

August 10, 2022



Consolidated Settlement of Accounts for the First Six Months of the Fiscal Year Ending December 31, 2022 [IFRS]

Shiseido Company, Limited

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Filing date of quarterly securities report: August 12, 2022 (plan)

Start of cash dividend payments: September 5, 2022(plan)

Supplementary quarterly materials prepared: Yes

Quarterly financial results information meeting held: Yes (for institutional investors, etc.)

1. Performance for the First Six Months of the Fiscal Year Ending December 31, 2022 (From January 1 to June 30, 2022)

* Amounts under one million yen have been rounded down.

(1) Consolidated Operating Results

(Millions of yen; percentage increase (decrease) figures denote year-on-year change)

| | Net Sales | Core Operating Profit | Operating Profit (Loss) | Profit (Loss) | Profit (Loss) Attributable to Owners of Parent | Total Comprehensive Income |
|--------------------------------|-----------------|-----------------------|-------------------------|---------------|--|----------------------------|
| | % | % | % | % | % | % |
| Six Months Ended June 30, 2022 | 493,399 [(0.4)] | 17,539 [(23.9)] | 16,979 [-] | 18,676 [-] | 16,246 [-] | 79,604 [-] |
| Six Months Ended June 30, 2021 | 495,365 [-] | 23,038 [-] | (21,179) [-] | (27,090) [-] | (28,113) [-] | (4,137) [-] |

[Reference] Profit before tax

Six months ended June 30, 2022: ¥25,611 million [-%]

Six months ended June 30, 2021: ¥(20,650) million [-%]

| | Basic Earnings (Loss) per Share (Yen) | Diluted Earnings (Loss) per Share (Yen) |
|--------------------------------|---------------------------------------|---|
| Six Months Ended June 30, 2022 | 40.67 | 40.64 |
| Six Months Ended June 30, 2021 | (70.38) | (70.38) |

Note: Core operating profit is calculated by excluding profit and loss caused by non-ordinary factors such as structural reform expenses and impairment losses, etc. from operating profit.

(2) Consolidated Financial Position

(Millions of yen)

| | Total Assets | Equity | Equity Attributable to Owners of Parent | Ratio of Equity Attributable to Owners of Parent |
|-------------------------|--------------|---------|---|--|
| As of June 30, 2022 | 1,342,409 | 626,628 | 604,345 | 45.0% |
| As of December 31, 2021 | 1,300,979 | 562,179 | 540,695 | 41.6% |

2. Cash Dividends

| | Cash Dividends per Share (Yen) | | | | |
|-----------------------------|--------------------------------|-------|----|----------|-----------|
| | Q1 | Q2 | Q3 | Year-End | Full Year |
| Fiscal Year 2021 | — | 20.00 | — | 30.00 | 50.00 |
| Fiscal Year 2022 | — | 25.00 | | | |
| Fiscal Year 2022 (Forecast) | | | — | 75.00 | 100.00 |

Note: Revision to the most recently disclosed dividend forecast: None

Year-end dividend for the fiscal year 2022(Forecast) includes an ordinary dividend of ¥25.00 and commemorative dividend of ¥50.00 for the 150th anniversary of our founding.

3. Forecast for the Fiscal Year Ending December 31, 2022 (From January 1 to December 31, 2022)

(Millions of yen; percentage figures denote year-on-year change)

| | Net Sales | Core Operating Profit | Profit before Tax | Profit Attributable to Owners of Parent | Basic Earnings per Share (Yen) |
|------------------|-----------------|-----------------------|-------------------|---|--------------------------------|
| | % | % | % | % | |
| Fiscal Year 2022 | 1,070,000 [5.9] | 40,000 [(6.0)] | 41,200 [(58.4)] | 25,500 [(45.6)] | 63.83 |

Note: Revision to the most recently disclosed performance forecast: Yes

Note: For details, regarding the forecast for the fiscal year 【Attachment】 please refer to the “1. Summary of Consolidated Financial Results for the First Six Months (3) Consolidated Forecast and Other Forward-Looking Information” on page 8.

Notes

- (1) Changes in significant subsidiaries during the six months ended June 30, 2022: None
(changes in specific subsidiaries causing a change in the scope of consolidation)
- (2) Changes in accounting policies; changes in accounting estimates
- 1) Changes in accounting policies required by IFRS: None
 - 2) Other changes in accounting policies: None
 - 3) Changes in accounting estimates: None
- (3) Number of shares issued (ordinary shares)
- 1) Number of shares issued (including treasury shares)

| | |
|--------------------------|-------------|
| As of June 30, 2022: | 400,000,000 |
| As of December 31, 2021: | 400,000,000 |
 - 2) Number of treasury shares

| | |
|--------------------------|---------|
| As of June 30, 2022: | 452,961 |
| As of December 31, 2021: | 506,767 |
 - 3) Average number of shares outstanding during the period

| | |
|---------------------------------|-------------|
| Six months ended June 30, 2022: | 399,528,895 |
| Six months ended June 30, 2021: | 399,473,162 |

Implementation status of quarterly review procedures

This Consolidated Settlement of Accounts for the First Six Months of the Fiscal Year Ending December 31, 2022 is not subject to quarterly review procedures by a certified public accountant or audit firm.

Appropriate use of business forecasts; other special items

(Adoption of International Financial Reporting Standards (IFRS))

The Group has voluntarily adopted the IFRS from the first three months of the fiscal year ending December 31, 2022, and the figures for the first six months of fiscal year ended December 31, 2021 and the fiscal year ended December 31, 2021 have also been reclassified to the IFRS basis.

(Cautionary note concerning forward-looking statements)

In this report, statements other than historical facts are forward-looking statements that reflect the Company's plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ from those anticipated in these statements. Please refer to "1. Summary of Consolidated Financial Results for the First Six Months (3) Consolidated Forecast and Other Forward-Looking Information" on page 8 for information on preconditions underlying the above outlook and other related information.

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1. Summary of Consolidated Financial Results for the First Six Months

(1) Consolidated Performance

(Millions of yen)

| | Net Sales | Core Operating Profit | Operating Profit (Loss) | Profit (Loss) before Tax | Profit (Loss) Attributable to Owners of Parent | EBITDA |
|--------------------------------------|-----------|-----------------------|-------------------------|--------------------------|--|---------|
| First Six Months Ended June 30, 2022 | 493,399 | 17,539 | 16,979 | 25,611 | 16,246 | 43,059 |
| First Six Months Ended June 30, 2021 | 495,365 | 23,038 | (21,179) | (20,650) | (28,113) | 48,592 |
| Year-on-Year Increase (Decrease) | (0.4)% | (23.9)% | — | — | — | (11.4)% |
| FX-Neutral | (7.4)% | | | | | |
| Like-for-Like | (0.8)% | | | | | |

Notes:

1. Core operating profit is calculated by excluding profit and loss caused by non-recurring factors such as structural reform expenses and impairment losses, etc. from operating profit.
2. EBITDA is calculated as core operating profit plus depreciation and amortization (excluding amortization of right-of-use assets).
3. Like-for-like increase (decrease) in net sales excludes the impact from all business transfers in the first six months of fiscal 2022 and the first six months of fiscal 2021 as well as the impact of all related transfer agreements (“business transfer impacts”).

In the first six months of the fiscal year 2022, the global economy as a whole experienced normalization of economic and social activities in line with the vaccination progress. On the other hand, the outlook remained uncertain due to lockdowns in China such as in Shanghai, prolonged conflict in Ukraine, soaring resource and energy prices, and significant fluctuations in the financial and capital markets.

In Japan’s domestic cosmetics market, although a gradual recovery was seen thanks to the relaxation of activity restrictions, the market environment remained challenging due to delays in the recovery of consumer appetite for cosmetics consumption and increased frugality influenced by the extensive price hikes. In terms of overseas cosmetics market, in China, the market environment was sluggish due to the restrictions in retail operations and supply chain disruptions caused by lockdowns primarily in Shanghai. Meanwhile, in Europe and the United States, consumption continued to recover steadily as economic activities resumed, and the cosmetics market also 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 position 2022, our second year of the new strategy, as a “Back to Growth” year and are working to promote the growth of our global brands and to accelerate and advance DX, etc.

In the first six months of the fiscal year 2022, we achieved strong growth in net sales in Travel Retail Business, the Americas, EMEA, and Asia Pacific. Our key skin beauty brand *Clé de Peau Beauté* and core makeup brand *NARS* grew strongly and drove the growth. On the other hand, sales declined year on year in Japan where market recovery was delayed, and in China, which was significantly affected by the resurgence of COVID-19 and lockdowns.

As a result, net sales decreased 0.4% year on year to ¥493.4 billion based on reported figures. On an FX-neutral basis, the decline was 7.4% year on year. On a like for like basis excluding business transfer impacts, sales were down 0.8% year on year.

Core operating profit dropped 23.9% year on year to ¥17.5 billion. While we saw positive shifts such as lower fixed costs thanks to structural reforms and agile cost management, these were outweighed by lower margins resulting from weaker sales in Japan and China, the impact from the transfer of the personal care business, and other factors.

Profit attributable to owners of parent improved by ¥44.4 billion year on year to return to profit of ¥16.2 billion, mainly due to the impairment losses on trademark rights for the *Dolce&Gabbana* brand as well as structural reform expenses in connection to its brand license termination recorded in the first six months of fiscal year 2021.

The EBITDA margin was 8.7%.

Major foreign currency exchange rates applicable to income and expense accounting line items in the Company's financial statements for the first six months of the fiscal year 2022 are JPY123.0/USD, JPY134.3/EUR, and JPY19.0/CNY.

[Consolidated Performance]

(Millions of yen)

| Classification | | First Six Months Ended June 30, 2022 | % of Total | First Six Months Ended June 30, 2021 | % of Total | Year-on-Year Increase (Decrease) | | | |
|----------------|------------------------|--------------------------------------|------------|--------------------------------------|------------|----------------------------------|------------|------------|---------------|
| | | | | | | Amount | Percentage | FX-Neutral | Like-for-Like |
| Net Sales | Japan Business | 115,667 | 23.4% | 140,101 | 28.3% | (24,433) | (17.4)% | (17.4)% | (2.3)% |
| | China Business | 115,739 | 23.4% | 144,147 | 29.1% | (28,408) | (19.7)% | (29.3)% | (14.2)% |
| | Asia Pacific Business | 31,384 | 6.4% | 30,526 | 6.2% | 858 | 2.8% | (5.1)% | 9.1% |
| | Americas Business | 59,013 | 12.0% | 53,889 | 10.9% | 5,124 | 9.5% | (3.7)% | 10.9% |
| | EMEA Business | 55,710 | 11.3% | 51,400 | 10.4% | 4,309 | 8.4% | 4.8% | 4.5% |
| | Travel Retail Business | 77,850 | 15.8% | 57,644 | 11.6% | 20,206 | 35.1% | 19.8% | 18.3% |
| | Professional Business | 7,812 | 1.6% | 7,229 | 1.4% | 583 | 8.1% | 2.3% | — |
| | Other | 30,220 | 6.1% | 10,425 | 2.1% | 19,794 | 189.9% | 188.7% | (4.8)% |
| Total | | 493,399 | 100.0% | 495,365 | 100.0% | (1,965) | (0.4)% | (7.4)% | (0.8)% |

| Classification | | Total sales including intersegment sales and internal transfers between segments | |
|----------------|------------------------|--|--------------------------------------|
| | | First Six Months Ended June 30, 2022 | First Six Months Ended June 30, 2021 |
| Net Sales | Japan Business | 118,624 | 160,693 |
| | China Business | 116,059 | 144,622 |
| | Asia Pacific Business | 32,850 | 31,744 |
| | Americas Business | 59,254 | 58,589 |
| | EMEA Business | 61,480 | 56,306 |
| | Travel Retail Business | 77,944 | 57,854 |
| | Professional Business | 8,164 | 7,518 |
| | Other | 139,011 | 117,432 |
| | Subtotal | 613,389 | 634,760 |
| | Adjustments | (119,989) | (139,394) |
| Total | | 493,399 | 495,365 |

(Millions of yen)

| Classification | First Six Months Ended June 30, 2022 | Ratio to Net Sales | First Six Months Ended June 30, 2021 | Ratio to Net Sales | Year-on-Year Increase (Decrease) | | |
|------------------------------|--------------------------------------|--------------------|--------------------------------------|--------------------|----------------------------------|------------|---------|
| | | | | | Amount | Percentage | |
| Core Operating Profit (Loss) | Japan Business | (7,397) | (6.2)% | 8,127 | 5.1% | (15,524) | — |
| | China Business | (1,987) | (1.7)% | 2,334 | 1.6% | (4,332) | — |
| | Asia Pacific Business | 2,409 | 7.3% | 1,624 | 5.1% | 785 | 48.3% |
| | Americas Business | 3,691 | 6.2% | (1,866) | (3.2)% | 5,558 | — |
| | EMEA Business | 2,584 | 4.2% | (53) | (0.1)% | 2,637 | — |
| | Travel Retail Business | 16,991 | 21.8% | 8,704 | 15.0% | 8,287 | 95.2% |
| | Professional Business | 1,177 | 14.4% | 732 | 9.7% | 444 | 60.7% |
| | Other | (766) | (0.6)% | 8,193 | 7.0% | (8,960) | — |
| | Subtotal | 16,703 | 2.7% | 27,796 | 4.4% | (11,093) | (39.9)% |
| | Adjustments | 836 | — | (4,758) | — | 5,595 | — |
| Total | 17,539 | 3.6% | 23,038 | 4.7% | (5,498) | (23.9)% | |

Notes:

- 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 first six months ended June 30, 2021 has been restated in line with the reclassification.
- 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 Fine Today Shiseido Co., Ltd. and its affiliates are recorded in the Other segment effective from the same date.
- Like-for-like increase (decrease) in net sales excludes business transfer impacts.
- The Other segment includes head office administration departments, IPSA Co., Ltd., manufacturing operations, and the restaurant business, etc.
- The ratio of core operating profit (loss) to net sales shows core operating profit or loss as a percentage of total sales including intersegment sales and internal transfers between segments.
- The core operating profit (loss) adjustment amount is mainly the elimination of transactions between segments.

Results by reportable segment are provided below.

Japan Business

In the Japan Business, we worked to further strengthen our brand value in the skin beauty area and expand our loyal user base through product innovations, capturing changes in consumer needs prompted by the COVID-19 pandemic. We continued to enhance promotions commemorating the 150th anniversary of our founding and strategic investments in skin beauty brands such as *SHISEIDO* and *Clé de Peau Beauté* and steadily increased the number of loyal brand customers. Moreover, we delivered new value to consumers through innovation including the launch of a new product featuring the Sun Dual Care technology, which converts the sun light into a light beneficial for the skin. In addition, following the previous year, we accelerated digital engagement in collaboration with business partners, such as live commerce events and online video counseling. Consequently, e-commerce sales continued to grow steadily.

Meanwhile, although a gradual recovery was seen in the market after the lifting of the quasi-emergency measures, the environment remained challenging due to the normalization of mask usage and increased frugality influenced by the price increases in a wide range of area.

As a result, net sales decreased 17.4% year on year to ¥115.7 billion. On a like for like basis excluding business transfer impacts, the decline was 2.3%. Core operating profit was down ¥15.5 billion year on year, resulting in core operating loss of ¥7.4 billion, mainly due to lower margins accompanying a decline in sales, lower profit due to the transfer of the Personal Care business, and upfront investments to stimulate demand and enhance brand values, all of which outweighed the cost management efforts.

China Business

In the China Business, e-commerce continued to grow on the back of the expansion into major platforms and the continuous strategic investments towards “618” e-commerce promotion, etc. In particular, *NARS* climbed up the ranking sharply with its strong growth and expanded market share. On the other hand, offline sales were significantly affected by low store traffic and the disruption in supply chain, due to strict activity restrictions associated with the resurgence in COVID-19 cases and lockdowns centered in Shanghai.

As a result, net sales were down 29.3% on an FX-neutral basis, or 19.7% year on year to ¥115.7 billion based on reported figures. On a like for like basis excluding business transfer impacts, sales declined 14.2%. Core operating profit dropped by ¥4.3 billion year on year, resulting in core operating loss of ¥2.0 billion, mainly due to lower margins accompanying a decline in sales and continued marketing investments to ensure sustainable growth.

Asia Pacific Business

In the Asia Pacific Business, although there were some delays in recovery in some countries and regions including Taiwan, strong growth was achieved mainly in South Korea and Southeast Asia. In addition, we continued to enhance further expansion into key e-commerce platforms and to expand touch points with customers through digital engagement. As a result, we increased our share in e-commerce across Asia.

As a result, net sales decreased 5.1% on an FX-neutral basis, or gained 2.8% year on year to ¥31.4 billion based on reported figures. Like for like, sales increased 9.1% year on year. Core operating profit increased 48.3% year on year to ¥2.4 billion, mainly due to increased profit thanks to the increased sales.

Americas Business

In the Americas, the cosmetics market continued to grow in all categories as the impact of COVID-19 eased and economic activities started to normalize. In this market environment, **NARS** in particular saw significant share gains, driven by the strong performance of new products and growth in e-commerce supported by digital marketing enhancements. Sales of **Clé de Peau Beauté** were also strong thanks to localized promotions, including the appointment of new U.S. skincare ambassadors.

As a result, net sales declined 3.7% on an FX-neutral basis. Based on reported figures, net sales were up 9.5% year on year to ¥59.0 billion. On a like for like basis excluding business transfer impacts, sales grew 10.9%. Core operating profit recovered by ¥5.6 billion year on year and returned to profit at ¥3.7 billion, mainly due to higher margins accompanying an increase in sales and lower fixed costs as a result of structural reforms.

EMEA Business

In EMEA, market continued to grow in all categories as the impact of COVID-19 eased. We succeeded in capturing this recovery trend in consumer consumption, and prestige brands such as **Clé de Peau Beauté**, **NARS**, and **narciso rodriguez** achieved strong growth. In May, we launched **Ulé**, a skincare brand that aims to achieve healthy beauty from inside and outside the body, made of plant-derived ingredients, and caters to latest trending demands of "Conscious Beauty", thereby delivering new values to customers.

As a result, net sales grew 4.8% on an FX-neutral basis, or 8.4% year on year to ¥55.7 billion based on reported figures. On a like for like basis excluding business transfer impacts, sales increased 4.5% year on year. Core operating profit improved by ¥2.6 billion year on year to return to the profit of ¥2.6 billion, mainly due to higher margins associated with an increase in sales and lower fixed costs such as amortization of trademarks due to structural reforms.

Travel Retail Business

The Travel Retail Business (sales of cosmetics and fragrances mainly through airport and downtown duty-free stores) was continuously affected by considerable reductions in international flights and the resulting decline in the number of travelers worldwide. However, sales of prestige brands such as **SHISEIDO**, **Clé de Peau Beauté**, **IPSA**, and **NARS** grew strongly, mainly on Hainan Island in China.

As a result, net sales increased 19.8% on an FX-neutral basis, or 35.1% year on year to ¥77.9 billion based on reported figures. On a like for like basis excluding business transfer impacts, sales were up 18.3% year on year. Core operating profit grew 95.2% year on year to ¥17.0 billion, mainly due to higher margins accompanying increased sales.

Professional Business

In the Professional Business, we sell professional products such as hair care, styling, color, and perm solutions to hair salons in Japan, China, and Asia Pacific. While COVID-19 resurgence affected sales in China, recovery in consumer traffic to hair salons and e-commerce expansion had an overall positive effect.

As a result, net sales were up 2.3% on an FX-neutral basis, or 8.1% year on year to ¥7.8 billion based on reported figures. Core operating profit increased 60.7% year on year to ¥1.2 billion, mainly due to improved margins associated with higher sales.

(2) Financial Position

Total assets increased by ¥41.4 billion from the end of the previous fiscal year to ¥1,342.4 billion, mainly from exchange differences on translation of foreign operations due to the yen depreciation, which outweighed the decrease in cash and cash equivalents due to income taxes paid on business transfers executed in the previous fiscal year as well as cash dividend payments. Liabilities decreased by ¥23.0 billion to ¥715.8 billion, primarily due to a decrease in income taxes payable and current liabilities associated with bonus payments, while short-term borrowings increased to source funds for business operations. Equity increased by ¥64.4 billion to ¥626.6 billion, mainly due to exchange differences on translation of foreign operations.

The net debt-to-equity ratio, which indicates the ratio of interest-bearing debt (excluding lease liabilities) less cash and cash equivalents to shareholders' equity, was 0.11.

Net cash used in operating activities in the first six months of the fiscal year 2022 totaled ¥30.7 billion, mainly due to income taxes paid on business transfers executed in the previous fiscal year. Meanwhile, days sales in inventory (DSI) were 185 days. Net cash used in investing activities was ¥25.3 billion, mostly due to investment in plants and equipment as well as IT systems. Net cash provided by financing activities amounted to ¥1.3 billion, primarily due to an increase in short-term borrowings to source funds for business operations, which outweighed cash dividend payments and the redemption of corporate bonds.

As a result of these activities, cash and cash equivalents at the end of the first six months stood at ¥110.9 billion, down ¥45.6 billion from the beginning of the year.

Consolidated Statements of Cash Flows (Summary)

| | | (Billions of yen) |
|--|--|-------------------|
| Category | | Amount |
| Cash and cash equivalents at beginning of period | | 156.5 |
| Net cash provided by (used in) operating activities | | (30.7) |
| Net cash provided by (used in) investing activities | | (25.3) |
| Net cash provided by (used in) financing activities | | 1.3 |
| Effect of exchange rate changes on cash and cash equivalents | | 12.1 |
| Net change in cash and cash equivalents included in assets held for sale | | (3.0) |
| Net change in cash and cash equivalents (decrease) | | (45.6) |
| Cash and cash equivalents at end of period | | 110.9 |

(3) Consolidated Forecast and Other Forward-Looking Information

In the first half of the fiscal year ending December 31, 2022, the Company was greatly affected by the slow recovery of the cosmetics market in Japan and the impact of the lockdown mainly in Shanghai, China. In view of the current market environment, the Company has reviewed the market assumptions primarily for Japan and China from the second half onwards, and at the same time, plans to make marketing investments to strengthen its brand value for medium-to-long-term growth as well as investments in our people. Taking these factors into account, the Company has revised the forecasts for net sales to ¥1,070.0 billion, down ¥5.0 billion from the previous forecast, and core operating profit to ¥40.0 billion, down ¥22.0 billion.

In addition, the Company is expecting a loss of approximately ¥14.0 billion including impairment loss in the fiscal year ending December 31, 2022, on the business transfer as announced in the "Notice of Company Split (Simple Absorption-type Split) and Other Changes Accompanying the Transfer of the Manufacturing Business of Personal Care Products" released on August 1, 2022, and other factors. As a result, profit before tax will be revised to ¥41.2 billion, down ¥27.5 billion from the previous forecast, and profit attributable to owners of parent to ¥25.5 billion, down ¥18.5 billion.

This revision of the consolidated results forecast does not impact the Company's dividend forecast for the fiscal year 2022.

Major average foreign currency exchange rates assumed for the fiscal year are JPY128/USD, JPY135/EUR, and JPY19/CNY.

Forecast of Consolidated Results for the Fiscal Year Ending December 31, 2022
(from January 1 to December 31, 2022)

(Millions of yen unless otherwise stated)

| | Net Sales | Core Operating Profit | Profit before Tax | Profit Attributable to Owners of Parent | Basic Earnings per Share (Yen) |
|--|-----------|-----------------------|-------------------|---|--------------------------------|
| Previous Forecast (A) | 1,075,000 | 62,000 | 68,700 | 44,000 | 110.13 |
| Revised Forecast (B) | 1,070,000 | 40,000 | 41,200 | 25,500 | 63.83 |
| Change (B-A) | (5,000) | (22,000) | (27,500) | (18,500) | |
| Change (%) | (0.5%) | (35.5%) | (40.0%) | (42.0%) | |
| (Reference) Results for the Previous Fiscal Year (Ended December 31, 2021) | 1,009,966 | 42,553 | 99,111 | 46,909 | 117.43 |

Notes:

1. Results for the previous fiscal year are based on IFRS.
2. Core operating profit is calculated by excluding profit and loss caused by non-recurrent factors such as structural reform expenses and impairment losses, etc. from operating profit.

Reference Information: Forecast for Consolidated Net Sales by Reportable Segment (IFRS)

The consolidated results forecast for the fiscal year 2022 by reportable segment are presented as follows.

Consolidated Net Sales Forecast for the Fiscal Year 2022 (Full Year)

(Billions of yen unless otherwise stated)

| Classification | Revised Forecast | Results for Previous Fiscal Year | YoY | YoY FX-Neutral | YoY Like-for-Like | Previous Like-for-Like |
|------------------------|------------------|----------------------------------|---------|----------------|-------------------|------------------------|
| Japan Business | 246.5 | 258.8 | (4.8)% | (5)% | 4% | 17% |
| China Business | 278.0 | 274.7 | 1.2% | (10)% | (0)% | 16% |
| Asia Pacific Business | 60.0 | 63.6 | (5.6)% | (6)% | 17% | 17% |
| Americas Business | 128.0 | 121.4 | 5.5% | (11)% | 11% | 10% |
| EMEA Business | 115.0 | 117.0 | (1.7)% | (6)% | 1% | 11% |
| Travel Retail Business | 160.5 | 120.6 | 33.2% | 14% | 14% | 12% |
| Professional Business | 8.5 | 15.3 | (44.4)% | (44)% | — | — |
| Other | 73.5 | 38.6 | 90.6% | 91% | (4)% | (3)% |
| Total | 1,070.0 | 1,010.0 | 5.9% | (2)% | 5% | 14% |

Notes:

Like-for-like increase (decrease) in net sales excludes business transfer impacts.

2. Condensed Quarterly Consolidated Financial Statements and Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

| | IFRS transition date (January 1, 2021) | As of December 31, 2021 | As of June 30, 2022 |
|---|---|----------------------------|------------------------|
| | Millions of yen | Millions of yen | Millions of yen |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 136,347 | 156,503 | 110,858 |
| Trade and other receivables | 146,507 | 158,791 | 180,865 |
| Inventories | 163,001 | 134,147 | 151,625 |
| Other financial assets | 15,829 | 16,429 | 18,975 |
| Other current assets | 44,698 | 45,117 | 47,610 |
| Subtotal | 506,385 | 510,989 | 509,935 |
| Assets held for sale | - | 1,933 | 9,359 |
| Total current assets | 506,385 | 512,922 | 519,294 |
| Non-current assets | | | |
| Property, plant and equipment | 329,478 | 340,037 | 342,254 |
| Goodwill | 54,429 | 50,429 | 59,604 |
| Intangible assets | 197,753 | 101,814 | 115,909 |
| Right-of-use assets | 131,665 | 127,832 | 123,860 |
| Investments accounted for using equity method | 2,224 | 21,691 | 25,761 |
| Other financial assets | 44,246 | 73,777 | 79,812 |
| Deferred tax assets | 60,428 | 67,433 | 68,989 |
| Other non-current assets | 13,163 | 5,040 | 6,923 |
| Total non-current assets | 833,390 | 788,056 | 823,114 |
| Total assets | 1,339,775 | 1,300,979 | 1,342,409 |

| | IFRS transition date (January 1, 2021) | As of December 31, 2021 | As of June 30, 2022 |
|---|---|----------------------------|------------------------|
| | Millions of yen | Millions of yen | Millions of yen |
| Liabilities and equity | | | |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 185,896 | 203,718 | 182,952 |
| Bonds and borrowings | 67,221 | 15,730 | 65,219 |
| Lease liabilities | 22,781 | 25,283 | 25,172 |
| Other financial liabilities | 4,926 | 4,914 | 8,487 |
| Income taxes payable | 7,374 | 45,600 | 8,988 |
| Provisions | 2,773 | 10,843 | 9,255 |
| Other current liabilities | 90,417 | 107,470 | 105,096 |
| Subtotal | 381,390 | 413,561 | 405,173 |
| Liabilities directly associated with assets held for sale | - | - | 2,424 |
| Total current liabilities | 381,390 | 413,561 | 407,597 |
| Non-current liabilities | | | |
| Bonds and borrowings | 232,861 | 145,915 | 130,000 |
| Lease liabilities | 121,774 | 118,909 | 116,053 |
| Other financial liabilities | 54,046 | 5,646 | 5,232 |
| Retirement benefit liability | 49,902 | 42,159 | 42,447 |
| Provisions | 1,679 | 1,753 | 1,757 |
| Deferred tax liabilities | 3,951 | 1,605 | 2,002 |
| Other non-current liabilities | 2,858 | 9,248 | 10,688 |
| Total non-current liabilities | 467,073 | 325,237 | 308,183 |
| Total liabilities | 848,464 | 738,799 | 715,781 |
| Equity | | | |
| Share capital | 64,506 | 64,506 | 64,506 |
| Capital surplus | 72,696 | 73,035 | 73,228 |
| Treasury shares | (2,455) | (2,338) | (2,090) |
| Retained earnings | 335,878 | 372,202 | 376,689 |
| Other components of equity | (237) | 33,288 | 92,010 |
| Total equity attributable to owners of parent | 470,388 | 540,695 | 604,345 |
| Non-controlling interests | 20,922 | 21,484 | 22,283 |
| Total equity | 491,310 | 562,179 | 626,628 |
| Total liabilities and equity | 1,339,775 | 1,300,979 | 1,342,409 |

**(2) Condensed Quarterly Consolidated Statement of Profit and Loss and
Condensed Quarterly Consolidated Statement of Comprehensive Income**

**Condensed Quarterly Consolidated Statement of Profit and Loss
Six Months Ended June 30**

| | Six months ended June 30, 2021 | Six months ended June 30, 2022 |
|---|-----------------------------------|-----------------------------------|
| | Millions of yen | Millions of yen |
| Net sales | 495,365 | 493,399 |
| Cost of sales | 132,310 | 146,558 |
| Gross profit | 363,054 | 346,841 |
| Selling, general and administrative expenses | 389,242 | 333,887 |
| Other operating income | 5,007 | 6,725 |
| Other operating expenses | - | 2,699 |
| Operating profit (loss) | (21,179) | 16,979 |
| Finance income | 2,643 | 7,772 |
| Finance costs | 2,241 | 1,589 |
| Share of profit of investment accounted for using equity method | 127 | 2,449 |
| Profit (loss) before tax | (20,650) | 25,611 |
| Income tax expense | 6,440 | 6,935 |
| Profit (loss) | (27,090) | 18,676 |
| Profit (loss) attributable to | | |
| Owners of parent | (28,113) | 16,246 |
| Non-controlling interests | 1,022 | 2,429 |
| Profit (loss) | (27,090) | 18,676 |
| Earnings (loss) per share | | |
| Basic earnings (loss) per share (yen) | (70.38) | 40.67 |
| Diluted earnings (loss) per share (yen) | (70.38) | 40.64 |

Condensed Quarterly Consolidated Statement of Comprehensive Income
Six Months Ended June 30

| | Six months ended June 30, 2021 | Six months ended June 30, 2022 |
|--|-----------------------------------|-----------------------------------|
| | Millions of yen | Millions of yen |
| Profit (loss) | (27,090) | 18,676 |
| Other comprehensive income | | |
| Items that will not be reclassified to profit or loss | | |
| Financial assets measured at fair value through other comprehensive income | 379 | (336) |
| Remeasurements of defined benefit plans | (3) | 464 |
| Share of other comprehensive income of investments accounted for using equity method | - | 16 |
| Total of items that will not be reclassified to profit or loss | 376 | 144 |
| Items that may be reclassified to profit or loss | | |
| Exchange differences on translation of foreign operations | 22,532 | 59,416 |
| Cash flow hedges | 44 | 57 |
| Share of other comprehensive income of investments accounted for using equity method | - | 1,309 |
| Total of items that may be reclassified to profit or loss | 22,576 | 60,783 |
| Other comprehensive income, net of tax | 22,953 | 60,927 |
| Comprehensive income | (4,137) | 79,604 |
| Comprehensive income attributable to | | |
| Owners of parent | (6,441) | 75,165 |
| Non-controlling interests | 2,303 | 4,438 |
| Comprehensive income | (4,137) | 79,604 |

(3) Condensed Quarterly Consolidated Statement of Changes in Equity
Six Months Ended June 30, 2021 (January 1 to June 30, 2021)

| | Equity attributable to owners of parent | | | | | |
|----------------------------------|---|-----------------|-----------------|-------------------|--|--|
| | Share capital | Capital surplus | Treasury shares | Retained earnings | Other components of equity | |
| | | | | | Exchange differences on transition of foreign operations | Financial assets measured at fair value through other comprehensive income |
| Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | |
| Balance at January 1, 2021 | 64,506 | 72,696 | (2,455) | 335,878 | - | - |
| Profit (loss) | | | | (28,113) | | |
| Other comprehensive income | | | | | 21,232 | 396 |
| Total comprehensive income | - | - | - | (28,113) | 21,232 | 396 |
| Purchase of treasury shares | | | (14) | | | |
| Disposal of treasury shares | | | 59 | (25) | | |
| Dividends | | | | (7,989) | | |
| Change in scope of consolidation | | | | | | |
| Share-based payment transactions | | 358 | | | | |
| Transfer to retained earnings | | | | 394 | | (396) |
| Other | | | | (10) | | |
| Total transactions with owners | - | 358 | 44 | (7,630) | - | (396) |
| Balance at June 30, 2021 | 64,506 | 73,055 | (2,410) | 300,134 | 21,232 | - |

| | Equity attributable to owners of parent | | | | | |
|----------------------------------|---|---|-----------------|-----------------|---------------------------|----------|
| | Other components of equity | | | Total | Non-controlling interests | Total |
| | Cash flow hedges | Remeasurements of defined benefit plans | Total | | | |
| Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | |
| Balance at January 1, 2021 | (237) | - | (237) | 470,388 | 20,922 | 491,310 |
| Profit (loss) | | | - | (28,113) | 1,022 | (27,090) |
| Other comprehensive income | 44 | (1) | 21,672 | 21,672 | 1,281 | 22,953 |
| Total comprehensive income | 44 | (1) | 21,672 | (6,441) | 2,303 | (4,137) |
| Purchase of treasury shares | | | - | (14) | | (14) |
| Disposal of treasury shares | | | - | 33 | | 33 |
| Dividends | | | - | (7,989) | (3,407) | (11,397) |
| Change in scope of consolidation | | | - | - | 10 | 10 |
| Share-based payment transactions | | | - | 358 | | 358 |
| Transfer to retained earnings | | 1 | (394) | - | | - |
| Other | | | - | (10) | | (10) |
| Total transactions with owners | - | 1 | (394) | (7,621) | (3,397) | (11,019) |
| Balance at June 30, 2021 | (192) | - | 21,039 | 456,325 | 19,828 | 476,154 |

Six Months Ended June 30, 2022 (January 1 to June 30, 2022)

| | Equity attributable to owners of parent | | | | | |
|----------------------------------|---|-----------------|-----------------|-------------------|--|--|
| | Share capital | Capital surplus | Treasury shares | Retained earnings | Other components of equity | |
| | | | | | Exchange differences on transition of foreign operations | Financial assets measured at fair value through other comprehensive income |
| Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | |
| Balance at January 1, 2022 | 64,506 | 73,035 | (2,338) | 372,202 | 33,427 | - |
| Profit (loss) | | | | 16,246 | | |
| Other comprehensive income | | | | | 58,665 | (284) |
| Total comprehensive income | - | - | - | 16,246 | 58,665 | (284) |
| Purchase of treasury shares | | | (4) | | | |
| Disposal of treasury shares | | | 251 | 39 | | |
| Dividends | | | | (11,984) | | |
| Change in scope of consolidation | | | | | | |
| Share-based payment transactions | | 193 | | | | |
| Transfer to retained earnings | | | | 196 | | 284 |
| Other | | | | (10) | | |
| Total transactions with owners | - | 193 | 247 | (11,759) | - | 284 |
| Balance at June 30, 2022 | 64,506 | 73,228 | (2,090) | 376,689 | 92,092 | - |

| | Equity attributable to owners of parent | | | | | |
|----------------------------------|---|---|-----------------|-----------------|---------------------------|----------|
| | Other components of equity | | | Total | Non-controlling interests | Total |
| | Cash flow hedges | Remeasurements of defined benefit plans | Total | | | |
| Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | Millions of yen | |
| Balance at January 1, 2022 | (139) | - | 33,288 | 540,695 | 21,484 | 562,179 |
| Profit (loss) | | | - | 16,246 | 2,429 | 18,676 |
| Other comprehensive income | 57 | 480 | 58,918 | 58,918 | 2,009 | 60,927 |
| Total comprehensive income | 57 | 480 | 58,918 | 75,165 | 4,438 | 79,604 |
| Purchase of treasury shares | | | - | (4) | | (4) |
| Disposal of treasury shares | | | - | 291 | | 291 |
| Dividends | | | - | (11,984) | (3,660) | (15,645) |
| Change in scope of consolidation | | | - | - | 20 | 20 |
| Share-based payment transactions | | | - | 193 | | 193 |
| Transfer to retained earnings | | (480) | (196) | - | | - |
| Other | | | - | (10) | | (10) |
| Total transactions with owners | - | (480) | (196) | (11,515) | (3,640) | (15,156) |
| Balance at June 30, 2022 | (82) | - | 92,010 | 604,345 | 22,283 | 626,628 |

(4) Condensed Quarterly Consolidated Statement of Cash Flows

| | Six months ended June 30, 2021 | Six months ended June 30, 2022 |
|--|-----------------------------------|-----------------------------------|
| | Millions of yen | Millions of yen |
| Cash flows from operating activities: | | |
| Profit (loss) before tax | (20,650) | 25,611 |
| Depreciation and amortization | 37,480 | 37,913 |
| Impairment losses (reversal of impairment losses) | 18,484 | - |
| Loss (gain) on disposal of fixed assets | 871 | 313 |
| Gain on transfer of business | - | (4,271) |
| Increase (decrease) in retirement benefit liability | 1,372 | 1,127 |
| Interest and dividend income | (646) | (2,308) |
| Interest expenses | 1,593 | 1,289 |
| Interest on other financial liabilities | 472 | 63 |
| Share of loss (profit) of investments accounted for using equity method | (127) | (2,449) |
| Decrease (increase) in trade receivables | 8,138 | (5,563) |
| Decrease (increase) in inventories | 14,563 | (5,175) |
| Increase (decrease) in trade payables | 6,131 | (25,582) |
| Other | 11,239 | (2,581) |
| Subtotal | 78,923 | 18,385 |
| Interest and dividends received | 833 | 819 |
| Interest paid | (1,430) | (1,179) |
| Interest paid on other financial liabilities | (492) | - |
| Income taxes paid | (3,815) | (48,702) |
| Net cash provided by (used in) operating activities | 74,019 | (30,676) |
| Cash flows from investing activities: | | |
| Payments into time deposits | (17,151) | (11,530) |
| Proceeds from withdrawal of time deposits | 20,649 | 11,318 |
| Purchase of property, plant and equipment | (54,829) | (19,128) |
| Proceeds from sales of property, plant and equipment and intangible assets | 56 | 5 |
| Purchase of intangible assets | (8,621) | (14,383) |
| Proceeds from sale of investment property | 7,910 | - |
| Proceeds from transfer of business | - | 3,727 |
| Other | 2,609 | 4,646 |
| Net cash provided by (used in) investing activities: | (49,375) | (25,344) |

| | Six months ended June 30, 2021 | Six months ended June 30, 2022 |
|--|-----------------------------------|-----------------------------------|
| | Millions of yen | Millions of yen |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings and commercial papers | (15,121) | 48,889 |
| Proceeds from long-term borrowings | 10,000 | - |
| Repayments of long-term borrowings | (10,365) | (365) |
| Redemption of bonds | - | (15,000) |
| Purchase of treasury shares | (14) | (4) |
| Proceeds from disposal of treasury shares | 33 | 242 |
| Dividends paid | (7,987) | (11,979) |
| Dividends paid to non-controlling interests | (3,686) | (4,392) |
| Repayments of lease liabilities | (13,361) | (15,945) |
| Repayments of long-term accounts payable | (3,435) | (122) |
| Other | 10 | 20 |
| Net cash provided by (used in) financing activities | <u>(43,927)</u> | <u>1,341</u> |
| Net change in cash and cash equivalents (decrease) | (19,283) | (54,679) |
| Cash and cash equivalents at beginning of period | 136,347 | 156,503 |
| Effect of exchange rate changes on cash and cash equivalents | 5,622 | 12,056 |
| Net change in cash and cash equivalents included in assets held for sale | - | (3,020) |
| Cash and cash equivalents at end of period | <u><u>122,686</u></u> | <u><u>110,858</u></u> |

(5) Notes Concerning Condensed Quarterly Consolidated Financial Statements

(Note on Assumptions of a Going Concern)

Not applicable.

(Segment Information, etc.)

(1) Overview of Reportable Segments

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

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

The Japan Business mainly comprises domestic business by brand category (Prestige, Fragrance, Premium, 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 three months ended March 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 six months ended June 30, 2021 has been restated to reflect the reclassification.

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

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.

Six Months Ended June 30, 2021 (January 1 to June 30, 2021)

(Millions of yen)

| | Reportable Segment | | | | | | |
|---|--------------------|----------------|-----------------------|-------------------|------------------------|------------------------|-----------------------|
| | Japan Business | China Business | Asia Pacific Business | Americas Business | EMEA Business (Note 1) | Travel Retail Business | Professional Business |
| Net sales | | | | | | | |
| Sales to external customers | 140,101 | 144,147 | 30,526 | 53,889 | 51,400 | 57,644 | 7,229 |
| Intersegment sales or transfer | 20,592 | 474 | 1,218 | 4,699 | 4,905 | 209 | 288 |
| Total | 160,693 | 144,622 | 31,744 | 58,589 | 56,306 | 57,854 | 7,518 |
| Segment profit (loss) i.e. Core operating profit | 8,127 | 2,334 | 1,624 | (1,866) | (53) | 8,704 | 732 |
| | Other (Note 2) | Total | Adjustments (Note 3) | Consolidation | | | |
| Net sales | | | | | | | |
| Sales to external customers | 10,425 | 495,365 | - | 495,365 | | | |
| Intersegment sales or transfer | 107,006 | 139,394 | (139,394) | - | | | |
| Total | 117,432 | 634,760 | (139,394) | 495,365 | | | |
| Segment profit (loss) i.e. Core operating profit | 8,193 | 27,796 | (4,758) | 23,038 | | | |

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.

Six Months Ended June 30, 2022 (January 1 to June 30, 2022)

(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 | Professional Business |
| Net sales | | | | | | | |
| Sales to external customers | 115,667 | 115,739 | 31,384 | 59,013 | 55,710 | 77,850 | 7,812 |
| Intersegment sales or transfer | 2,956 | 319 | 1,466 | 240 | 5,769 | 93 | 351 |
| Total | 118,624 | 116,059 | 32,850 | 59,254 | 61,480 | 77,944 | 8,164 |
| Segment profit (loss) i.e. Core operating profit | (7,397) | (1,987) | 2,409 | 3,691 | 2,584 | 16,991 | 1,177 |
| | Other (Note 2, 4) | Total | Adjustments (Note 3) | Consolidation | | | |
| Net sales | | | | | | | |
| Sales to external customers | 30,220 | 493,399 | - | 493,399 | | | |
| Intersegment sales or transfer | 108,791 | 119,989 | (119,989) | - | | | |
| Total | 139,011 | 613,389 | (119,989) | 493,399 | | | |
| Segment profit (loss) i.e. Core operating profit | (766) | 16,703 | 836 | 17,539 | | | |

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 related to the Personal Care business, previously recorded in Japan, China, and Asia Pacific Businesses, are no longer recorded with some exceptions from July 1, 2021 due to the transfer of said business and resulting changes in product distribution. Meanwhile, Personal Care products sales from the Company and its manufacturing subsidiaries to Fine Today Shiseido Co., Ltd. and its affiliates are recorded in the Other segment effective from the same date.

Adjustments from segment profit (loss) to operating profit (loss) are as follows:

| | Six Months Ended June 30, 2021 | Six Months Ended June 30, 2022 |
|------------------------------|-----------------------------------|-----------------------------------|
| | Millions of yen | Millions of yen |
| Segment profit (loss) | 23,038 | 17,539 |
| Gain on transfer of business | - | 4,271 |
| Structural reform expenses | (22,669) | (3,540) |
| Subsidy income on COVID-19 | 1,024 | 334 |
| Loss on COVID-19 | (3,499) | (1,625) |
| Impairment losses | (19,073) | - |
| Operating profit (loss) | (21,179) | 16,979 |

“Gain on transfer of business” for the six months ended June 30, 2022 is gain on transfer of assets which six 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, and Shiseido Thailand Co., Ltd.) transferred to affiliates of Oriental Beauty Holding Co., Ltd. The gain on transfer of business is included in “Other operating income” in condensed quarterly consolidated statement of profit and loss.

“Structural reform expenses” for the six months ended June 30, 2021 are the costs associated with the termination of an exclusive global license agreement with Dolce&Gabbana S.r.l., organizational reform in Europe, and the transfer of the Personal Care business. The expenses are included in “Selling, general and administrative expenses” in condensed quarterly consolidated statement of profit and loss.

“Structural reform expenses” for the six months ended June 30, 2022 are the costs associated with the transfer of three prestige makeup brands, the transfer of the personal care business and the transfer of the Professional Business. The expenses are included in “Selling, general and administrative expenses” and “Other operating expenses” in condensed quarterly consolidated statement of profit and loss.

“Impairment losses” for the six months ended June 30, 2021 are the impairment losses associated with the trademark rights for termination of an exclusive global license agreement with Dolce&Gabbana S.r.l., and an 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 “Selling, general and administrative expenses” and “Cost of sales” in condensed quarterly consolidated statement of profit and loss.

(Significant Subsequent Events)

Company splits, share transfer and assets transfer of succeeding company accompanying the transfer of Professional business

(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 companies.

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.

The Group received ¥11,466 million for the consideration for the transfer of shares and assets related to the above transactions.

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.) are planning to transfer assets of the Business on January 1, 2023.

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 on July 1, 2022.

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

Breakdown of assets at the time of loss of control

| | |
|--------------------|---------------|
| Current Assets | ¥6,038million |
| Non-current Assets | ¥1,318million |

Breakdown of liabilities at the time of loss of control

| | |
|-------------------------|---------------|
| Current Liabilities | ¥3,378million |
| Non-current Liabilities | ¥1,190million |

(Final amounts are currently under evaluation.)

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

| | |
|--|-----------------|
| Consideration received by cash | ¥11,466million |
| Cash and cash equivalents of assets at the time of loss of control | ¥(3,020)million |
| Income from the sale of the business | ¥8,446million |

(Final amounts will be determined after adjustment of net working capital.)

(4) Profit and loss due to loss of control

It is expected that gain on transfer of business of ¥11,800 million will occur due to the transfer of shares and assets, and planned to be recorded in the fiscal year ending December 31, 2022 except for ¥646 million, which is estimated to occur as gain on transfer of business in January 2023. In addition, out of the gain on transfer of business for ¥11,800 million, ¥2,111 million is caused by measuring retained investment maintaining for former subsidiary in the fair value as the date of loss of control.

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

The Company has determined to transfer its manufacturing operations of personal care products conducted at Shiseido Kuki Factory (Saitama Prefecture, the “Kuki Factory”) and Shiseido Vietnam Factory (Bien Hoa City, Dong Nai Province, Vietnam; the “Vietnam Factory”).

The business conducted by the Company at the Kuki Factory (the “Business”) will be transferred from the Company through a company split (simple absorption-type split) to be succeeded by a newly established company (the “New Company”), whose shares will be transferred to K.K. Asian Personal Care Holding (“APCH”), a subsidiary of Oriental Beauty Holding (HK) Limited (“OBH”), directly or indirectly financed by funds advised by CVC Capital Partners (“CVC”) (the “New Company Share Transfer”). Subsequently, all of the equity interest of the Company in its wholly owned subsidiary Shiseido Vietnam Inc. (“SVI”), which operates the Vietnam Factory, will be transferred to APCH. The Company has executed a legally binding agreement pertaining to the New Company Share Transfer (collectively, the “Transaction”) and other related matters on August 1, 2022.

(1) Objectives of the Transaction

Fine Today Shiseido Co., Ltd. (“FTS,” Minato-ku, Tokyo) has made a good start since the transfer the Personal Care business, achieving stable business operations, and the Company has continuously discussed with CVC strategic actions required to ensure its sustainable growth. As a result, the Company concluded that equipping FTS with its own production infrastructure and integrating production and sales would be the best option and decided to transfer the Business and SVI to APCH.

(2) Details of the Transaction Procedures

The business conducted by the Company at the Kuki Factory will be transferred from the Company to the New Company at the first quarter of 2023 (planned) through an absorption-type company split (the “Company Split”), followed by a transfer of all of the outstanding shares of the New Company to APCH on the same date. The Company also plans to transfer all of its equity interest in its wholly owned subsidiary Shiseido Vietnam Inc. (“SVI”) to APCH in the second half of 2023 (planned).

In addition, the Company currently owns 35% of APCH but considering successful autonomous business operations under the new structure, the Company will transfer a portion of its shares to OBH and reduce its shareholding ratio to 20.7% on the same date as the New Company Share Transfer. (The Company’s shareholding ratio after the capital increase of OBH, which is scheduled to take place on the same date as the APCH Share Transfer, will be 20.1%.)

The New Company Share Transfer is subject to obtaining clearance from relevant authorities based on the Antimonopoly Act, while the SVI Equity Interest Transfer is subject to obtaining the necessary permits and approvals in Vietnam.

(3) Overview of the Business to be Split and Transferred

a. Details of the business

Production of personal care products

b. Reportable segment included in the business

Other

(4) Future Outlook

As a result of the transaction, it is expected to be a loss of approximately ¥14,000 million for the fiscal year ending December 31, 2022, including impairment loss on the transferred assets. The impact of the transaction on the Company’s consolidated financial results for the fiscal year ending December 31, 2023 is expected to be a loss on transfer etc. of approximately ¥16,000 million.

(First-time adoption of IFRS)

The Group disclosed its condensed quarterly consolidated financial statements in accordance with IFRS from the first three months of the fiscal year ending 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, 29 | Other financial assets |
| Long-term prepaid expenses | 14,125 | (14,125) | - | - | 6, 10 | |
| Deferred tax assets | 42,501 | - | 17,927 | 60,428 | 28 | 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 | | | | | | Liabilities and equity |
| Current liabilities | | | | | | Liabilities |
| Notes and accounts payable | 21,187 | 164,863 | (154) | 185,896 | 11 | Current liabilities |
| Electronically recorded obligations - operating | 55,740 | (55,740) | - | - | 11 | Trade and other payables |
| 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, 24, 25, 26 | 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 | 27 | 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 | 28 | Deferred tax liabilities |
| Other long-term liabilities | 12,472 | (2,153) | (7,460) | 2,858 | 13, 14, 26, 30 | 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, 30 | 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 | 32 | Retained earnings |
| Total accumulated other comprehensive income | 11,678 | - | (11,916) | (237) | 27, 29, 31 | 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 the end of the six months of the previous fiscal year (June 30, 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 | 134,903 | (12,216) | - | 122,686 | 1, 4 | Cash and cash equivalents |
| Notes and accounts receivable | 144,418 | (5,245) | 1,212 | 140,385 | 2, 3 | Trade and other receivables |
| Short-term investment securities | - | 13,026 | - | 13,026 | 1, 3, 4 | Other financial assets |
| Inventories | 165,519 | (17,696) | (9,169) | 138,652 | 17 | Inventories |
| Other current assets | 42,853 | (5,840) | (1,814) | 35,199 | 2, 28 | Other current assets |
| Allowance for doubtful accounts | (4,353) | 4,353 | - | - | 3 | |
| Total current assets | 483,341 | (23,620) | (9,771) | 449,950 | | Subtotal |
| | - | 23,935 | - | 23,935 | 5 | Assets held for sale |
| | 483,341 | 315 | (9,771) | 473,886 | | Total current assets |
| Fixed assets | | | | | | Non-current assets |
| Property, plant and equipment | 361,323 | (20,224) | 1,435 | 342,534 | 6, 8, 18 | Property, plant and equipment |
| Goodwill | 54,698 | - | 3,651 | 58,350 | 20 | Goodwill |
| Trademark rights | 72,682 | 56,638 | 12,306 | 141,627 | 7, 19 | Intangible assets |
| Other intangible assets | 57,421 | (57,421) | - | - | | |
| | - | 30,737 | 104,021 | 134,759 | 8, 19, 21 | Right-of-use assets |
| | - | 2,235 | (2) | 2,232 | 9 | Investments accounted for using equity method |
| Investment securities | 12,478 | 25,318 | 8,904 | 46,701 | 3, 4, 9, 29 | Other financial assets |
| Long-term prepaid expenses | 13,596 | (13,596) | - | - | 6, 10 | |
| Deferred tax assets | 54,587 | - | 10,710 | 65,297 | 28 | Deferred tax assets |
| Other investments | 28,598 | (23,089) | (246) | 5,261 | 4, 10 | Other non-current assets |
| Allowance for doubtful accounts | (30) | 30 | - | - | 3 | |
| Total fixed assets | 655,357 | 627 | 140,781 | 796,766 | | Total non-current assets |
| Total assets | 1,138,698 | 943 | 131,010 | 1,270,652 | | 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 | | | | | | Liabilities and equity |
| Current liabilities | | | | | | Liabilities |
| Notes and accounts payable | 23,701 | 146,498 | (146) | 170,052 | 11, 23 | Current liabilities |
| Electronically recorded obligations - operating | 46,295 | (46,295) | - | - | 11 | Trade and other payables |
| Short-term debt | 42,561 | 15,730 | - | 58,291 | 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 | 10,399 | (44) | 14,960 | 25,314 | 21 | Lease liabilities |
| Other payables | 67,969 | (67,969) | - | - | 11 | |
| Accrued income taxes | 11,350 | (4) | 538 | 11,884 | 28 | Income taxes payable |
| Reserve for sales returns | 3,708 | (3,708) | - | - | 11 | |
| Refund liabilities | 10,987 | (10,987) | - | - | 11 | |
| Accrued bonuses for employees | 19,398 | (19,398) | - | - | 15 | |
| Accrued bonuses for directors | 106 | (106) | - | - | 15 | |
| Provision for liabilities and charges | 406 | 7,876 | - | 8,282 | 13 | Provisions |
| Provision for loss on business withdrawal | 622 | (622) | - | - | 13 | |
| Provision for structural reforms | 5,613 | (5,613) | - | - | 13 | |
| | - | 4,904 | - | 4,904 | 14 | Other financial liabilities |
| Other current liabilities | 82,151 | (6,875) | 14,734 | 90,010 | 13, 14, 15, 24, 25, 26 | Other current liabilities |
| Total current liabilities | 341,004 | (2,349) | 30,087 | 368,742 | | Subtotal |
| | - | 3,305 | - | 3,305 | 5 | Liabilities directly associated with assets held for sale |
| | 341,004 | 956 | 30,087 | 372,047 | | 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 | 180,476 | - | 230,476 | 12 | Bonds and borrowings |
| Long-term debt | 180,476 | (180,476) | - | - | 12 | |
| Lease obligations | 20,597 | (92) | 101,528 | 122,033 | 21 | Lease liabilities |
| Long-term payables | 4,797 | 770 | 192 | 5,760 | 14 | Other financial liabilities |
| Liability for retirement benefits | 26,071 | 92 | 24,662 | 50,825 | 27 | Net defined benefit liability |
| Allowance for losses on guarantees | 350 | (350) | - | - | 14 | |
| | - | 1,766 | - | 1,766 | 13 | Provisions |
| Deferred tax liabilities | 3,298 | - | 1,126 | 4,425 | 28 | Deferred tax liabilities |
| Other long-term liabilities | 10,804 | (2,200) | (1,441) | 7,162 | 13, 14, 26, 30 | Other non-current liabilities |
| Total long-term liabilities | 296,395 | (12) | 126,067 | 422,450 | | Total non-current liabilities |
| Total liabilities | 637,399 | 943 | 156,155 | 794,498 | | Total liabilities |
| Net assets | | | | | | Equity |
| Common stock | 64,506 | - | - | 64,506 | | Share capital |
| Capital surplus | 70,741 | 1,419 | 894 | 73,055 | 16, 30 | Capital surplus |
| Treasury stock | (2,410) | - | - | (2,410) | | Treasury shares |
| Stock acquisition rights | 1,419 | (1,419) | - | - | 16 | |
| Retained earnings | 314,513 | - | (14,379) | 300,134 | 32 | Retained earnings |
| Total accumulated other comprehensive income | 32,739 | - | (11,700) | 21,039 | 27, 29, 31 | Other components of equity |
| | 481,510 | - | (25,184) | 456,325 | | Total equity attributable to owners of parent |
| Non-controlling interests in consolidated subsidiaries | 19,788 | - | 39 | 19,828 | | Non-controlling interests |
| Total net assets | 501,299 | - | (25,144) | 476,154 | | Total equity |
| Total liabilities and net assets | 1,138,698 | 943 | 131,010 | 1,270,652 | | 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, 4 | 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, 29 | 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 | 28 | 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 | | | | | | Liabilities and equity |
| Current liabilities | | | | | | 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, 24, 25, 26 | 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 | 27 | 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 | 28 | Deferred tax liabilities |
| | | | | | 13, 14, | |
| Other long-term liabilities | 37,573 | (2,163) | (26,161) | 9,248 | 22, 26, 30 | 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, 30 | 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 | 32 | Retained earnings |
| Total accumulated other comprehensive income | 45,805 | - | (12,516) | 33,288 | 27, 29, 31 | 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 and liabilities directly related to assets held for sale
Non-current assets held for sale or disposal groups are presented as “Assets held for sale” and “Liabilities directly associated with 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 levies
 Under Japanese GAAP, expenses were recognized for items qualified as levies such as property tax, etc. over the fiscal year in which the taxes were paid. Under IFRS, they are recognized as “Trade and other payables” on the date when an obligation event occurs.
- 24) 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.
- 25) 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.
- 26) 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.
- 27) 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 calculates 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.
- 28) Adjustments to income tax expense
 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 in the acquiring entities and calculated using the effective tax rate of the acquiring entities.
 In addition, income tax expense in the quarterly financial statements were calculated in the same manner as in the annual financial statements under Japanese GAAP, but under IFRS, they are calculated based on the estimated annual effective tax rate, and the adjustments are recorded in “Other current assets” and “Income taxes payable.”

29) 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.

30) 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."

31) 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."

32) 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 June 30, 2021 | As of December 31, 2021 |
|---|--|------------------------|----------------------------|
| | Millions of yen | Millions of yen | Millions of yen |
| Adjustments to the recorded amount of inventories (Note 17) | (7,342) | (9,203) | (8,225) |
| Application of impairment accounting (Note 19) | 11,536 | 11,609 | (202) |
| Adjustments to recorded amount of goodwill (Note 20) | - | 3,571 | 5,996 |
| Adjustments to lease transactions (Note 21) | (2,431) | (2,443) | (4,935) |
| Adjustments to recorded amount of investment accounted for equity method (Note 22) | - | - | 44,824 |
| Adjustments to levies (Note 23) | - | (1,101) | - |
| Adjustments to accrued paid absences (Note 24) | (11,757) | (12,173) | (12,021) |
| Adjustments to the timing of revenue recognition (Note 25) | (3,554) | (3,786) | (4,059) |
| Adjustments to governmental subsidies (Note 26) | (539) | (2,046) | (1,962) |
| Adjustments to postretirement benefits (Note 27) | (18,533) | (20,661) | (16,289) |
| Adjustments to income tax expense (Note 28) | 16,813 | 10,474 | (6,242) |
| Measurements of financial instruments (Note 29) | 5,827 | 6,020 | 4,228 |
| Adjustments to cumulative exchange differences on translation of foreign operations (Note 31) | 5,257 | 5,257 | 5,257 |
| Others | 784 | 103 | (470) |
| Total | (3,939) | (14,379) | 5,895 |

Reconciliations of profit or loss and comprehensive income for the Six Months Ended June 30, 2021
(January 1, 2021 - June 30, 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 | | |
| Net sales | 507,687 | (11,855) | (465) | 495,365 | 1 | Net sales |
| Cost of sales | 125,003 | 6,462 | 844 | 132,310 | 2, 4, 7, 8 | Cost of sales |
| Gross profit | 382,683 | (18,318) | (1,310) | 363,054 | | Gross profit |
| Selling, general and administrative expenses | 359,671 | 28,612 | 958 | 389,242 | 1, 2, 4, 5, 6, 7, 8 | Selling, general and administrative expenses |
| | - | 6,037 | (1,029) | 5,007 | 2, 9 | Other operating income |
| | - | - | - | - | | Other operating expenses |
| Operating profit | 23,012 | (40,893) | (3,298) | (21,179) | | Operating loss |
| Non-operating income | 6,986 | (6,986) | - | - | 2 | |
| Non-operating expenses | 1,946 | (1,946) | - | - | 2 | |
| Extraordinary gains | 1,971 | (1,971) | - | - | 2 | |
| Extraordinary losses | 46,546 | (46,546) | - | - | 2 | |
| | - | 2,959 | (316) | 2,643 | 2 | Finance income |
| | - | 1,724 | 517 | 2,241 | 2, 7 | Finance costs |
| | - | 123 | 4 | 127 | 2 | Share of profit of investment accounted for using equity method |
| Quarterly loss before income taxes | (16,522) | - | (4,127) | (20,650) | | Loss before tax |
| Income taxes – current | 11,187 | (11,427) | 6,681 | 6,440 | 3, 12 | Income tax expense |
| Income taxes – deferred | (11,427) | 11,427 | - | - | 3 | |
| Quarterly net loss | (16,282) | - | (10,808) | (27,090) | | Loss |
| Other comprehensive income | | | | | | Other comprehensive income |
| | | | | | | Items that will not be reclassified to profit or loss |
| Valuation difference on available-for-sale securities | (150) | - | 529 | 379 | | Financial assets measured at fair value through other comprehensive income |
| Adjustment for retirement benefits | 731 | - | (734) | (3) | 7 | Remeasurements of defined benefit plans |
| | - | 0 | (0) | - | | Share of other comprehensive income of investments accounted for using equity method |
| | - | - | 44 | 44 | | Items that may be reclassified to profit or loss |
| Foreign currency translation adjustments | 21,763 | - | 768 | 22,532 | | Cash flow hedges |
| Share of other comprehensive income of associates accounted for under the equity method | 0 | (0) | - | - | | Exchange differences on translation of foreign operations |
| Total other comprehensive income | 22,345 | - | 607 | 22,953 | | Share of other comprehensive income of investments accounted for using equity method |
| Quarterly Comprehensive Income | 6,063 | - | (10,200) | (4,137) | | Other comprehensive income, net of tax |
| | | | | | | Comprehensive income |

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, 4, 7, 8 | 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, 8, 11 | Selling, general and administrative expenses |
| | - | 96,383 | 44,615 | 140,999 | 2, 9, 10 | Other operating income |
| | - | 7,427 | 4,152 | 11,579 | 2, 11 | 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, 7 | Finance costs |
| | - | (1,090) | (618) | (1,709) | 2 | Share of 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, 12 | 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 | 7 | Remeasurements of defined benefit plans |
| | - | (0) | 0 | 0 | | Share of other comprehensive income of investments accounted for using equity method |
| | - | - | 98 | 98 | | Items that may be reclassified to profit or loss |
| Foreign currency translation adjustments | 34,247 | - | 815 | 35,062 | | Cash flow hedges |
| Share of other comprehensive income of associates accounted for under the equity method | 519 | 0 | (4) | 515 | | Exchange differences on translation of foreign operations |
| | | | | | | 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 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) Adjustment to the levies
Under Japanese GAAP, expenses were recognized for items qualified as levies such as property tax, etc. when the taxes were paid. Under IFRS, they are recognized as “Cost of sales” and “Selling, general and administrative expenses” on the date when an obligation event occurs.
- 5) 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.
- 6) 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.
- 7) 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.
- 8) 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.

- 9) 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.
- 10) 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.”
- 11) 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.
- 12) 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.
In addition, income tax expense in the quarterly financial statements were calculated in the same manner as in the annual financial statements under Japanese GAAP, but under IFRS, they are calculated based on the estimated annual effective tax rate.

Reconciliations of cash flows for the Six Months Ended June 30, 2021 (January 1, 2021 - June 30, 2021) and 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.