The cost of sales ratio on a like-for-like basis, excluding an increase in the cost of sales ratio due to the supply of products and the impairment loss resulting from the business transfers, decreased 1.5 percentage points year on year to 23.6%, mainly due to 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.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased 5.9% year on year to ¥721.7 billion ($5,472.6 million). The breakdown of this result on a core operating profit basis is as follows.

Marketing Costs

The ratio of marketing costs to net sales decreased 2.4 percentage points year on year to 24.9% due to lower expenses resulting from the business transfers and agile cost management, despite higher investment expenses for enhancing brand equity.

Brand Development / R&D Expenses

The ratio of brand development and R&D expenses to net sales increased 1.3 percentage points year on year to 5.0%.

Personnel Expenses

The ratio of personnel expenses to net sales decreased 0.7 percentage points year on year to 21.5% as a result of initiatives to optimize personnel expenses through such means as implementing structural reforms, which outweighed an increase in expenses resulting from strengthened investment in human capital.

Other SG&A Expenses

The ratio of other SG&A expenses to net sales decreased 0.8 percentage points year on year to 15.8% due to an increase in net sales outweighing an increase in investment expenses for digital transformation.

R&D expenses, which are included in SG&A expenses, stood at ¥26.7 billion ($202.3 million), bringing the ratio of R&D expenses to net sales to 2.5%.

Note: The ratio of marketing costs to net sales was 34.5% if expenses related to personal beauty partners are included. The ratio of personnel expenses to net sales was 12.0% if the same expenses are not included.

CORE OPERATING PROFIT

Core operating profit increased by ¥8.8 billion ($66.6 million) year on year to ¥51.3 billion ($389.3 million), thanks to agile cost management and lower fixed costs that were achieved through structural reforms as well as the positive impact of foreign exchange rate translation, which outweighed lower margins resulting from weaker sales in China and the impact of the transfer of the personal care business.

PROFIT ATTRIBUTABLE TO OWNERS OF PARENT

Profit attributable to owners of parent dropped by ¥12.7 billion ($96.4 million) year on year to ¥34.2 billion ($259.3 million), due to a decrease in income tax expense from the fiscal year 2021 and an increase in non-controlling interests, in addition to profit before tax of ¥50.4 billion ($382.4 million), a year-on-year decrease of ¥48.7 billion ($369.1 million).

REVIEW BY REPORTABLE SEGMENT

Results by reportable segment are as follows.

Net Sales by Reportable Segment

Segments

(Billions of yen)	2021/12	**2022/12**
Japan Business	258.8	**237.6**
China Business	274.7	**258.2**
Asia Pacific Business	63.6	**68.0**
Americas Business	121.4	**137.9**
EMEA Business	117.0	**128.4**
Travel Retail Business	120.6	**163.7**
Professional Business	15.3	**9.3**
Other	38.6	**64.2**

Core Operating Profit by Reportable Segment

Segments

(Billions of yen)	2021/12	**2022/12**
Japan Business	6.5	**(13.1)**
China Business	4.1	**(3.9)**
Asia Pacific Business	5.0	**4.7**
Americas Business	1.6	**7.7**
EMEA Business	2.7	**6.9**
Travel Retail Business	22.7	**37.7**
Professional Business	0.7	**0.8**
Other	14.1	**6.1**

Core Operating Margin by Reportable Segment

Segments

(%)	2021/12	**2022/12**
Japan Business	2.3	**(5.4)**
China Business	1.5	**(1.5)**
Asia Pacific Business	7.7	**6.6**
Americas Business	1.3	**5.4**
EMEA Business	2.1	**5.0**
Travel Retail Business	18.8	**23.0**
Professional Business	4.5	**7.7**
Other	5.2	**2.0**

Notes:
1. The Group has revised its reportable segment classifications from the fiscal year 2022. The business results of Shiseido Beauty Salon Co., Ltd., previously included in the Other segment, are now included in the Japan Business. The business results related to the brand holder functions of the NARS and Drunk Elephant brands, previously included in the Americas Business, are now included in the Other segment. The segment information for the fiscal year ended December 31, 2021 has been restated in line with the reclassification.
2. Net sales from regional sales subsidiaries related to the Personal Care business, previously recorded in the Japan, China, and Asia Pacific Businesses, are no longer recorded with some exceptions from July 1, 2021 due to the transfer of the said business and resulting changes in commercial distribution. Meanwhile, Personal Care products sales from the Company and its manufacturing subsidiaries to FineToday Co., Ltd. (which has changed its company name from "FineToday Shiseido Co., Ltd." effective January 1, 2023) and its affiliates are recorded in the Other segment effective from the same date.
3. Net sales previously recorded by regional sales subsidiaries in Professional segment are no longer recorded after July 1, 2022, with some exceptions, due to the transfer of the professional business.
4. The Other segment includes head office administration departments, IPSA Co., Ltd., manufacturing operations, and the restaurant business, etc.

Japan Business

In the Japan Business, the mid price range market turned to a recovery trend in the second half of the year coming from a sluggish momentum in the first half of the year. We continued to strengthen strategic investments in skin beauty brands as well as the promotions commemorating the 150th anniversary of our founding. In September, we launched *Elixir* lotion and emulsion revamped with latest collagen technologies. In the fourth quarter, we rolled out new and limited-edition products from *SHISEIDO* and *Clé de Peau Beauté* and enhanced the value communication of the brand and the products. In addition, we launched "Beauty Key," a new membership service which consolidates the different membership services offered by different sales channels such as stores or e-commerce, or by brand. This allows for counseling services tailored to each customer's needs. We also worked to strengthen digital communication.

As a result, net sales were ¥237.6 billion ($1,801.4 million), down by 8.2% year on year, essentially the same level year on year on a like-for-like basis excluding business transfer impacts. Core operating loss was ¥13.1 billion ($99.2 million), lower by ¥19.6 billion ($148.4 million) year on year, primarily due to lower profit margins from the transfer of the personal care business which outweighed cost management efforts.

China Business

In the China Business, we are shifting from a growth model driven primarily by large-scale promotions to a more sustainable growth model which focuses on value-based brand and product communication tailored to consumer needs. While the market faced a significant year-on-year decline during 'Double 11,' the largest e-commerce event in China, our annual e-commerce sales achieved growth, on the back of the expansion into major platforms and enhanced communication focusing on effect and efficacy. Meanwhile, on the offline front, despite our efforts to enhance the unique experience at brick-and-mortar stores and expand the loyal user base, sales decreased year on year due to market headwinds such as traffic decline from lockdowns.

As a result, net sales were ¥258.2 billion ($1,958.0 million), down 6.0 % year on year on a reported basis, down 18.3% year on year on an FX-neutral basis, or down 9.8% year on year on a like-for-like basis excluding foreign exchange and business transfer impacts. Core operating loss was ¥3.9 billion ($29.8 million), lower by ¥8.0 billion ($60.9 million) year on year, primarily due to lower margins from a decline in sales.

Asia Pacific Business

In the countries and regions of the Asia Pacific Business, along with Taiwan's return to growth from the fourth quarter, strong growth continued in South Korea, Southeast Asia, and other regions. In addition, we continued to increase our sales in e-commerce across Asia by continuing to accelerate key e-commerce platforms entry and to expand touch points with customers through digital engagement.

As a result, net sales were ¥ 68.0 billion ($515.7 million), up 7.0% year on year on a reported basis, down 3.7% year on year on an FX-neutral basis, or up 13.0% year on year on a like-for-like basis excluding foreign exchange and business transfer impacts. Core operating profit was down by ¥0.3 billion ($2.5 million) to ¥4.7 billion ($35.8 million), primarily due to higher personnel and other expenses outweighing the increase in sales and profit.

Americas Business

In the Americas Business, the cosmetics market continued to grow in all categories with the normalization of economic activities due to the relaxation of COVID-19 restrictions. *NARS* in particular saw share gains, driven by successful new product launches and growth in e-commerce supported by digital marketing enhancements. Sales of *SHISEIDO* remained steady on the back of strengthened promotions.

As a result, net sales were ¥137.9 billion ($1,045.8 million), up 13.6% year on year on a reported basis, down 4.7% year on year on an FX-neutral basis, or up 8.8% year on year on a like-for-like basis excluding foreign exchange and business transfer impacts. Core operating profit improved by ¥6.0 billion ($45.7 million) year on year to ¥7.7 billion ($58.1 million), primarily due to higher margins associated with an increase in sales and lower fixed costs due to structural reforms, etc.

EMEA Business

In the EMEA Business, the cosmetics market continued to prosper in all categories with the normalization of economic activities due to the relaxation of COVID-19 restrictions. We held promotions capturing the recovery trend in consumer consumption, and *NARS* and *narciso rodriguez* achieved strong growth and increased shares. We also steadily increased the number of stores for *Drunk Elephant*, which contributed to the growth in sales.

As a result, net sales were ¥128.4 billion ($973.9 million), up 9.8% year on year on a reported basis, up 3.3% year on year on an FX-neutral basis, or up 4.0% year on year on a like-for-like basis excluding foreign exchange and business transfer impacts. Core operating profit improved by ¥4.2 billion ($32.0 million) year on year to ¥6.9 billion ($52.5 million), primarily due to higher margins associated with an increase in sales and lower fixed costs due to structural reforms, etc.

Travel Retail Business

In the Travel Retail Business (sales of cosmetics and fragrances primarily through airport and downtown duty-free stores), tourist traffic resumed with the relaxation of COVID-19 restrictions and we saw rapid recovery particularly in the Americas and Europe. In Hainan Island in China, although affected by the lockdowns, we achieved strong growth through new store opening in the world's biggest duty-free shopping mall in Haikou City and through the expansion of e-commerce.

As a result, net sales were ¥163.7 billion ($1,240.9 million), up 35.7% year on year on a reported basis, up 15.3% year on year on an FX-neutral basis, or up 14.2% year on year on a like-for-like basis excluding foreign exchange and business transfer impacts. Core operating profit increased by ¥14.9 billion ($113.3 million) year on year to ¥37.7 billion ($285.7 million), mainly due to higher margins from increased sales.

Professional Business

In the Professional Business, we used to roll out professional products such as hair care, styling, color, and perm solutions to hair salons in Japan, China, and Asia Pacific. However, we transferred the said business in July 2022, with some exceptions.

Net sales were ¥9.3 billion ($70.8 million), down 38.9% year on year on a reported basis, or down 43.1% year on year on an FX-neutral basis. Core operating profit stayed flat year on year at ¥0.8 billion ($5.7 million).

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

	Japanese GAAP			IFRS	
(%)	2019/12	2020/12	2021/12	2021/12	**2022/12**
Net Sales	5.7	(17.8)	7.8	—	**(3.9)**

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)	2019/12	2020/12	2021/12	**2022/12**
USD	109.1	106.8	110.0	**131.4**
EUR	122.1	121.8	129.9	**138.0**
CNY	15.8	15.5	17.0	**19.5**

Sales by geographical area	Japanese GAAP			IFRS	
(Billions of yen)	2019/12	2020/12	2021/12	2021/12	**2022/12**
Japan	491.1	333.3	321.2	297.5	**298.6**
China	248.4	289.0	343.7	343.7	**348.5**
Asia (excl.China)	128.6	104.1	117.7	116.2	**132.1**
Americas	130.4	93.1	127.5	127.5	**146.5**
Europe	133.1	101.3	125.1	125.1	**141.7**
Total	1,131.5	920.9	1,035.2	1,010.0	**1,067.4**

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

LIQUIDITY AND CAPITAL RESOURCES

FINANCING AND LIQUIDITY MANAGEMENT

The Group strives to generate stable operating cash flows and secure a wide range of financing sources, while always seeking to appropriately secure adequate funds for its business activities, maintain liquidity, and achieve 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 liquidity on hand at a level of approximately 1.5 months of consolidated net sales. As of December 31, 2022, cash and deposits totaled ¥134.5 billion ($1,019.8 million) and liquidity on hand amounted to 1.5 months of consolidated net sales for the fiscal year 2022.

Meanwhile, interest-bearing debt as of December 31, 2022 totaled ¥299.8 billion ($2,273.1 million). The Group uses diversified funding methods, which include ¥100 billion ($758.3 million) in unused committed lines of credit with financial institutions and ¥280 billion ($2,123.1 million) in authorized but unissued straight bonds in Japan. In addition, the Group and its two subsidiaries in Europe and the United States have established a syndicated loan program with authorized but unused commitments totaling $300 million.

As of December 31, 2022, as the Shiseido Group maintained a sufficient level of liquidity and the funding methods are diversified, we consider that the financial flexibility is high.

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	A3 (Outlook: stable)

(As of February 28, 2023)

ASSETS, LIABILITIES, AND NET ASSETS

Assets

Total assets increased by ¥6.7 billion ($50.7 million) from the end of the previous fiscal year to ¥1,307.7 billion ($9,915.5 million), primarily from an increase in exchange differences on translation of foreign operations due to the yen depreciation, which outweighed a decrease in cash and cash equivalents due to income taxes paid on business transfers executed in the previous fiscal year and cash dividend payments, as well as a decrease in property, plant and equipment due to the recording of impairment losses associated with the transfer of the manufacturing business of personal care products and a decrease in inventories due to the business transfers as well as tightened inventory management.

Liabilities

Liabilities decreased by ¥56.9 billion ($431.4 million) to ¥681.9 billion ($5,170.7 million), primarily due to a decrease in current liabilities associated with a decrease in income taxes payable and a decrease in non-current liabilities associated with a decrease in retirement benefit liability.

Equity

Equity increased by ¥63.6 billion ($482.1 million) to ¥625.8 billion ($4,744.9 million), chiefly due to the recording of profit attributable to owners of parent and exchange differences on translation of foreign operations.

CASH FLOWS

Cash Flow Summary

The balance of cash and cash equivalents as of December 31, 2022 stood at ¥119.0 billion ($902.6 million), ¥37.5 billion ($284.1 million) less than at the end of the previous consolidated fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities decreased ¥87.5 billion ($663.6 million) year on year to ¥46.7 billion ($354.4 million). The result is attributable to cash outflow factors of income taxes paid of ¥67.5 billion ($512.0 million), gain on transfer of business of ¥15.3 billion ($116.0 million), a decrease in trade payables of ¥12.5 billion ($94.9 million), an increase in trade receivables of ¥6.3 billion ($48.0 million), and an increase in inventories of ¥3.3 billion ($25.4 million), which outweighed cash inflow factors of profit before tax of ¥50.4 billion ($382.4 million) and non-cash expenses including depreciation and amortization of ¥75.7 billion ($574.1 million).

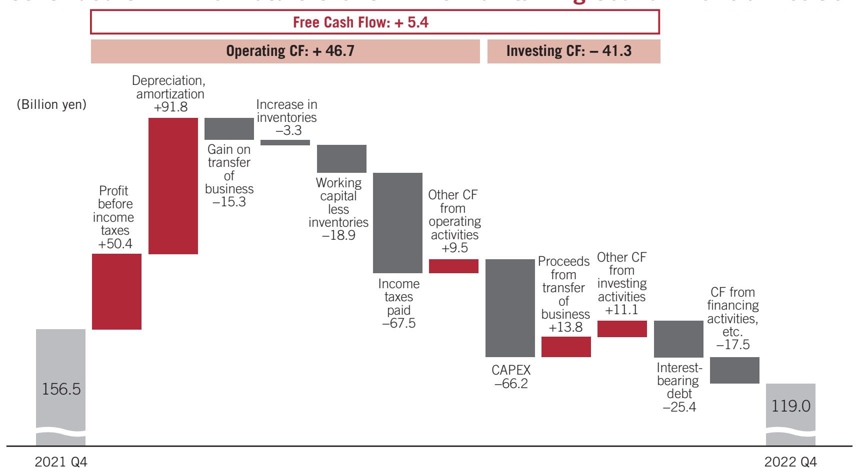
Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥108.0 billion ($819.2 million) year on year to ¥41.3 billion ($313.2 million). The result is attributable to cash outflow factors of purchase of property, plant and equipment of ¥36.3 billion ($275.2 million) and purchase of intangible assets of ¥29.9 billion ($226.8 million), which outweighed cash inflow factors of proceeds from transfer of business of ¥13.8 billion ($104.5 million) and proceeds from sale of property, plant and equipment and intangible assets of ¥5.3 billion ($40.1 million).

Cash Flows from Financing Activities

Net cash used in financing activities decreased ¥138.2 billion ($1,047.6 million) year on year to ¥52.4 billion ($397.5 million). The result is attributable to cash outflow factors of repayments of lease liabilities of ¥29.7 billion ($225.2 million), dividends paid of ¥22.0 billion ($166.6 million), and redemption of bonds of ¥15.0 billion ($113.7 million), which outweighed a cash inflow factor of proceeds from issuance of bonds of ¥20.0 billion ($151.7 million).

Cash Flow Management: Continued CAPEX for Future Growth while Maintaining Sound Financial Position



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 as 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 24, 2023. 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 corporate strategy." 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 2022, material risks were identified through a holistic approach combining multiple and comprehensive methods. Specifically, HQ Risk Management Department interviewed HQ Executive Officers, Regional CEOs, and External Directors 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 the key areas of our medium-term strategy, SHIFT 2025 and Beyond, with the input from external advisors.

As shown in Table 1 below, the identified material risks were evaluated with three measurements of "Impact on business," "Likelihood," "Vulnerability," followed by confirmation of prioritization and countermeasures through the above committee meetings and other individual meetings.

Table 1 <Risk evaluation methodology>

Impact on business	• Quantitative impact on business performance (e.g. topline sales) in case of manifestation • Qualitative impact on our corporate/brand image and culture
Likelihood	• Likelihood and timing of risk manifestation
Vulnerability	• Preparedness to the risk • Controllability of the manifestation of the risk due to external factors

Total 21 material risks identified through our risk assessment have been organized into three risk categories: "Consumer and Social-related Risks," "Operation & Fundamental Risks," and "Other Risks," as shown in Table 2 below.

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.

Table 2 <Summary of Shiseido Group material risks>

Consumer and Social-related Risks	• Changes in Consumer Values • Speed of Digital Acceleration • Pace of Cutting-Edge Innovation • Corporate and Brand Reputation • Environment and Climate Change • Diversity& Inclusion • Natural and Human-Made Disasters • Infectious Disease • Geopolitical Tensions
Operation & Fundamental Risks	• Corporate Culture and Acquisition/Securing Outstanding Talent • Business Structure Transformation • Operating Infrastructure • Supply Network • Compliance • Regulatory • Quality Assurance • Governance Structure • Information Security and Privacy
Other Risks	• Exchange Rate Fluctuations • Business Investment • Material Litigation

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 to that, we have identified five key risks that have significantly increased their risk levels compared to the previous fiscal year: "Changes in Consumer Values," "Geopolitical Tensions," "Corporate Culture and Acquisition/Securing Outstanding Talent," "Quality Assurance," and "Information Security and Privacy." We have also added "Regulatory" as a new material risk, which is becoming increasingly important as we cultivate brands with unique value and develop new businesses such as beauty devices and the inner beauty category.

The following outlines our key strategic initiatives, expected uncertainties (threats and opportunities), countermeasures and change in risk level, for each material risk. Please note that the following is based on our assumptions as of March 24, 2023.

<Consumer/Social-related Risks>

Risk	Important efforts for realizing our Strategies/Uncertainties (Threats and Opportunities) that could impact such efforts and countermeasures regarding these uncertainties	Change in risk level (Compared to the previous fiscal year)
Changes in Consumer Values	**[Key Strategic Initiatives]** • Focus on the Premium Skin Beauty segment. • 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) **[Countermeasures]** • Strengthen the delivery of compelling, tailor-made experiences in the offline store and in online e-commerce with a focus on the consumer. • Strengthen brand portfolio to respond to diversifying consumer values. • Accelerate diversity of human resources, especially at HQ. • Accelerate value creation and business development through open innovation with other companies. • Set up Consumer and Market Intelligence Department to gather consumer information in an accurate and timely manner.	↑
Speed of Digital Acceleration	**[Key Strategic Initiatives]** • Orchestrate foundational Group-wide shifts in strategy, people, technology and processes, focused on delivering benefits for the larger enterprise. • Drive Global Standardizations (platforms, tools, process and aligned KPIs) for focused and effective activations and measurement in order to help reach Global targets and create cost efficiencies and decrease compliance risks. • 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 data and process standardization may lead to compliance risk and cost increases. (Threat) • Offer unique value through combination of online and offline (i.e., store counter) experiences. (Opportunity) **[Countermeasures]** • Quarterly regional meetings between Chief Digital Officer (CDO) and digital leadership team in the HQ and Regional HQs established for audit and track global delivery based on standardized KPIs. • Introduction of the digital workforce planning to reinforce team building, hiring, retention, and development of digital experts. • Enhance development of beauty technology to reinforce personalized engagement with customers and improve unique digital content to analyze skin condition. • Accelerate first-party data acquisition through service and technology offered to consumers online and at store counters. • Promote governance by creating stage gate process, investment management model with collaboration with R&D, Corporate Strategy and Global IT companies. • Establishment of Global and Regional Metaverse and Web 3.0 Steering Committee to pilot innovations and test, learn and stay competitive.	→
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 segment. • Invest in R&D with ca.3% of net sales ratio target. • Strengthen R&D and regulatory compliance activities at each Regional HQ. **[Uncertainties]** • New and competing technologies may make existing technologies obsolete. Cosmetics and other 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, medium-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) **[Countermeasures]** • Continue to expand investment and resources in R&D of cosmetics. • Identified core technology areas for R&D and clarified short-to long-term strategies for each to achieve resource allocation with high return on investment. • To maximize the value of innovative research results, identify the seeds for commercialization across brands, which are effectively communicated to consumers through strategic communications. • Establishment of an Innovation Center to drive innovation in collaboration with other companies. • Operate Nasu Factory, Osaka Ibaraki Factory and Fukuoka Kurume Factory leveraging the latest technologies. • Conduct joint research with external organizations. Harness expertise of startup ventures. Focus on consumer trends. • Collaborate for innovation with external parties through initiatives such as "fibona" (open innovation program involving startup companies). • Define KPIs for measuring the return on R&D (such as R&D expenses to net sales ratio, number of researchers, sites, patent applications, academic papers, and seeds created and utilized etc.) for monitoring. • Expanding the strategic dispatch of talents to external organizations for the development of innovative human resources.	→
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) **[Countermeasures]** • 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 local government authorities to combat counterfeit products.	→

Risk	Important efforts for realizing our Strategies/Uncertainties (Threats and Opportunities) that could impact such efforts and countermeasures regarding these uncertainties	Change in risk level (Compared to the previous fiscal year)
Environment and Climate Change	**[Key Strategic Initiatives]** • As part of initiatives to realize a better world, execute actions while working toward greater sustainability, and enriching people's lives through an approach unique to a beauty company. • Promote activities to achieve three commitments: "Reducing Our Environmental Footprint," "Developing Sustainable Products," and "Promoting Sustainable and Responsible procurement." **[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) **[Countermeasures]** • 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 Regional HQs with responsibility for execution. • Sustainability/SDGs-related activities by each brand. • Promote ISO14001 certification at all factories and distribution centers by end of 2024. • Issue Sustainability Report reflecting corporate policies, initiatives, and KPIs. • Promote efforts to contribute to the reduction of environmental impact together with customers through adopting eco-friendly packaging. • Promote switch to certified palm oil and paper. • Set and disclose medium-term targets for major environmental load reduction items (CO2, palm oil, paper, water, waste) and work toward achieving them. • Support the Task Force on Climate-related Financial Disclosures (TCFD). Prepare and disclose a scenario based on quantitative/qualitative analysis of climate change impact on business, estimated financial impact and specific actions to be taken, in line with TCFD recommendations.	→
Diversity& Inclusion	**[Key Strategic Initiative]** • To achieve the three commitments of "Advancing Gender Equality," "Empowering people through the Power of Beauty," and "Promoting Respect for Human Rights," actions taken by HQ/Regional HQs/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) **[Countermeasures]** • Medium-to-long-term strategy development, setting KPIs, and monitoring of the strategy implementation progress, involving related departments of HQ and Regional HQs. • Activities by each brand for sustainability and SDGs realization. • 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.	→
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) **[Countermeasures]** • Execute employee safety training and formulate business continuity plans (BCPs) for HQ and major regional sites. Hold regular and consistent training at each site. • Strengthen and leverage our global supply network to allow flexible and continuous supply during a crisis, such as establishment of a new factory.	→
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]** • Re-emergence of COVID-19 or outbreak of similar pandemics may lead to decline in consumption, sales, and profits. (Threat) • Possibility to secure a competitive advantage in the market by quickly and flexibly addressing the changes in consumer values and needs. (Opportunity) **[Countermeasures]** • Putting the safety and security of employees first, taskforce established at HQ and Regional HQs in response to COVID-19. • BCP for infectious diseases established and response system continuously strengthened.	→
Geopolitical Tensions	**[Key Strategic Initiatives]** • Focus investments on the areas of growth drivers. • Rebuild the business foundation to boost profitability. **[Uncertainties]** • Possibility of boycott on our products due to increased anti-Japan sentiments in markets where we operate. (Threat) • Deterioration of business environment due to political instability in markets where we operate. (Threat) • Our profitability may deteriorate if the increased cost of raw materials caused by global price inflation leads to an increase in the price of goods/services, 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) **[Countermeasures]** • Further develop our Premium Skin Beauty business. • Balance sales portfolio across Regions. Strengthen and leverage the scale of our global supply network to be able to be flexible at a time of crisis, without interrupting supply. • Identification and consideration of Group-wide response points in the event of a crisis.	↑

<Operation & Fundamental Risks>

Risk	Important efforts for realizing our Strategies/Uncertainties (Threats and Opportunities) that could impact such efforts and countermeasures regarding these uncertainties	Change in risk level (Compared to the previous fiscal year)
Corporate Culture and Acquisition/ Securing Outstanding Human Talent	**[Key Strategic Initiatives]** • Under the "PEOPLE FIRST" Principle, acquire/develop human resources that realize innovation and create new value. • Established eight working principles for all Shiseido employees to follow, as OUR PRINCIPLES (TRUST 8). **[Uncertainties]** • Inability to attract and retain the best talent may lead to talent shortages in realizing our business objectives. (Threat) • Possibility of securing a competitive advantage by hiring and retaining the best talent. (Opportunity) • Possible increase in productivity of the entire Group through work style reforms tailored to each task. (Opportunity) **[Countermeasures]** • 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 workstyle combining office and remote work to achieve maximum results (Shiseido hybrid work style) and permitting part-time jobs. Improve employee wellbeing. • Introduce the global HR database and unify employee performance management to appoint talented people right time in the right jobs at the right time. • Introduce the Job Grade HR System and a remuneration system commensurate with individual contributions to ensure transparency in personnel evaluation and improve employee motivation. • Accelerate a shift to digitally driven business model and reinforce IT/digital capability through Shiseido Interactive Beauty (SIB). • Strengthen retention of human resources by offering total rewards, including global leadership programs, women's leadership development programs, global mobility and competitive compensation systems.	↑
Business Structure Transformation	**[Key Strategic Initiative]** • Promote structural reforms by divesting or withdrawing from unprofitable and non-core businesses and 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) • Possibility that the timing of market recovery may be delayed beyond expectations due to the impact of the Covid-19 and other factors may result in changed in consumer purchasing behavior, negatively affecting the management plans. (Threat) • Growth in the cosmetics market may fall below expectations with slowdown of economic growth in China or the Americas, 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) **[Countermeasures]** • 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.	→
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) **[Countermeasures]** • Establishment of the specialized 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.	→
Supply Network	**[Key Strategic Initiatives]** • Establishment of 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 and inability to produce stable products due to price hikes, increased demand for raw materials, business withdrawals, natural disasters, cyber damage to suppliers, and other factors caused by economic factors such as yen depreciation and international inflation affecting the supply chain. (Threat) • Leverage Japan's high-quality manufacturing strengths to increase consumer value, at our factories in Japan. (Opportunity) **[Countermeasures]** • 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.	→
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, Tokyo Stock Exchange (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) **[Countermeasures]** • Appointed a Chief Legal Officer (CLO) who works in conjunction with regional legal leaders to reinforce global compliance with the Standards and with laws and regulations. Response 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. • Foster an ethical culture and a framework of our ways of working that set out our non-negotiable standards embodied in our Shiseido Code of Conduct and Ethics 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. • Provide an anonymous employee reporting system via phone or online, to report and respond to alleged violations of standards.	→
Regulatory	**[Key strategic Initiative]** • HQ leads in collecting information and analyzing risks related to new environmental laws, product regulations and social trends, sharing information with related departments, and including overseas regions, and strengthening the system for the smooth launch of innovative products and services. **[Uncertainties]** • If we are unable to appropriately formulate our corporate strategy to respond to changes in consumer's sense of value regarding beauty and health to develop cosmetics and services that match demand, it may have a significant impact on our business, causing us to lose the trust of society and consumers. **[Countermeasures]** • Established a dedicated department within HQ to monitor regulatory trends and formulate strategies for cosmetics and other regulations in each country. • Conduct compliance assessments of environmental and other regulations based on the ISO14001 to ensure strict compliance with laws and regulations.	→
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]** • Group-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) **[Countermeasures]** • 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.	↑
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 Regional HQs overseeing Japan, China, APAC, the Americas, EMEA, and Travel Retail. We will promote the localization of responsibilities and authority. **[Uncertainties]** • If Regional HQs push through decisions that do not align with the Group's overall policies, or, conversely, if authority is not appropriately delegated to Regional HQs and they are unable to effectively fulfill their responsibilities, it may become increasingly challenging to maintain efficient and legally compliant operations and damage the organization's sustainability. (Threat) • Possibility of increased consumer loyalty in Regional HQs area of responsibility and make speedy decisions or successfully execute marketing strategies to address local market needs. (Opportunity) **[Countermeasures]** • Significant decisions relating to the Company's business are regularly reviewed by the Company's Executive Officers and presented to the Board of Directors. • We create rules for responsibility and authority of HQ/ Regional HQs for each function and brand to ensure corporate governance through regular reporting and on-going global leadership meetings. • Strengthen governance structure by establishing internal controls globally, including a Group-wide risk management system.	→
Information Security and Privacy	**[Key Strategic Initiative]** • Strengthen digital marketing globally by utilizing data and enhancing e-commerce to match consumer needs and fierce competitive environment. • Acquire via consumer consents personal data to provide new curated experience/services to customers and co-creation. • Shift to Shiseido Hybrid Work Style, a 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]** • Stagnation of production and sales and liability for damages to consumers and customers 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 working styles regardless of location and time, 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 countermeasures 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) **[Countermeasures]** The following measures are implemented, referencing the ISO and National Institute of Standards and Technology (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.	↑

<Other Risks>

Risk	Important efforts for realizing our Strategies/Uncertainties (Threats and Opportunities) that could impact such efforts and countermeasures regarding these uncertainties	Change in risk level (Compared to the previous fiscal year)
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. • Investments in overseas affiliates could result in reduced net assets due to currency exchange adjustments and the appreciation of the Japanese yen. **[Countermeasures]** • Hedge exchange rate fluctuation risks with forward exchange contracts. • Monitor and respond to fluctuations in major global currencies.	→
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) **[Countermeasures]** • 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.	→
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) **[Countermeasures]** • 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.	→

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Group prepares its consolidated financial statements in accordance with IFRS. The preparation requires management's selection and adoption of accounting policies and estimates that impact reported amounts of assets/liabilities and income/expenses and note disclosures. Management makes a reasonable judgment about these estimates taking into account past business results and others. Nevertheless, actual results may differ from these estimates due to uncertainties inherent to them.

Significant accounting policies the Group adopts on its consolidated financial statements are stated on "Notes to the Consolidated Financial Statements 3. Notes on Accounting Policies and 4. Significant Accounting Estimates and Judgments."

FORECAST FOR THE FISCAL YEAR 2023

The business environment in the next fiscal year is expected to remain uncertain; pressured by global inflation, risks of recession, prolonged situation of Ukraine, and foreign exchange fluctuations, etc. However, the Group remains optimistic about the cosmetics market recovery prospects within 2023, in line with the normalization of economy in China, and the transition to post-COVID new normal on the back of various related government policies in Japan.

In response to these changes in the external environment, we plan to continue our strategic investments in such areas as skin beauty category and digitization of our business model to realize continuous and stable growth. We also plan to improve our profitability by cost structure reforms.

As a result of such initiatives, consolidated net sales in the fiscal year 2023 are forecasted at ¥1.0 trillion ($7,582.7 million), up 11% like for like, excluding the impact of foreign exchange translation and business transfers, etc. Core operating profit is forecasted at ¥60.0 billion ($455.0 million). Although increased sales are expected to generate higher margins, the forecast also incorporates strategic investments and the impact of higher raw material costs and personnel expenses due to inflation. The Company will aim to further increase profits by capturing market recovery momentum and returns from strategic investments, as well as improving the cost of sales ratio. Profit attributable to owners of parent is forecasted at ¥28.0 billion ($212.3 million).

Consolidated Financial Results Forecast for the Fiscal Year 2023

Billions of yen

	Net Sales	Core Operating Profit	Profit Attributable to Owners of Parent	Basic Earnings per Share(yen)
Forecast (A)	1,000.0	60.0	28.0	70.1
Results for the fiscal year 2022 (B)	1,067.4	51.3	34.2	85.6
Amount of increase or decrease (A–B)	(67.4)	8.7	(6.2)	
Rate of increase or decrease (%)	(6.3)	16.9	(18.1)	

Consolidated Financial Statements
Consolidated Statement of Financial Position

Shiseido Company, Limited and Subsidiaries
As of December 31, 2021 and 2022, and at the transition date

	Notes	IFRS transition date (January 1, 2021)	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars (Note 2))
Assets					
Current assets					
Cash and cash equivalents	7,19	136,347	156,503	**119,036**	**902,608**
Trade and other receivables	8,27,35	146,507	158,791	**182,069**	**1,380,566**
Inventories	10	163,001	134,147	**130,942**	**992,887**
Other financial assets	9,35	15,829	16,429	**18,498**	**140,264**
Other current assets	11	44,698	45,117	**54,753**	**415,173**
Subtotal		506,385	510,989	**505,299**	**3,831,506**
Assets held for sale	12	—	1,933	**18,929**	**143,532**
Total current assets		506,385	512,922	**524,229**	**3,975,045**
Non-current assets					
Property, plant and equipment	13,19,38	329,478	340,037	**318,339**	**2,413,854**
Goodwill	14	54,429	50,429	**57,879**	**438,876**
Intangible assets	14,33,38	197,753	101,814	**123,217**	**934,311**
Right-of-use assets	21,33	131,665	127,832	**114,276**	**866,515**
Investments accounted for using equity method	16	2,224	21,691	**15,535**	**117,796**
Other financial assets	9,19,27, 35	44,246	73,777	**84,701**	**642,258**
Deferred tax assets	17	60,428	67,433	**63,382**	**480,604**
Other non-current assets	11	13,163	5,040	**6,098**	**46,239**
Total non-current assets		833,390	788,056	**783,432**	**5,940,491**
Total assets		1,339,775	1,300,979	**1,307,661**	**9,915,537**

	Notes	IFRS transition date (January 1, 2021)	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars (Note 2))
Liabilities and equity					
Liabilities					
Current liabilities					
Trade and other payables	18,35	185,896	203,718	**203,770**	**1,545,117**
Bonds and borrowings	19,33,35	67,221	15,730	**25,990**	**197,073**
Lease liabilities	33,35	22,781	25,283	**23,757**	**180,141**
Other financial liabilities	20,35	4,926	4,914	**4,744**	**35,972**
Income taxes payable		7,374	45,600	**5,442**	**41,265**
Provisions	23	2,773	10,843	**8,136**	**61,692**
Other current liabilities	24,27	90,417	107,470	**116,180**	**880,952**
Subtotal		381,390	413,561	**388,021**	**2,942,228**
Liabilities directly associated with assets held for sale	12	—	—	**1,541**	**11,685**
Total current liabilities		381,390	413,561	**389,562**	**2,953,913**
Non-current liabilities					
Bonds and borrowings	19,33,35	232,861	145,915	**140,000**	**1,061,571**
Lease liabilities	33,35	121,774	118,909	**107,441**	**814,688**
Other financial liabilities	20,33,35	54,046	5,646	**4,950**	**37,534**
Retirement benefit liability	22	49,902	42,159	**25,346**	**192,190**
Provisions	23	1,679	1,753	**1,328**	**10,070**
Deferred tax liabilities	17	3,951	1,605	**2,174**	**16,485**
Other non-current liabilities		2,858	9,248	**11,103**	**84,190**
Total non-current liabilities		467,073	325,237	**292,344**	**2,216,742**
Total liabilities		848,464	738,799	**681,907**	**5,170,663**
Equity					
Share capital	25	64,506	64,506	**64,506**	**489,126**
Capital surplus	25	72,696	73,035	**73,560**	**557,780**
Treasury shares	25	(2,455)	(2,338)	**(2,089)**	**(15,840)**
Retained earnings	25,26	335,878	372,202	**394,877**	**2,994,214**
Other components of equity	25	(237)	33,288	**73,404**	**556,597**
Total equity attributable to owners of parent		470,388	540,695	**604,259**	**4,581,885**
Non-controlling interests		20,922	21,484	**21,494**	**162,981**
Total equity		491,310	562,179	**625,754**	**4,744,874**
Total liabilities and equity		1,339,775	1,300,979	**1,307,661**	**9,915,537**

Consolidated Statements of Profit and Loss and Consolidated Statements of Comprehensive Income

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2021 and 2022

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS

		Millions of yen		Thousands of U.S. dollars (Note 2)
	Notes	2021/12	2022/12	2022/12
Net sales	6,27	1,009,966	1,067,355	8,093,380
Cost of sales	15,21 28	271,808	323,191	2,450,645
Gross profit		738,158	744,164	5,642,736
Selling, general and administrative expenses	15,21 28,34	767,007	721,722	5,472,566
Other operating income	12,29	140,999	27,573	209,076
Other operating expenses	15,29	11,579	3,442	26,099
Operating profit	6	100,571	46,572	353,139
Finance income	21,30	4,079	5,877	44,563
Finance costs	21,30	3,829	3,627	27,502
Share of profit (loss) of investment accounted for using equity method	16	(1,709)	1,607	12,185
Profit before tax		99,111	50,428	382,378
Income tax expense	17	49,661	12,845	97,399
Profit		49,450	37,583	284,979
Profit attributable to				
Owners of parent		46,909	34,202	259,342
Non-controlling interests		2,540	3,381	25,637
Profit		49,450	37,583	284,979
Earnings per share				U.S. dollars (Note 1)
Basic earnings per share (yen)	32	117.43	85.60	0.65
Diluted earnings per share (yen)	32	117.33	85.54	0.65

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2021 and 2022

		Millions of yen		Thousands of U.S. dollars (Note 2)
	Notes	2021/12	2022/12	2022/12
Profit		49,450	37,583	284,979
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Financial assets measured at fair value through other comprehensive income	31	110	(675)	(5,118)
Remeasurements of defined benefit plans	31	4,961	11,134	84,425
Share of other comprehensive income of investments accounted for using equity method	31	0	24	182
Total of items that will not be reclassified to profit or loss		5,072	10,483	79,489
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations	31	35,062	40,024	303,488
Cash flow hedges	31	98	96	728
Share of other comprehensive income of investments accounted for using equity method	31	515	873	6,620
Total of items that may be reclassified to profit or loss		35,676	40,994	310,843
Other comprehensive income, net of tax		40,748	51,477	390,332
Comprehensive income		90,198	89,061	675,318
Comprehensive income attributable to				
Owners of parent		85,469	84,722	642,417
Non-controlling interests		4,729	4,338	32,894
Comprehensive income		90,198	89,061	675,318

Consolidated Statements of Changes in Equity

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2021 and 2022

Millions of yen

		Equity attributable to owners of parent											
						Other components of equity							
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on transition of foreign operations	Financial assets measured at fair value through other comprehensive income	Cash flow hedges	Remeasurements of defined benefit plans	Total	Total	Non-controlling interests	Total
Balance as of January 1, 2021		64,506	72,696	(2,455)	335,878	—	—	(237)	—	(237)	470,388	20,922	491,310
Profit					46,909					—	46,909	2,540	49,450
Other comprehensive income						33,427	125	98	4,907	38,559	38,559	2,188	40,748
Total comprehensive income		—	—	—	46,909	33,427	125	98	4,907	38,559	85,469	4,729	90,198
Purchase of treasury shares				(23)						—	(23)		(23)
Disposal of treasury shares				140	(69)					—	71		71
Dividends	26				(15,978)					—	(15,978)	(4,176)	(20,155)
Change in scope of consolidation										—	—	10	10
Share-based payment transactions			339		331					—	670		670
Transfer to retained earnings					5,033		(125)		(4,907)	(5,033)	—		—
Other					97					—	97		97
Total transactions with owners		—	339	117	(10,585)	—	(125)	—	(4,907)	(5,033)	(15,162)	(4,166)	(19,329)
Balance as of December 31, 2021		64,506	73,035	(2,338)	372,202	33,427	—	(139)	—	33,288	540,695	21,484	562,179
Profit					34,202					—	34,202	3,381	37,583
Other comprehensive income						40,019	(614)	96	11,018	50,520	50,520	957	51,477
Total comprehensive income		—	—	—	34,202	40,019	(614)	96	11,018	50,520	84,722	4,338	89,061
Purchase of treasury shares				(9)						—	(9)		(9)
Disposal of treasury shares				257	35					—	293		293
Dividends	26				(21,973)					—	(21,973)	(4,073)	(26,046)
Changes in ownership interest in subsidiaries			(69)							—	(69)	(275)	(345)
Change in scope of consolidation										—	—	20	20
Share-based payment transactions			594		6					—	601		601
Transfer to retained earnings					10,404		614		(11,018)	(10,404)	—		—
Other					0					—	0		0
Total transactions with owners		—	524	248	(11,526)	—	614	—	(11,018)	(10,404)	(21,157)	(4,328)	(25,486)
Balance as of December 31, 2022		64,506	73,560	(2,089)	394,877	73,447	—	(43)	—	73,404	604,259	21,494	625,754

Thousands of U.S. dollars (Note 2)

		Equity attributable to owners of parent											
						Other components of equity							
	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Exchange differences on transition of foreign operations	Financial assets measured at fair value through other comprehensive income	Cash flow hedges	Remeasurements of defined benefit plans	Total	Total	Non-controlling interests	Total
Balance as of December 31, 2021		489,126	553,799	(17,728)	2,822,278	253,465	—	(1,054)	—	252,411	4,099,901	162,906	4,262,807
Profit					259,342					—	259,342	25,637	284,979
Other comprehensive income						303,450	(4,656)	728	83,546	383,076	383,076	7,257	390,332
Total comprehensive income		—	—	—	259,342	303,450	(4,656)	728	83,546	383,076	642,417	32,894	675,318
Purchase of treasury shares				(68)						—	(68)		(68)
Disposal of treasury shares				1,949	265					—	2,222		2,222
Dividends	26				(166,614)					—	(166,614)	(30,884)	(197,498)
Changes in ownership interest in subsidiaries			(523)							—	(523)	(2,085)	(2,616)
Change in scope of consolidation										—	—	152	152
Share-based payment transactions			4,504		45					—	4,557		4,557
Transfer to retained earnings					78,890		4,656		(83,546)	(78,890)	—		—
Other					0					—	0		0
Total transactions with owners		—	3,973	1,880	(87,398)	—	4,656	—	(83,546)	(78,890)	(160,426)	(32,818)	(193,251)
Balance as of December 31, 2022		489,126	557,780	(15,840)	2,994,214	556,923	—	(326)	—	556,597	4,581,885	162,981	4,744,874

Consolidated Statements of Cash Flows

Shiseido Company, Limited and Subsidiaries
For the fiscal years ended December 31, 2021 and 2022

	Notes	2021/12	2022/12	2022/12
		Millions of yen		Thousands of U.S. dollars (Note 2)
Cash flows from operating activities:				
Profit before tax		99,111	50,428	382,378
Depreciation and amortization		76,058	75,718	574,143
Impairment losses (reversal of impairment losses)	15	43,753	16,097	122,058
Loss (gain) on disposal of fixed assets		3,398	(2,422)	(18,365)
Gain on transfer of business	36	(133,843)	(15,294)	(115,969)
Increase (decrease) in retirement benefit liability		(340)	(1,941)	(14,718)
Interest and dividend income		(1,554)	(5,008)	(37,974)
Interest expenses		3,056	2,501	18,964
Interest on other financial liabilities		529	115	872
Share of loss (profit) of investments accounted for using equity method		1,709	(1,607)	(12,185)
Decrease (increase) in trade receivables		(1,388)	(6,334)	(48,029)
Decrease (increase) in inventories		11,825	(3,348)	(25,387)
Increase (decrease) in trade payables		35,680	(12,516)	(94,904)
Other		24,987	18,571	140,817
Subtotal		162,983	114,960	871,702
Interest and dividends received		1,669	1,367	10,365
Interest paid		(2,815)	(2,069)	(15,689)
Interest paid on other financial liabilities		(493)	—	—
Income taxes paid		(27,093)	(67,522)	(511,996)
Net cash provided by (used in) operating activities		134,249	46,735	354,375
Cash flows from investing activities:				
Payments into time deposits		(23,693)	(18,006)	(136,533)
Proceeds from withdrawal of time deposits		24,706	19,101	144,836
Purchase of property, plant and equipment		(75,287)	(36,289)	(275,167)
Proceeds from sales of property, plant and equipment and intangible assets		1,501	5,288	40,097
Purchase of intangible assets		(19,927)	(29,915)	(226,835)
Proceeds from sale of investment property		7,916	—	—
Proceeds from transfer of business	36	149,936	13,778	104,474
Other		1,581	4,733	35,889
Net cash provided by (used in) investing activities:		66,733	(41,308)	(313,224)
Cash flows from financing activities				
Net increase (decrease) in short-term borrowings and commercial papers	33	(57,885)	73	554
Proceeds from long-term borrowings	33	10,000	—	—
Repayments of long-term borrowings	33	(94,714)	(730)	(5,535)
Proceeds from issuance of bonds	33	—	20,000	151,653
Redemption of bonds	33	—	(15,000)	(113,740)
Purchase of treasury shares		(23)	(9)	(68)
Proceeds from disposal of treasury shares		71	244	1,850
Dividends paid		(15,987)	(21,969)	(166,583)
Dividends paid to non-controlling interests		(3,677)	(4,663)	(35,358)
Repayments of lease liabilities	33	(24,804)	(29,704)	(225,235)
Repayments of long-term accounts payable	33	(3,437)	(295)	(2,237)
Other		(117)	(363)	(2,753)
Net cash provided by (used in) financing activities		(190,575)	(52,418)	(397,467)
Net change in cash and cash equivalents (decrease)		10,407	(46,991)	(356,316)
Cash and cash equivalents at beginning of period	7	136,347	156,503	1,186,708
Effect of exchange rate changes on cash and cash equivalents		9,747	10,024	76,008
Net change in cash and cash equivalents included in assets held for sale	12	—	(500)	(3,791)
Cash and cash equivalents at end of period	7	156,503	119,036	902,608

Notes to the Consolidated Financial Statements

Shiseido Company, Limited and Subsidiaries

01. Reporting Entity

Shiseido Company, Limited (hereinafter, "the Company") is a stock company located in Japan. The Company's consolidated financial statements as of and for the fiscal year ended December 31, 2022 comprise the accounts of the Company and its consolidated subsidiaries (hereinafter collectively, "the Group"), as well as its share of equity in associates. Information on the lines of business and main activities of the Group is presented in "6. Operating Segments" of the Notes.

02. Basis of Preparation

(1) Statement of compliance with the International Financial Reporting Standards (hereinafter, "IFRS") and matters concerning first-time adoption thereof

The Group's consolidated financial statements are prepared in accordance with IFRS pursuant to Article 93 of the Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of October 30, 1976) on the grounds that it satisfies the requirements of a "specified company complying with designated international accounting standards" prescribed in Article 1-2 of the Regulation.

The Group has adopted IFRS for the first time from the fiscal year ended December 31, 2022, and the date of transition to IFRS was January 1, 2021. In transitioning to IFRS, the Group has applied IFRS 1 First-Time Adoption of International Financial Reporting Standards (hereinafter, "IFRS 1"). Furthermore, information on the impact of the transition to IFRS on the financial position, operating results, and cash flows of the Group on the date of transition to IFRS and in the comparative fiscal year is presented in "41. First-Time Adoption of IFRS" of the Notes.

The Group's accounting policies are in accordance with IFRS that were effective on December 31, 2022, except for those which the Group have not early adopted and exemptions permitted under IFRS 1.

Information on exemptions applied is presented in "41. First-Time Application of IFRS" of the Notes.

The consolidated financial statements were approved by Masahiko Uotani, Representative Director, Chairman and CEO, and Takayuki Yokota, Director and CFO, on April 12, 2023.

(2) Basis of measurement

As stated in "3. Notes on Accounting Policies" of the Notes, the Group's consolidated financial statements are prepared on a historical cost basis, except for certain items such as financial instruments that are measured at fair value.

(3) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, and figures are rounded down to the nearest million yen.

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥131.88= US$1 prevailing on December 31, 2022 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.

03. Notes on Accounting Policies

Notes on Accounting Policies

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries refers to entities controlled by the Group. An entity is deemed to be controlled by the Group when the Group has exposure or rights to variable returns arising from its involvement in an entity and has the ability to influence such returns through its power over the entity.

The financial statements of subsidiaries are included in consolidation from the date the Group obtains control until the date it loses control.

Balances of receivables and payables and internal transactions between group companies, as well as unrealized gains and losses arising from transactions between group companies, are eliminated in the preparation of the consolidated financial statements.

When control continues as a result of partial disposals of interests in subsidiaries, they are accounted for as equity transactions. The difference between the amount of non-controlling interest adjusted and the fair value of the consideration is recognized directly in equity as equity attributable to owners of parent.

When control is lost, any gain or loss arising from the loss of control is recognized in profit or loss.

2) Affiliates

Affiliates refer to companies over which the Group does not have control or joint control, despite having significant influence over finance or operating policy. Generally, when the Group has between 20% and 50% of the voting rights of another company, the Group is assumed to have significant influence over that company.

In principle, affiliates are accounted for by the equity method from the day that the Group assumes a significant influence until the day that it loses the significant influence. Investments in affiliates include goodwill recognized upon acquisition (net of accumulated impairment losses).

Where affiliates have adopted different accounting policies to those adopted by the Group, adjustments are made to the affiliates' financial statements as needed.

(2) Business combinations

Business combinations are accounted for under the acquisition method. Non-controlling interests are initially measured at fair value or their proportionate share of the acquiree's identifiable net assets at the acquisition date.

If the sum of the fair value of the consideration paid, the amount of non-controlling interest in the acquiree, and, in the case of an acquisition in phases, the fair value of the acquirer's previously held equity interest in the acquiree at the acquisition date exceeds the fair value of the identifiable assets and liabilities assumed at the acquisition date, the excess amount is recognized as goodwill in the consolidated statement of financial position. On the other hand, if the total consideration is less than the fair value of the identifiable assets and liabilities assumed, it is recognized immediately in the consolidated statement of income as profit or loss.

Acquisition-related costs incurred in connection with a business combination are recognized as expenses as incurred.

If the initial accounting for the business combination is not completed by the end of the consolidated fiscal year in which the business combination occurred, items not completed are accounted for using provisional amounts and the provisional amounts recognized at the acquisition date are adjusted retrospectively for measurement periods within one year of the acquisition date.

(3) Foreign currency translation

1) Foreign currency denominated transactions

Foreign currency transactions are translated into the functional currency of each entity in the Group using the exchange rates at the date of the transactions.

Foreign currency monetary assets and liabilities at the end of the reporting period are translated into the functional currency using the exchange rate at the reporting date.

Differences arising from translation or settlement are recognized in profit or loss. However, the translation differences arising from equity financial assets measured at fair value through other comprehensive income and from the hedging instruments of cash flow hedges are recognized in other comprehensive income to the extent that the hedges are effective.

2) Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen at the year-end exchange rate, and revenues and expenses are translated into Japanese yen at the average exchange rate unless the exchange rate fluctuates significantly. Translation differences arising from the translation of financial statements of foreign operations are recognized in other comprehensive income, the accumulated amount of which is recognized as other component of equity. Upon disposal of a subsidiary resulting in loss of control, the entire accumulated translation differences related to such foreign operating entity are transferred to profit or loss.

(4) Financial instruments

1) Non-derivative financial assets

(i) Initial recognition and measurement

Financial assets measured at amortized cost are initially recognized on the date incurred. All other financial assets are recognized on the date of becoming a party to the contract for the financial instrument.

Financial assets are classified at initial recognition as follows.

(a) Financial assets measured at amortized cost

Financial assets that meet both of the following conditions are classified into financial assets measured at amortized cost.

- Financial assets held within a business model whose objective is to hold financial assets to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(b) Equity instruments measured at fair value through other comprehensive income

For all investments in equity instruments which are not held for sale, the Group has elected to present subsequent changes in the fair value in other comprehensive income at the time of initial recognition.

(c) Debt instruments measured at fair value through other comprehensive income

Financial assets that meet both of the following conditions are classified into financial assets measured at fair value through other comprehensive income.

- Financial assets held in a business model whose objective is achieved by both the collection and sale of contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(d) Financial assets measured at fair value through profit or loss

Financial assets other than above are classified as financial assets measured at fair value through profit or loss.

In principle, financial assets are measured at fair value plus transaction costs directly attributable to the financial assets. However, for financial assets measured at fair value through profit or loss, transaction costs are recognized in profit or loss as incurred.

In addition, trade receivables that do not contain a significant financing component are measured at its transaction price.

(ii)Subsequent measurement

After initial recognition, financial assets are measured based on the classification as follows.

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method, with interest recognized in profit or loss. When necessary, an allowance for doubtful accounts is deducted from the gross carrying amount to which the effective interest method is applied.

(b) Financial assets measured at fair value

For equity financial assets measured at fair value through other comprehensive income, changes in fair value and gains or losses on derecognition are recognized in other comprehensive income. The cumulative amount recognized in other comprehensive income is transferred to retained earnings immediately after recognition in other components of equity. Dividends from such financial assets are recognized in profit or loss for the current period as part of financial income, unless such dividends clearly represent a recovery of the cost of the investment.

Changes in the fair value of financial assets measured at fair value, other than those above, are recognized in profit or loss.

(iii) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the asset.

(iv) Impairment of financial assets

For impairment losses on financial assets, etc. measured at amortized cost, an allowance for doubtful accounts is recognized for expected credit losses on such assets.

The Group assesses whether the credit risk associated with each financial asset has increased significantly since the initial recognition at each reporting date, and when the credit risk has not increased significantly, the Group recognizes the 12-month expected credit loss in allowance for doubtful accounts. When the credit risk has increased significantly since the initial recognition, the Group recognizes the amount equal to the lifetime expected credit loss as allowance for doubtful accounts.

For trade and lease receivables that do not contain a significant financial component, the Group always recognizes an allowance for doubtful accounts in an amount equal to the expected credit loss for the entire term, regardless of whether credit risk has increased significantly from the time of initial recognition.

In assessing whether there has been a significant increase in credit risk, the Group considers information that is reasonably available and supportable (internal and external credit ratings, etc.) in addition to information on the past due information.

Expected credit loss is measured based on the present value of the difference between all contractual cash flows payable to a company, and all contractual cash flows expected to be received by a company.

Any issuer or debtor is deemed to be in default when collecting of all or a portion of financial assets to such an issuer or debtor is judged to be impossible or extremely difficult due to condition such as its significant financial difficulty or breach of contract including past due status.

In addition, if the Group does not have a reasonable expectation of collecting all or a portion of given financial assets, the Group directly reduce the gross carrying amount of a financial asset.

The provision for allowance for doubtful accounts on financial assets is recognized in profit or loss. When an event that reduces the allowance for doubtful accounts occurs, a reversal of the allowance for doubtful accounts is recognized in profit or loss.

2) Non-derivative financial liabilities

The Group initially recognizes financial liabilities on the date incurred, and measures them at amortized cost. At initial recognition, financial liabilities are measured by fair value, deducting transaction costs directly attributable to the issuance of the financial liability. In addition, after initial recognition, they are measured at amortized cost based on the effective interest method.

Financial liabilities are derecognized when they are extinguished, that is, when the obligation specified in the contract is discharged, cancelled or expired.

3) Derivatives and hedge accounting

The Group uses derivatives such as foreign exchange forward contracts and interest rate swaps to hedge foreign exchange risk, and interest rate risk, respectively. Of these derivatives, derivative instruments that meet requirements for hedge accounting are designated as hedging instruments, and hedge accounting is applied to them.

In applying hedge accounting, the Group officially documents risk management purposes, relationship between the hedging instrument and the hedged item in executing the hedge transaction, and method for assessing effectiveness of the hedging relationship at the inception of the hedge. In addition, the Group assesses whether the derivative designated as a hedging instrument is effective in offsetting changes in cash flows of the hedged item at the inception of the hedge, and subsequently on an ongoing basis.

These derivatives are initially recognized at fair value when the contract is entered into, and subsequently remeasured at fair value, and subsequent changes are accounted for as follows.

(i) Cash flow hedges

Of gains or losses on hedging instruments, the effective portion is recognized as other comprehensive income, and the ineffective portion is recognized as profit or loss in the consolidated statement of profit and loss.

Amounts relating to hedging instruments recognized as other comprehensive income are reclassified to profit or loss when a transaction that is the hedged item affects profit or loss. If a hedged item gives rise to the recognition of non-financial assets or non-financial liabilities, the amount recognized as other comprehensive income is accounted for as adjustment to the initial carrying amount of the non-financial assets or non-financial liabilities.

(ii) Derivatives not designated as hedges

Changes in fair value of derivatives are recognized as profit or loss in the consolidated statement of profit and loss.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits withdrawable at any time, and short-term investments that are readily convertible to cash and subject only to insignificant risk of changes in value, and have a maturity of three months or less from the acquisition date.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Net realizable value is the amount of the estimated selling price in the ordinary course of business less the estimated costs and estimated selling costs required up to the completion. Cost is calculated based on the periodic average method, and includes cost of purchase, processing cost, and all expenses required to reach the current place and status.

(7) Property, plant and equipment

Property, plant and equipment are measured based on the cost model and are stated at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenses directly related to acquisition of assets, demolition and removal costs and restoration cost for land, and borrowings costs to be capitalized.

Depreciation of each asset other than land and construction in progress is recognized using the straight-line method over respective estimated useful lives. Estimated useful lives by major asset item are as follows:

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

Estimated useful lives, residual value and depreciation method are reviewed at the end of each fiscal year, and if there is any change, the change is applied prospectively as a change in accounting estimates.

(8) Goodwill

Goodwill is not amortized. Goodwill is allocated to cash-generating units that are expected to benefit from synergies of the business combination, and is tested for impairment in each period, or whenever there is any indication of impairment.

Impairment losses on goodwill are recognized in the consolidated statement of profit and loss, and no reversal is made in future periods.

In addition, goodwill is presented at cost less accumulated impairment losses in the consolidated statement of financial position.

(9) Intangible assets

Intangible assets are measured based on the cost model and are stated at cost less accumulated depreciation and accumulated impairment losses.

Individually acquired intangible assets are measured at cost at initial recognition. Intangible assets acquired through business combinations are recognized separately from goodwill at initial recognition, and measured at fair value on the date of obtaining control.

Internally generated research-related costs are recognized as expenses when they arise. Internally generated development costs are recognized as assets only if all the requirements for being recognized as assets are met. When research-related costs and development costs are not clearly distinguishable, they are recognized as expenses, as research-related costs, when incurred.

Acquisition of software for internal use and its development costs are recognized as intangible assets when future economic benefits are expected to flow to the Group.

Intangible assets with definite useful lives are amortized using the straight-line method over respective estimated useful lives after initial recognition. Estimated useful lives of major intangible assets are as follows:

Trademark rights:	mainly 9–10 years (except for those with indefinite useful lives)
Software:	mainly 5–10 years

Intangible assets with indefinite useful lives and intangible assets that are not yet available for use are not amortized. Such intangible assets are tested for impairment individually or at the level of each cash-generating unit in each period and whenever there is any indication of impairment.

Estimated useful lives, residual value and amortization method are reviewed at the end of each fiscal year, and if there is any change, the change is applied prospectively as a change in accounting estimates.

(10) Leases

The Group assesses whether a contract is a lease or contains a lease, at the inception of the contract. If the contract transfers the right to control the use of an identified asset over a certain period of time in exchange for consideration, the contract is judged to be a lease or contain a lease.

(i) Lessee

In leases as a lessee, right-of-use assets and lease liabilities are recognized at the inception of the lease. The amount of initial measurement of right-of-use assets is the amount of initial measurement of the lease liability adjusted for lease payments that were paid at the inception or before the inception. Lease liabilities are initially measured at the present value of lease payments that have not been paid as at the inception, discounted using the interest rate implicit in the lease. When the interest rate implicit in the lease cannot be calculated easily, the Group's incremental borrowing rate of interest is used.

After initial recognition, right-of-use assets are depreciated using the straight-line method from the inception to the earlier of the end of the useful life of the right-of-use asset and the end of the lease period. Estimated useful lives of right-of-use assets are determined in the same manner as the Group's own property, plant and equipment. Lease liabilities are measured at amortized cost based on the effective interest method. Lease payments are allocated to interest expenses and repayments of lease liabilities based on the effective interest method. Interest expenses are included in "Finance Costs" in the consolidated statement of profit and loss.

The Group has elected not to recognize right-of-use assets and lease liabilities for leases with the lease period of 12 months or less or leases of small assets. The Group recognizes lease payments for these leases as expenses over the lease period using either the straight-line method or any other systematic basis. In addition, as a practical expedient, the Group has elected to account for a lease component and related non-lease components as a single lease component without separating non-lease components from lease components.

(ii) Lessor

When the Group is a lessor in leases, each lease is classified as finance lease or operating lease at the time of entering into a lease agreement. In classifying each lease, the Group comprehensively assesses whether or not substantially all of the risks and rewards incidental to ownership of the underlying asset are transferred. Leases are classified as finance leases if such risks and rewards are transferred, and otherwise as operating leases.

When the Group is an intermediate lessor, head leases and sub leases are accounted for separately. The classification of sub leases is determined by reference to right-of-use assets generated from head leases, rather than underlying assets.

Lease payments in operating lease transactions are recognized as revenue using the straight-line method over the lease period, and included in "Other Operating Income" in the consolidated statement of profit and loss.

(11) Impairment of non-financial assets

For carrying amounts of non-financial assets of the Group excluding inventories and deferred tax assets, it is judged at the end of each period whether there is any indication of impairment. If there is an indication of impairment, the recoverable amount of the relevant asset is estimated. For goodwill and intangible assets with indefinite useful lives or those which are not yet available for use, the recoverable amount is estimated at the same time each year, regardless of any indication of impairment.

The recoverable amount of assets or cash-generating units is the larger of value in use and fair value less costs of disposal. In the calculation of value in use, estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects time value of money and risks inherent in the asset. Assets that are not tested individually in impairment tests are aggregated to the smallest cash-generating unit which generates cash inflows from continuing use that are largely independent of cash inflows from other assets or asset groups. When goodwill is tested for impairment, cash-generating units to which the goodwill is allocated are aggregated so that the level at which impairment is tested reflects the lowest level to which the goodwill relates. Goodwill acquired through business combinations is allocated to the cash-generating unit expected to benefit from synergies of the combination.

Impairment losses are recognized as profit or loss if the carrying amount of assets or cash-generating units exceeds the estimated recoverable amount. Impairment losses recognized in relation to a cash-generating unit are first allocated to reduce the carrying amount of the goodwill allocated to the unit, and then to reduce the carrying amount of other assets in the cash-generating unit on a pro rata basis.

Previously recognized impairment losses, except for goodwill, are assessed at the end of each period for whether or not there is any indication of decrease or extinguishment of loss, and reversed up to the carrying amount after deducting necessary depreciation and amortization from the carrying amount in the case where the impairment losses had not been recognized.

(12) Employee benefits

The Group adopts defined benefit pension plans and defined contribution pension plans as post-employment benefits for employees.

The Group determines the present value of defined benefit obligations and related current service cost and past service cost using the projected unit credit method.

The discount rate is determined by reference to market yields on high-quality corporate bonds at the end of the reporting period corresponding to the discount period, which is established to reflect the period until the estimated timing of benefit payments in each fiscal year in the future.

Liabilities or assets pertaining to defined benefit pension plans are calculated by deducting the fair value of plan assets from the present value of defined benefit obligations.

Remeasurements of defined benefit pension plans are collectively recognized in other comprehensive income for the period when they are incurred, and the cumulative amount is immediately transferred from other components of equity to retained earnings.

Past service cost is recognized in profit or loss for the period when it is incurred.

Expenses relating to defined contribution retirement benefits are recognized as expenses in the period when employees render services.

(13)Share-based payments

The Group has adopted a stock option plan as equity-settled stock-based compensation plan, and a performance share unit plan as equity-settled and cash-settled performance-linked stock remuneration plan.

Stock options are estimated based on fair value on the grant date, and recognized as expenses in the consolidated statement of profit and loss over the vesting period with consideration of the number of stock options expected to eventually vest, and the same amount is recognized as an increase in equity in the consolidated statement of financial position. Fair value of granted options is calculated using the Hull-White modified binomial model with consideration of various conditions of the options. In addition, the conditions are reviewed regularly, and the estimate of the number of stock options vested is revised as necessary.

Of the performance share unit plan, the portion that falls under the category of equity-settled payment transactions is measured by reference to fair value of the Company's shares granted and recognized as expenses over the vesting period, and the same amount is recognized as an increase in equity. On the other hand, for the portion that falls under the category of cash-settled payment transactions, services received are measured at fair value of liabilities arising and recognized as expenses over the vesting period, and the same amount is recognized as an increase in liabilities. The fair value of these liabilities is remeasured on the reporting date and the settlement date, and any change in the fair value is recognized as profit or loss.

(14) Provisions

Provisions are recognized when the Group has present legal or constructive obligations as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligations, and the amount of the obligations can be estimated reliably. When time value of money is material, estimated future cash flows are discounted to the present value using a pre-tax interest rate that reflects time value of money and risks inherent in the liabilities. Unwinding of the discount over time is recognized as finance costs.

(15) Revenue

The Group is engaged in production and sale of cosmetics such as skin-care products, makeup products and fragrances, and in restaurant and hair salon businesses. As for sales of products, since customers obtain control of the product at the time of delivery of the product, etc., revenue is recognized at the time of delivery of the product, etc. In addition, revenue is measured at an amount of consideration promised in the agreement with the customer less discounts, rebates, sales returns and others. The consideration expected to be refunded to customers is recorded as refund liabilities in “Trade and Other Payables” in the consolidated statement of financial position. Variable consideration is included in the transaction price to the extent that it is highly probable that a significant reversal of the cumulative amount of revenue recognized will not occur, when uncertainty associated with the variable consideration is subsequently resolved.

The consideration in contracts with customers does not contain a significant financing component. The Group offers a point program under which it is possible to make payments using the points at the time of purchase of products in the future, to customers according to sales of products, and identifies the portion of points expected to be exercised by customers in the future as performance obligations in the point program. Transaction prices are allocated to these performance obligations based on the ratio of stand-alone selling prices, which are consideration promised in the agreement with the customer less discounts, rebates, sales returns and others. The amount allocated to performance obligations in the point program is deferred as contract liabilities in “Other Current Liabilities” in the consolidated statement of financial position, and revenue is recognized according to the use of points with consideration of the forfeit rate.

(16) Governmental subsidies

Governmental subsidies are recognized at fair value when incidental conditions for grant of subsidies are satisfied, and reasonable assurance that the subsidies will be received is obtained.

If governmental subsidies relate to an expense item, they are recognized on a systematic basis as revenue over the period in which related costs intended to be covered by the subsidies are recognized as expenses. Subsidies related to assets are recognized as deferred revenue, and recognized in profit or loss on a systematic basis over useful lives of the related assets.

(17) Income taxes

Income tax expense consist of current taxes and deferred taxes. They are recognized as profit or loss, unless they arise from items recognized directly in other comprehensive income or equity, and from business combinations.

Current taxes are measured at an amount expected to be paid to or refunded from tax authorities. Tax rates and tax law used in the calculation of the tax amount are those which have been enacted or substantially enacted by the period-end.

Deferred taxes are recognized for temporary differences that are differences between tax base of assets and liabilities and their carrying amount for accounting purposes, unused tax losses and unused tax credits at period-end.

For the following temporary differences, deferred tax assets and liabilities are not recognized.

- Taxable temporary differences arising from initial recognition of goodwill
- Temporary differences arising from initial recognition of assets and liabilities generated from transactions that affect neither accounting profit nor taxable income for tax purposes (tax loss), except for business combination transactions
- As for deductible temporary differences related to investments in subsidiaries and affiliates, cases where it is probable that the temporary difference will not be reversed in the foreseeable future, or where it is less likely that taxable income against which the temporary difference will be used will be earned
- As for taxable temporary differences related to investments in subsidiaries and affiliates, cases where the period when the temporary difference will be reversed can be controlled and it is probable that the temporary difference will not be reversed in the foreseeable future

Deferred tax liabilities are recognized for all taxable temporary differences in principle, and deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable income sufficient to use the deductible temporary differences, unused tax losses and unused tax credits will be earned.

Deferred tax assets and liabilities are measured using tax rates and tax law that are expected to be applied during the period in which the assets will be realized or the liabilities will be settled, based on tax rates and tax law which have been enacted or substantially enacted by the period-end.

Deferred tax assets and liabilities are offset when the legally enforceable right to set off current tax assets against current tax liabilities is possessed, and taxes are levied by the same taxation authority on the same taxable entity.

(18) Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to common shareholders of the parent company by the weighted average number of shares of common stock issued, which is adjusted for treasury shares during the period.

(19) Non-current assets held for sale

When the carrying amount of non-current assets (or disposal groups) is recovered principally through a sale transaction rather than continuing use, the non-current assets (or disposal groups) are classified as held for sale. To be classified as held for sale, assets are subject to the condition that the sale is highly probable and the asset is available for immediate sale in its present state, and are classified as held for sale only if the management of the Group is committed to implementation of a plan to sell the asset and the sale is expected to be completed within one year.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the carrying amount and fair value less costs to sell, and they are not depreciated or amortized after being classified as held for sale.

(20) Equity and other equity items

(i) Common stock

Common stock is recognized at issuance value in share capital and capital surplus. In addition, stock issuing expenses are deducted from issuance value.

(ii) Treasury shares

Treasury shares are valued at acquisition cost and deducted from equity. In purchase, sale or cancellation of treasury shares of the Company, gains or losses are not recognized. A difference between the carrying amount and consideration at the time of sale is recognized as equity.

(iii) Dividends

Of dividends paid to shareholders of the Company, a year-end dividend is recognized as a liability in the period in which the day when it was resolved at the Company’s General Meeting of Shareholders falls, and an interim dividend is recognized as a liability in the period in which the day when it was resolved by the Board of Directors falls.

(21) Other significant accounting policies for preparation of consolidated financial statements

(i) Application of consolidated taxation system

The Company and certain domestic consolidated subsidiaries applied a consolidation taxation system with the Company as the taxable parent company. From the next fiscal year, the Company and certain domestic consolidated subsidiaries will make a transition from the consolidation taxation system to the group tax sharing system.

04. Significant Accounting Estimates and Judgments

The preparation of the Group’s consolidated financial statements under IFRS requires management to adopt the accounting policies, to make judgements, estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The estimates and the underlying assumptions are continuously reviewed. The impact affected by the revision of the estimates will be recognized in the accounting period of the revision and the future accounting periods.

The items which may have the risk of significantly affecting the consolidated financial statements for the following fiscal year, are as follows:

(1) Valuation of goodwill related to the Shiseido Americas Corporation (“SAC”) cash-generating unit

The “Americas Business” reportable segment includes goodwill related to the SAC cash-generating unit of ¥27,399 million ($207,757 thousand). The Group identified a risk of significant estimates for this valuation of goodwill.

The recoverable amount for the impairment of goodwill is calculated as fair value less costs of disposal. Estimate of fair value less costs of disposal are calculated by the discounted cash flow method, which uses many estimates and assumptions such as future cash flow, discount rates, long-term market growth rate. Future cash flow is based on future projections, which consider information such as past performance, current and expected economic conditions, and market data. These estimates and assumptions may significantly affect the result of impartment test and impairment losses. Valuations by external specialists is utilized for the estimate of the fair value less costs of disposal and the impairment test of these goodwill.

At the end of this fiscal year, the annual impairment test was performed, and since the recoverable amount exceeded its carrying amount, impairment losses of the goodwill had not been recognized. Future cash flow used to calculate the fair value less costs of disposal was estimated based on the future business plan of SAC cash-generating unit and long-term market growth rate, and incorporates the long-term market growth rate of the cosmetics market in the United States and an improvement in sales, operating margin, and other fronts through sales expansion plan as primary assumptions. In addition, a discount rate which considers the company-specific risk premium on top of risk-free rate in the United States is used.

Management determined that the estimates for the fair value less costs of disposal on this test is reasonable, but it is possible that the fair value will decline and impairment losses will occur due to unexpectable changes in future business assumptions

The calculation method of the recoverable amount of the goodwill is stated in “14. Goodwill and Intangible Assets” of the Notes.

05. Published standards and interpretations not yet adopted

None of the new standards or interpretations that have been established or revised by the date of approval for the announcement of the consolidated financial statements have a material impact on the consolidated financial statements.

06. Operating Segment

(1) Overview of Reportable Segments

Operating segments are components where the Company is able to obtain separate financial data and 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.

The Group's main business is the production and sale of cosmetics. The Group engages in business activities under a matrix organization encompassing brand categories based on consumer purchasing style and six regions (Japan, China, Asia Pacific, 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 Group'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, 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., manufacturing operations and the Restaurant business, etc.

(Changes of reportable segments, etc.)

The Group has revised its reportable segment classifications from the fiscal year ended December 31, 2022. The business results of Shiseido Beauty Salon Co., Ltd., previously included in the Other segment, are now included in the Japan Business.

The business results related to the brand holder functions of the NARS and Drunk Elephant brands, previously included in the Americas Business, are now included in the Other segment.

Segment information for the fiscal year ended December 31, 2021 has been restated to reflect the reclassification.

(2) Method to Determine Sales and Profit (Loss) by Reportable Segment

The accounting policies for reportable segments are the same as those presented in "3. Notes on Accounting Policies" of the Notes.

Profit by reportable segments is stated on the basis of core operating profit, which is operating profit (loss) by excluding profit and loss caused by non-ordinary factors such as structural reform expenses and impairment losses, etc.

Intersegment transaction pricing and transfer pricing are determined based on prevailing market prices.

(3) Segment Revenue and Business Result

Revenue and business results by reportable segment of the Group are as follows:

Fiscal Year Ended December 31, 2021 (January 1 to December 31, 2021)

Millions of yen

	Reportable Segment					
	Japan Business (Note 4)	China Business (Note 4)	Asia Pacific Business (Note 4)	Americas Business	EMEA Business (Note 1)	Travel Retail Business
Net sales						
Sales to external customers	258,837	274,721	63,597	121,369	117,016	120,562
Intersegment sales or transfer	24,759	1,108	2,108	7,776	10,438	154
Total	283,596	275,830	65,705	129,146	127,455	120,717
Segment profit (loss) i.e. Core operating profit	6,481	4,095	5,048	1,624	2,706	22,737
Other information						
Depreciation and amortization	12,819	8,854	3,343	11,080	9,330	1,353
Impairment losses	118	—	—	25,317	15,600	—
Reversal of impairment losses	—	—	466	252	—	—

	Reportable Segment	Other (Note 2, 4)	Total	Adjustments (Note 3)	Consolidation
	Professional Business				
Net sales					
Sales to external customers	15,282	38,579	1,009,966	—	1,009,966
Intersegment sales or transfer	607	230,524	277,478	(277,478)	—
Total	15,890	269,103	1,287,445	(277,478)	1,009,966
Segment profit (loss) i.e. Core operating profit	714	14,122	57,531	(14,977)	42,553
Other information					
Depreciation and amortization	85	29,189	76,058	—	76,058
Impairment losses	—	3,435	44,472	—	44,472
Reversal of impairment losses	—	—	719	—	719

Note:
1. The EMEA Business includes the Middle East and African regions.
2. The Other segment includes head office administration departments, IPSA Co., Ltd., manufacturing operations and the Restaurant business, etc.
3. Segment profit (loss) adjustment is mainly intersegment transaction eliminations.
4. Net sales from regional sales subsidiaries related to the Personal Care business, previously recorded in Japan, China, and Asia Pacific Business, 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 Co., Ltd. (which has changed its company name from FineToday Shiseido Co., Ltd. effective January 1, 2023) and its affiliates are recorded in the Other segment effective from the same date.
5. Amounts of segment assets and segment liabilities are not presented as they are not subject to regular review for the purpose of making decisions about the allocation of management resources and assessing the Group's business performance.

Fiscal Year Ended December 31, 2022

Millions of yen

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (Note 1)	Travel Retail Business
Net sales						
Sales to external customers	237,565	258,226	68,017	137,916	128,440	163,650
Intersegment sales or transfer	6,705	1,643	3,118	3,518	9,461	138
Total	244,271	259,870	71,136	141,434	137,901	163,789
Segment profit (loss) i.e. Core operating profit	(13,089)	(3,941)	4,716	7,660	6,926	37,678
Other information						
Depreciation and amortization	12,907	9,756	3,700	8,527	7,438	1,849
Impairment losses	—	—	—	2,809	—	—
Reversal of impairment losses	—	—	—	494	—	—

	Reportable Segment	Other (Note 2)	Total	Adjustments (Note 3)	Consolidation
	Professional Business (Note 4)				
Net sales					
Sales to external customers	9,337	64,200	1,067,355	—	1,067,355
Intersegment sales or transfer	351	237,353	262,291	(262,291)	—
Total	9,688	301,554	1,329,646	(262,291)	1,067,355
Segment profit (loss) i.e. Core operating profit	750	6,078	46,780	4,559	51,340
Other information					
Depreciation and amortization	37	31,498	75,718	—	75,718
Impairment losses	—	13,782	16,592	—	16,592
Reversal of impairment losses	—	—	494	—	494

Fiscal Year Ended December 31, 2022

Thousands of U.S. dollars

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (Note 1)	Travel Retail Business
Net sales						
Sales to external customers	1,801,372	1,958,038	515,749	1,045,769	973,916	1,240,901
Intersegment sales or transfer	50,842	12,458	23,643	26,676	71,739	1,046
Total	1,852,222	1,970,503	539,399	1,072,445	1,045,655	1,241,955
Segment profit (loss) i.e. Core operating profit	(99,249)	(29,883)	35,760	58,083	52,517	285,699
Other information						
Depreciation and amortization	97,869	73,976	28,056	64,657	56,400	14,020
Impairment losses	—	—	—	21,300	—	—
Reversal of impairment losses	—	—	—	3,746	—	—

	Reportable Segment	Other (Note 2)	Total	Adjustments (Note 3)	Consolidation
	Professional Business (Note 4)				
Net sales					
Sales to external customers	70,799	486,806	8,093,380	—	8,093,380
Intersegment sales or transfer	2,662	1,799,765	1,988,861	(1,988,861)	—
Total	73,461	2,286,579	10,082,241	(1,988,861)	8,093,380
Segment profit (loss) i.e. Core operating profit	5,687	46,087	354,716	34,569	389,293
Other information					
Depreciation and amortization	281	238,838	574,143	—	574,143
Impairment losses	—	104,504	125,811	—	125,811
Reversal of impairment losses	—	—	3,746	—	3,746

Note:
1. The EMEA Business includes Europe, the Middle East and African regions.
2. The Other segment includes head office administration departments, IPSA Co., Ltd., manufacturing operations and the Restaurant business, etc.
3. Segment profit (loss) adjustment is mainly intersegment transaction eliminations.
4. Net sales from regional sales subsidiaries previously recorded in the Professional Business is no longer recorded with some exceptions from July 1, 2022 due to the transfer of Professional Business.
5. Amounts of segment assets and segment liabilities are not presented as they are not subject to regular review for the purpose of making decisions about the allocation of management resources and assessing the Group's business performance.

Adjustments from segment profit to operating profit are as follows:

	2021/12	2022/12	2022/12
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Segment profit	42,553	51,340	389,293
Gain on transfer of business	133,843	15,294	115,969
Structural reform expenses	(28,807)	(6,568)	(49,803)
Government grant income on COVID-19	1,894	592	4,489
Loss on COVID-19	(4,440)	(1,816)	(13,770)
Impairment losses	(44,472)	(16,410)	(124,431)
Reversal of impairment losses	—	494	3,746
Gain on sale of fixed assets	—	3,645	27,639
Operating profit	100,571	46,572	353,139

"Gain on transfer of business" for the fiscal year ended December 31, 2021 are the gain on transfer of assets which the Company and five of its subsidiaries operating the Personal Care Business in Asia Pacific (Shiseido China Co., Ltd., Shiseido Cosmetics Manufacturing Co., Ltd., Shiseido Hong Kong Ltd., Shiseido Singapore Co., (Pte.) Ltd., and Shiseido Korea Co., Ltd.) transferred to affiliates of Fine Today Co., Ltd. The gain on transfer of business is included in "Other operating income" in consolidated statement of profit and loss.

"Gain on transfer of business" for the fiscal year ended December 31, 2022 are the gain on transfer of assets which seven of the Company's subsidiaries operating the Personal Care Business in Asia Pacific (Taiwan Shiseido Co., Ltd., FLELIS International Inc., Shiseido Malaysia Sdn.Bhd., PT. Shiseido Cosmetics Indonesia, Shiseido Philippines Corporation, Shiseido Thailand Co., Ltd., and Shiseido Cosmetics Vietnam Co., Ltd.) transferred to affiliates of Fine Today Co., Ltd., the gain on transfer of assets which the Company and four of its subsidiaries operating the Professional Business in Asia Pacific (Shiseido China Co., Ltd., Shiseido Hong Kong Ltd., Shiseido Singapore Co., (Pte.) Ltd., and Shiseido Korea Co., Ltd.) transferred to Henkel AG & Co. KGaA Group companies, and the gain on transfer of all outstanding shares of Shiseido Professional (Thailand) Co., Ltd. to Henkel AG & Co. KGaA Group companies. The gain on transfer of business is included in "Other operating income" in consolidated statement of profit and loss.

"Structural reform expenses" for the fiscal year ended December 31, 2021 are mainly the costs associated with the termination of an exclusive global license agreement with Dolce&Gabbana S.r.l., organizational reform in Europe, the transfer of the three prestige makeup brands, and the transfer of the Personal Care Business. The expenses are included in "Selling, general and administrative expenses" in consolidated statement of profit and loss.

"Structural reform expenses" for the fiscal year ended December 31, 2022 are mainly the costs associated with the transfer of the three prestige makeup brands, the transfer of the Personal Care Business, the transfer of the Professional Business. The expenses are included in "Cost of sales," "Selling, general and administrative expenses," and "Other operating expenses" in consolidated statement of profit and loss.

"Impairment losses" for the fiscal year ended December 31, 2021 are the impairment losses associated with the trademark due to termination of an exclusive global license agreement with Dolce&Gabbana S.r.l., assets groups related to the transfer of three prestige makeup brands, and assets groups related to the production of hyaluronic acid at the factory due to the decision to discontinue the business. The impairment losses are included in "Cost of sales," "Selling, general and administrative expenses," and "Other operating expenses" in consolidated statement of profit and loss.

"Impairment losses" for the fiscal year ended December 31, 2022 are mainly the impairment losses associated with assets groups related to the conclusion of agreement to transfer manufacturing operations of personal care products conducted at Shiseido Kuki Factory and Shiseido Vietnam Factory and the impairment losses associated with right-of-use assets due to decline in profitability of offices subleased by Shiseido Americas Corporation. The impairment losses are included in "Cost of sales" and "Selling, general and administrative expenses" in consolidated statement of profit and loss.

"Reversal of impairment losses" for the fiscal year ended December 31, 2022 are the reversal impairment losses of right-of-use assets associated with the recovery in profitability of offices subleased by Shiseido Americas Corporation. The income is included in "Other operating income" in consolidated statement of profit and loss.

"Gain on sales of fixed assets" for the fiscal year ended December 31, 2022 are income arising from the sales of land and buildings related to office relocation in the Japan Business and the sales of company housing in the Other segment. The income is included in "Other operating income" in consolidated statement of profit and loss.

(4) Information by geographical area

The breakdown of net sales and non-current assets by geographical area is as follows:

Sales	Millions of yen 2021/12	2022/12	Thousands of U.S. dollars 2022/12
Japan	297,542	**298,565**	**2,263,914**
Americas	127,524	**146,546**	**1,111,207**
(of which, U.S.)	109,344	**121,409**	**920,602**
EMEA	125,053	**141,662**	**1,074,173**
Asia and Oceania	459,846	**480,581**	**3,644,078**
(of which, China)	343,655	**348,512**	**2,642,645**
Total	1,009,966	**1,067,355**	**8,093,380**

Note: Net sales are based on the locations of customers, and are classified according to country or geographical area.

Non-current assets	IFRS transition date (January 1, 2021)	Millions of yen 2021/12	2022/12	Thousands of U.S. dollars 2022/12
Japan	395,587	411,885	**394,536**	**2,991,629**
Americas	200,941	142,999	**157,710**	**1,195,860**
(of which, U.S.)	200,351	142,191	**156,838**	**1,189,248**
EMEA	88,545	27,439	**29,415**	**223,044**
Asia and Oceania	41,416	42,828	**38,151**	**289,286**
(of which, China)	21,158	20,597	**19,181**	**145,443**
Total	726,490	625,153	**619,812**	**4,699,818**

Note: Non-current assets are based on the locations of assets, and are classified according to country or geographical area. Furthermore, financial instruments, deferred tax assets, and retirement benefit asset are not included.

(5) Information about major customers

This information is omitted because no external customer accounts for 10% or more of net sales in the consolidated financial profit and loss.

07. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	IFRS transition date (January 1, 2021)	Millions of yen 2021/12	2022/12	Thousands of U.S. dollars 2022/12
Cash and deposits	115,347	156,503	**119,036**	**902,608**
Short-term Investments	21,000	—	**—**	**—**
Total	136,347	156,503	**119,036**	**902,608**

Cash and cash equivalents are classified as financial assets measured at amortized cost.

The balance of cash and cash equivalents on the consolidated statement of financial position agrees with the balance of cash and cash equivalents on the consolidated statement of cash flows.

08. Trade and Other Receivables

The breakdown of trade and other receivables is as follows, and amounts are shown after deducting allowance for doubtful accounts.

	IFRS transition date (January 1, 2021)	Millions of yen 2021/12	2022/12	Thousands of U.S. dollars 2022/12
Notes and accounts receivable	141,086	147,078	**165,210**	**1,252,730**
Others	5,421	11,712	**16,859**	**127,836**
Total	146,507	158,791	**182,069**	**1,380,566**

Trade and other receivables are classified as financial assets measured at amortized cost.

09. Other Financial Assets

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows, and amounts are shown after deducting allowance for doubtful accounts.

	IFRS transition date (January 1, 2021)	Millions of yen 2021/12	2022/12	Thousands of U.S. dollars 2022/12
Other financial assets (current)				
Financial assets measured at amortized cost				
Deposits	14,665	15,553	**15,459**	**117,220**
Others	855	876	**996**	**7,552**
Financial assets measured at fair value through profit or loss				
Derivative assets	308	—	**2,043**	**15,491**
Total	15,829	16,429	**18,498**	**140,264**
Other financial assets (non-current)				
Financial assets measured at amortized cost				
Deposits	15	1	**1**	**8**
Long-term loans receivable	0	31,116	**39,183**	**297,111**
Guarantee and leasehold deposits	26,457	24,832	**24,574**	**186,336**
Others	2,209	5,935	**4,684**	**35,517**
Financial assets measured at fair value through profit or loss				
Others	3,978	3,250	**6,540**	**49,591**
Financial assets measured at fair value through other comprehensive income				
Shares and investments in capital	11,585	8,640	**9,717**	**73,681**
Total	44,246	73,777	**84,701**	**642,258**

(2) Financial assets measured at fair value through other comprehensive income

The Group holds shares and investments in capital that it believes will contribute to its sustainable growth and enhancement of corporate value over the medium- to long-term. As they are held mainly for investment purposes as part of a business strategy, the Group designates them as financial assets measured at fair value through other comprehensive income.

The names of issues, fair values, etc. of the major financial assets measured at fair value through other comprehensive income are as follows:

	Millions of yen			Thousands of U.S. dollars
Issues	IFRS transition date (January 1, 2021)	2021/12	**2022/12**	**2022/12**
Listed shares				
Perfect Corp.	—	—	**1,224**	**9,281**
AEON CO., LTD.	746	598	**616**	**4,671**
PLANET, INC.	437	438	**147**	**1,115**
ZERIA Pharmaceutical Co., Ltd.	171	58	**—**	**—**
PALTAC CORPORATION	2,524	—	**—**	**—**
NIPPON FINE CHEMICAL CO., LTD.	664	—	**—**	**—**
Others	831	882	**1,092**	**8,280**
Unlisted shares	4,180	3,547	**3,490**	**26,463**
Others	2,028	3,114	**3,147**	**23,863**
Total	11,585	8,640	**9,717**	**73,681**

The breakdown of dividend income recognized from equity instruments measured at fair value through other comprehensive income is as follows:

Millions of yen				Thousands of U.S. dollars	
2021/12		**2022/12**		**2022/12**	
Investments derecognized during the fiscal year	Investments held at the end of the fiscal year	**Investments derecognized during the fiscal year**	**Investments held at the end of the fiscal year**	**Investments derecognized during the fiscal year**	**Investments held at the end of the fiscal year**
46	226	**3**	**67**	**23**	**508**

For such purposes as enhancing asset efficiency and reviewing business relationships, the Group has sold and derecognized certain equity instruments measured at fair value through other comprehensive income.

The fair value upon sale and the cumulative gains or losses on sale in each fiscal year are as follows:

Millions of yen				Thousands of U.S. dollars	
2021/12		**2022/12**		**2022/12**	
Fair value	Cumulative gains or losses on sale	**Fair value**	**Cumulative gains or losses on sale**	**Fair value**	**Cumulative gains or losses on sale**
3,890	2,666	**301**	**260**	**2,282**	**1,971**

The Group recognizes gains or losses from changes in fair value after initial recognition and from derecognition as other comprehensive income, and the cumulative amounts thereof are immediately reclassified to retained earnings after being recognized in other components of equity. The amounts (after tax) of other components of equity reclassified to retained earnings in the previous fiscal year and the current fiscal year were ¥125 million and ¥(614) million ($(4,656) thousand), respectively.

10. Inventories

The breakdown of inventories is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS transition date (January 1, 2021)	2021/12	**2022/12**	**2022/12**
Merchandise and finished goods	113,786	82,459	**81,843**	**620,587**
Work in process	6,766	7,295	**6,348**	**48,135**
Raw materials and supplies	42,448	44,393	**42,749**	**324,151**
Total	163,001	134,147	**130,942**	**992,873**

The amounts of inventories recognized as expenses in the previous fiscal year and the current fiscal year were ¥260,819 million and ¥301,897 million ($2,289,180 thousand), respectively, and these amounts were included in cost of sales.

Furthermore, the amounts of inventory write-downs recognized as expenses in the previous fiscal year and the current fiscal year were ¥18,772 million and ¥21,140 million ($160,297 thousand), respectively. There were no material reversals of write-downs in the previous or current fiscal years.

There were no inventories pledged as collateral for liabilities.

11. Other Assets

The breakdown of other assets is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS transition date (January 1, 2021)	2021/12	**2022/12**	**2022/12**
Other current assets				
Prepaid expenses	10,108	11,111	**11,074**	**83,970**
Consumption taxes refund receivable	24,784	24,324	**22,075**	**167,387**
Others	9,806	9,682	**21,602**	**163,800**
Total	44,698	45,117	**54,753**	**415,157**
Other non-current assets				
Investment property	8,623	1,704	**1,711**	**12,974**
Long-term prepaid expenses	3,116	2,510	**2,192**	**16,621**
Others	1,424	825	**2,195**	**16,644**
Total	13,163	5,040	**6,098**	**46,239**

12. Non-current Assets Held for Sale and Disposal Groups

(1) Non-current assets and liabilities held for sale

The breakdown of assets and liabilities classified as held for sale is as follows:

	IFRS transition date (January 1, 2021)	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Assets held for sale				
Cash and cash equivalents	—	—	**500**	**3,791**
Trade and other receivables	—	—	**70**	**531**
Inventories	—	1,609	**5,953**	**45,140**
Other current assets	—	—	**48**	**364**
Property, plant and equipment	—	323	**3,433**	**26,031**
Intangible assets	—	—	**2**	**15**
Right-of-use assets	—	—	**410**	**3,109**
Investments accounted for using equity method	—	—	**8,498**	**64,437**
Deferred tax assets	—	—	**11**	**83**
Total assets	—	1,933	**18,929**	**143,532**
Liabilities directly attributable to assets held for sale				
Trade and other payables	—	—	**763**	**5,786**
Other financial liabilities	—	—	**297**	**2,252**
Income taxes payable	—	—	**7**	**53**
Other current liabilities	—	—	**27**	**205**
Provisions	—	—	**445**	**3,374**
Total liabilities	—	—	**1,541**	**11,685**

The main assets and liabilities held for sale in the previous fiscal year were inventories held by a subsidiary of the Company that were scheduled for transfer in the fiscal year 2022 and classified as held for sale in conjunction with the conclusion of an agreement to transfer the Personal Care business. The sale of the assets has been completed in the current fiscal year. The gain on the transfer of the assets was ¥4,393 million ($33,311 thousand), and the amount is included in "Other operating income" in the consolidated statement of profit and loss.

Assets and liabilities held for sale in the current fiscal year were assets held by a subsidiary of the Company that are scheduled for transfer in the fiscal year 2023 in conjunction with the conclusion of an agreement to transfer the Professional business, assets and liabilities held by the Company and the subsidiary and shares held by the Company scheduled for transfer in the fiscal year 2023 in conjunction with the conclusion of an agreement to transfer the production business of personal care products conducted at Shiseido Kuki Factory and Shiseido Vietnam Factory, and assets held by the Company that are scheduled for transfer in the fiscal year 2023 following the conclusion of a real estate transfer agreement. The impairment losses recognized for those shares upon their classification as held for sale are included in "Share of profit (loss) of investment accounted for using equity method" in the consolidated statement of profit and loss. The details of the impairment losses recognized for property, plant and equipment, intangible assets, and other non-current assets related to the production business of personal care products recognized in conjunction with their classification as held for sale are presented in "15. Impairment of Non-financial Assets" of the Notes. Furthermore, exchange differences on translation of foreign operations of ¥745 million ($5,649 thousand) were recognized as other components of equity related to assets held for sale in the current fiscal year.

13. Property, Plant and Equipment

(1) Schedule of changes

Changes in cost, accumulated depreciation and accumulated impairment losses, and carrying amount of property, plant and equipment are as follows:

[Cost]

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of January 1, 2021	256,933	118,913	129,962	45,337	27,308	578,455
Purchase	1,826	705	11,124	1,279	38,495	53,432
Acquisition through business combination	—	—	—	—	—	—
Sale or disposal	(5,877)	(3,412)	(23,167)	(0)	(72)	(32,531)
Reclassification	27,887	12,919	6,911	369	(49,213)	(1,125)
Reclassification to assets held for sale	—	—	(1,213)	—	—	(1,213)
Exchange differences on translation of foreign operations	4,442	3,013	6,643	265	265	14,630
Others	209	261	(686)	—	(595)	(810)
Balance as of December 31, 2021	285,421	132,401	129,574	47,251	16,188	610,837
Purchase	**372**	**570**	**10,052**	**—**	**20,850**	**31,846**
Acquisition through business combination	**—**	**—**	**—**	**—**	**—**	**—**
Sale or disposal	**(9,830)**	**(6,274)**	**(18,124)**	**(412)**	**(78)**	**(34,719)**
Reclassification	**2,348**	**22,366**	**4,893**	**243**	**(31,587)**	**(1,735)**
Reclassification to assets held for sale	**(21,499)**	**(14,017)**	**(2,960)**	**(1,533)**	**(265)**	**(40,276)**
Exchange differences on translation of foreign operations	**4,775**	**3,332**	**6,289**	**152**	**311**	**14,863**
Others	**(376)**	**(1)**	**(59)**	**—**	**6**	**(430)**
Balance as of December 31, 2022	**261,212**	**138,377**	**129,665**	**45,702**	**5,425**	**580,383**

Thousands of U.S. dollars

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of December 31, 2021	2,164,248	1,003,951	982,514	358,288	122,748	4,631,764
Purchase	**2,821**	**4,322**	**76,221**	**—**	**158,098**	**241,477**
Acquisition through business combination	**—**	**—**	**—**	**—**	**—**	**—**
Sale or disposal	**(74,537)**	**(47,574)**	**(137,428)**	**(3,124)**	**(591)**	**(263,262)**
Reclassification	**17,804**	**169,594**	**37,102**	**1,843**	**(239,513)**	**(13,156)**
Reclassification to assets held for sale	**(163,019)**	**(106,286)**	**(22,445)**	**(11,624)**	**(2,009)**	**(305,399)**
Exchange differences on translation of foreign operations	**36,207**	**25,265**	**47,687**	**1,153**	**2,358**	**112,701**
Others	**(2,851)**	**(8)**	**(447)**	**—**	**45**	**(3,261)**
Balance as of December 31, 2022	**1,980,679**	**1,049,264**	**983,204**	**346,542**	**41,136**	**4,400,842**

[Accumulated depreciation and accumulated impairment losses]

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of January 1, 2021	107,526	63,374	77,342	732	—	248,977
Depreciation	10,644	6,659	19,342	—	—	36,646
Impairment losses	2,034	1,455	935	—	—	4,425
Reversal of impairment losses	(466)	—	—	—	—	(466)
Sale or disposal	(5,034)	(2,563)	(19,076)	—	—	(26,673)
Reclassification to assets held for sale	—	—	(889)	—	—	(889)
Exchange differences on translation of foreign operations	2,376	2,070	4,276	—	—	8,723
Others	108	153	(204)	—	—	58
Balance as of December 31, 2021	117,189	71,151	81,726	732	—	270,800
Depreciation	**10,085**	**7,498**	**18,757**	**—**	**—**	**36,340**
Impairment losses	**4,272**	**7,886**	**875**	**—**	**265**	**13,299**
Reversal of impairment losses	**—**	**—**	**(19)**	**—**	**—**	**(19)**
Sale or disposal	**(9,066)**	**(5,926)**	**(15,697)**	**—**	**(0)**	**(30,691)**
Reclassification to assets held for sale	**(19,665)**	**(14,017)**	**(2,893)**	**—**	**(265)**	**(36,842)**
Exchange differences on translation of foreign operations	**2,692**	**2,314**	**4,228**	**—**	**—**	**9,235**
Others	**(31)**	**(1)**	**(46)**	**—**	**—**	**(79)**
Balance as of December 31, 2022	**105,475**	**68,905**	**86,930**	**732**	**—**	**262,043**

Thousands of U.S. dollars

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of December 31, 2021	888,603	539,513	619,700	5,551	—	2,053,382
Depreciation	**76,471**	**56,855**	**142,228**	**—**	**—**	**275,554**
Impairment losses	**32,393**	**59,797**	**6,635**	**—**	**2,009**	**100,842**
Reversal of impairment losses	**—**	**—**	**(144)**	**—**	**—**	**(144)**
Sale or disposal	**(68,744)**	**(44,935)**	**(119,025)**	**—**	**(0)**	**(232,719)**
Reclassification to assets held for sale	**(149,113)**	**(106,286)**	**(21,937)**	**—**	**(2,009)**	**(279,360)**
Exchange differences on translation of foreign operations	**20,412**	**17,546**	**32,059**	**—**	**—**	**70,026**
Others	**(235)**	**(8)**	**(349)**	**—**	**—**	**(599)**
Balance as of December 31, 2022	**799,780**	**522,483**	**659,160**	**5,551**	**—**	**1,986,981**

Note 1: Depreciation of property, plant and equipment is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit and loss.
Note 2: Impairment losses on property, plant and equipment are included in "Cost of sales" and "Selling, general and administrative expenses," and reversals of impairment losses of the same are included in "Other operating income" in the consolidated statement of profit and loss.
Note 3: Contractual commitments related to the purchase of property, plant and equipment are presented in "38. Commitments" of the Notes.

[Carrying amount]

Millions of yen

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of January 1, 2021	149,406	55,538	52,619	44,605	27,308	329,478
Balance as of December 31, 2021	168,231	61,249	47,847	46,519	16,188	340,037
Balance as of December 31, 2022	**155,736**	**69,472**	**42,735**	**44,970**	**5,425**	**318,339**

Thousands of U.S. dollars

	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of December 31, 2022	**1,180,892**	**526,782**	**324,045**	**340,992**	**41,136**	**2,413,854**

There were no material borrowing costs included in the cost of property, plant and equipment in the previous or current fiscal years.

14. Goodwill and Intangible Assets

(1) Schedule of changes

Changes in cost and accumulated amortization and accumulated impairment losses, and carrying amount of goodwill and intangible assets are as follows:

[Cost]

Millions of yen

	Goodwill	Intangible assets			
		Trademark rights	Software	Others	Total
Balance as of January 1, 2021	54,429	174,354	83,187	7,585	265,127
Purchase	—	6	21,825	21	21,853
Acquisition through business combination	—	—	—	—	—
Sale or disposal	(11,579)	(141,698)	(12,033)	(3,883)	(157,615)
Reclassification to assets held for sale	—	—	—	—	—
Exchange differences on translation of foreign operations	7,579	10,030	2,720	440	13,191
Others	—	—	632	—	632
Balance as of December 31, 2021	50,429	42,693	96,331	4,164	143,189
Purchase	**—**	**—**	**28,571**	**51**	**28,623**
Acquisition through business combination	**197**	**173**	**—**	**525**	**698**
Sale or disposal	**—**	**—**	**(9,820)**	**(222)**	**(10,042)**
Reclassification to assets held for sale	**—**	**—**	**(590)**	**—**	**(590)**
Exchange differences on translation of foreign operations	**7,252**	**5,917**	**2,392**	**275**	**8,584**
Others	**—**	**—**	**869**	**(78)**	**790**
Balance as of December 31, 2022	**57,879**	**48,783**	**117,755**	**4,714**	**171,253**

Thousands of U.S. dollars

	Goodwill	Intangible assets			
		Trademark rights	Software	Others	Total
Balance as of December 31, 2021	382,386	323,726	730,444	31,574	1,085,752
Purchase	**—**	**—**	**216,644**	**387**	**217,038**
Acquisition through business combination	**1,494**	**1,312**	**—**	**3,981**	**5,293**
Sale or disposal	**—**	**—**	**(74,462)**	**(1,683)**	**(76,145)**
Reclassification to assets held for sale	**—**	**—**	**(4,474)**	**—**	**(4,474)**
Exchange differences on translation of foreign operations	**54,989**	**44,867**	**18,138**	**2,085**	**65,089**
Others	**—**	**—**	**6,589**	**(591)**	**5,990**
Balance as of December 31, 2022	**438,876**	**369,904**	**892,895**	**35,745**	**1,298,552**

[Accumulated amortization and accumulated impairment losses]

Millions of yen

	Goodwill	Intangible assets: Trademark rights	Software	Others	Total
Balance as of January 1, 2021	—	30,981	34,115	2,276	67,373
Amortization	—	1,949	12,524	754	15,228
Impairment losses	11,579	24,593	3	419	25,016
Reversal of impairment losses	—	—	—	—	—
Sale or disposal	(11,579)	(56,729)	(10,724)	(2,166)	(69,620)
Reclassification to assets held for sale	—	—	—	—	—
Exchange differences on translation of foreign operations	—	1,264	1,689	154	3,108
Others	—	—	267	—	267
Balance as of December 31, 2021	—	2,059	37,875	1,438	41,374
Amortization	—	**660**	**13,353**	**641**	**14,655**
Impairment losses	—	—	**182**	—	**182**
Reversal of impairment losses	—	—	**(0)**	—	**(0)**
Sale or disposal	—	—	**(9,095)**	**(203)**	**(9,298)**
Reclassification to assets held for sale	—	—	**(587)**	—	**(587)**
Exchange differences on translation of foreign operations	—	**116**	**1,225**	**121**	**1,463**
Others	—	—	**321**	**(72)**	**248**
Balance as of December 31, 2022	—	**2,836**	**43,274**	**1,926**	**48,036**

Thousands of U.S. dollars

	Goodwill	Intangible assets: Trademark rights	Software	Others	Total
Balance as of December 31, 2021	—	15,613	287,193	10,904	313,725
Amortization	—	**5,005**	**101,251**	**4,860**	**111,124**
Impairment losses	—	—	**1,380**	—	**1,380**
Reversal of impairment losses	—	—	**(0)**	—	**(0)**
Sale or disposal	—	—	**(68,964)**	**(1,539)**	**(70,503)**
Reclassification to assets held for sale	—	—	**(4,451)**	—	**(4,451)**
Exchange differences on translation of foreign operations	—	**880**	**9,289**	**918**	**11,093**
Others	—	—	**2,434**	**(546)**	**1,880**
Balance as of December 31, 2022	—	**21,504**	**328,132**	**14,604**	**364,240**

Note 1: Amortization of intangible assets is included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit and loss.
Note 2: Impairment losses on intangible assets are included in "Cost of sales" and "Selling, general and administrative expenses," impairment losses on goodwill are included in "Other operating expenses," and reversals of impairment losses on intangible assets are included in "Other operating income" in the consolidated statement of profit and loss.
Note 3: There are no intangible assets pledged as collateral for liabilities.
Note 4: Contractual commitments related to the purchase of intangible assets are presented in "38. Commitments" of the Notes.

[Carrying amount]

Millions of yen

	Goodwill	Intangible assets: Trademark rights	Software	Others	Total
Balance as of January 1, 2021	54,429	143,373	49,071	5,308	197,753
Balance as of December 31, 2021	50,429	40,633	58,456	2,725	101,814
Balance as of December 31, 2022	**57,879**	**45,947**	**74,480**	**2,788**	**123,217**

Thousands of U.S. dollars

	Goodwill	Intangible assets: Trademark rights	Software	Others	Total
Balance as of December 31, 2022	**438,876**	**348,400**	**564,756**	**21,140**	**934,311**

There were no material borrowing costs included in the cost of intangible assets in the previous or current fiscal years.

Expenditures for R&D activities recognized as expenses during the previous fiscal year and the current fiscal year were ¥25,814 million and ¥26,678 million ($202,290 thousand), respectively.

(2) Significant goodwill and intangible assets

Significant goodwill and intangible assets, which were acquired through business combinations or licensing agreements, are as follows:

	Carrying amount (Millions of yen): IFRS transition date (January 1, 2021)	2021/12	2022/12	Thousands of U.S. dollars: 2022/12	Remaining amortization period
Goodwill					
Shiseido America (Note 1)	5,429	23,915	**27,399**	**207,757**	Unamortized
Drunk Elephant (Americas Business) (Note 1)	25,190	—	—	—	—
Drunk Elephant (China Business)	4,703	5,255	**6,020**	**45,648**	Unamortized
Drunk Elephant (EMEA Business)	5,172	5,778	**6,620**	**50,197**	Unamortized
Drunk Elephant (Travel Retail Business)	5,701	6,368	**7,296**	**55,323**	Unamortized
Trademark rights					
DOLCE & GABBANA	63,510	—	—	—	—
bareMinerals	33,611	—	—	—	—
Drunk Elephant (Note 2)	30,912	34,533	**39,564**	**300,000**	Unamortized

Note 1: In the previous fiscal year, the sales model for export from the United States was reviewed and the performance management, which was previously managed independently, was incorporated to Shiseido Americas Corporation. Reflecting this change, Drunk Elephant cash-generating unit, which was an independent unit within Americas Business, was incorporated to Shiseido Americas cash-generating unit.
Note 2: The trademark right of Drunk Elephant is included in the Shiseido Americas cash-generating unit for impairment testing.

(3) Impairment test for goodwill and intangible assets with indefinite useful lives

The carrying amounts of major goodwill and intangible assets with indefinite useful lives that are allocated to each cash-generating unit are as presented in (2) Significant goodwill and intangible assets. The main intangible assets with indefinite useful lives are trademark rights of brands, etc. They are not amortized as they are expected to remain as long as the business continues, and their useful lives are considered to be indefinite.
The carrying amounts of goodwill and intangible assets with indefinite useful lives that are individually immaterial as of the date of transition to IFRS, December 31, 2021 and December 31, 2022 are ¥19,714 million, ¥11,621 million, and ¥13,595 million ($103,086 thousand), respectively.

The recoverable amounts of Drunk Elephant and the Shiseido America cash-generating unit are mainly determined at fair value less costs of disposal, estimated primarily using discounted cash flows. Fair value less costs of disposal is determined by discounting the estimated cash flows based on management-approved, five-year business plans to the present value using a discount rate based on the weighted average cost of capital. Business plans reflect management assessments of future trends in the industry as well as past data, and are prepared based on both external and internal information, with factors including sales and profit margins based on sales expansion plans and the increased cost rates during the current fiscal year, serving as the basis for calculation. For periods beyond the period covered by the business plan, the terminal value is calculated by discounting the projected pre-tax cash flows to present value using a conservative growth rate determined by taking into account the conditions in the country and industry to which the cash-generating unit or group of cash-generating units belong.

The key assumptions used in the calculation of the recoverable amount of each cash-generating unit or a group of cash-generating units to which significant goodwill and intangible assets with indefinite useful lives are allocated are as follows. They are classified as level 3 of the fair value hierarchy in the fair value measurement.

	IFRS transition date (January 1, 2021)	2021/12	2022/12
Discount rate	8.8%~11.5%	8.3%~11.0%	**10.8%~12.5%**
Growth rate	1.5%~4.0%	1.5~4.0%	**1.5~4.0%**

A change in the key assumptions used in the impairment test could give rise to an impairment loss.

Impairment losses of ¥25,317 million were recognized in the Shiseido America cash-generating unit in the previous fiscal year. The recoverable amounts of other cash-generating units or groups of cash-generating units are well above the carrying amounts of the cash-generating units or groups of cash-generating units concerned, and even if the key assumptions used in the impairment test change within a reasonably foreseeable range, it is considered unlikely that the recoverable amounts would be less than the carrying amounts.

The recoverable amounts of each cash-generating unit or a group of cash-generating units were well above their carrying amounts in the current fiscal year, and even if the key assumptions used in the impairment test change within a reasonably foreseeable range, it is considered unlikely that the recoverable amounts would be less than the carrying amounts.

The total amount of impairment losses is presented in "15. Impairment of Non-financial Assets."

15. Impairment of Non-financial Assets

The Group has recorded impairment losses for the following asset groups.

In measuring impairment losses, the Group generally groups its assets based on the smallest units of asset groups that are identified as generating largely independent cash inflows. Among the assets for business use, store assets are grouped by store.

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The Company's subsidiary Beauté Prestige International S.A.S. had concluded a global license agreement with Dolce&Gabbana S.r.l., but during the previous fiscal year, the two companies agreed to terminate the agreement. Following the termination of this agreement, the carrying amount (net of related liabilities) of the assets has been reduced to the recoverable amount as the profitability of the trademark rights, which are the principal assets for business use, declined and recovery of investment was no longer expected. The recoverable amount is measured at value in use, and value in use net of related liabilities is assessed at zero. The impairment losses recognized is included in "Selling, general and administrative expenses" in the consolidated statement of profit and loss.

Furthermore, in line with the conclusion of an agreement to transfer the assets related to three prestige makeup brands (bareMinerals, BUXOM, and Laura Mercier), the carrying amount of the asset group related to this business has been reduced to the recoverable amount. The recoverable amount is measured at fair value less costs of disposal, which is classified as level 3 of the fair value hierarchy. The impairment losses recognized are included in "Selling, general and administrative expenses" and "Other operating expenses" in the consolidated statement of profit and loss.

In addition, following the decision to discontinue the production of hyaluronic acid, the carrying amount of the asset group related to this business at the Company's factory has been reduced to the recoverable amount. The recoverable amount is measured at value in use, and is assessed at zero. The impairment losses recognized are included in "Cost of sales" in the consolidated statement of profit and loss.

Among the domestic subsidiaries, the carrying amount of the assets groups of stores whose profitability has declined, have been reduced to the recoverable amount. The recoverable amount is measured at value in use, which is calculated by using a discount rate of 6.2%. The impairment losses recognized are included in "Selling, general and administrative expenses" in the consolidated statement of profit and loss.

Reportable segment	Location	Use	Type	Millions of yen
EMEA Business	Paris, France Madrid, Spain	Assets for business use	Trademark rights	15,582
			Others	18
			Total	15,600
Americas Business	Delaware, United States	Assets for business use	Buildings and structures	112
			Tools, furniture and fixtures	862
			Goodwill	11,579
			Trademark rights	9,011
			Other intangible assets	419
			Right-of-use assets	3,332
			Total	25,317
Other	Kakegawa-shi, Shizuoka Pref., Japan	Assets for business use	Buildings and structures	1,829
			Machinery, equipment and vehicles	1,445
			Others	51
			Total	3,326
	Tokyo, Japan	Assets for business use	Buildings and structures	92
			Others	16
			Total	109
Japan Business (Note)	Tokyo, Japan	Assets for business use	Right-of-use assets	118
				44,472

Note: The Group has revised its reportable segment classifications from the fiscal year ended December 31, 2022. Accordingly, the Others segment has been changed to the Japan Business.

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As a result of a decline in the profitability of offices subleased by Shiseido Americas Corporation, their carrying amount has been reduced to the recoverable amount. Value in use is used as the recoverable amount. The impairment losses recognized are included in "Selling, general and administrative expenses" in the consolidated statement of profit and loss.

Furthermore, among the domestic subsidiaries, the carrying amount of the assets groups of stores whose profitability has declined, have been reduced to the recoverable amount. The recoverable amount is measured at value in use, which is calculated by using a discount rate of 6.9%, and for some stores the value in use is assessed at zero. The impairment losses recognized are included in "Selling, general and administrative expenses" in the consolidated statement of profit and loss.

Impairment losses are also recognized for assets held for sale in line with the conclusion of an agreement to transfer the production business of personal care products conducted at Shiseido Kuki Factory and Shiseido Vietnam Factory. Non-current assets classified as held for sale are measured at the lower of the carrying amount or fair value less costs to sell, and they are classified as level 3 of the fair value hierarchy. The impairment losses recognized are included in "Cost of sales" and "Selling, general and administrative expenses" in the consolidated statement of profit and loss.

				Millions of yen	Thousands of U.S. dollars
Reportable segment	Location	Use	Type	Amount	
Americas Business	New York, United States	Assets for business use	Right-of-use assets	**2,809**	**21,300**
Other	Tokyo, Japan, etc.	Assets for business use	Buildings and structures	**50**	**379**
			Right-of-use assets	**123**	**933**
			Others	**8**	**61**
			Total	**182**	**1,380**
Other	Kuki-shi, Saitama Pref., Japan	Assets for business use	Buildings and structures	**3,087**	**23,408**
			Machinery, equipment and vehicles	**6,764**	**51,289**
			Others	**819**	**6,210**
			Total	**10,671**	**80,914**
Other	Dong Nai Province, Vietnam	Assets for business use	Buildings and structures	**1,134**	**8,599**
			Machinery, equipment and vehicles	**1,117**	**8,470**
			Others	**675**	**5,118**
			Total	**2,927**	**22,194**
				16,592	**125,811**

16. Investments Accounted for Using Equity Method

(1) Significant associates

A significant associate for the Group is FineToday Holdings Co., Ltd. (located in Chiyoda-ku, Tokyo), which is mainly engaged in the Personal Care Business. The Company acquired 35% stake in FineToday Holdings Co., Ltd. in July 2021.

As a result of the conclusion of an agreement to transfer the production business of personal care products conducted at Shiseido Kuki Factory and Shiseido Vietnam Factory during the current fiscal year, the application of the equity method has been discontinued for the portion of the shares scheduled to be transferred in the fiscal year 2023.

The reconciliation table for the condensed consolidated financial information of FineToday Holdings Co., Ltd. and the carrying amount of the Group's share in said company is as follows:

	2021/12 (Millions of yen)	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Current assets	56,405	**65,711**	**498,264**
Non-current assets	131,770	**136,969**	**1,038,588**
Current liabilities	25,264	**27,107**	**205,543**
Non-current liabilities	107,823	**112,908**	**856,142**
Total equity	55,088	**62,664**	**475,159**
Group's share of total equity	19,280	**21,932**	**166,303**
Amount equivalent to goodwill and consolidation adjustment (Note)	0	**(9,044)**	**(68,577)**
Carrying amount of investments	19,281	**12,888**	**97,725**

Note: As a result of the conclusion of an agreement to transfer the production business of personal care products conducted at Shiseido Kuki Factory and Shiseido Vietnam Factory during the current fiscal year, the portion of the shares scheduled to be transferred in the fiscal year 2023 has been classified as assets held for sale. For details, refer to "12. Non-current Assets Held for Sale and Disposal Groups" of the Notes.

	2021/12 (Millions of yen)	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Net sales	54,729	**108,321**	**821,360**
Profit	(5,813)	**5,899**	**44,730**
Other comprehensive income	1,472	**1,683**	**12,762**
Comprehensive income	(4,340)	**7,583**	**57,499**
Group's share			
Profit	(2,034)	**2,180**	**16,530**
Other comprehensive income	515	**890**	**6,749**
Comprehensive income	(1,519)	**3,071**	**23,286**

In addition to the above, impairment losses of ¥966 million ($7,325 thousand) were recognized on investments accounted for using the equity method in FineToday Holdings Co., Ltd. in the current fiscal year, and these amounts were included in "Share of profit (loss) of investment accounted for using equity method" in the consolidated statement of profit and loss.

No dividends were received from FineToday Holdings Co., Ltd. in the previous or current fiscal years.

(2) Immaterial associates

The carrying amounts of investments in associates that are individually immaterial for the Group are as follows:

	IFRS transition date (January 1, 2021) (Millions of yen)	2021/12 (Millions of yen)	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Total carrying amount	2,224	2,410	**2,647**	**20,071**

The Group's share of profit, other comprehensive income, and comprehensive income of associates that are individually immaterial are as follows:

	2021/12 (Millions of yen)	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Profit	325	**392**	**2,972**
Other comprehensive income	(0)	**7**	**53**
Comprehensive income	325	**399**	**3,025**

17. Income Taxes

(1) Deferred tax assets and deferred tax liabilities

Major components of and changes in deferred tax assets and deferred tax liabilities are as follows:

For the fiscal year 2021

Millions of yen

	2021/1/1	Amount recognized through profit or loss	Amount recognized through other comprehensive income	Others	2021/12/31
Deferred tax assets					
Inventories	22,411	(2,554)	—	833	20,689
Property, plant and equipment and intangible assets	4,426	(308)	—	59	4,178
Other current liabilities	14,998	10,486	—	1,026	26,511
Lease liabilities	29,245	(6,378)	—	40	22,906
Retirement benefit liability	15,587	(236)	(2,441)	34	12,943
Tax losses carried forward	10,295	(1,831)	—	763	9,227
Others	18,499	(2,237)	(44)	355	16,573
Total	115,463	(3,061)	(2,485)	3,113	113,029
Deferred tax liabilities					
Property, plant and equipment and intangible assets	18,996	(10,233)	—	742	9,505
Right-of-use assets	33,144	(3,819)	—	815	30,140
Retained earnings of subsidiaries and associates	3,448	(133)	—	20	3,336
Other financial assets	2,372	(604)	56	7	1,832
Others	1,023	1,213	—	149	2,386
Total	58,986	(13,576)	56	1,735	47,201

For the fiscal year 2022

Millions of yen

	2022/1/1	**Amount recognized through profit or loss**	**Amount recognized through other comprehensive income**	**Others**	**2022/12/31**
Deferred tax assets					
Inventories	**20,689**	**(4,702)**	**—**	**802**	**16,789**
Property, plant and equipment and intangible assets	**4,178**	**1,787**	**—**	**30**	**5,995**
Other current liabilities	**26,511**	**(6,705)**	**—**	**534**	**20,339**
Lease liabilities	**22,906**	**(2,827)**	**—**	**108**	**20,188**
Retirement benefit liability	**12,943**	**(251)**	**(5,357)**	**87**	**7,421**
Tax losses carried forward	**9,227**	**7,427**	**—**	**962**	**17,617**
Others	**16,573**	**737**	**(43)**	**94**	**17,361**
Total	**113,029**	**(4,535)**	**(5,401)**	**2,620**	**105,713**
Deferred tax liabilities					
Property, plant and equipment and intangible assets	**9,505**	**813**	**—**	**935**	**11,253**
Right-of-use assets	**30,140**	**(4,626)**	**—**	**1,211**	**26,726**
Retained earnings of subsidiaries and associates	**3,336**	**(126)**	**—**	**42**	**3,251**
Other financial assets	**1,832**	**(200)**	**(223)**	**11**	**1,420**
Others	**2,386**	**(595)**	**—**	**62**	**1,854**
Total	**47,201**	**(4,735)**	**(223)**	**2,262**	**44,505**

Thousands of U.S. dollars

	2022/1/1	Amount recognized through profit or loss	Amount recognized through other comprehensive income	Others	2022/12/31
Deferred tax assets					
Inventories	156,877	(35,654)	—	6,081	127,305
Property, plant and equipment and intangible assets	31,680	13,550	—	227	45,458
Other current liabilities	201,024	(50,842)	—	4,049	154,224
Lease liabilities	173,688	(21,436)	—	819	153,079
Retirement benefit liability	98,142	(1,903)	(40,620)	660	56,271
Tax losses carried forward	69,965	56,316	—	7,295	133,584
Others	125,667	5,588	(326)	713	131,642
Total	857,059	(34,387)	(40,954)	19,867	801,585
Deferred tax liabilities					
Property, plant and equipment and intangible assets	72,073	6,165	—	7,090	85,328
Right-of-use assets	228,541	(35,077)	—	9,183	202,654
Undistributed earnings of associates	25,296	(955)	—	318	24,651
Other financial assets	13,891	(1,517)	(1,691)	83	10,767
Others	18,092	(4,512)	—	470	14,058
Total	357,909	(35,904)	(1,691)	17,152	337,466

Deductible temporary differences, tax losses carried forward, and tax credits carried forward for which deferred tax assets are not recognized are as follows. The amounts are shown on a tax basis.

	Millions of yen			Thousands of U.S. dollars
	IFRS transition date (January 1, 2021)	2021/12	2022/12	2022/12
Deductible temporary difference	15,443	25,526	31,025	235,252
Tax losses carried forward	7,231	18,111	17,494	132,651
Tax credits carried forward	1,312	1,837	2,514	19,063
Total	23,987	45,474	51,034	386,973

Tax losses carried forward and tax credits carried forward for which deferred tax assets are not recognized will expire as follows. The amounts are shown on a tax basis.

	Millions of yen			Thousands of U.S. dollars
	IFRS transition date (January 1, 2021)	2021/12	2022/12	2022/12
Tax losses carried forward				
1st year	38	1	284	2,153
2nd year	43	19	—	—
3rd year	—	9	—	—
4th year	—	—	2	15
5th year and beyond	7,149	18,080	17,207	130,475
Total	7,231	18,111	17,494	132,651

	Millions of yen			Thousands of U.S. dollars
	IFRS transition date (January 1, 2021)	2021/12	2022/12	2022/12
Tax credits carried forward				
1st year	—	—	295	2,237
2nd year	—	—	—	—
3rd year	—	—	446	3,382
4th year	—	—	—	—
5th year and beyond	1,312	1,837	1,772	13,436
Total	1,312	1,837	2,514	19,063

The total amount of taxable temporary differences related to investments in subsidiaries, etc. for which deferred tax liabilities were not recognized on the date of transition to IFRS, December 31, 2021, and December 31, 2022 were ¥86,308 million, ¥85,512 million, and ¥87,805 million ($665,795 thousand), respectively. The Group does not recognize them as deferred tax liabilities because the Group is able to control the timing of the reversal of the temporary differences and it is probable that these temporary differences will not reverse in the foreseeable future.

(2) Income tax expense

The breakdown of income tax expense is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Current tax expense	60,176	13,045	98,916
Deferred tax expense	(10,515)	(199)	(1,509)
Total	49,661	12,845	97,399

Current tax expense includes prior tax expenses of ¥(1,165) million for 2021/12.

Factors behind the differences in the statutory effective tax rate and the average actual tax rate are as follows.

Income taxes applicable to the Group consist mainly of corporation tax, inhabitants' tax, and enterprise tax. The statutory effective tax rate calculated based on the foregoing was 31.0% for both the previous and current fiscal years. However, overseas subsidiaries are subject to the income taxes of the jurisdictions in which they are located.

%

	2021/12	2022/12
Statutory effective tax rate	31.0	31.0
Permanently non-deductible expenses (e.g., entertainment expenses)	1.6	12.5
Permanently non-taxable income (e.g., dividend income)	0.3	(11.1)
Tax credits	(2.8)	(2.1)
Differences in effective tax rates	(5.6)	(12.1)
Effect of assessment of recoverability of deferred tax assets	21.7	6.5
Impact of business transfer	2.8	—
Withholding tax on dividends, etc. from overseas subsidiaries	—	3.6
Others	1.3	(2.8)
Average actual tax rate	50.1	25.5

18. Trade and Other Payables

The breakdown of trade and other payables is as follows:

	IFRS transition date (January 1, 2021)	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Notes and accounts payable	21,187	28,021	**28,530**	**216,333**
Electronically recorded obligations - operating	55,740	40,584	**38,910**	**295,041**
Other payables	78,433	100,145	**96,938**	**735,047**
Refund liabilities	30,259	34,780	**39,341**	**298,309**
Others	276	187	**49**	**372**
Total	185,896	203,718	**203,770**	**1,545,117**

Trade and other payables are classified as financial liabilities measured at amortized cost.

19. Bonds and Borrowings

(1) Breakdown of bonds and borrowings

The breakdown of bonds and borrowings is as follows:

	IFRS transition date (January 1, 2021)	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)	Average interest rate (%)	Repayment due
Current liabilities						
Short-term borrowings	56,491	—	**75**	**569**	0.00	—
Current portion of long-term borrowings	10,730	730	**15,915**	**120,678**	0.43	—
Current portion of bonds payable	—	15,000	**10,000**	**75,827**	—	—
Total	67,221	15,730	**25,990**	**197,073**		
Non-current liabilities						
Long-term borrowings	167,861	95,915	**80,000**	**606,612**	0.10	2024–2027
Bonds	65,000	50,000	**60,000**	**454,959**	0.22	2025–2027
Total	232,861	145,915	**140,000**	**1,061,571**		

Notes: 1. Average interest rates are the weighted average interest rates for balances at the end of the current fiscal year.
2. Fixed interest rates after executing the interest rate swaps are applied to borrowings for which hedge accounting is applied using interest rate swaps.
3. Bonds and borrowings are classified as financial liabilities measured at amortized cost.

A summary of the terms of bond issuance is as follows:

Company name	Issue	Issue date	IFRS transition date (January 1, 2021)	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)	Interest rate	Collateral	Redemption date
Shiseido Company, Limited	8th Unsecured straight bonds	June 17, 2015	15,000	15,000	**—**	**—**	0.374	None	June 17, 2022
			(—)	(15,000)	**(—)**	**(—)**			
Shiseido Company, Limited	10th Unsecured straight bonds	February 26, 2020	20,000	20,000	**20,000**	**151,653**	0.080	None	February 26, 2025
			(—)	(—)	**(—)**	**(—)**			
Shiseido Company, Limited	11th Unsecured straight bonds	December 17, 2020	10,000	10,000	**10,000**	**75,827**	0.040	None	December 15, 2023
			(—)	(—)	**(10,000)**	**(75,827)**			
Shiseido Company, Limited	12th Unsecured straight bonds	December 17, 2020	20,000	20,000	**20,000**	**151,653**	0.120	None	December 17, 2025
			(—)	(—)	**(—)**	**(—)**			
Shiseido Company, Limited	13th Unsecured straight bonds	December 8, 2022	—	—	**20,000**	**151,653**	0.450	None	December 8, 2027
			(—)	(—)	**(—)**	**(—)**			
	Total		65,000	65,000	**70,000**	**530,786**			
			(—)	(15,000)	**(10,000)**	**(75,827)**			

Note: Figures in parentheses represent the current portion.

(2) Assets pledged as collateral

Assets pledged as collateral are as follows:

	IFRS transition date (January 1, 2021)	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Cash and cash equivalents	1,834	1,736	**1,830**	**13,876**
Property, plant and equipment	11,725	11,548	**11,158**	**84,607**
Other financial assets (non-current)	16,355	16,355	**16,355**	**124,014**
Total	29,915	29,640	**29,345**	**222,513**

The corresponding debts are as follows:

	IFRS transition date (January 1, 2021)	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Current portion of long-term borrowings	730	730	**15,915**	**120,678**
Long-term borrowings	16,645	15,915	**—**	**—**
Total	17,375	16,645	**15,915**	**120,678**

20. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

	IFRS transition date (January 1, 2021) Millions of yen	2021/12 Millions of yen	2022/12 Millions of yen	2022/12 Thousands of U.S. dollars
Other financial liabilities (current)				
Financial liabilities measured at amortized cost				
Deposits received	4,410	3,397	3,427	25,986
Others	499	1,016	1,227	9,304
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	16	501	88	667
Total	4,926	4,914	4,744	35,972
Other financial liabilities (non-current)				
Financial liabilities measured at amortized cost				
Long-term other payables	52,877	4,671	4,139	31,385
Others	474	422	461	3,496
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	344	201	—	—
Others	350	350	350	2,654
Total	54,046	5,646	4,950	37,534

21. Leases

(1) As lessee

The Group mainly leases land for office buildings, retail stores, etc., real estate such as buildings, and tools, furniture and fixtures such as molds and dies, using lease arrangements.

(i) Breakdown of Right-of-use assets

The breakdown of Right-of-use assets is as follows:

	IFRS transition date (January 1, 2021) Millions of yen	2021/12 Millions of yen	2022/12 Millions of yen	2022/12 Thousands of U.S. dollars
Right-of-use assets for which buildings and structures are the underlying assets	92,544	85,574	75,227	570,420
Right-of-use assets for which machinery, equipment and vehicles are the underlying assets	8,636	12,274	10,798	81,877
Right-of-use assets for which tools, furniture and fixtures are the underlying assets	4,516	4,953	3,886	29,466
Right-of-use assets for which land is the underlying asset	25,515	24,671	24,128	182,954
Others	451	358	234	1,774
Total	131,665	127,832	114,276	866,515

Increases in right-of-use assets in the previous fiscal year and the current fiscal year were ¥24,087 million and ¥12,638 million ($95,830 thousand), respectively.

(ii) Lease liabilities

Information on maturity analysis of lease liabilities is presented in “35. Financial Instruments (2) Financial risk management ii. Liquidity risk management” of the Notes.

(iii) Profit/loss and cash outflows associated with right-of-use assets

Profit/loss associated with right-of-use assets is as follows:

	2021/12 Millions of yen	2022/12 Millions of yen	2022/12 Thousands of U.S. dollars
Depreciation of right-of-use assets			
Right-of-use assets for which buildings and structures are the underlying assets	19,468	19,603	148,643
Right-of-use assets for which machinery, equipment and vehicles are the underlying assets	1,265	1,422	10,783
Right-of-use assets for which tools, furniture and fixtures are the underlying assets	2,192	2,397	18,176
Right-of-use assets for which land is the underlying asset	1,035	1,139	8,637
Others	133	124	940
Total depreciation	24,095	24,687	187,193
Interest expenses on lease liabilities	1,663	1,703	12,913
Lease expenses subject to exemptions for short-term leases	2,942	2,818	21,368
Lease expenses subject to exemptions for leases of low-value assets	1,717	2,291	17,372
Variable lease payments not included in measurement of lease liabilities	1,902	1,567	11,882
Revenue from sublease of right-of-use assets	(483)	(1,137)	(8,621)

Depreciation of right-of-use assets, short-term lease expenses, lease expenses of low-value assets, and variable lease payments are included in “Cost of sales” and “Selling, general and administrative expenses,” and interest expenses on lease liabilities are included in “Finance costs” in the consolidated statement of profit and loss.

Cash outflows associated with leases are as follows:

	2021/12 Millions of yen	2022/12 Millions of yen	2022/12 Thousands of U.S. dollars
Cash outflows associated with leases	33,029	38,085	288,785

(2) As lessor

The Group mainly leases buildings, land, etc.

22. Employee Benefits

The Company and its consolidated subsidiaries in Japan adopt the corporate pension fund plan as a defined benefit plan and the defined contribution pension plan or the retirement benefit advance payment plan as a defined contribution plan. In some cases, premium severance pay, etc., which are treated as retirement benefit expenses at the time of payment, may be paid to employees at the time of their retirement. In addition, some overseas consolidated subsidiaries adopt the defined benefit corporate pension plan, lump-sum retirement payment plan, and defined contribution plan. Defined benefit plans are typically exposed to general investment risks, interest rate risks, inflation risks and other actuarial risks.

Funded defined benefit plans are managed by pension funds that are legally separate from the Group. These plans are required by law to meet the minimum funding requirement, and if they are underfunded, additional contributions must be made within a specified time frame.

These pension funds are responsible for managing plan assets in accordance with a policy specified by the Company.

(1) Defined benefit plans

(i) Reconciliation of defined benefit obligations and plan assets

The relationships between defined benefit obligations and plan assets, and net defined benefit liability (asset) recognized in the consolidated statement of financial position are as follows:

	IFRS transition date (January 1, 2021)	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Present value of funded defined benefit obligations	276,289	275,953	**238,770**	**1,810,510**
Fair value of plan assets	(228,269)	(235,485)	**(214,308)**	**(1,625,023)**
Subtotal	48,020	40,468	**24,462**	**185,487**
Present value of unfunded defined benefit obligations	1,882	1,691	**883**	**6,695**
Net defined benefit liability (asset)	49,902	42,159	**25,346**	**192,190**
Amount recognized in the consolidated statement of financial position				
Retirement benefit liability	49,902	42,159	**25,346**	**192,190**
Retirement benefit asset (Other non-current assets)	—	—	**—**	**—**
Net defined benefit liability (asset) recognized in the consolidated statement of financial position	49,902	42,159	**25,346**	**192,190**

(ii) Reconciliation of present value of defined benefit obligations

Changes in the present value of defined benefit obligations are as follows:

	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Beginning balance of present value of defined benefit obligations			
Service costs	278,171	**277,644**	**2,105,278**
Interest costs	7,083	**7,203**	**54,618**
Remeasurements	1,894	**1,963**	**14,885**
Actuarial differences arising from changes in demographic assumptions	(90)	**(713)**	**(5,406)**
Actuarial differences arising from changes in financial assumptions	(606)	**(33,764)**	**(256,021)**
Actuarial differences arising from experience adjustments	3,738	**(35)**	**(265)**
Retirement benefits paid	(10,575)	**(11,950)**	**(90,613)**
Effects of business combinations and disposals	(2,396)	**(928)**	**(7,037)**
Others	425	**235**	**1,782**
Ending balance of present value of defined benefit obligations	277,644	**239,654**	**1,817,213**

For the benefit plans of the Company and its major subsidiaries in Japan, which account for a significant portion of the Group's defined benefit obligations, the weighted average duration of the defined benefit obligations on the date of transition to IFRS, December 31, 2021, and December 31, 2022 were 16.4 years, 15.9 years, and 14.3 years, respectively.

(iii) Reconciliation of fair value of plan assets

Changes in the fair value of plan assets are as follows:

	2021/12	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Beginning balance of fair value of plan assets	228,269	**235,485**	**1,785,601**
Interest income	1,601	**1,687**	**12,792**
Remeasurements			
Return on plan assets	10,444	**(18,020)**	**(136,639)**
Contribution from employers	6,883	**6,671**	**50,584**
Retirement benefits paid	(10,017)	**(11,403)**	**(86,465)**
Effects of business combinations and disposals	(1,852)	**(118)**	**(895)**
Others	157	**7**	**53**
Ending balance of fair value of plan assets	235,485	**214,308**	**1,625,023**

The Group plans to contribute ¥6,290 million ($47,695 thousand) in the following fiscal year.

(iv) Components of plan assets

Major components of plan assets are as follows:

	IFRS transition date (January 1, 2021)			2021/12			2022/12 (Millions of yen)			2022/12 (Thousands of U.S. dollars)		
	Publicly quoted market price in active markets			Publicly quoted market price in active markets			Publicly quoted market price in active markets			Publicly quoted market price in active markets		
	Yes	No	Total	Yes	No	Total	**Yes**	**No**	**Total**	**Yes**	**No**	**Total**
Cash and cash equivalents	8,419	—	8,419	10,863	—	10,863	**10,659**	**—**	**10,659**	**80,823**	**—**	**80,823**
Commingled investment fund												
Equity instruments	—	45,539	45,539	—	41,821	41,821	**—**	**35,732**	**35,732**	**—**	**270,943**	**270,943**
Debt instruments	—	126,220	126,220	—	115,643	115,643	**—**	**93,283**	**93,283**	**—**	**707,332**	**707,332**
Alternative investments	—	41,941	41,941	—	60,743	60,743	**—**	**68,122**	**68,122**	**—**	**516,545**	**516,545**
General account of life insurance companies	—	6,148	6,148	—	6,412	6,412	**—**	**6,510**	**6,510**	**—**	**49,363**	**49,363**
Total	8,419	219,850	228,269	10,863	224,621	235,485	**10,659**	**203,648**	**214,308**	**80,823**	**1,544,192**	**1,625,023**

Note: The commingled investment fund for equity instruments has invested approximately 10% of its funds in domestic shares and approximately 90% in foreign shares at the date of transition to IFRS, in the previous fiscal year and the current fiscal year.
The commingled investment fund for debt instruments has invested approximately 20% of its funds in domestic bonds and approximately 80% in foreign bonds at the date of transition to IFRS, and approximately 10% in domestic bonds and approximately 90% in foreign bonds in the previous fiscal year and the current fiscal year.
Alternative investments include hedge funds, etc.

The Group's policy for managing plan assets is based on internal rules, and is aimed at generating stable returns over the medium to long term to ensure the future payment of retirement benefit obligations. Specifically, a target rate of return and the asset composition ratios for each asset type are determined within the scope of risk tolerance specified each year, and investments are made while maintaining these ratios. Furthermore, the asset composition ratios are revised as necessary.

(v) Principal actuarial assumptions

The principal assumptions used in the actuarial calculations for the benefit plans of the Company and its major subsidiaries in Japan, which account for a significant portion of the Group's defined benefit obligations, are as follows:

	IFRS transition date (January 1, 2021)	FY2021	FY2022
Discount rate	0.7	0.7	**1.5**

The mortality is determined based on publicly-available life tables, mortality rates, etc. that are typically used in making actuarial assumptions.

(vi) Sensitivity analysis

Concerning the benefit plans of the Company and its main domestic subsidiaries, which account for a significant portion of the Group's defined benefit obligations, the impact of a 0.5 percentage point change in the discount rate used in the actuarial calculations on the present value of defined benefit obligations is as follows. This analysis assumes that all other variables remain constant, but changes in other assumptions could affect the sensitivity analysis.

	FY2021	FY2022 (Millions of yen)	FY2022 (Thousands of U.S. dollars)
0.5 percentage point increase in discount rate	(19,341)	**(14,677)**	**(111,291)**
0.5 percentage point decrease in discount rate	19,694	**16,316**	**123,719**

(2) Defined contribution plans

The amounts of expenses recognized for defined contribution plans for the previous fiscal year and the current fiscal year were ¥4,610 million and ¥4,992 million ($37,853 thousand), respectively.

23. Provisions

The breakdown of and changes in provisions are as follows:

Millions of yen

	Asset retirement obligations	Provision for restructuring costs	Other provisions	Total
January 1, 2022	2,217	8,524	1,855	12,596
Increase during the period	104	2,301	3,057	5,464
Interest expenses for discount calculation during the period	8	—	—	8
Decrease during the period (intended use)	(483)	(5,041)	(287)	(5,813)
Decrease during the period (reversal)	(117)	(2,900)	(38)	(3,056)
Exchange differences on translation of foreign operations	30	599	81	711
Others (Note)	(437)	—	(8)	(445)
December 31, 2022	1,321	3,483	4,660	9,464

Thousands of U.S. dollars

	Asset retirement obligations	Provision for restructuring costs	Other provisions	Total
January 1, 2022	16,811	64,635	14,066	95,511
Increase during the period	789	17,448	23,180	41,432
Interest expenses for discount calculation during the period	61	—	—	61
Decrease during the period (intended use)	(3,662)	(38,224)	(2,176)	(44,078)
Decrease during the period (reversal)	(887)	(21,990)	(288)	(23,173)
Exchange differences on translation of foreign operations	227	4,542	614	5,391
Others (Note)	(3,314)	—	(61)	(3,374)
December 31, 2022	10,017	26,410	35,335	71,762

Note: Others refer to the transfer to liabilities directly related to assets held for sale.

The breakdown of provisions in the consolidated statement of financial position is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS transition date (January 1, 2021)	2021/12	2022/12	2022/12
Current liabilities	2,773	10,843	8,136	61,692
Non-current liabilities	1,679	1,753	1,328	10,070
Total	4,453	12,596	9,464	71,762

Asset retirement obligations comprise the amounts expected to be paid in the future to fulfill the obligations to restore offices and buildings leased by the Group to their original condition, based on past restoration experience. These expenses are expected to be paid after the lapse of the expected period of use, which is determined by taking into account the useful life of the internal structures in the offices, etc., but will be affected by future business plans and other factors.

Provision for restructuring costs mainly comprise amounts of premium severance pay, etc. that are expected to be paid in the future in line with business portfolio restructuring and other structural reforms. The timing of the payment of these expenses will be affected by future business plans and other factors.

Other provisions include provisions for losses arising from expenses related to litigation risk, product liability risk, etc. and provisions for losses associated with the discontinuation of brands and the withdrawal from businesses. The timing of the payment of these expenses will be affected by future business plans and other factors.

24. Other Liabilities

The breakdown of other liabilities (current) is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS transition date (January 1, 2021)	2021/12	2022/12	2022/12
Accrued expenses	38,131	37,322	52,486	397,983
Accrued consumption taxes	17,220	15,641	9,387	71,178
Accrued bonuses	15,189	29,726	31,963	242,364
Accrued paid absences	11,720	11,925	12,033	91,242
Contract liabilities	6,739	8,038	6,942	52,639
Others	1,415	4,816	3,367	25,531
Total	90,417	107,470	116,180	880,952

25. Equity and Other Equity Items

(1) Number of shares authorized and total number of shares issued

Changes in the number of shares authorized and total number of shares issued are as follows:

Shares

	2021/12	2022/12
Number of shares authorized		
Ordinary shares	1,200,000,000	1,200,000,000
Total number of shares issued		
Beginning balance	400,000,000	400,000,000
Change during the period	—	—
Ending balance	400,000,000	400,000,000

Note: All the shares issued by the Company are non-par-value ordinary shares that have no restrictions on any rights, and the shares issued are fully paid in.

(2) Treasury shares

Changes in the number of treasury shares are as follows:

Shares

	2021/12	2022/12
Beginning balance	534,198	506,767
Change during the period	(27,431)	(54,315)
Ending balance	506,767	452,452

Note: The main factors behind the changes during the period are the exercise of stock options, disposal under the performance-linked stock compensation plan as a long-term incentive compensation, buyback or additional purchase request of shares of less than one unit.

(3) Capital surplus

The Companies Act of Japan (the "Companies Act") provides that at least half of the amount paid in or delivered at share issue shall be credited to share capital and the remainder may be credited to additional paid-in capital included in capital surplus. The Companies Act also provides that legal capital surplus may be credited to share capital subject to a resolution of the general meeting of shareholders.

Furthermore, the Company operates a stock option plan and a performance share unit plan, and the portion accounted for as equity-settled stock-based payment is recognized as capital surplus. Contract terms, amounts, etc. are presented in "34. Stock-based Compensation" of the Notes.

(4) Other components of equity

(i) Exchange differences on translation of foreign operations

Exchange differences arising from the translation of financial statements of foreign operations prepared in foreign currencies.

(ii) Financial assets measured at fair value through other comprehensive income

Valuation differences of the fair value of financial assets measured at fair value through other comprehensive income.

(iii) Cash flow hedges

Cumulative total amount of the effective portion of the hedges, out of the gains or losses arising from changes in the fair value of hedging instruments used for cash flow hedges.

(iv) Remeasurements of defined benefit plans

The impact of differences between actuarial assumptions at the beginning of the term and actual results, and the impact of changes in actuarial assumptions.

(5) Retained earnings

The Companies Act stipulates that an amount equal to one-tenth of the amount paid as dividends of surplus shall be reserved as legal capital surplus or legal retained earnings until the total amount of legal capital surplus and legal retained earnings reaches one-fourth of share capital. Legal retained earnings reserved may be used to cover deficits. Legal retained earnings may also be reversed subject to a resolution of the general meeting of shareholders.

26. Dividends

The amounts of dividends paid are as follows:

For the fiscal year 2021

1. Dividends paid

Resolution date	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share Yen	Record date	Effective date
March 25, 2021 General Meeting of Shareholders	Ordinary shares	7,989	20.00	December 31, 2020	March 26, 2021
August 5, 2021 Board of Directors meeting	Ordinary shares	7,989	20.00	June 30, 2021	September 3, 2021

2. Dividends for which the effective date is in the following fiscal year are as follows:

Resolution date	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share Yen	Record date	Effective date
March 25, 2022 General Meeting of Shareholders	Ordinary shares	11,984	30.00	December 31, 2021	March 28, 2022

For the fiscal year 2022

1. Dividends paid

Resolution date	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share Yen	Record date	Effective date	Total amount of dividends Thousands of U.S. dollars	Dividend per share (U.S. dollars)
March 25, 2022 General Meeting of Shareholders	**Ordinary shares**	**11,984**	**30.00**	**December 31, 2021**	**March 28, 2022**	**90,870**	**0.23**
August 10, 2022 Board of Directors meeting	**Ordinary shares**	**9,988**	**25.00**	**June 30, 2022**	**September 5, 2022**	**75,736**	**0.19**

2. Dividends for which the effective date is in the following fiscal year are as follows:

Resolution date	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share Yen	Record date	Effective date	Total amount of dividends Thousands of U.S. dollars	Dividend per share (U.S. dollars)
March 24, 2023 General Meeting of Shareholders	**Ordinary shares**	**29,966**	**75.00**	**December 31, 2022**	**March 27, 2023**	**227,222**	**0.57**

Note: Dividend per share includes a commemorative dividend of ¥50 ($0.38) for the 150th anniversary of our founding.

27. Net Sales

(1) Contract balances

The breakdown of the Group's contract balance is as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS transition date (January 1, 2021)	2021/12	**2022/12**	**2022/12**
Receivables arising from contracts with customers				
Notes and accounts receivable	144,874	151,139	**170,183**	**1,290,438**
Contract liabilities	6,739	8,038	**6,942**	**52,639**

Contract liabilities mainly consist of advances received in connection with customer loyalty programs that award points to customers.

In the consolidated statement of financial position, notes and accounts receivable are included in "Trade and other receivables" and "Other financial assets (non-current)" and contract liabilities are included in "Other current liabilities."

The balances of contract liabilities as of the beginning of the previous and current fiscal years have each been recognized as revenue for the previous and current fiscal years, respectively.

The amounts of revenue recognized from performance obligations satisfied in prior periods were immaterial in the previous and current fiscal years.

(2) Transaction price allocated to remaining performance obligations

As the Group has no significant transactions for which the individual expected contract period exceeds one year, it has applied the practical expedient and omitted the presentation of information on remaining performance obligations. In addition, considerations arising from contracts with customers do not include any significant amounts that are not included in transaction prices.

(3) Assets recognised from the costs to obtain or fulfil contracts with a customer

The amounts of assets recognized from costs to obtain or fulfill contracts with customers were immaterial in the previous and current fiscal years. If the amortization period of an asset to be recognized is one year or less, the Group applies the practical expedient and recognizes the incremental costs of obtaining a contract as an expense as incurred.

28. Breakdown of Expenses by Nature

The breakdown of cost of sales and selling, general and administrative expenses by nature is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	**2022/12**	**2022/12**
Purchase costs of raw materials and merchandise	153,693	**209,923**	**1,591,773**
Changes in finished goods and work in process	33,022	**10,441**	**79,170**
Employee benefit expenses	274,597	**269,123**	**2,040,666**
Depreciation and amortization	76,058	**75,718**	**574,143**
Outsourced processing expenses	27,987	**42,528**	**322,475**
Media expenses	109,665	**104,677**	**793,729**
Sample and sales equipment expenses	51,012	**44,775**	**339,513**
Others	312,777	**287,726**	**2,181,726**
Total	1,038,815	**1,044,913**	**7,923,210**

29. Other Operating Income and Operating Expenses

The breakdown of other operating income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Rental income from buildings	442	441	3,344
Subsidy income	2,715	4,917	37,284
Gain on sale of non-current assets	584	4,319	32,749
Reversal of impairment losses	719	494	3,746
Gain on transfer of businesses	133,843	15,294	115,969
Others	2,693	2,105	15,961
Total	140,999	27,573	209,076

Details of gain on sale of businesses are presented in "36. Major Subsidiaries."

The breakdown of other operating expenses is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Restructuring costs	—	3,442	26,099
Impairment losses	11,579	—	—
Total	11,579	3,442	26,099

30. Finance Income and Finance Costs

The breakdown of finance income is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Interest income			
Financial assets measured at amortized cost	1,244	4,871	36,935
Lease receivables	36	57	432
Dividend income			
Financial assets measured at fair value through other comprehensive income	273	71	538
Financial assets measured at fair value through profit or loss	0	8	61
Gain on revaluation of fair value			
Financial assets measured at fair value through profit or loss	—	831	6,301
Foreign exchange gains	2,369	—	—
Others	155	38	288
Total	4,079	5,877	44,563

The breakdown of finance costs is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Interest expenses			
Financial liabilities measured at amortized cost	1,088	513	3,890
Lease liabilities	1,663	1,703	12,913
Retirement benefit liability	293	276	2,093
Unwinding of provisions due to passage of time	11	8	61
Foreign exchange losses	—	531	4,026
Interest on other financial liabilities			
Financial liabilities measured at amortized cost	529	115	872
Others	243	479	3,632
Total	3,829	3,627	27,502

Financial liabilities measured at amortized cost in the amounts of interest expenses include the amounts reclassified from cash flow hedge reserve arising from derivatives to profit or loss (refer to "35. Financial Instruments" of the Notes.)

31. Other Comprehensive Income

The amounts arising during the year, reclassification adjustments to profit and loss, and the impact on tax effects for each item of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Items that will not be reclassified to profit or loss:			
Financial assets measured at fair value through other comprehensive income			
Amount arising during the year	166	(898)	(6,809)
Tax effect	(56)	223	1,691
Amount after tax effect adjustment	110	(675)	(5,118)
Remeasurements of defined benefit plans			
Amount arising during the year	7,403	16,492	125,053
Tax effect	(2,441)	(5,357)	(40,620)
Amount after tax effect adjustment	4,961	11,134	84,425
Share of other comprehensive income of investments accounted for using equity method			
Amount arising during the year	0	24	182
Tax effect	—	—	—
Amount after tax effect adjustment	0	24	182
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations			
Amount arising during the year	35,079	39,987	303,207
Reclassification adjustments	(16)	36	273
Amount before tax effect adjustment	35,062	40,024	303,488
Tax effect	—	—	—
Amount after tax effect adjustment	35,062	40,024	303,488
Cash flow hedges			
Amount arising during the year	(61)	(52)	(394)
Reclassification adjustments	204	191	1,448
Amount before tax effect adjustment	142	139	1,054
Tax effect	(44)	(43)	(326)
Amount after tax effect adjustment	98	96	728
Share of other comprehensive income of investments accounted for using equity method			
Amount arising during the year	515	873	6,620
Reclassification adjustments	—	—	—
Amount before tax effect adjustment	515	873	6,620
Tax effect	—	—	—
Amount after tax effect adjustment	515	873	6,620
Total other comprehensive income:			
Amount arising during the year	43,102	56,426	427,859
Reclassification adjustments	187	228	1,729
Amount before tax effect adjustment	43,290	56,655	429,595
Tax effect	(2,542)	(5,178)	(39,263)
Amount after tax effect adjustment	40,748	51,477	390,332

32. Earnings Per Share

(1) Basis for the calculation of basic earnings per share

	2021/12	2022/12	2022/12
Profit attributable to owners of parent (Millions of yen/ Thousands of U.S. dollars)	46,909	34,202	259,342
Profit not attributable to common shareholders of parent (Millions of yen/ Thousands of U.S. dollars)	—	—	—
Profit used for calculating basic earnings per share (Millions of yen/ Thousands of U.S. dollars)	46,909	34,202	259,342
Weighted-average number of shares of common stock	399,480	399,538	
(Thousands of shares)			
Basic earnings per share (Yen/ U.S. dollars)	117.43	85.60	0.65

(2) Basis for the calculation of diluted earnings per share

	2021/12	2022/12	2022/12
Profit attributable to owners of parent (Millions of yen/ Thousands of U.S. dollars)	46,909	34,202	259,342
Profit not attributable to common shareholders of parent (Millions of yen/ Thousands of U.S. dollars)	—	—	—
Profit used for calculating diluted earnings per share (Millions of yen/ Thousands of U.S. dollars)	46,909	34,202	259,342
Weighted-average number of shares of common stock	399,480	399,538	
(Thousands of shares)			
Increase in common stock			
Increase from stock options (Thousands of shares)	335	284	
Diluted weighted number of shares of common stock	399,816	399,822	
after dilution (Thousands of shares)			
Diluted earnings per share (Yen/Thousands of U.S. dollars)	117.33	85.54	0.65

33. Cash Flow Information

(1) Changes in liabilities related to financing activities are as follows:

Millions of yen

	January 1, 2021	Changes involving cash flows	Changes not involving cash flows			December 31, 2021
			New leases	Exchange differences on translation of foreign operations	Others	
Short-term borrowings and commercial papers	56,491	(57,885)	—	1,394	—	—
Long-term borrowings (including current portion)	178,591	(84,714)	—	2,768	—	96,645
Bonds (including current portion)	65,000	—	—	—	—	65,000
Lease liabilities (Note 1)	144,555	(24,804)	25,236	6,917	(7,712)	144,192
Long-term accounts payable (including current portion) (Note 2)	52,437	(3,437)	—	1,624	(48,255)	2,370
Total	497,076	(170,841)	25,236	12,704	(55,968)	308,208

Note 1: "Others" in lease liabilities are mainly decreases resulting from the revision of considerations due to lease modifications.
Note 2: "Others" in long-term accounts payable are decreases resulting from the termination of a global license agreement with Dolce&Gabbana S.r.l.

Millions of yen

	January 1, 2022	Changes involving cash flows	Changes not involving cash flows			December 31, 2022
			New leases	Exchange differences on translation of foreign operations	Others	
Short-term borrowings and commercial papers	—	73	—	1	—	75
Long-term borrowings (including current portion)	96,645	(730)	—	—	—	95,915
Bonds (including current portion)	65,000	5,000	—	—	—	70,000
Lease liabilities (Note 1)	144,192	(29,704)	13,211	8,510	(5,011)	131,198
Long-term accounts payable (including current portion)	2,370	(295)	—	690	—	2,765
Total	308,208	(25,656)	13,211	9,202	(5,011)	299,954

Note: "Others" in lease liabilities are mainly decreases resulting from the revision of considerations due to lease modifications.

Thousands of U.S. dollars

	January 1, 2022	Changes involving cash flows	Changes not involving cash flows			December 31, 2022
			New leases	Exchange differences on translation of foreign operations	Others	
Short-term borrowings and commercial papers	—	554	—	8	—	569
Long-term borrowings (including current portion)	732,825	(5,535)	—	—	—	727,290
Bonds (including current portion)	492,872	37,913	—	—	—	530,786
Lease liabilities	1,093,358	(225,235)	100,174	64,528	(37,997)	994,829
Long-term accounts payable (including current portion)	17,971	(2,237)	—	5,232	—	20,966
Total	2,337,034	(194,540)	100,174	69,776	(37,997)	2,274,446

(2) Non-cash transactions

The amount of assets related to newly recognized lease transactions is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Right-of-use assets	24,087	12,638	95,830

The decrease in assets resulting from the termination of a global license agreement with Dolce&Gabbana S.r.l. is as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Trademark rights	48,255	—	—

(3) Loss of control over subsidiaries

Information about the loss of control over subsidiaries is presented in "36. Major Subsidiaries" of the Notes.

34. Share-based Payments

(1) Stock option plan

(i) Details of stock option plan

The Company adopts a stock option plan. Stock options are granted to directors and executive officers of the Company or its subsidiaries with an aim to incentivize and motivate them to increase corporate value. All stock options issued by the Company are equity-settled stock-based compensation. The exercise period is specified in the allotment contract, and the options will be forfeited if they are not exercised within that period. New stock options are no longer issued due to the introduction of performance-linked compensation from the fiscal year ended December 31, 2019.

Details of stock options issued by the Company are as follows:

- Vesting conditions: Continuous service from the grant date to the vesting date (the day before the date of start of the exercise period) (The person must maintain the position of a director or an executive officer of the Company at the time of rights exercise. However, this shall not apply in the case of retirement due to expiration of term of office, mandatory retirement, or when there are other justifiable reasons.)
- Exercise period: 12 years from the first day of the month containing the day on which three years have passed since the grant date (for the FY2011–FY2014 portion of grants) or 12 years and six months from the first day of the month containing the day on which two years and six months have passed since the grant date (for the FY2015–FY2018 portion of grants)

Note: Details of the stock option plan are presented below.
The objective of this plan is to issue stock acquisition rights as stock options to directors and corporate officers of the Company and its associated Group companies pursuant to Articles 236 and 238 of the Companies Act.

	Fiscal Year 2011 Stock Options (28th and 29th Series Stock Acquisition Rights)	Fiscal Year 2012 Stock Options (30th and 31st Series Stock Acquisition Rights)	Fiscal Year 2013 Stock Options (32nd and 33rd Series Stock Acquisition Rights)
Resolution date	Resolved at the Ordinary General Meeting of Shareholders held on June 24, 2011 and the Board of Directors meeting held on July 29, 2011	Resolved at the Ordinary General Meeting of Shareholders held on June 26, 2012 and the Board of Directors meeting held on July 31, 2012	Resolved at the Ordinary General Meeting of Shareholders held on June 25, 2013 and the Board of Directors meeting held on July 31, 2013
Title and number of grantees	5 directors of the Company 12 corporate officers of the Company	5 directors of the Company 14 corporate officers of the Company	6 directors of the Company 10 corporate officers of the Company
Number of stock acquisition rights (Units)*	51 (Note 1)	280 (Note 1)	303 (Note 1) [278]
Class, details, and number of shares to be issued upon exercise of stock acquisition rights (Shares)*	Ordinary shares 5,100 (Note 2)	Ordinary shares 28,000 (Note 2)	Ordinary shares 30,300 (Note 2) [27,800]
Amount paid in upon exercise of stock acquisition rights (Yen)	1 (Note 3)	1 (Note 3)	1 (Note 3)
Exercise period of stock acquisition rights*	August 1, 2014– July 31, 2026	August 1, 2015– July 31, 2027	August 1, 2016– July 31, 2028
Issue price and amount credited to equity in the event of issuance of shares upon exercise of stock acquisition rights (Yen)*	Issue price: 1,295 (Note 4) Amount credited to equity: 648	Issue price: 1,002 (Note 4) Amount credited to equity: 501	Issue price: 1,435 (Note 4) Amount credited to equity: 718
Conditions for exercising stock acquisition rights*	(Note 5)	(Note 5)	(Note 5)
Transfer of stock acquisition rights*	The transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.	The transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.	The transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.
Delivery of stock acquisition rights in the event of the Reorganization*	(Note 6)	(Note 6)	(Note 6)

	Fiscal Year 2014 Stock Options (34th and 35th Series Stock Acquisition Rights)	Fiscal Year 2015 Stock Options (36th and 37th Series Stock Acquisition Rights)	Fiscal Year 2016 Stock Options (38th and 39th Series Stock Acquisition Rights)
Resolution date	Resolved at the Ordinary General Meeting of Shareholders held on June 25, 2014 and the Board of Directors meeting held on July 31, 2014	Resolved at the Ordinary General Meeting of Shareholders held on June 23, 2015 and the Board of Directors meeting held on February 23, 2016	Resolved at the Ordinary General Meeting of Shareholders held on March 25, 2016 and the Board of Directors meeting held on February 23, 2017
Title and number of grantees	5 directors of the Company 1 individual who was the Chairman (Representative Director) until the close of the 114th General Meeting of Shareholders 12 corporate officers of the Company	3 directors of the Company 13 corporate officers of the Company or its wholly owned subsidiaries 2 individuals who were corporate officers of the Company until December 31, 2015	3 directors of the Company 20 corporate officers of the Company or its wholly owned subsidiaries 1 employee of a subsidiary of the Company (1 individual who was a corporate officer of the Company until December 31, 2016)
Number of stock acquisition rights (Units)*	321 (Note 1)	178 (Note 1) [168]	855 (Note 1) [585]
Class, details, and number of shares to be issued upon exercise of stock acquisition rights (Shares)*	Ordinary shares 32,100 (Note 2)	Ordinary shares 17,800 (Note 2) [16,800]	Ordinary shares 85,500 (Note 2) [58,500]
Amount paid in upon exercise of stock acquisition rights (Yen)	1 (Note 3)	1 (Note 3)	1 (Note 3)
Exercise period of stock acquisition rights*	August 1, 2017– July 31, 2029	September 1, 2018– February 28, 2031	September 1, 2019– February 29, 2032
Issue price and amount credited to equity in the event of issuance of shares upon exercise of stock acquisition rights (Yen)*	Issue price: 1,899.5 (Note 4) Amount credited to equity: 950	Issue price: 2,516.5 (Note 4) Amount credited to equity: 1,259	Issue price: 2,991 (Note 4) Amount credited to equity: 1,496
Conditions for exercising stock acquisition rights*	(Note 5)	(Note 5)	(Note 5)
Transfer of stock acquisition rights*	The transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.	The transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.	The transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.
Delivery of stock acquisition rights in the event of the Reorganization*	(Note 6)	(Note 6)	(Note 6)

	Fiscal Year 2017 Stock Options (40th and 41st Series Stock Acquisition Rights)	Fiscal Year 2018 Stock Options (42nd and 43rd Series Stock Acquisition Rights)
Resolution date	Resolved at the Ordinary General Meeting of Shareholders held on March 28, 2017 and the Board of Directors meeting held on March 6, 2018	Resolved at the Ordinary General Meeting of Shareholders held on March 27, 2018 and the Board of Directors meeting held on February 21, 2019
Title and number of grantees	3 directors of the Company 13 corporate officers of the Company or its wholly owned subsidiaries 5 individuals who were corporate officers of the Company or its wholly owned subsidiaries until December 31, 2017	3 directors of the Company 12 corporate officers of the Company or its wholly owned subsidiaries 3 individuals who were corporate officers of the Company or its wholly owned subsidiaries until December 31, 2018
Number of stock acquisition rights*	602 (Note 1) [585]	154 (Note 1)
Class, details, and number of shares to be issued upon exercise of stock acquisition rights (Shares)*	Ordinary shares 60,200 (Note 2) [58,500]	Ordinary shares 15,400 (Note 2)
Amount paid in upon exercise of stock acquisition rights (Yen)	1 (Note 3)	1 (Note 3)
Exercise period of stock acquisition rights*	September 1, 2020– February 28, 2033	September 1, 2021– February 28, 2034
Issue price and amount credited to equity in the event of issuance of shares upon exercise of stock acquisition rights (Yen)*	Issue price: 6,616 (Note 4) Amount credited to equity: 3,308	Issue price: 7,865 (Note 4) Amount credited to equity: 3,933
Conditions for exercising stock acquisition rights*	(Note 5)	(Note 5)
Transfer of stock acquisition rights*	The transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.	The transfer of stock acquisition rights shall be subject to the approval of the Board of Directors.
Delivery of stock acquisition rights in the event of the Reorganization*	(Note 6)	(Note 6)

* The description above represents the status as of the end of the current fiscal year (December 31, 2022). The details changed between December 31, 2022 and February 28, 2023, which is the end of the month preceding to the filing month, are shown in square brackets based on the status as of February 28, 2023. The other details have not changed from December 31, 2022.

Notes: 1. The number of shares to be issued upon exercise of one stock acquisition right shall be 100 shares.

2. In the event that the Company implements a stock split (including gratis allocation of the Company's shares) or stock consolidation, the number of shares to be issued upon exercise of stock acquisition rights (the "Number of Subject Shares") shall be adjusted in accordance with the following formula, with any fraction of one share occurring upon such adjustment discarded:
Number of Subject Shares after adjustment = Number of Subject Shares before adjustment × Split/consolidation ratio
In addition, upon the occurrence of any unavoidable event that requires adjustment to the Number of Subject Shares, an adjustment shall be made thereto to the extent it is reasonable.

3. The amount of property to be contributed upon exercise of each stock acquisition right shall be the amount of cash to be paid in for each of the shares to be delivered upon exercise thereof, which shall be ¥1, multiplied by the Number of Subject Shares.

4. The issue price is the sum of the amount paid in upon the exercise of each stock acquisition right (¥1 per share) and the fair value of each stock acquisition right (¥1,294 per share for the 28th and 29th Series; ¥1,001 per share for the 30th and 31st Series; ¥1,434 per share for the 32nd and 33rd Series; ¥1,898.5 per share for the 34th and 35th Series; ¥2,515.5 per share for the 36th and 37th Series; ¥2,990 per share for the 38th and 39th Series; ¥6,615 per share for the 40th and 41st Series; and ¥7,864 per share for the 42nd and 43rd Series) at the grant date.

5. (1) Any allottee of stock acquisition rights shall remain in office as director or corporate officer of the Company when he/she exercises the rights, unless he/she leaves office upon expiration of the term of office or due to any other justifiable reasons.
(2) If any allottee of stock acquisition rights dies prior to the expiration of the exercise period of the stock acquisition rights, only one heir to such allottee shall be entitled to succeed to his/her rights and no one can succeed to such heir.
(3) Any other conditions for exercising stock acquisition rights shall be governed by a "contract of allotting stock acquisition rights" to be entered into between the Company and the relevant allottee of the stock acquisition rights.

6. In the event that the Company is merged (as a result of which, the Company shall be dissolved), or conducts an absorption-type company split, incorporation-type company split, share exchange or share transfer (collectively, the "Reorganization"), the Company shall, with regard to the stock acquisition rights outstanding when the Reorganization becomes effective (the "Outstanding Stock Acquisition Rights"), deliver to any allottee thereof stock acquisition rights of relevant corporations ("Reorganizing Companies") listed in Article 236, paragraph 1, item 8 (a) through (e) of the Companies Act, in accordance with the following conditions. In such case, the Outstanding Stock Acquisition Rights shall become null and void and the Reorganizing Companies shall newly issue stock acquisition rights, only if and when the delivery of stock acquisition rights of the Reorganizing Companies is stipulated in accordance with the following conditions in the absorption-type merger agreement, consolidation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan.
(1) Number of stock acquisition rights of the Reorganizing Company to be delivered
The same number as that of the Outstanding Stock Acquisition Rights held by each allottee thereof shall be delivered.
(2) Class of shares of the Reorganizing Company to be issued upon exercise of stock acquisition rights
Ordinary shares of the Reorganizing Company
(3) Number of shares of the Reorganizing Company to be issued upon exercise of stock acquisition rights
The number of such shares shall be determined in accordance with Note 2 above, by taking into account the conditions of the Reorganization.
(4) Amount of property to be contributed upon exercise of each stock acquisition right
The amount of property to be contributed upon exercise of each stock acquisition right to be delivered shall be an amount obtained by multiplying the paid-in amount after the Reorganization set forth below by the number of shares of the Reorganizing Company be issued upon exercise of each of the stock acquisition rights, which shall be determined as set forth in (3) above. The paid-in amount after the Reorganization shall be ¥1 per share of the Reorganizing Company that can be delivered upon exercise of each stock acquisition right delivered.
(5) Exercise period of stock acquisition rights
From later of the first day of the exercise period of the Outstanding Stock Acquisition Rights and the day on which the Reorganization becomes effective, to the last day of the exercise period of the Outstanding Stock Acquisition Rights
(6) Matters concerning share capital and legal capital surplus to be increased in the event that the Reorganizing Company issues shares upon exercise of stock acquisition rights
Such matters shall be determined in accordance with the provisions set forth for the Outstanding Stock Acquisition Rights.
(7) Restriction on acquisition of stock acquisition rights by transfer
Any acquisition of stock acquisition rights by transfer shall be subject to the approval by resolution of the board of directors of the Reorganizing Company.
(8) Terms and conditions of acquisition of stock acquisition rights
Such terms and conditions shall be determined in accordance with the terms and conditions specified for the Outstanding Stock Acquisition Rights.
(9) Other conditions for exercising stock acquisition rights
Such conditions shall be determined in accordance with the conditions for exercising the Outstanding Stock Acquisition Rights.

(ii) Number and weighted average exercise price of stock options

	2021/12		**2022/12**	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
	Shares	Yen	Shares	Yen
Outstanding at the beginning of the year	392,000	1	**319,500**	**1**
Granted	—	—	**—**	**—**
Exercised	(30,300)	1	**(45,100)**	**1**
Forfeited	(42,200)	1	**—**	**—**
Outstanding at the end of the year	319,500	1	**274,400**	**1**
Exercisable at the end of the year	319,500	1	**274,400**	**1**

Notes
1. The weighted average share price at the time of exercise of stock options exercised during the previous fiscal year and the current fiscal year was ¥7,454 and ¥6,127 ($46.46), respectively.
2. The exercise price of stock options outstanding as of the end of the previous fiscal year and the current fiscal year was both ¥1.
3. The weighted average remaining contract years of stock options outstanding as of the end of the previous fiscal year and the current fiscal year were 9.0 years and 8.2 years, respectively.

(iii) Share-based payment expenses

Share-based payment expenses included in "Selling, general and administrative expenses" in the consolidated statement of profit and loss were ¥69 million in the previous fiscal year. No expenses were incurred in the current fiscal year as no new stock options were issued and the vesting of outstanding stock options had been completed by the end of the previous fiscal year.

(2) Performance-linked stock compensation plan

(i) Details of performance-linked stock compensation plan

The Company adopts a performance share unit plan under which shares in the Company or money are granted according to the rate of achievement of several predetermined evaluation indicators and other factors. This plan provides an effective incentive for generating and maintaining corporate value over the long term, and is designed to encourage its personnel to share with its shareholders an awareness of the importance of sustainably generating profits.

Each fiscal year, the Company grants share units (one unit = one share) to eligible members (directors, executive officers, and employees). Multiple evaluation indicators are determined in advance, with three fiscal years, including the fiscal year subject to grant, set as the period subject to evaluation. After the end of the evaluation period, the Company calculates a payout ratio within a range of 50% to 150% based on the achievement rate of each evaluation indicator. After adjusting the number of share units based on the payout ratio, the Company grants monetary compensation claims and money for the delivery of the Company's ordinary shares in proportion to the number of such stock units to each grantee. All such monetary compensation claims are to be contributed in kind in order to deliver the Company's ordinary shares to each grantee.

(ii) Method of measuring the fair unit price of the Company's shares granted during the period based on the performance-linked stock compensation plan

The fair value of the Company's shares granted during the period is determined based on the share price on the grant date.

The number of share units granted during the period and their fair value are as follows:

	Yen		U.S. dollars
	2021/12	**2022/12**	**2022/12**
Number of units granted during the period (units)	128,177	**161,446**	
Weighted average fair value	7,439	**6,438**	**48.82**

(iii) Share-based payment expenses

Share-based payment expenses included in "Selling, general and administrative expenses" in the consolidated statement of profit and loss are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	**2022/12**	**2022/12**
Equity-settled	649	**892**	**6,764**
Cash-settled	277	**385**	**2,919**

Total liabilities arising from share-based payment transactions are as follows:

	Millions of yen			Thousands of U.S. dollars
	IFRS transition date (January 1, 2021)	2021/12	**2022/12**	**2022/12**
Total carrying amount of liabilities	266	558	**881**	**6,680**
Total intrinsic value of vested liabilities	266	558	**881**	**6,680**

35. Financial Instruments

(1) Capital management

The Group's basic policy for capital management is to endeavor to maintain its shareholders' equity at an appropriate level as well as to improve its capital efficiency in order to achieve sustainable growth and maximize its corporate value.

Major indicators used by the Group to manage its capital are net interest-bearing debt to EBITDA ratio, net debt-equity ratio, return on equity (ROE), and return on invested capital (ROIC).

The Group's net interest-bearing debt to EBITDA ratio, net debt-equity ratio, ROE, and ROIC are as follows:

	2021/12	2022/12
Net interest-bearing debt to EBITDA ratio (times) (Note 1)	(0.11)	**0.31**
Net debt-equity ratio (times) (Note 2)	(0.02)	**0.05**
ROE (%) (Note 3)	9.3	**6.0**
ROIC (%) (Note 4)	2.9	**5.2**

Note 1: (Interest-bearing debt (excluding lease liabilities) – Cash and cash equivalents – Time deposits with maturities exceeding 3 months) ÷ EBITDA
EBITDA = Core operating profit + Depreciation and amortization (excluding amortization of right-of-use assets)
2: (Interest-bearing debt (excluding lease liabilities) – Cash and cash equivalents – Time deposits with maturities exceeding 3 months) ÷ Equity attributable to owners of parent
3: Profit attributable to owners of parent ÷ Equity attributable to owners of parent (average of the beginning and ending balances)
4: Core operating profit × (1 – Tax rate) ÷ (Interest-bearing debt (average of the beginning and the ending balances, excluding lease liabilities) + Equity attributable to owners of parent (average of the beginning and the ending balances))ollowing formula, with any fraction of one share occurring upon such adjustment

The Group is not subject to any significant capital restrictions (excluding the Companies Act and other general regulations).

(2) Financial risk management

The Group is exposed to financial risks (credit risk, liquidity risk, and market risk) in the course of its business activities. To mitigate such financial risks, the Group carries out risk management in accordance with certain policies. The Group limits its investment to short-term deposits and securities, and other similar instruments, and has a policy to use bank borrowings, commercial papers, bonds, and other instruments to procure funds. The Group uses derivatives to avoid the risk of foreign exchange fluctuations of foreign currency-denominated receivables and payables and the risk of fluctuation of borrowing interest rates. The Group limits the use of derivatives to within the balance of receivables and payables and the scope of actual demand, and does not engage in speculative transactions. The Group executes and manages derivatives in accordance with the internal rules and regulations that prescribe transaction authority.

i. Credit risk management

Credit risk is the risk that a counterparty to a financial asset held by the Group will default on its contractual obligations, resulting in a financial loss to the Group. Credit risk arises principally from the Group's receivables from customers, loans receivable, and derivatives.

The Group manages due dates and outstanding balances for each counterparty and periodically monitors the credit status of major counterparties. The Group does not have any credit risk overly concentrated in a specific counterparty or a group to which such counterparty belongs.

To mitigate counterparty risk associated with the use of derivatives, the Group enters into derivatives only with highly creditworthy financial institutions and other such counterparties.

The carrying amount of impaired financial assets presented in the consolidated financial statements represents the maximum exposure of the Group's financial assets to credit risk, without taking into account the assessed value of collateral obtained.

Fluctuation analysis of allowance for doubtful accounts

The changes in allowance for doubtful accounts related to trade receivables are as follows:

	Millions of yen
	Lifetime expected credit losses
Balance as of January 1, 2021	3,777
Increase during period	951
Decrease during period (intended use)	(536)
Decrease during period (reversal)	(335)
Other changes	203
Balance as of January 1, 2022	**4,060**
Increase during period	**1,288**
Decrease during period (intended use)	**(368)**
Decrease during period (reversal)	**(270)**
Other changes	**264**
Balance as of December 31, 2022	**4,972**

	Thousands of U.S. dollars
	Lifetime expected credit losses
Balance as of January 1, 2022	**30,786**
Increase during period	**9,766**
Decrease during period (intended use)	**(2,790)**
Decrease during period (reversal)	**(2,047)**
Other changes	**2,002**
Balance as of December 31, 2022	**37,701**

There are no financial assets that were directly written off in the current fiscal year but for which collection activities are still ongoing.

A maturity analysis of the carrying amount of trade receivables and the corresponding allowance for doubtful accounts is as follows. For financial assets other than trade receivables, there are no items that are materially past due or have significant credit risk exposure.

IFRS transition date (January 1, 2021) — Millions of yen

	Not yet due	Past due				
		Within 30 days	Over 30 days	Over 60 days	Over 90 days	Total
Trade receivables	113,210	19,046	6,236	1,818	4,562	144,874
Allowance for doubtful accounts	187	136	113	25	3,313	3,777

2021/12 — Millions of yen

	Not yet due	Past due				
		Within 30 days	Over 30 days	Over 60 days	Over 90 days	Total
Trade receivables	131,314	12,997	2,495	828	3,503	151,139
Allowance for doubtful accounts	304	239	34	189	3,292	4,060

2022/12 — Millions of yen

	Not yet due	Past due				
		Within 30 days	Over 30 days	Over 60 days	Over 90 days	Total
Trade receivables	**150,426**	**10,865**	**4,524**	**602**	**3,763**	**170,183**
Allowance for doubtful accounts	**1,136**	**20**	**34**	**27**	**3,753**	**4,972**

2022/12 — Thousands of U.S. dollars

	Not yet due	Past due				
		Within 30 days	Over 30 days	Over 60 days	Over 90 days	Total
Trade receivables	**1,140,628**	**82,386**	**34,304**	**4,565**	**28,534**	**1,290,438**
Allowance for doubtful accounts	**8,614**	**152**	**258**	**205**	**28,458**	**37,701**

ii. Liquidity risk management

Liquidity risk is the risk that the Group is unable to perform the repayment obligations of financial liabilities on their due dates.

The Group strives to generate stable operating cash flows and secure a wide range of financing sources, while always seeking to appropriately secure adequate funds for its business activities, maintain liquidity, and achieve a sound financial condition. The Group limits its investments to short-term deposits and securities, and other similar instruments.

The Group manages its liquidity risk mainly by preparing and updating a cash management plan on a monthly basis.

The balances of financial liabilities (including derivative financial instruments) by due date are as follows. The table below does not include financial liabilities included in current liabilities other than those listed below as they are all due within one year and their carrying amounts are equal to the contractual cash flows.

IFRS transition date (January 1, 2021)

Millions of yen

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Borrowings	235,082	237,496	68,046	1,388	57,681	30,107	10,105	70,166
Bonds	65,000	65,279	100	15,069	10,043	40	40,025	—
Lease liabilities	144,555	147,247	23,267	20,962	17,911	14,794	10,461	59,850
Long-term other accounts payable (including current portion)	55,979	64,463	4,317	5,237	5,539	5,788	6,030	37,549
Derivative financial liabilities								
Derivative liabilities	361	361	16	15	329	—	—	—

Notes: 1. Receivables and payables arising from derivatives are presented on a net basis.
2. The above amounts of liabilities are presented as the sum of current liabilities and non-current liabilities.

2021/12

Millions of yen

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Borrowings	96,645	97,616	1,065	16,146	30,117	5,115	100	45,071
Bonds	65,000	65,178	15,069	10,043	40	40,025	—	—
Lease liabilities	144,192	148,141	26,347	21,370	17,287	12,756	9,936	60,442
Long-term other accounts payable (including current portion)	5,543	6,050	880	1,205	1,205	1,263	460	1,035
Derivative financial liabilities								
Derivative liabilities	703	703	501	201	—	—	—	—

2022/12

Millions of yen

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Borrowings	**95,990**	**96,379**	**16,169**	**30,064**	**5,063**	**55**	**45,026**	—
Bonds	**70,000**	**70,553**	**10,133**	**130**	**40,115**	**90**	**20,084**	—
Lease liabilities	**131,198**	**138,721**	**24,629**	**20,541**	**14,969**	**12,421**	**9,607**	**56,551**
Long-term other accounts payable (including current portion)	**5,054**	**5,460**	**923**	**1,080**	**1,124**	**1,181**	**503**	**647**
Derivative financial liabilities								
Derivative liabilities	**88**	**88**	**88**	—	—	—	—	—

2022/12

Thousands of U.S. dollars

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Non-derivative financial liabilities								
Borrowings	**727,859**	**730,808**	**122,604**	**227,965**	**38,391**	**417**	**341,416**	—
Bonds	**530,786**	**534,979**	**76,835**	**986**	**304,178**	**682**	**152,290**	—
Lease liabilities	**994,829**	**1,051,873**	**186,753**	**155,755**	**113,505**	**94,184**	**72,847**	**428,806**
Long-term accounts payable (including current portion)	**38,323**	**41,401**	**6,999**	**8,189**	**8,523**	**8,955**	**3,814**	**4,906**
Derivative financial liabilities								
Derivative liabilities	**667**	**667**	**667**	—	—	—	—	—

Notes: 1. Receivables and payables arising from derivatives are presented on a net basis.
2. The above amounts of liabilities are presented as the sum of current liabilities and non-current liabilities.

iii. Market risk management

The Group is exposed to risks associated with market fluctuations such as foreign exchange fluctuations and interest rate fluctuations in the course of its business activities. To appropriately manage these market risks, the Group may use derivatives, including foreign exchange forward contracts, currency swap contracts, and interest rate swap contracts. The Group executes and manages derivatives in accordance with the internal rules and regulations that prescribe transaction authority. The Group does not use derivatives for speculative purposes. Therefore, changes in the fair value of derivatives held by the Company generally have the effect of effectively offsetting changes in the fair value or cash flows of the corresponding transactions.

(i) Foreign exchange risk

The Group is engaged in business on a global scale and therefore is exposed to the risk of foreign exchange fluctuations of foreign currency-denominated receivables and payables mainly arising from foreign currency transactions. The risk of foreign exchange fluctuations associated with foreign currency transactions are hedged using derivatives (foreign exchange forward contracts and foreign currency options) to mitigate its impact on operating results.

The Group's net exposures to foreign exchange fluctuation risk associated with receivables and payables denominated in the principal foreign currencies of the US dollar, Euro, and Chinese yuan that it held at the end of each fiscal year are as follows. The following table excludes the amounts for which foreign exchange fluctuation risk is hedged by derivatives.

	Millions of yen		Thousands of U.S. dollars
	2021/12	**2022/12**	**2022/12**
US dollar	11,022	**21,728**	**164,756**
Euro	8,177	**4,072**	**30,877**
Chinese yuan	(512)	**164**	**1,244**

Concerning foreign currency-denominated receivables and payables held by the Group at the end of each fiscal year, the effect of a 10% appreciation of the Japanese yen on profit before tax in the consolidated statement of profit and loss is as follows.

This analysis does not include the effects of translating financial instruments denominated in functional currencies as well as assets and liabilities, and income and expenses of foreign operations into the Japanese yen. It also assumes that currencies other than the respective currencies used in the calculations remain constant.

	Millions of yen		Thousands of U.S. dollars
	2021/12	**2022/12**	**2022/12**
US dollar	(1,102)	**(2,172)**	**(16,470)**
Euro	(817)	**(407)**	**(3,086)**
Chinese yuan	(51)	**(16)**	**(121)**

(ii) Interest rate risk management

The Group is exposed to various interest rate fluctuation risks in its business activities. Among interest-bearing debts, short-term borrowings and commercial papers are primarily used to procure funds for operating transactions, whereas long-term borrowings, bonds, and lease liabilities are primarily used to procure funds for investments and loans, capital expenditures, and operating transactions. Floating-rate borrowings are exposed to interest rate fluctuation risk. For some of these long-term borrowings, derivatives (interest rate swap contracts and interest rate and currency swap contracts) are used as hedging instruments on an individual contract basis to reduce the risk of interest rate fluctuations and fix interest payments.

Therefore, exposure to the interest rate fluctuation risk of the Company is limited, and the impact on the interest rate fluctuation is determined to be immaterial.

(3) Fair value of financial instruments

Financial instruments measured at fair value are classified into the following three levels according to the observability and materiality of inputs used to measure such financial instruments.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: fair value measured by directly or indirectly using observable prices, other than level 1 prices
Level 3: fair value measured using valuation techniques that incorporate unobservable inputs

i. Methods of fair value measurement

The methods of measuring the fair value of financial instruments are as follows:

(Cash and cash equivalents, trade and other receivables, trade and other payables)

The fair value of these instruments is measured at their carrying amount as their fair value approximates their carrying amount because of their short settlement periods.

(Other financial assets, other financial liabilities)

Of the financial assets measured at fair value through other comprehensive income, listed shares are measured at the quoted market price at the fiscal year-end, whereas unlisted shares are primarily measured using the discounted cash flow (DCF) method.

Other financial assets measured at amortized cost mainly include long-term loans receivable and guarantee and leasehold deposits. Other financial liabilities measured at amortized cost mainly include long-term accounts payable. The fair value of long-term loans receivable, guarantee and leasehold deposits, and long-term accounts payable is measured at the fair value of future cash flows discounted at the current market interest rate, etc. The fair value of financial assets and financial liabilities measured at amortized cost that have short settlement periods is measured at the carrying amount as their fair value approximates their carrying amount.

Derivatives, which are either financial assets or financial liabilities measured at fair value through profit or loss, mainly include foreign exchange forward contracts and interest rate swap contracts. The fair value of these instruments is measured based on forward foreign exchange rates provided by counterparty financial institutions or interest rates of interest rate swap contracts, etc. at the end of the accounting period.

(Bonds and borrowings)

The fair value of short-term borrowings is measured at their carrying amount as their fair value approximates their carrying amount because of their short settlement periods.

The fair value of long-term borrowings with floating interest rates is measured at their carrying amount as their fair value reflects the market interest rates within a short period of time and therefore approximates their carrying amount.

The fair value of long-term borrowings with fixed interest rates is measured at the present value of future cash flows discounted at an interest rate assumed to be applied if similar contracts were newly executed.

The fair value of bonds is measured based on quoted market prices, etc.

ii. Financial instruments measured at amortized cost

The carrying amount and the fair value of financial instruments measured at amortized cost are as follows. The table below does not include financial instruments whose fair value closely approximates their carrying amount.

					Millions of yen		Thousands of U.S. dollars	
	IFRS transition date (January 1, 2021)		2021/12		**2022/12**		**2022/12**	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Assets:								
Other financial assets								
Guarantee and leasehold deposits	26,457	23,470	24,832	21,791	**24,574**	**18,682**	**186,336**	**141,659**
Long-term loans receivable	0	0	31,116	31,116	**39,183**	**28,643**	**297,111**	**217,190**
Total	26,457	23,470	55,948	52,907	**63,758**	**47,326**	**483,455**	**358,857**

Note: Their fair value is categorized as level 2 of the fair value hierarchy.

iii. Financial instruments measured at fair value

The fair value hierarchy of financial instruments measured at fair value is as follows:

IFRS transition date
(January 1, 2021)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets				
Derivatives	—	308	—	308
Others	1,014	—	2,963	3,978
Financial assets measured at fair value through other comprehensive income				
Other financial assets				
Shares and investments in capital	7,583	153	3,847	11,585
Total	8,598	462	6,811	15,872
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities				
Derivatives	—	361	—	361
Total	—	361	—	361

As of December 31, 2021

2021/12

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets				
Derivatives	—	—	—	—
Others	—	—	3,250	3,250
Financial assets measured at fair value through other comprehensive income				
Other financial assets				
Shares and investments in capital	4,802	126	3,712	8,640
Total	4,802	126	6,963	11,891
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities				
Derivatives	—	703	—	703
Total	—	703	—	703

As of December 31, 2022

2022/12

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets				
Derivatives	—	2,043	—	2,043
Others	—	—	6,540	6,540
Financial assets measured at fair value through other comprehensive income				
Other financial assets				
Shares and investments in capital	5,914	146	3,656	9,717
Total	5,914	2,189	10,196	18,300
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities				
Derivatives	—	88	—	88
Total	—	88	—	88

2022/12

Thousands of U.S. dollars

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss				
Other financial assets				
Derivatives	—	15,491	—	15,491
Others	—	—	49,591	49,591
Financial assets measured at fair value through other comprehensive income				
Other financial assets				
Shares and investments in capital	44,844	1,107	27,722	73,681
Total	44,844	16,598	77,313	138,763
Liabilities:				
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities				
Derivatives	—	667	—	667
Total	—	667	—	667

No transfer was made between level 1 and level 2 of the fair value hierarchy during each fiscal year.

iv. Information on fair value measurement of financial instruments categorized as level 3

Financial instruments categorized as level 3 mainly consist of unlisted shares and investments in capital, and their fair value is measured primarily using the DCF method.

The fair value of financial instruments categorized as level 3 is measured in accordance with the group accounting policy and accounting guidelines using valuation techniques that appropriately reflect the nature, characteristics, and risk of the financial instruments, as well as using cash flows and other inputs. The valuation and the analysis of the valuation results are performed by the members in charge in the responsible department. The valuation results are reviewed and approved by the head of the responsible department.

For financial instruments categorized as level 3, no significant change in their fair value is expected when changing any of the unobservable inputs to reflect reasonably possible alternative assumptions.

v. Reconciliation of financial instruments categorized as level 3

Changes in the balances of financial instruments categorized as level 3 from the beginning to the end of each fiscal year are as follows:

	2021/12 (Millions of yen)		2022/12 (Millions of yen)		2022/12 (Thousands of U.S. dollars)	
	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value through profit or loss
Beginning balance	3,847	2,963	3,712	3,250	28,147	24,644
Total gains and losses						
Profit or loss (Note 1)	—	126	—	120	—	910
Other comprehensive income (Note 2)	148	—	(241)	—	(1,827)	—
Purchase	—	38	169	1,696	1,281	12,860
Sale	(292)	(10)	—	(1,182)	—	(8,963)
Others	7	132	16	2,654	121	20,124
Ending balance	3,712	3,250	3,656	6,540	27,722	49,591

Notes: 1. The amounts of profit or loss are included in "Finance income" and "Finance costs" in the consolidated statement of profit and loss. Amounts attributable to changes in unrealized gains or losses related to financial assets measured at fair value through profit or loss held as of December 31, 2021 and 2022 were ¥126 million and ¥120 million ($910 thousand), respectively.
2. The amounts of other comprehensive income are included in "Financial assets measured at fair value through other comprehensive income" in the consolidated statement of comprehensive income.

(4) Hedge accounting

i. Risk management policy

The Group enters into derivatives for the following purposes: (i) foreign exchange forward contracts and foreign currency options to hedge the risk of foreign exchange fluctuations of foreign currency-denominated receivables and payables, and foreign currency-denominated receivables and payables that are certainly expected to arise from forecast transactions; (ii) interest rate swap contracts to hedge the risk of interest rate fluctuations associated with borrowings; and (iii) interest rate and currency swap contracts to hedge the risk of foreign exchange fluctuations and the risk of interest rate fluctuations associated with foreign currency-denominated borrowings. Of these derivatives, the Group designates interest rate swap contracts that qualify for hedge accounting as cash flow hedges and applies hedge accounting.

In applying hedge accounting, the same notional amount, term (maturity), and underlying interest rates are set for the hedging instrument and the hedged item, in principle, to maintain the effectiveness of the hedging relationship throughout the hedge period. The Group sets an appropriate hedge ratio based on the relationship between the hedging instrument and the hedged item, which is generally one-to-one.

ii. Information on items designated as hedging instruments

Amounts of items designated as hedging instruments are as follows. The maximum period over which the cash flow fluctuations will be hedged is one year.

IFRS transition date (January 1, 2021)

Millions of yen

	Notional amount	Of which, due after one year	Carrying amount: Assets	Carrying amount: Liabilities	Weighted average interest rate (fixed)	Line item in the consolidated statement of financial position
Interest rate risk						
Interest rate swap contracts	17,375	16,645	—	344	1.155%	Other financial liabilities (non-current)

2021/12

Millions of yen

	Notional amount	Of which, due after one year	Carrying amount: Assets	Carrying amount: Liabilities	Weighted average interest rate (fixed)	Line item in the consolidated statement of financial position
Interest rate risk						
Interest rate swap contracts	16,645	15,915	—	201	1.155%	Other financial liabilities (non-current)

2022/12

Millions of yen

	Notional amount	Of which, due after one year	Carrying amount: Assets	Carrying amount: Liabilities	Weighted average interest rate (fixed)	Line item in the consolidated statement of financial position
Interest rate risk						
Interest rate swap contracts	15,915	—	—	62	1.155%	Other financial liabilities (current)

2022/12

Thousands of U.S. dollars

	Notional amount	Of which, due after one year	Carrying amount: Assets	Carrying amount: Liabilities	Weighted average interest rate (fixed)	Line item in the consolidated statement of financial position
Interest rate risk						
Interest rate swap contracts	120,678	—	—	470	1.155%	Other financial liabilities (current)

iii. Information on items designated as hedged items

For items designated as hedged items, the balance of cash flow hedge reserve for continuing hedges is as follows.

There was no cash flow hedge reserve arising from hedge relationships for which hedge accounting was discontinued. As the amount of the ineffective portion of hedges recognized in profit or loss was immaterial, the disclosure of changes in fair value is omitted for the hedging instruments and hedged items used as a basis for recognizing the ineffective portion.

	IFRS transition date (January 1, 2021) (Millions of yen)	2021/12 (Millions of yen)	2022/12 (Millions of yen)	2022/12 (Thousands of U.S. dollars)
Interest rate risk				
Interest rate swap contracts	(237)	(139)	**(43)**	**(326)**

iv. Impact of the application of hedge accounting on the consolidated statement of profit and loss and the consolidated statement of comprehensive income

The impact of the application of hedge accounting on the consolidated statement of profit and loss and the consolidated statement of other comprehensive income (before tax effect) is as follows:

2021/12

Millions of yen

	Hedging gains or losses recognized in other comprehensive income	Amount reclassified from cash flow hedge reserve into profit or loss	Line item in profit or loss affected by reclassification
Interest rate risk			
Interest rate swap contracts	(61)	204	Finance costs

2022/12

Millions of yen

	Hedging gains or losses recognized in other comprehensive income	Amount reclassified from cash flow hedge reserve into profit or loss	Line item in profit or loss affected by reclassification
Interest rate risk			
Interest rate swap contracts	(52)	191	Finance costs

2022/12

Thousands of U.S. dollars

	Hedging gains or losses recognized in other comprehensive income	Amount reclassified from cash flow hedge reserve into profit or loss	Line item in profit or loss affected by reclassification
Interest rate risk			
Interest rate swap contracts	(394)	1,448	Finance costs

36. Major Subsidiaries

(1) Major subsidiaries

The status of major subsidiaries as of December 31, 2022 is as stated below.
Compared from the previous fiscal year, the number of subsidiaries increased by five and decreased by three.

Subsidiaries and Associates

i. Consolidated subsidiaries

Company name	Address	Share capital or investments in capital (Thousands of yen)	Main line of business	Ownership percentage of voting rights (%)	Description of relationship
Shiseido Japan Co., Ltd.	Chuo-ku, Tokyo	100,000	Japan Business	100.0	Purchaser of cosmetics, etc. Leasing of buildings and equipment owned by the Company Leasing out of buildings, land, and equipment to the Company Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
Shiseido Beauty Salon Co., Ltd.	Chuo-ku, Tokyo	100,000	Japan Business	100.0	Business transactions: No; Leasing of buildings and equipment owned by the Company Interlocking directorates: No; Secondment and concurrent employment of employees: Yes
Shiseido Pharmaceutical Co., Ltd.	Chuo-ku, Tokyo	100,000	Japan Business	100.0	Purchaser of pharmaceutical products Interlocking directorates: No; Secondment and concurrent employment of employees: Yes
Ettusais Co., Ltd.	Chuo-ku, Tokyo	100,000	Japan Business	100.0	Business transactions: No Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
Shiseido FITIT Co., Ltd.	Chuo-ku, Tokyo	10,000	Japan Business	100.0	Purchaser of cosmetics, etc. Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
Shiseido International Inc.	Chuo-ku, Tokyo	30,000	Japan Business	100.0	Purchaser of cosmetics, etc. Interlocking directorates: No; Secondment and concurrent employment of employees: Yes
Shiseido China Co., Ltd.	Shanghai, China	CNY565,093 thousand	China Business	100.0	Purchaser of cosmetics, etc. Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
Shiseido Liyuan Cosmetics Co., Ltd.	Beijing, China	CNY94,300 thousand	China Business	65.0 (32.9)	Purchaser of raw materials Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
Shiseido Hong Kong Ltd.	Hong Kong, China	HKD123,000 thousand	China Business	100.0	Purchaser of cosmetics, etc. Interlocking directorates: Yes; Secondment and concurrent employment of employees: No
Shiseido Asia Pacific Pte. Ltd.	Singapore	SGD49,713 thousand	Asia Pacific Business	100.0	Purchaser of cosmetics, etc. Interlocking directorates: No; Secondment and concurrent employment of employees: Yes
Shiseido Thailand Co., Ltd. (Note 2)	Bangkok, Thailand	THB10,000 thousand	Asia Pacific Business	49.0	Purchaser of cosmetics, etc. Interlocking directorates: No; Secondment and concurrent employment of employees: No
FLELIS International Inc.	Taipei, Taiwan	TWD246,460 thousand	Asia Pacific Business	100.0 (100.0)	Purchaser of cosmetics, etc. Interlocking directorates: Yes; Secondment and concurrent employment of employees: No
Shiseido Korea Co., Ltd.	Seoul, Korea	KRW 61,698 million	Asia Pacific Business	100.0 (100.0)	Purchaser of cosmetics, etc. Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
Taiwan Shiseido Co., Ltd.	Taoyuan, Taiwan	TWD1,154,588 thousand	Asia Pacific Business	51.0	Purchaser of cosmetics, etc. Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
Shiseido Americas Corporation	Delaware, United States	USD403,070 thousand	Americas Business	100.0	Purchaser and supplier of cosmetics, etc. Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes

Company name	Address	Share capital or investments in capital (Thousands of yen)	Main line of business	Ownership percentage of voting rights (%)	Description of relationship
Shiseido Canada Inc.	Ontario, Canada	CAD9,561 thousand	Americas Business	100.0 (100.0)	Purchaser of cosmetics, etc. Interlocking directorates: No; Secondment and concurrent employment of employees: No
Shiseido America, Inc.	New York, United States	USD28,000 thousand	Americas Business	100.0 (100.0)	Supplier of cosmetics, etc. and purchaser of raw materials Interlocking directorates: No; Secondment and concurrent employment of employees: No
Shiseido Europe S.A.	Paris, France	EUR257,032 thousand	EMEA Business	100.0	Business transactions: No Interlocking directorates: Yes; Secondment and concurrent employment of employees: No
Shiseido International France S.A.S.	Paris, France	EUR36,295 thousand	EMEA Business	100.0 (100.0)	Supplier of cosmetics, etc. and purchaser of raw materials Interlocking directorates: No; Secondment and concurrent employment of employees: Yes
Shiseido (RUS), LLC.	Moscow, Russia	RUB106,200 thousand	EMEA Business	100.0 (100.0)	Business transactions: No Interlocking directorates: No; Secondment and concurrent employment of employees: No
Shiseido Italy S.p.A.	Milan, Italy	EUR5,036 thousand	EMEA Business	100.0 (100.0)	Business transactions: No Interlocking directorates: No; Secondment and concurrent employment of employees: No
Shiseido Germany GmbH	Düsseldorf, Germany	EUR8,700 thousand	EMEA Business	100.0 (100.0)	Business transactions: No Interlocking directorates: No; Secondment and concurrent employment of employees: No
Beauté Prestige International S.A.S.	Paris, France	EUR32,937 thousand	EMEA Business	100.0 (100.0)	Purchaser of cosmetics, etc. Interlocking directorates: No; Secondment and concurrent employment of employees: Yes
Shiseido Spain S.A.U.	Madrid, Spain	EUR998 thousand	EMEA Business	100.0 (100.0)	Business transactions: No Interlocking directorates: No; Secondment and concurrent employment of employees: No
Shiseido UK Limited	London, United Kingdom	GBP105 thousand	EMEA Business	100.0 (100.0)	Business transactions: No Interlocking directorates: No; Secondment and concurrent employment of employees: No
Shiseido Travel Retail Asia Pacific Pte. Ltd.	Singapore	USD48 thousand	Travel Retail Business	100.0 (100.0)	Purchaser of cosmetics, etc. Interlocking directorates: No; Secondment and concurrent employment of employees: Yes
IPSA Co., Ltd.	Minato-ku, Tokyo	100,000	Others	100.0	Purchaser of cosmetics, etc.; Leasing of buildings owned by the Company Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
Shiseido Parlour Co., Ltd.	Chuo-ku, Tokyo	100,000	Others	99.3	Outsourced contractor for operations of directly-managed restaurants Leasing of buildings and equipment owned by the Company Leasing out of buildings to the Company Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
THE GINZA Co., Ltd.	Chuo-ku, Tokyo	100,000	Others	98.1	Purchaser and supplier of cosmetics, etc. Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
Selan Anonymous Association (Note 2)	(Business operator) Chiyoda-ku, Tokyo	11,600,000	Others	— [100.0]	Business transactions: No; Leasing out of a building and equipment of SHIODOME TOWER (Shiodome Office) to the Company Interlocking directorates: No; Secondment and concurrent employment of employees: No
Shiseido Cosmetics Manufacturing Co., Ltd.	Shanghai, China	CNY418,271 thousand	Others	92.6 (66.3)	Purchaser of raw materials Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
Shiseido Vietnam Inc.	Dong Nai, Vietnam	VND1,061,993 million	Others	100.0	Supplier of cosmetics, etc. and purchaser of raw materials Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
42 other companies	—	—	—	—	—

Notes: 1. Segment names are presented in the "Main line of business" column.
2. Although the Company's equity interest in each of these companies is 50% or less, they are considered to be consolidated subsidiaries because they are effectively controlled by the Company.
3. The figures in parentheses ( ) presented under "Ownership percentage of voting rights" indicate the percentage of indirect ownership, while the figures in brackets [ ], which are stated for reference, refer to the percentage of ownership of persons with whom the Company has a close relationship or who have agreed to exercise the same voting rights as the Company.

ii. Associates accounted for using equity method

Company name	Address	Share capital or investments in capital (Thousands of yen)	Main line of business	Ownership percentage of voting rights (%)	Description of relationship
Pierre Fabre Japon Co., Ltd.	Minato-ku, Tokyo	100,000	Japan Business	50.0	Supplier of cosmetics, etc. Interlocking directorates: Yes; Secondment and concurrent employment of employees: Yes
FineToday Holdings Co., Ltd. (Note 2)	Chiyoda-ku, Tokyo	10	Others	35.0	Entrusted with manufacturing and distribution of personal care products Interlocking directorates: Yes; Secondment and concurrent employment of employees: No
14 other companies	—	—	—	—	—

Notes: 1. Segment names are presented in the "Main line of business" column.
2. FineToday Holdings Co., Ltd. has changed its name from K.K. Asian Personal Care Holding.

(2) Gain or loss associated with loss of control of subsidiaries

For the fiscal year 2021

i. Overview of loss of control

The Transfer of the Personal Care business

On July 1, 2021, the Personal Care business (the "Business")was succeeded by Fine Today Shiseido Co., Ltd. (the "New FTS") through a company split from the Company and its subsidiaries in Japan (Shiseido Japan Co., Ltd. ("SJ") and FT Shiseido Co., Ltd.), 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 FineToday Shiseido Co., Ltd. (currently known as "FineToday Co., Ltd." effective January 1, 2023).

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. Furthermore, this adjustment did not have any impact on gain on sale of business recorded in the previous fiscal year.

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.) transfer their 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.

ii. Breakdown of assets and liabilities at the time of loss of control

	Millions of yen
Breakdown of assets at the time of loss of control	
Current assets	22,283
Non-current assets	577
Breakdown of liabilities at the time of loss of control	
Current liabilities	11,463
Non-current liabilities	590

iii. Relationship between consideration received and income and expenditure due to sale

	Millions of yen
Consideration received by cash	125,698
Cash and cash equivalents of assets at the time of loss of control	—
Income from the sale of the business	125,698

iv. Gain or loss associated with loss of control

Out of the gain on sale of business of ¥132,019 million, ¥17,018 million was caused by measuring retained investment in the former subsidiary at fair value as of the date of loss of control. These amounts are included in “Other operating income” in the consolidated statement of profit and loss.

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

i. Overview of loss of control

Related to the 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 (including all of the shares of Bare Escentuals K.K. (Japan), a SAC’s subsidiary and the operating company of bareMinerals in Japan) to AI Beauty holdings Ltd. owned by independent private equity partnership Advent International Corporation (registered in Massachusetts, United States; “Advent”) on December 6, 2021.

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, during three years from 2021 to 2023, we are focusing on profitability and cash-flow management, in order to solidify the business foundation required for a global Skin Beauty Company.

Under this strategy, as we are taking steps to give order of priority to 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, with consideration of the employees as the highest priority.

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

ii. Breakdown of assets and liabilities at the time of loss of control

	Millions of yen
Breakdown of assets at the time of loss of control	
Current assets	11,875
Non-current assets	53,419
Breakdown of liabilities at the time of loss of control	
Current liabilities	1,114
Non-current liabilities	848

iii. Relationship between consideration received and income and expenditure due to sale

	Millions of yen
Consideration received by cash	40,288
Working capital contributions resulting from transfer of business	(13,582)
Foreign currency translation difference	(1,194)
Cash and cash equivalents of assets at the time of loss of control	(1,272)
Income from sale of business	24,238

iv. Gain or loss associated with loss of control

Gain on transfer of business associated with loss of control was ¥1,824 million, and the amount is included in “Other operating income” in the consolidated statement of profit and loss.

For the fiscal year 2022

Company split in the Professional business, and share transfer and asset transfer of the successor company

(1) Overview of loss of control

On July 1, 2022, the Professional business (the “Business”) was succeeded by Shiseido Professional Inc. (“SPI”) through an absorption-type company 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 all of the outstanding shares of Shiseido Professional (Thailand) Co., Ltd. were transferred to Henkel Group Company. In addition, two of the Company’s Chinese subsidiaries, Shiseido China Co., Ltd. and 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 Henkel Group companies.

Excluding the above noted subsidiaries, two of the Company’s subsidiaries that operate the Business in Asia Pacific (FLELIS International Inc. and Shiseido Malaysia Sdn. Bhd.) received consideration for the transfer in December 2022, and transferred their assets of the Business on January 1, 2023.

In addition to the above transaction, the total amount of consideration for transfer of equity and assets after adjustment for net decrease in operating capital, etc. was ¥11,884 million ($ 90,112 thousand). Furthermore, this adjustment did not have any impact on gain on sale of business recorded for the current fiscal year.

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 Henkel on February 9, 2022.

The following section details the transfer of the Business executed in 2022.

(2) Breakdown of assets and liabilities at the time of loss of control

	Millions of yen	Thousands of U.S. dollars
Breakdown of assets at the time of loss of control		
Current assets	5,910	44,813
Non-current assets	1,155	8,758
Breakdown of liabilities at the time of loss of control		
Current liabilities	3,414	25,887
Non-current liabilities	1,057	8,015

(3) Relationship between consideration received and income and expenditure due to sale

	Millions of yen	Thousands of U.S. dollars
Consideration received by cash	12,121	91,909
Cash and cash equivalents of assets at the time of loss of control	3,020	22,900
Income from sale of business	9,101	69,010

(4) Gain or loss associated with loss of control

Out of the gain on transfer of business of ¥10,901 million ($ 82,658 thousand), ¥2,060 million ($ 15,620 thousand) was caused by measuring retained investment in the former subsidiary at fair value as of the date of loss of control. These amounts are included in “Other operating income” in the consolidated statement of profit and loss.

37. Related Parties

(1) Related party transactions

For the fiscal year 2021

Not applicable.

For the fiscal year 2022

Type of relationship	Name	Description of transaction	Transaction amount (Millions of yen)	Outstanding balance (Millions of yen)	Transaction amount (thousands of U.S. dollars)	Outstanding balance (Thousands of U.S. dollars)
Officer	Masahiko Uotani	Exercise of stock acquisition rights (stock options)	**37**	—	**281**	—

(2) Key management personnel compensation

Compensation paid to key management personnel is as follows:

		Millions of yen	Thousands of U.S. dollars
	2021/12	**2022/12**	**2022/12**
Short-term employee benefits	1,799	**1,996**	**15,135**
Post-retirement benefits	53	**51**	**387**
Share-based payments	444	**694**	**5,262**
Others	99	**20**	**152**
Total	2,398	**2,763**	**20,951**

38. Commitments

Commitments related to expenditures after the balance sheet date are as follows:

			Millions of yen	Thousands of U.S. dollars
	IFRS transition date (January 1, 2021)	2021/12	**2022/12**	**2022/12**
Purchase of property, plant and equipment	16,391	1,663	**1,133**	**8,591**
Purchase of intangible assets (Note)	718	32,166	**25,016**	**189,688**
Total	17,110	33,829	**26,149**	**198,279**

In addition to the above, the amount of contracted lease transactions that had not commenced as of December 31, 2022 was ¥451 million ($3,420 thousand). Since the lease term for this contract has not commenced, no right-of-use assets or lease liabilities has been recorded.

Note: The Group has concluded a blanket contract for system development, and operation and maintenance services, for which the total contract amount has already been determined, but since the amount of consideration for part of the contract has yet to be determined, the amounts shown above refer to the contract balance.
Accordingly, the above amounts include the amounts to be expensed in future periods.

39. Contingent Liabilities

Not applicable.

40. Significant Subsequent Events

(A dispute from a business partner regarding the agreement)

In February 2023, European subsidiary of the Company has received a dispute from a business partner regarding performance of the services stipulated in the agreement with the business partner. The Group is currently assessing the alleged claim. As the Group is in the process of gathering evidences, given the legal ground and the nature of the claim is unclear and it takes certain time to investigate the alleged claim, the Group is unable to reasonably estimate the amount of payment, and has not recorded any liability related to this claim.

(Company split and share transfer of succeeding company accompanying the transfer of the manufacturing operations of personal care products)

On April 1, 2023, the manufacturing operations of personal care products conducted by the Company at the Kuki Factory (the "Business") were succeeded by FineToday Industries ("FTI") through an absorption-type company split, followed by a transfer of all of the outstanding shares of FTI to FineToday Holdings Co., Ltd. ("FTH"), a subsidiary of Oriental Beauty Holding (HK) Limited ("OBHHK"), directly or indirectly financed by funds advised by CVC Capital Partners ("CVC").

The amount of assets and liabilities, as well as profit and loss incurred during the fiscal year 2023 are under evaluation.

This company split and share transfer of succeeding company were executed based on the transfer agreement between the Company and CVC signed on August 1, 2022.

Subsequently, based on said agreement, all of the equity interest of the Company in its wholly owned subsidiary Shiseido Vietnam Inc., which operates the Vietnam Factory, will be transferred to FTH during the fiscal year 2023.

In addition, on March 31, 2023, the Company transferred a portion of its shares to OBHHK and reduced its shareholding ratio to 20.7%. The Company's shareholding ratio after the capital increase of OBHHK, which took place on the same date, is 20.1%.

41. First-time adoption of IFRS

The Group disclosed its consolidated financial statements in accordance with IFRS from the fiscal year ended December 31, 2022. The most recent consolidated financial statements prepared in accordance with Generally Accepted Accounting Principles in Japan ("Japanese GAAP") are those for the fiscal year ended December 31, 2021, and the date of transition to IFRS (hereinafter the "transition date") is January 1, 2021.

(1) Exemption in IFRS 1

In principle, IFRS requires that companies adopting IFRS for the first time (hereinafter, "First-time Adopter") apply the standards required under IFRS retrospectively. However, for some of the standards required under IFRS, IFRS 1 First-Time Adoption of International Financial Reporting Standards (hereinafter, "IFRS 1") specifies standards for which the exemption is applied mandatorily and those for which the exemption is applied voluntarily. The impact based on the application of these exemptions is adjusted in retained earnings and other components of equity at the transition date. The exemptions that the Group applies in connection with the transition from Japanese GAAP to IFRS are as follows:

• Business combinations

IFRS 1 permits a First-time Adopter to elect not to apply IFRS 3 Business Combinations (hereinafter, "IFRS 3") retrospectively to business combinations that occurred before the date of transition to IFRS. The Group elected to apply this exemption and not to apply IFRS 3 retrospectively to the business combinations that occurred before the transition date. Accordingly, goodwill arising in business combinations that occurred before the transition date was recorded at the carrying amount under Japanese GAAP at the transition date.

Goodwill is tested for impairment at the transition date, regardless of whether there is an indication of impairment.

• Exchange differences on translation of foreign operations

IFRS 1 permits a First-time Adopter to elect to deem the cumulative translation differences for all foreign operations to be zero at the date of transition to IFRS. The Group elected to deem the cumulative translation differences of all foreign operations to be zero at the transition date.

• Share-based payments

A First-time Adopter is encouraged, but not required, to apply IFRS 2 Share-based Payment (hereinafter, "IFRS 2") to equity instruments that were granted after November 7, 2002 and vested before the date of transition to IFRS. The Group elected not to apply IFRS 2 to share-based payments vested before the transition date.

• Leases

IFRS 1 permits a First-time Adopter to assess whether a contract contains a lease on the basis of facts and circumstances existing at the transition date. In addition, IFRS 1 permits a First-time Adopter to measure a lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of transition to IFRS, and to measure a right-of-use asset, on a lease-by-lease basis, at either: its carrying amount as if IFRS 16 Lease had been applied since the commencement date of the lease, but using the lessee's incremental borrowing rate at the transition date as discounted rate; or an amount equal to the lease liability.

Furthermore, IFRS 1 permits a First-time Adopter, as practical expedients, to recognize a lease for which the lease term ends within 12 months of the date of transition to IFRS or for which the underlying asset is of low value as an expense.

The Group applies these exemptions and practical expedients, and recognize and measure leases.

• Decommissioning liabilities included in the cost of property, plant and equipment

With respect to the measurement of liabilities associated with decommissioning, etc. (hereinafter "decommissioning liabilities") which are included in the cost of property, plant and equipment, IFRS 1 permits to choose either a method in which decommissioning liabilities are measured retroactively from the point in time when such liabilities first arose, or a method in which decommissioning liabilities are measured at the transition date. The Group elected for the former in measuring decommissioning liabilities which are included in the cost of property, plant and equipment.

• Borrowing costs

IFRS 1 permits to begin capitalizing borrowing costs relating to qualifying assets on the date of transition to IFRS. The Group capitalizes borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after the transition date.

• Designation of financial instruments recognized before the transition date

IFRS 1 permits an entity to assess the classification under IFRS 9 Financial Instruments (hereinafter, "IFRS 9") on the basis of the facts and circumstances that exist at the transition date rather than those that exist at initial recognition. IFRS 1 also permits an entity to designate changes in the fair value of an equity instruments as financial assets measured through other comprehensive income on the basis of the facts and circumstances that exist at the transition date.

The Group assesses the classification under IFRS 9 on the basis of the facts and circumstances that exist at the transition date and designates investments to all equity instruments, which are not held for sale, as financial assets measured at fair value through other comprehensive income.

(2) Mandatory exceptions under IFRS 1

IFRS 1 prohibits the retrospective application of IFRS concerning "estimates," "derecognition of financial assets and financial liabilities," "hedge accounting," "non-controlling interests," "classification and measurement of financial instruments" and others. The Group prospectively applies these items from the transition date.

(3) Reconciliations

The reconciliations required to be disclosed at the first-time adoption of IFRS are as follows.

In the reconciliations below, "Reclassification" includes items that do not affect retained earnings and comprehensive income, while "Differences in recognition and measurement" include items that affect retained earnings and comprehensive income.

Reconciliations of equity as of transition date (January 1, 2021)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Assets						Assets
Current assets						Current assets
Cash and time deposits	130,013	6,334	—	136,347	1, 4	Cash and cash equivalents
Notes and accounts receivable	144,728	1,041	738	146,507	2, 3	Trade and other receivables
Short-term investment securities	21,000	(5,170)	—	15,829	1, 3, 4	Other financial assets
Inventories	170,031	276	(7,306)	163,001	17	Inventories
Other current assets	52,634	(6,241)	(1,694)	44,698	2	Other current assets
Allowance for doubtful accounts	(3,644)	3,644	—	—	3	
Total current assets	514,763	(115)	(8,262)	506,385		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	341,044	(13,011)	1,444	329,478	6, 8, 18	Property, plant and equipment
Goodwill	54,429	—	—	54,429		Goodwill
Trademark rights	131,636	54,380	11,736	197,753	7, 19	Intangible assets
Other intangible assets	55,326	(55,047)	(278)	—		
	—	24,320	107,344	131,665	8, 19, 21	Right-of-use assets
	—	2,230	(6)	2,224	9	Investments accounted for using equity method
Investment securities	13,527	25,766	4,952	44,246	3, 4, 9, 28	Other financial assets
Long-term prepaid expenses	14,125	(14,125)	—	—	6, 10	
Deferred tax assets	42,501	—	17,927	60,428	27	Deferred tax assets
Other investments	37,015	(23,485)	(366)	13,163	4, 10	Other non-current assets
Allowance for doubtful accounts	(140)	140	—	—	3	
Total fixed assets	689,466	1,168	142,754	833,390		Total non-current assets
Total assets	1,204,229	1,053	134,492	1,339,775		Total assets

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable	21,187	164,863	(154)	185,896	11	Trade and other payables
Electronically recorded obligations - operating	55,740	(55,740)	—	—	11	
Short-term debt	56,491	10,730	—	67,221	12	Bonds and borrowings
Current portion of long-term debt	10,730	(10,730)	—	—	12	
Lease obligations	8,344	—	14,436	22,781	21	Lease liabilities
Other payables	75,695	(75,695)	—	—	11	
Accrued income taxes	7,374	—	—	7,374		Income taxes payable
Reserve for sales returns	6,227	(6,227)	—	—	11	
Refund liabilities	10,518	(10,518)	—	—	11	
Accrued bonuses for employees	15,024	(15,024)	—	—	15	
Accrued bonuses for directors	165	(165)	—	—	15	
Provision for liabilities and charges	545	2,228	—	2,773	13	Provisions
Provision for loss on business withdrawal	725	(725)	—	—	13	
	—	4,926	—	4,926	14	Other financial liabilities
Other current liabilities	84,208	(7,646)	13,855	90,417	13, 14, 15, 23, 24, 25	Other current liabilities
Total current liabilities	352,977	276	28,136	381,390		Total current liabilities

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Long-Term Liabilities						Non-current liabilities
Bonds	65,000	167,861	—	232,861	12	Bonds and borrowings
Long-term debt	167,861	(167,861)	—	—	12	
Lease obligations	15,872	—	105,902	121,774	21	Lease liabilities
Long-term payables	52,968	824	253	54,046	14	Other financial liabilities
Liability for retirement benefits	27,189	777	21,935	49,902	26	Retirement benefit liability
Allowance for losses on guarantees	350	(350)	—	—	14	
	—	1,679	—	1,679	13	Provisions
Deferred tax liabilities	2,944	—	1,007	3,951	27	Deferred tax liabilities
Other long-term liabilities	12,472	(2,153)	(7,460)	2,858	13, 14, 25, 29	Other non-current liabilities
Total long-term liabilities	344,658	777	121,638	467,073		Total non-current liabilities
Total liabilities	697,635	1,053	149,775	848,464		Total liabilities
Net assets						Equity
Common stock	64,506	—	—	64,506		Share capital
Capital surplus	70,741	1,399	555	72,696	16, 29	Capital surplus
Treasury stock	(2,455)	—	—	(2,455)		Treasury shares
Stock acquisition rights	1,399	(1,399)	—	—	16	
Retained earnings	339,817	—	(3,939)	335,878	31	Retained earnings
Total accumulated other comprehensive income	11,678	—	(11,916)	(237)	26, 28, 30	Other components of equity
	485,688	—	(15,300)	470,388		Total equity attributable to owners of parent
Non-controlling interests in consolidated subsidiaries	20,905	—	17	20,922		Non-controlling interests
Total net assets	506,593	—	(15,283)	491,310		Total equity
Total liabilities and net assets	1,204,229	1,053	134,492	1,339,775		Total liabilities and equity

Reconciliations of equity as of December 31, 2021(Date of most recent consolidated financial statements based on Japanese GAAP)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Assets						Assets
Current assets						Current assets
Cash and time deposits	172,056	(15,553)	—	156,503	1, 4	Cash and cash equivalents
Notes and accounts receivable	151,115	6,237	1,439	158,791	2, 3	Trade and other receivables
Short-term investment securities	—	16,429	—	16,429	1, 3, 4	Other financial assets
Inventories	143,758	(1,422)	(8,188)	134,147	17	Inventories
Other current assets	58,636	(11,553)	(1,965)	45,117	2	Other current assets
Allowance for doubtful accounts	(4,032)	4,032	—	—	3	
Total current assets	521,533	(1,829)	(8,715)	510,989		Subtotal
	—	1,933	—	1,933	5	Assets held for sale
	521,533	104	(8,715)	512,922		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	357,405	(19,156)	1,787	340,037	6, 8, 18	Property, plant and equipment
Goodwill	44,159	—	6,269	50,429	19, 20	Goodwill
Trademark rights	40,322	61,458	33	101,814	7, 19	Intangible assets
Other intangible assets	62,007	(62,007)	—	—		
	—	29,013	98,818	127,832	8, 19, 21	Right-of-use assets
	—	2,418	19,273	21,691	9, 22	Investments accounted for using equity method
Investment securities	9,717	55,212	8,847	73,777	3, 4, 9, 28	Other financial assets
Long-term loans receivable	31,116	(31,116)	—	—	4	
Long-term prepaid expenses	12,367	(12,367)	—	—	6, 10	
Deferred tax assets	72,968	—	(5,534)	67,433	27	Deferred tax assets
Other investments	27,792	(22,636)	(115)	5,040	4, 10	Other non-current assets
Allowance for doubtful accounts	(30)	30	—	—	3	
Total fixed assets	657,827	849	129,380	788,056		Total non-current assets
Total assets	1,179,360	953	120,664	1,300,979		Total assets

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
						Liabilities and equity
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable	28,021	175,699	(2)	203,718	11	Trade and other payables
Electronically recorded obligations - operating	40,584	(40,584)	—	—	11	
Short-term debt	—	15,730	—	15,730	12	Bonds and borrowings
Current portion of long-term debt	730	(730)	—	—	12	
Current portion of corporate bonds scheduled for redemption	15,000	(15,000)	—	—	12	
Lease obligations	9,664	—	15,618	25,283	21	Lease liabilities
Other payables	96,488	(96,488)	—	—	11	
Accrued income taxes	45,600	—	—	45,600		Income taxes payable
Reserve for sales returns	3,379	(3,379)	—	—	11	
Refund liabilities	13,631	(13,631)	—	—	11	
Accrued bonuses for employees	29,557	(29,557)	—	—	15	
Accrued bonuses for directors	169	(169)	—	—	15	
Provision for liabilities and charges	293	10,708	(158)	10,843	13	Provisions
Provision for loss on business withdrawal	95	(95)	—	—	13	
Provision for structural reforms	8,524	(8,524)	—	—	13	
	—	4,914	—	4,914	14	Other financial liabilities
Other current liabilities	92,291	1,233	13,945	107,470	13, 14, 15, 23, 24, 25	Other current liabilities
Total current liabilities	384,031	126	29,404	413,561		Total current liabilities

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Long-Term Liabilities						Non-current liabilities
Bonds	50,000	95,915	—	145,915	12	Bonds and borrowings
Long-term debt	95,915	(95,915)	—	—	12	
Lease obligations	19,673	(12)	99,248	118,909	21	Lease liabilities
Long-term payables	4,756	772	117	5,646	14	Other financial liabilities
Liability for retirement benefits	18,587	827	22,745	42,159	26	Retirement benefit liability
Allowance for losses on guarantees	350	(350)	—	—	14	
	—	1,753	—	1,753	13	Provisions
Deferred tax liabilities	1,040	—	564	1,605	27	Deferred tax liabilities
Other long-term liabilities	37,573	(2,163)	(26,161)	9,248	13, 14, 22, 25, 29	Other non-current liabilities
Total long-term liabilities	227,896	827	96,514	325,237		Total non-current liabilities
Total liabilities	611,927	953	125,918	738,799		Total liabilities
Net assets						Equity
Common stock	64,506	—	—	64,506		Share capital
Capital surplus	70,741	1,067	1,226	73,035	16, 29	Capital surplus
Treasury stock	(2,338)	—	—	(2,338)		Treasury shares
Stock acquisition rights	1,067	(1,067)	—	—	16	
Retained earnings	366,306	—	5,895	372,202	31	Retained earnings
Total accumulated other comprehensive income	45,805	—	(12,516)	33,288	26, 28, 30	Other components of equity
	546,089	—	(5,394)	540,695		Total equity attributable to owners of parent
Non-controlling interests in consolidated subsidiaries	21,343	—	141	21,484		Non-controlling interests
Total net assets	567,433	—	(5,253)	562,179		Total equity
Total liabilities and net assets	1,179,360	953	120,664	1,300,979		Total liabilities and equity

Notes on reconciliation of equity

(Reclassification)

Reclassifications consist mainly of the following:

1) Reclassification of cash and deposits
Short-term investments whose redemption date is due within three months from the acquisition date, which were included in "Short-term investment securities" under Japanese GAAP, are reclassified to "Cash and cash equivalents" under IFRS.

2) Reclassification of account receivables
Account receivables, which were included in "Other current assets" under Japanese GAAP, are reclassified to "Trade and other receivables" under IFRS.

3) Reclassification of allowance for doubtful accounts
"Allowance for doubtful accounts (current)," which was separately presented under Japanese GAAP, is reclassified to be presented on a net basis by directly deducting the item from "Trade and other receivables" and "Other financial assets (current)" under IFRS. Likewise, "Allowance for doubtful accounts (non-current)" is reclassified to be presented on a net basis by directly deducting the item from "Other financial liabilities (non-current)."

4) Reclassification of other financial assets
Time deposits with maturities of more than three months, which were included in "Cash and time deposits" under Japanese GAAP, are reclassified to "Other financial assets (current)" under IFRS.
Meanwhile, guarantee and leasehold deposits, etc. which were included in "Other investments" and "Long-term loans receivable" in fixed assets under Japanese GAAP, are reclassified to "Other financial assets (non-current)" under IFRS.

5) Reclassification of assets held for sale
Non-current assets held for sale or disposal groups are presented as "Assets held for sale" under IFRS.

6) Reclassification of property, plant and equipment
Under Japanese GAAP, some store furniture and fixtures in the Cosmetics Business were presented as "Long-term prepaid expenses," but they are presented as "Property, plant and equipment" under IFRS.

7) Reclassification of intangible assets
"Trademark rights" of intangible assets, which were stated separately under Japanese GAAP, are presented as "Intangible assets" under IFRS.

8) Reclassification of right-of-use assets
Rights-to-use assets previously recorded at foreign subsidiaries to which IFRS was applied were included in "Property, plant and equipment." Under IFRS, they are presented separately as "Right-of-use assets."

9) Reclassification of recorded amounts of investments accounted for using the equity method
"Investments accounted for using equity method," which was included in "Investment securities" under Japanese GAAP, is separately presented under IFRS.

10) Reclassification of other non-current assets
"Long-term prepaid expenses", which were stated separately under Japanese GAAP, are presented as "Other non-current assets" under IFRS.

11) Reclassification of trade and other payables
"Notes and accounts payable," "Electronically recorded obligations," "Other payable," "Reserve for sales returns" and "Refund liabilities," which were stated separately under Japanese GAAP, are presented as "Trade and other payables" under IFRS.

12) Reclassification of bonds and borrowings
"Short-term debt," "Current portion of long-term debt," and "Current portion of corporate bonds scheduled for redemption," which were classified as current liabilities under Japanese GAAP, are represented as "Bonds and borrowings (current)" Under IFRS. "Bonds payable" and "Long-term debt," which were separately presented as long-term liabilities under Japanese GAAP, are presented as "Bonds and borrowings (non-current)" under IFRS.

13) Reclassification of provisions
"Provision for liabilities and charges," "Provision for loss on business withdrawal," and "Provision for structural reforms", which were separately presented under Japanese GAAP, and asset retirement obligations and other provisions, which were included in "Other current liabilities" under current liabilities, under Japanese GAAP, are presented as "Provisions (current)" under IFRS. Asset retirement obligations, which were included in "Other long-term liabilities" in long-term liabilities under Japanese GAAP, and other provisions are presented as "Provisions (non-current)" under IFRS.

14) Reclassification of other financial liabilities
Deposits received and temporary receipts included in "Other current liabilities" under Japanese GAAP have been reclassified as "Other financial liabilities (current)" under IFRS. Meanwhile, "Allowance for losses on guarantees" and "Long-term payables," which were presented separately in long-term liabilities and Long-term deposits received, which were included in "Other long-term liabilities," are reclassified to "Other financial liabilities (non-current)" under IFRS.

15) Reclassification of other current liabilities
"Accrued bonuses for employees" and "Accrued bonuses for directors," which were separately presented under Japanese GAAP, are presented as "Other current liabilities" under IFRS.

16) Reclassification of capital surplus
"Stock acquisition rights," which were stated separately under Japanese GAAP, are presented as "Capital surplus" under IFRS.

(Recognition and measurement differences)

Recognition and measurement differences consist mainly of the following:

17) Adjustments to the recorded amount of inventories
Promotional assets, which were included in "Inventories" under Japanese GAAP, are recognized as expenses at the time of purchase because they do not meet the definition of assets under IFRS.

18) Adjustments to recorded amount of property, plant and equipment
Real estate acquisition taxes, which was expensed under Japanese GAAP, are capitalized under IFRS.

19) Application of impairment accounting
After assessing the recoverability of non-current assets based on IFRS, impairment loss is recorded for certain right-of-use assets and a reversal of impairment loss is recorded for certain intangible assets as of the transition date. Difference from impairment loss under Japanese GAAP is recorded for certain goodwill and intangible assets in the previous fiscal year.

20) Adjustments to recorded amount of goodwill
Under Japanese GAAP, the amortization period for goodwill was estimated and amortized over that number of years. Under IFRS, however, goodwill is not amortized after the transition date.

21) Adjustments to lease transactions
Operating lease transactions and finance lease transactions that were accounted for as operating leases under Japanese GAAP are accounted for as "Right-of-use assets" under IFRS in accordance with purchase and sale transactions, and the corresponding obligations are included in "Lease liabilities (current)" and "Lease liabilities (non-current)."

22) Partial sales of shares of subsidiaries that result in a loss of control
In the case that a subsidiary becomes an affiliate due to loss of control as a result of partial sales of shares of subsidiary, the residual investment was adjusted to investment appraisal value by the equity method under Japanese GAAP, but under IFRS, the residual investment is measured in fair value.

23) Adjustments to accrued paid absences
Unused paid absences, which were not accounted for under Japanese GAAP, are recoded as liabilities in "Other current liabilities" under IFRS.

24) Adjustments to the timing of revenue recognition
For points provided to customers in accordance with sales of products, under Japanese GAAP, revenue was recorded in full at the time of sale and the amount expected to be used by customers in the future was recorded as an allowance. Under IFRS, however, transaction prices allocated to points expected to be used by customers in the future at the time of sale are recorded as "Other current liabilities" and revenue is recognized based on the use of points.

25) Adjustments to government subsidies
Under Japanese GAAP, subsidies related to assets were recognized as revenue collectively when they were finalized to be received, but under IFRS, they are recorded as deferred revenue in "Other current liabilities" and "Other non-current liabilities" and are recognized as revenue on a regular basis over the period in which the corresponding assets are recognized as expenses.

26) Adjustments to postretirement benefits
Under Japanese GAAP, actuarial gains and losses and past service costs in retirement benefits were recognized in other comprehensive income when incurred and amortized through profit or loss over a certain number of years within the average remaining service period of employees when incurred. Under IFRS, remeasurements of defined benefit plans are recognized in other comprehensive income when incurred, and past service costs are recognized in profit or loss when incurred. Remeasurements of defined benefit plans recognized in other comprehensive income are immediately reclassified to "Retained earnings" after being recognized in other components of equity.

In addition, IFRS recalculates the mortality rate, which is one of the assumptions used to determine the defined benefit obligation, using figures that are expected to change in the future.

27) Adjustments to deferred tax assets and deferred tax liabilities
The amounts of "Deferred tax assets and deferred tax liabilities" have been adjusted due to temporary differences arising from the reconciliation of Japanese GAAP to IFRS and a reexamination of the recoverability of deferred tax assets.

Under Japanese GAAP, the recording of deferred tax assets for elimination of unrealized gains on internal transactions within the consolidated group was assessed for recoverability based on taxable income generated by the selling entities and calculated using the effective tax rate of the selling entities. Under IFRS, the recoverability is assessed based on future taxable income generated by the acquiring entities and calculated using the effective tax rate of the acquiring entities.

28) Measurements of financial instruments
Under Japanese GAAP, unlisted shares were accounted for based on their historical cost, and impairment losses were recognized as the issuer's financial condition deteriorated as required. However, under IFRS, changes in fair value are measured at fair value and recognized in other comprehensive income. Accumulated amounts recognized in other comprehensive income are immediately reclassified to "Retained earnings" after being recognized in other components of equity.

29) Adjustments to capital surplus
Under Japanese GAAP, the estimated amount of benefits related to stock compensation plans (performance-linked stock compensation plans) was recorded in "Other long-term liabilities." Under IFRS, the estimated amount of stock-based benefits is accounted for as equity-settled stock-based payment, and the adjustments are recorded in "Capital surplus."

30) Adjustments to cumulative exchange differences on translation of foreign operations
Applying for the exemption of first-time adoption, all cumulative translation differences of foreign operations as of the transition date have been reclassified to "Retained earnings."

31) Adjustments to retained earnings
The impact of the adoption of IFRS on retained earnings is as follows. The tax effect adjustments related to each reconciling item are included in adjustments to deferred tax assets and liabilities, and adjustments to non-controlling interests are included in other items.

	IFRS transition date (January 1, 2021)	As of December 31, 2021
	Millions of yen	Millions of yen
Adjustments to the recorded amount of inventories (Note 17)	(7,342)	(8,225)
Application of impairment accounting (Note 19)	11,536	(202)
Adjustments to recorded amount of goodwill (Note 20)	—	5,996
Adjustments to lease transactions (Note 21)	(2,431)	(4,935)
Adjustments to recorded amount of investment accounted for equity method (Note 22)	—	44,824
Adjustments to accrued paid absences (Note 23)	(11,757)	(12,021)
Adjustments to the timing of revenue recognition (Note 24)	(3,554)	(4,059)
Adjustments to governmental subsidies (Note 25)	(539)	(1,962)
Adjustments to postretirement benefits (Note 26)	(18,533)	(16,289)
Adjustments to deferred tax assets and deferred tax liabilities(Note 27)	16,813	(6,242)
Measurements of financial instruments (Note 28)	5,827	4,228
Adjustments to cumulative exchange differences on translation of foreign operations (Note 30)	5,257	5,257
Others	784	(470)
Total	(3,939)	5,895

Reconciliations of profit or loss and comprehensive income for the fiscal year ended December 31, 2021 (January 1, 2021 - December 31, 2021)
(Fiscal year of most recent consolidated financial statements based on Japanese GAAP)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Net sales	1,035,165	(25,036)	(162)	1,009,966	1	Net sales
Cost of sales	262,959	7,900	948	271,808	2, 6, 7,	Cost of sales
Gross profit	772,206	(32,936)	(1,110)	738,158		Gross profit
Selling, general and administrative expenses	730,619	27,232	9,154	767,007	1, 2, 4, 5, 6, 7, 10	Selling, general and administrative expenses
	—	96,383	44,615	140,999	2, 8, 9	Other operating income
	—	7,427	4,152	11,579	2, 10	Other operating expenses
Operating profit	41,586	28,787	30,197	100,571		Operating profit
Non-operating income	9,453	(9,453)	—	—	2	
Non-operating expenses	6,204	(6,204)	—	—	2	
Extraordinary gains	93,066	(93,066)	—	—	2	
Extraordinary losses	64,644	(64,644)	—	—	2	
	—	6,764	(2,685)	4,079	2	Finance income
	—	2,790	1,039	3,829	2, 6	Finance costs
	—	(1,090)	(618)	(1,709)	2	Share of profit (loss) of investment accounted for using equity method
Profit before income taxes	73,256	—	25,854	99,111		Profit before tax
Income taxes – current	61,923	(33,578)	21,316	49,661	3, 11	Income tax expense
Refund of income taxes for prior years	(1,165)	1,165	—	—	3	
Income taxes – deferred	(32,413)	32,413	—	—	3	
Net profit	44,912	—	4,538	49,450		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Valuation difference on available-for-sale securities	(1,779)	—	1,889	110		Financial assets measured at fair value through other comprehensive income
Adjustment for retirement benefits	3,322	—	1,639	4,961	6	Remeasurements of defined benefit plans
	—	(0)	0	0		Share of other comprehensive income of investments accounted for using equity method
						Items that may be reclassified to profit or loss
	—	—	98	98		Cash flow hedges
Foreign currency translation adjustments	34,247	—	815	35,062		Exchange differences on translation of foreign operations
Share of other comprehensive income of associates accounted for under the equity method	519	0	(4)	515		Share of other comprehensive income of investments accounted for using equity method
Total other comprehensive income	36,310	—	4,438	40,748		Other comprehensive income, net of tax
Comprehensive Income	81,222	—	8,976	90,198		Comprehensive income

Notes on reconciliation of profit and loss and comprehensive income

(Reclassification of Presentation Items)

Reclassifications consist mainly of the following:

1) Reclassification of Net sales
Certain rebates, etc. presented as “Selling, general and administrative expenses” under Japanese GAAP have been deducted from “Net sales” under IFRS.

2) Other Reclassifications
For items presented as “Non-operating income,” “Non-operating expenses,” “Extraordinary income” and “Extraordinary losses” under Japanese GAAP, finance-related profits or losses are recorded as “Finance income” and “Finance costs”, and other items are presented as “Cost of sales,” “Selling, general and administrative expenses,” “Other operating income,” “Other operating expenses,” and “Share of profit (loss) of investment accounted for using equity method.” under IFRS.

3) Income tax expense
“Income taxes - current,” “Refund of income taxes for prior years,” and “Income taxes - deferred,” which were separately presented under Japanese GAAP, are presented in total as “Income tax expense” under IFRS.

(Recognition and measurement differences)

Recognition and measurement differences consist mainly of the following:

4) Reconciliation of selling, general and administrative expenses
Promotional assets, which were included in “Inventories” under Japanese GAAP, are recognized as “Selling, general and administrative expenses” at the time of purchase because they do not meet the definition of assets under IFRS.

5) Adjustment to recorded amount of goodwill
Under Japanese GAAP, the amortization period for goodwill was estimated and amortized over that number of years. Under IFRS, however, goodwill is not amortized after the transition date.

6) Adjustments for remeasurement of defined benefit plans
Under Japanese GAAP, actuarial gains and losses and past service costs in retirement benefits were recognized in other comprehensive income when incurred and amortized through profit or loss over a certain number of years within the average remaining service period of employees when incurred. Under IFRS, remeasurements of defined benefit plans are recognized in other comprehensive income when incurred, and past service costs are recognized in profit or loss when incurred.
Under Japanese GAAP, interest cost was recognized by multiplying the retirement benefit obligation by the discount rate and expected return on plan assets was recognized by multiplying by the expected rate of return on plan assets, respectively. Under IFRS, net interest is recognized by multiplying the net retirement benefit obligation and plan assets by the discount rate. The expected return on plan assets and interest cost related to retirement benefits were included in “Cost of sales” and “Selling, general and administrative expenses” as retirement benefit expenses under Japanese GAAP, but net interest related to retirement benefits is presented as “Finance costs” under IFRS.

7) Adjustment to accrued paid absences
Unused paid absences, which were not accounted for under Japanese GAAP, are recoded as liabilities in “Cost of sales” and “Selling, general and administrative expenses” under IFRS.

8) Adjustment to government subsidies
Under Japanese GAAP, subsidies related to assets were recognized as revenue collectively when they were finalized to be received, but under IFRS, they are treated as deferred revenue and recognized as “Other operating income” on a regular basis over the period in which the corresponding assets are recognized as expenses.

9) Partial sales of shares of subsidiaries that result in a loss of control
In the case that a subsidiary becomes an affiliate due to loss of control as a result of partial sales of shares of subsidiary, the residual investment was adjusted to investment appraisal value by the equity method under Japanese GAAP, but under IFRS, the residual investment is measured in fair value and the difference from the carrying amount is recognized as “Other operating income.”

10) Application of impairment accounting
After assessing the recoverability of non-current assets based on IFRS, difference from impairment loss under Japanese GAAP is recorded to certain goodwill and intangible assets in the previous fiscal year.

11) Income tax expense
The amounts of “Income tax expense” have been adjusted due to temporary differences arising from the reconciliation of Japanese GAAP to IFRS and a reexamination of the recoverability of deferred tax assets.
Under Japanese GAAP, the recording of deferred tax assets for elimination of unrealized gains on internal transactions within the consolidated group was assessed for recoverability based on taxable income generated by the selling entities and calculated using the effective tax rate of the selling entities. Under IFRS, the recoverability is assessed based on future taxable income generated by the acquiring entities and calculated using the effective tax rate of the acquiring entities.

Reconciliations of cash flows for the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021) (Fiscal year of most recent consolidated financial statements based Japanese GAAP)

Under Japanese GAAP, operating leases were accounted for as leases, so their lease payments were classified as cash flows from operating activities. However, under IFRS, a portion of the lease payments is classified as cash flows from financing activities because they correspond to the repayment of the lease liability recognized along with the right-of-use asset.

KPMG

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 statement of financial position as at December 31, 2022, and the consolidated statements of profit and loss , consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and notes, comprising 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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Company's judgment on the valuation of goodwill allocated to the Shiseido Americas Corporation cash-generating unit

The key audit matter	How the matter was addressed in our audit
As described in Note 14. "Goodwill and Intangible Assets" to the consolidated financial statements, goodwill of ¥57,879 million recognized in the consolidated statement of financial position included goodwill of ¥27,399 million allocated to the Shiseido Americas Corporation (hereinafter, "SAC") cash-generating unit , which accounted for approximately 2.1% of total assets.	In order to assess the appropriateness of the Company's judgment on the valuation of goodwill allocated to the SAC cash-generating 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 conclude on whether sufficient and appropriate audit evidence was obtained:
Cash-generating units to which goodwill has been allocated are tested for impairment at least annually, and if the recoverable amount of a cash-generating unit is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The resulting decrease in the carrying amount is recognized as an impairment loss. The recoverable amount of a cash-generating unit is the higher of its fair value less costs of disposal and its value in use. As a result of the annual impairment test, the Company determined that the recognition of a goodwill impairment loss was not necessary as the recoverable amount of the SAC cash-generating unit exceeded its carrying amount. The recoverable amount of the SAC cash-generating unit was based on the fair value less costs of disposal. The fair value less costs of disposal was calculated by discounting the future cash flows, estimated based on the future business plan (hereinafter, the "Business Plan"), which incorporated the premises of U.S. long-term market growth rates, the sales expansion plans and the increase in the cost ratio during the current fiscal year, among others , to the present value. Management assumed a long-term market growth rate of 4%, and a discount rate of 12.5% consisting of the U.S. Risk Free Rate and a risk premium specific to SAC. The factors such as increases in sales and profit margins based onthe sales expansion plan and the increase in the cost ratio during the current fiscal year, as well as the long-term market growth rate, that formed the basis for measuring the fair value less costs of disposal, involved a high degree of uncertainty, and management's judgment thereon had a significant effect on the estimate of the fair value less costs of disposal. In addition, selecting appropriate models and input data for estimating the discount rate used to estimate the fair value less costs of disposal required a high degree of expertise in valuation.	(1) Internal control testing Tested the design and implementation of certain of SAC's internal controls relevant to estimating the fair value less costs of disposal for the goodwill impairment test, with particular focus on the review performed by the senior vice president of finance on the reasonableness of the long-term market growth and discount rates, including supporting data, and of the future cash flows. (2) Assessment of the reasonableness of the estimated fair value less costs of disposal Assessed the appropriateness of key assumptions adopted in preparing the Business Plan, which was used as the basis for estimating the fair value less costs of disposal, by inquiring of management of SAC about the rationale supporting each of those assumptions. In addition: • retrospectively assessed the status of achievement of the business plan used for the impairment testing in the previous year by comparing it with the actual results for the current year; and • assessed the effect, if any, on the Company's judgment that the recognition of an impairment loss was not necessary, when specific uncertainties considering the past actual results were incorporated into respective elements, such as net sales, cost of sales, and selling, general and administrative expenses, for the subsequent fiscal years, underlying the sales expansion plan. In addition, the following procedures, among others, were performed with the engagement of 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 in light of the requirements of the accounting standards; • assessment of the appropriateness of the input data used to calculate the discount rate by comparing them with the estimates 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 the valuation of goodwill allocated to the SAC cash-generating unit was of most significance 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.

Other Information

The other information comprises the information included in the Integrated Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and presentation of the other information. The Audit & Supervisory Board members 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 reporting process for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and the Audit & Supervisory Board Members 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 IFRS, 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 IFRS.

The Audit & Supervisory Board members 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 IFRS, 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 the Audit & Supervisory Board members 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 the Audit & Supervisory Board members 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 the Audit & Supervisory Board members 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, 2022 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 2 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 12, 2023

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.