

February 10, 2023



Consolidated Settlement of Accounts for the Fiscal Year Ended December 31, 2022

[IFRS]

Shiseido Company, Limited

Listings: Tokyo Stock Exchange (Code Number 4911)
URL: <https://corp.shiseido.com/en/>
Representative: Masahiko Uotani, Representative Director, Chairman and CEO
Contact: Ayako Hirofuji, Vice President, Investor Relations Department
Tel. +81-3-3572-5111

Annual meeting of shareholders: March 24, 2023 (plan)
Filing date of securities report: March 24, 2023 (plan)
Start of cash dividend payments: March 27, 2023 (plan)
Supplementary quarterly materials prepared: Yes
Financial results information meeting held: Yes (for institutional investors, etc.)

1. Performance for the Fiscal Year Ended December 31, 2022 (From January 1 to December 31, 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	Profit	Profit Attributable to Owners of Parent	Total Comprehensive Income
	%	%	%	%	%	%
Fiscal year Ended December 31, 2022	1,067,355 [5.7]	51,340 [20.6]	46,572 [(53.7)]	37,583 [(24.0)]	34,202 [(27.1)]	89,061 [(1.3)]
Fiscal year Ended December 31, 2021	1,009,966 [-]	42,553 [-]	100,571 [-]	49,450 [-]	46,909 [-]	90,198 [-]

[Reference] Profit before Tax

Fiscal year Ended December 31, 2022: ¥50,428 million [(49.1)%]
Fiscal year Ended December 31, 2021: ¥99,111 million [-%]

	Basic Earnings per Share	Diluted Earnings per Share	Return on Equity Attributable to Owners of Parent	Profit before Tax / Total Assets	Core Operating Profit/ Net Sales
	Yen	Yen	%	%	%
Fiscal year Ended December 31, 2022	85.60	85.54	6.0	3.9	4.8
Fiscal year Ended December 31, 2021	117.43	117.33	9.3	7.5	4.2

[Reference] Equity in earnings (losses) of affiliates: As of December 31, 2022: ¥1,607 million [-%]

As of December 31, 2021: ¥(1,709) million [-%]

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

	Total Assets	Equity	Equity Attributable to Owners of Parent	Ratio of Equity Attributable to Owners of Parent	Equity Attributable to Owners of Parent per Share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of December 31, 2022	1,307,661	625,754	604,259	46.2	1,512.36
As of December 31, 2021	1,300,979	562,179	540,695	41.6	1,353.45

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at Year-End
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal Year Ended December 31, 2022	46,735	(41,308)	(52,418)	119,036
Fiscal Year Ended December 31, 2021	134,249	66,733	(190,575)	156,503

2. Cash Dividends

	Cash Dividends per Share					Total Dividends Paid (Full Year)	Dividend Payout Ratio (Consolidated)	Ratio of Dividend to Equity Attributable to Owners of Parent (Consolidated)
	Q1	Q2	Q3	Year-End	Full Year			
	Yen	Yen	Yen	Yen	Yen	Millions of Yen	%	%
Fiscal Year 2021	—	20.00	—	30.00	50.00	19,974	42.6	4.0
Fiscal Year 2022	—	25.00	—	75.00	100.00	39,954	116.8	7.0
Fiscal Year 2023 (Forecast)	—	30.00	—	30.00	60.00		85.6	

Note: Year-end dividend for the fiscal year 2022 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, 2023 (From January 1 to December 31, 2023)

(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 2023	1,000,000 [(6.3)]	60,000 [16.9]	47,000 [(6.8)]	28,000 [(18.1)]	70.08

Notes

- (1) Changes in significant subsidiaries during fiscal year ended December 31, 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 December 31, 2022:	400,000,000
As of December 31, 2021:	400,000,000
 - 2) Number of treasury shares

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

Fiscal year ended December 31, 2022:	399,538,249
Fiscal year ended December 31, 2021:	399,480,862

[Reference] Summary of Nonconsolidated Results

Performance in the Fiscal Year Ended December 31, 2022 (January 1 to December 31, 2022)

(1) Nonconsolidated Operating Results

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

	Net Sales		Operating Profit		Ordinary Profit		Net Profit	
	%		%		%		%	
Fiscal Year Ended December 31, 2022	305,969	[11.2]	14,785	[(30.0)]	47,765	[3.1]	28,470	[(72.6)]
Fiscal Year Ended December 31, 2021	275,063	[10.3]	21,129	[-]	46,341	[45.2]	103,788	[206.5]

	Net Profit per Share	Fully Diluted Net Profit per Share
	Yen	Yen
Fiscal Year Ended December 31, 2022	71.26	71.21
Fiscal Year Ended December 31, 2021	259.81	259.59

(2) Nonconsolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
	Millions of yen	Millions of yen	%	Yen
As of December 31, 2022	905,652	533,379	58.8	1,332.56
As of December 31, 2021	901,402	527,496	58.4	1,317.74

[Reference] Equity at year-end:

Fiscal year ended December 31, 2022:	¥532,420 million
Fiscal year ended December 31, 2021:	¥526,429 million

This report is not subject to auditing 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 ended December 31, 2022, and the figures for 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 Fiscal Year Ended December 31, 2022 (3) Earnings Forecast for Next Fiscal Year" on page 9 for information on preconditions underlying the above outlook and other related information.

Contents

1. Summary of Consolidated Financial Results for the Fiscal Year Ended December 31, 2022	2
(1) Consolidated Performance.....	2
(2) Financial Position	8
(3) Earnings Forecast for Next Fiscal Year	9
(4) Basic Shareholder Return Policy; Cash Dividends	10
2. Basic Approach to Our Selection of Accounting Standards	10
3. Consolidated Financial Statements and Notes	11
(1) Consolidated Statement of Financial Position.....	11
(2) Consolidated Statement of Profit and Loss and Consolidated Statement of Comprehensive Income.....	13
(3) Consolidated Statement of Changes in Equity	15
(4) Consolidated Statement of Cash Flows	17
(5) Notes Concerning Consolidated Financial Statements.....	19
(Note on Assumptions of a Going Concern).....	19
(Segment Information, etc.)	19
(Per-Share Data).....	24
(Significant Subsequent Events)	24
(First-time adoption of IFRS)	25

1. Summary of Consolidated Financial Results for the Fiscal Year Ended December 31, 2022

(1) Consolidated Performance

	(Millions of yen)					
	Net Sales	Core Operating Profit	Operating Profit	Profit before Tax	Profit Attributable to Owners of Parent	EBITDA
Fiscal Year Ended December 31, 2022	1,067,355	51,340	46,572	50,428	34,202	102,371
Fiscal Year Ended December 31, 2021	1,009,966	42,553	100,571	99,111	46,909	94,516
Year-on-Year Increase (Decrease)	5.7%	20.6%	(53.7)%	(49.1)%	(27.1)%	8.3%
FX-Neutral	(3.9)%					
Like-for-Like	0.9%					

Notes:

1. Core operating profit is calculated by excluding profit and loss caused by non-recurrent items 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 impacts of foreign exchange translation and all business transfers in the consolidated fiscal years 2022 and 2021, as well as the impact of all related transfer agreements (“business transfer impacts”).

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

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

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

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

Net sales in the consolidated fiscal year 2022 increased 5.7% year on year to ¥1,067.4 billion on reported figures, down 3.9% year on year on an FX-neutral basis, or up 0.9% year on year on a like-for-like basis. Net sales on a like-for-like basis decreased year on year in the China Business where the market faced challenges. Net sales were on par with the previous year in Japan, where market recovery was slow. Meanwhile, we achieved strong growth in the Travel Retail, Asia Pacific, Americas, and EMEA Businesses where our key skin beauty brand **SHISEIDO** and core makeup brand **NARS** drove growth.

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

Profit attributable to owners of parent dropped by ¥12.7 billion year on year to ¥34.2 billion, primarily due to impairment losses associated with the transfer of the manufacturing business of personal care products posted in the fiscal year 2022 while the gains on the transfer of personal care business were posted in the fiscal year 2021.

The EBITDA margin was 9.6%.

Major foreign currency exchange rates applicable to income and expense accounting line items in the Company's financial statements for the fiscal year 2022 are JPY131.4/USD, JPY138.0/EUR, and JPY19.5/CNY.

[Consolidated Performance]

(Millions of yen)

Classification		Fiscal Year Ended December 31, 2022	% of Total	Fiscal Year Ended December 31, 2021	% of Total	Year-on-Year Increase (Decrease)			
						Amount	Percentage	FX-Neutral	Like-for-Like
Net Sales	Japan Business	237,565	22.3%	258,837	25.6%	(21,271)	(8.2)%	(8.2)%	0.3%
	China Business	258,226	24.2%	274,721	27.2%	(16,495)	(6.0)%	(18.3)%	(9.8)%
	Asia Pacific Business	68,017	6.4%	63,597	6.3%	4,420	7.0%	(3.7)%	13.0%
	Americas Business	137,916	12.9%	121,369	12.0%	16,547	13.6%	(4.7)%	8.8%
	EMEA Business	128,440	12.0%	117,016	11.6%	11,423	9.8%	3.3%	4.0%
	Travel Retail Business	163,650	15.3%	120,562	12.0%	43,087	35.7%	15.3%	14.2%
	Professional Business	9,337	0.9%	15,282	1.5%	(5,945)	(38.9)%	(43.1)%	—
	Other	64,200	6.0%	38,579	3.8%	25,621	66.4%	64.5%	(3.4)%
Total		1,067,355	100.0%	1,009,966	100.0%	57,388	5.7%	(3.9)%	0.9%

Classification		Total sales including intersegment sales and internal transfers between segments	
		Fiscal Year Ended December 31, 2022	Fiscal Year Ended December 31, 2021
Net Sales	Japan Business	244,271	283,596
	China Business	259,870	275,830
	Asia Pacific Business	71,136	65,705
	Americas Business	141,434	129,146
	EMEA Business	137,901	127,455
	Travel Retail Business	163,789	120,717
	Professional Business	9,688	15,890
	Other	301,554	269,103
	Subtotal	1,329,646	1,287,445
	Adjustments	(262,291)	(277,478)
Total		1,067,355	1,009,966

(Millions of yen)

Classification	Fiscal Year Ended December 31, 2022	Ratio to Net Sales	Fiscal Year Ended December 31, 2021	Ratio to Net Sales	Year-on-Year Increase (Decrease)		
					Amount	Percentage	
Core Operating Profit (Loss)	Japan Business	(13,089)	(5.4)%	6,481	2.3%	(19,570)	—
	China Business	(3,941)	(1.5)%	4,095	1.5%	(8,036)	—
	Asia Pacific Business	4,716	6.6%	5,048	7.7%	(332)	(6.6)%
	Americas Business	7,660	5.4%	1,624	1.3%	6,036	371.6%
	EMEA Business	6,926	5.0%	2,706	2.1%	4,220	155.9%
	Travel Retail Business	37,678	23.0%	22,737	18.8%	14,941	65.7%
	Professional Business	750	7.7%	714	4.5%	35	5.0%
	Other	6,078	2.0%	14,122	5.2%	(8,044)	(57.0)%
	Subtotal	46,780	3.5%	57,531	4.5%	(10,750)	(18.7)%
	Adjustments	4,559	—	(14,977)	—	19,537	—
	Total	51,340	4.8%	42,553	4.2%	8,786	20.6%

Notes:

1. The Group has revised its reportable segment classifications from the fiscal year 2022. The business results of Shiseido Beauty Salon Co., Ltd., previously included in the Other segment, are now included in the Japan Business. The business results related to the brand holder functions of the *NARS* and *Drunk Elephant* brands, previously included in the Americas Business, are now included in the Other segment. The segment information for the fiscal year ended December 31, 2021 has been restated in line with the reclassification.
2. Net sales from regional sales subsidiaries related to the Personal Care business, previously recorded in the Japan, China, and Asia Pacific Businesses, are no longer recorded with some exceptions from July 1, 2021 due to the transfer of the said business and resulting changes in commercial distribution. Meanwhile, Personal Care products sales from the Company and its manufacturing subsidiaries to FineToday Co., Ltd. (which has changed its company name from "Fine Today Shiseido Co., Ltd." effective January 1, 2023) and its affiliates are recorded in the Other segment effective from the same date.
3. Net sales from regional sales subsidiaries previously recorded in the Professional Business is no longer recorded with some exceptions from July 1, 2022, due to the transfer of Professional Business.
4. Like-for-like increase (decrease) in net sales excludes foreign exchange translation and business transfer impacts.
5. The Other segment includes head office administration departments, IPSA Co., Ltd., manufacturing operations, and the restaurant business, etc.
6. 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.
7. The core operating profit (loss) adjustment amount is primarily the elimination of transactions between segments.

Results by reportable segment are provided below.

Japan Business

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

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

China Business

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

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

Asia Pacific Business

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

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

Americas Business

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

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

EMEA Business

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

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

Travel Retail Business

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

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

Professional Business

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

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

(2) Financial Position

Total assets increased by ¥6.7 billion from the end of the previous fiscal year to ¥1,307.7 billion, primarily from exchange rate 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 and cash dividend payments, as well as a decrease in tangible fixed assets due to the impairment losses associated with the transfer of the manufacturing business of personal care products and a decrease in inventories due to the business transfers as well as tightened inventory management. Liabilities decreased by ¥56.9 billion to ¥681.9 billion, primarily due to a decrease in current liabilities associated with a decrease in income taxes payable. Equity increased by ¥63.6 billion to ¥625.8 billion, chiefly due to the recording of profit attributable to owners of parent and exchange rate 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 equity attributable to owners of parent, was 0.05.

Net cash provided by operating activities in the fiscal year 2022 totaled ¥46.7 billion, primarily due to the recording of the profit before tax, while cash were used for the income taxes paid on the transfer of the Personal Care Business executed in the previous fiscal year, etc. Days sales of inventory (DSI) were 150 days. Net cash used in investing activities was ¥41.3 billion, mostly due to investment in plants and equipment as well as IT systems which outweighed the income from the transfer of the Professional Business. Net cash used in financing activities amounted to ¥52.4 billion, primarily due to the repayment of interest-bearing debts and payment of cash dividends.

As a result, cash and cash equivalents at the end of the fiscal year 2022 stood at ¥119.0 billion, down ¥37.5 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		46.7
Net cash provided by (used in) investing activities		(41.3)
Net cash provided by (used in) financing activities		(52.4)
Effect of exchange rate changes on cash and cash equivalents		10.0
Net change in cash and cash equivalents included in assets held for sale		(0.5)
Net change in cash and cash equivalents (decrease)		(37.5)
Cash and cash equivalents at end of period		119.0

(3) Earnings Forecast for Next Fiscal Year

Consolidated Net Sales

(Billions of yen)

Classification	Fiscal Year Ending December 31, 2023 (Forecast)	Fiscal Year Ended December 31, 2022 (After reclassification)	Percentage Change	FX-Neutral	Like-for-like
Net Sales	1,000.0	1,067.4	(6.3)%	(6)%	11%
Japan Business	273.5	237.6	15.1%	15%	16%
China Business	265.0	258.2	2.6%	5%	8%
Asia Pacific Business	62.5	68.0	(8.1)%	(8)%	11%
Americas Business	94.5	137.9	(31.5)%	(31)%	10%
EMEA Business	98.5	128.4	(23.3)%	(24)%	11%
Travel Retail Business	168.0	163.7	2.7%	4%	10%
Other	38.0	73.5	(48.3)%	(48)%	20%

Notes:

- The Group has revised its reportable segment classifications from the fiscal year ending December 31, 2023. The business results of Shiseido Professional Inc., which were previously included in the Professional Business, are now included in the Other Business. The results for the fiscal year ended December 31, 2022 (After reclassification) present business results after the abovementioned segment reclassification.
- Like-for-like percentage change excludes the impacts of foreign exchange, all business transfers and related transfer service agreements in the fiscal years 2022 and 2023.

Consolidated Profit

(Billions of yen)

Classification	Fiscal Year Ending December 31, 2023 (Forecast)	Ratio to Net Sales	Fiscal Year Ended December 31, 2022	Ratio to Net Sales	Percentage Change
Core Operating Profit	60.0	6.0%	51.3	4.8%	16.9%
Profit before Tax	47.0	4.7%	50.4	4.7%	(6.8)%
Profit Attributable to Owners of Parent	28.0	2.8%	34.2	3.2%	(18.1)%

Notes:

- Core operating profit is calculated by excluding profit and loss caused by non-recurrent items such as structural reform expenses and impairment losses, etc. from operating profit.

(Yen)

Classification	Fiscal Year Ending December 31, 2023 (Forecast)	Fiscal Year Ended December 31, 2022 (Results)
ROE (Return on Equity Attributable to Owners of Parent)	4.7%	6.0%
Basic Earnings per Share	70.08	85.60
DOE (Dividends on Equity Attributable to Owners of Parent)	4.1%	7.0%
Dividends per share		
Interim	30.00	25.00
Year-end	30.00	(planned) 75.00 (ordinary: 25.00) (commemorative: 50.00)

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

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

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

The above forecasts are based on the following major foreign currency exchange rate assumptions: JPY 130/USD, JPY 140/EUR, and JPY 19/CNY.

(4) Basic Shareholder Return Policy; Cash Dividends

Our total shareholder return policy emphasizes maximizing returns to shareholders through direct means, in addition to generating medium-to-long-term share price gains. To this end, our fundamental policy is to give highest priority to strategic investments aimed at sustainable growth in order to increase profits and improve capital efficiency, which will lead to medium-to long-term increases in dividends and higher share prices.

We focus on consolidated performance and free cash flow in determining dividends and have set a dividend on ratio (DOE) of 2.5% or higher as one indicator that reflects our capital policy to ensure stable and consistent growth in shareholder returns over the long term. Our policy with respect to share buybacks is to remain flexible and base such decisions on the market environment.

Based on this policy, we plan to declare a year-end dividend of ¥75 per share, consisting of an ordinary dividend of ¥25 and a 150th anniversary commemorative dividend of ¥50, which, combined with the interim dividend of ¥25 per share, amounts to a total of ¥100 per share. This will result in DOE of 7.0%.

For the next fiscal year, we plan to declare an interim dividend of ¥30 and a year-end dividend of ¥30 per share, which amounts to a total annual dividends of ¥60 per share, up ¥10 from the previous year excluding the commemorative dividend of ¥50. Therefore, we project DOE of 4.1%.

2. Basic Approach to Our Selection of Accounting Standards

We have voluntarily adopted International Financial Reporting Standards (IFRS) from the fiscal year ended December 31, 2022, in order to enhance the Company's global business management by unifying accounting standards across the Group and to improve the international comparability of its financial information in capital markets.

3. Consolidated Financial Statements and Notes

(1) Consolidated Statement of Financial Position

	IFRS transition date (January 1, 2021)	As of December 31, 2021	As of December 31, 2022
	Millions of yen	Millions of yen	Millions of yen
Assets			
Current assets			
Cash and cash equivalents	136,347	156,503	119,036
Trade and other receivables	146,507	158,791	182,069
Inventories	163,001	134,147	130,942
Other financial assets	15,829	16,429	18,498
Other current assets	44,698	45,117	54,753
Subtotal	506,385	510,989	505,299
Assets held for sale	-	1,933	18,929
Total current assets	506,385	512,922	524,229
Non-current assets			
Property, plant and equipment	329,478	340,037	318,339
Goodwill	54,429	50,429	57,879
Intangible assets	197,753	101,814	123,217
Right-of-use assets	131,665	127,832	114,276
Investments accounted for using equity method	2,224	21,691	15,535
Other financial assets	44,246	73,777	84,701
Deferred tax assets	60,428	67,433	63,382
Other non-current assets	13,163	5,040	6,098
Total non-current assets	833,390	788,056	783,432
Total assets	1,339,775	1,300,979	1,307,661

	IFRS transition date (January 1, 2021)	As of December 31, 2021	As of December 31, 2022
	Millions of yen	Millions of yen	Millions of yen
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	185,896	203,718	203,770
Bonds and borrowings	67,221	15,730	25,990
Lease liabilities	22,781	25,283	23,757
Other financial liabilities	4,926	4,914	4,744
Income taxes payable	7,374	45,600	5,442
Provisions	2,773	10,843	8,136
Other current liabilities	90,417	107,470	116,180
Subtotal	381,390	413,561	388,021
Liabilities directly associated with assets held for sale	-	-	1,541
Total current liabilities	381,390	413,561	389,562
Non-current liabilities			
Bonds and borrowings	232,861	145,915	140,000
Lease liabilities	121,774	118,909	107,441
Other financial liabilities	54,046	5,646	4,950
Retirement benefit liability	49,902	42,159	25,346
Provisions	1,679	1,753	1,328
Deferred tax liabilities	3,951	1,605	2,174
Other non-current liabilities	2,858	9,248	11,103
Total non-current liabilities	467,073	325,237	292,344
Total liabilities	848,464	738,799	681,907
Equity			
Share capital	64,506	64,506	64,506
Capital surplus	72,696	73,035	73,560
Treasury shares	(2,455)	(2,338)	(2,089)
Retained earnings	335,878	372,202	394,877
Other components of equity	(237)	33,288	73,404
Total equity attributable to owners of parent	470,388	540,695	604,259
Non-controlling interests	20,922	21,484	21,494
Total equity	491,310	562,179	625,754
Total liabilities and equity	1,339,775	1,300,979	1,307,661

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

	Fiscal year ended December, 31 2021	Fiscal year ended December, 31, 2022
	Millions of yen	Millions of yen
Net sales	1,009,966	1,067,355
Cost of sales	271,808	323,191
Gross profit	738,158	744,164
Selling, general and administrative expenses	767,007	721,722
Other operating income	140,999	27,573
Other operating expenses	11,579	3,442
Operating profit	100,571	46,572
Finance income	4,079	5,877
Finance costs	3,829	3,627
Share of profit (loss) of investment accounted for using equity method	(1,709)	1,607
Profit before tax	99,111	50,428
Income tax expense	49,661	12,845
Profit	49,450	37,583
Profit attributable to		
Owners of parent	46,909	34,202
Non-controlling interests	2,540	3,381
Profit	49,450	37,583
Earnings per share		
Basic earnings per share (yen)	117.43	85.60
Diluted earnings per share (yen)	117.33	85.54

Consolidated Statement of Comprehensive Income

	Fiscal year ended December, 31 2021	Fiscal year ended December, 31, 2022
	Millions of yen	Millions of yen
Profit	49,450	37,583
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	110	(675)
Remeasurements of defined benefit plans	4,961	11,134
Share of other comprehensive income of investments accounted for using equity method	0	24
Total of items that will not be reclassified to profit or loss	5,072	10,483
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	35,062	40,024
Cash flow hedges	98	96
Share of other comprehensive income of investments accounted for using equity method	515	873
Total of items that may be reclassified to profit or loss	35,676	40,994
Other comprehensive income, net of tax	40,748	51,477
Comprehensive income	90,198	89,061
Comprehensive income attributable to		
Owners of parent	85,469	84,722
Non-controlling interests	4,729	4,338
Comprehensive income	90,198	89,061

(3) Consolidated Statement of Changes in Equity

Fiscal Year Ended December 31, 2021 (January 1 to December 31, 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 as of January 1, 2021	64,506	72,696	(2,455)	335,878	-	-
Profit				46,909		
Other comprehensive income					33,427	125
Total comprehensive income	-	-	-	46,909	33,427	125
Purchase of treasury shares			(23)			
Disposal of treasury shares			140	(69)		
Dividends				(15,978)		
Change in scope of consolidation						
Share-based payment transactions		339		331		
Transfer to retained earnings				5,033		(125)
Other				97		
Total transactions with owners	-	339	117	(10,585)	-	(125)
Balance as of December 31, 2021	64,506	73,035	(2,338)	372,202	33,427	-

	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 as of January 1, 2021	(237)	-	(237)	470,388	20,922	491,310
Profit			-	46,909	2,540	49,450
Other comprehensive income	98	4,907	38,559	38,559	2,188	40,748
Total comprehensive income	98	4,907	38,559	85,469	4,729	90,198
Purchase of treasury shares			-	(23)		(23)
Disposal of treasury shares			-	71		71
Dividends			-	(15,978)	(4,176)	(20,155)
Change in scope of consolidation			-	-	10	10
Share-based payment transactions			-	670		670
Transfer to retained earnings		(4,907)	(5,033)	-		-
Other			-	97		97
Total transactions with owners	-	(4,907)	(5,033)	(15,162)	(4,166)	(19,329)
Balance as of December 31, 2021	(139)	-	33,288	540,695	21,484	562,179

Fiscal Year Ended December 31, 2022 (January 1 to December 31, 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 as of January 1, 2022	64,506	73,035	(2,338)	372,202	33,427	-
Profit				34,202		
Other comprehensive income					40,019	(614)
Total comprehensive income	-	-	-	34,202	40,019	(614)
Purchase of treasury shares			(9)			
Disposal of treasury shares			257	35		
Dividends				(21,973)		
Changes in ownership interest in subsidiaries		(69)				
Change in scope of consolidation						
Share-based payment transactions		594		6		
Transfer to retained earnings				10,404		614
Other				0		
Total transactions with owners	-	524	248	(11,526)	-	614
Balance as of December 31, 2022	64,506	73,560	(2,089)	394,877	73,447	-

	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 as of January 1, 2022	(139)	-	33,288	540,695	21,484	562,179
Profit			-	34,202	3,381	37,583
Other comprehensive income	96	11,018	50,520	50,520	957	51,477
Total comprehensive income	96	11,018	50,520	84,722	4,338	89,061
Purchase of treasury shares			-	(9)		(9)
Disposal of treasury shares			-	293		293
Dividends			-	(21,973)	(4,073)	(26,046)
Changes in ownership interest in subsidiaries			-	(69)	(275)	(345)
Change in scope of consolidation			-	-	20	20
Share-based payment transactions			-	601		601
Transfer to retained earnings		(11,018)	(10,404)	-		-
Other			-	0		0
Total transactions with owners	-	(11,018)	(10,404)	(21,157)	(4,328)	(25,486)
Balance as of December 31, 2022	(43)	-	73,404	604,259	21,494	625,754

(4) Consolidated Statement of Cash Flows

	Fiscal year ended December, 31 2021	Fiscal year ended December, 31 2022
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Profit before tax	99,111	50,428
Depreciation and amortization	76,058	75,718
Impairment losses (reversal of impairment losses)	43,753	16,097
Loss (gain) on disposal of fixed assets	3,398	(2,422)
Gain on transfer of business	(133,843)	(15,294)
Increase (decrease) in retirement benefit liability	(340)	(1,941)
Interest and dividend income	(1,554)	(5,008)
Interest expenses	3,056	2,501
Interest on other financial liabilities	529	115
Share of loss (profit) of investments accounted for using equity method	1,709	(1,607)
Decrease (increase) in trade receivables	(1,388)	(6,334)
Decrease (increase) in inventories	11,825	(3,348)
Increase (decrease) in trade payables	35,680	(12,516)
Other	24,987	18,571
Subtotal	162,983	114,960
Interest and dividends received	1,669	1,367
Interest paid	(2,815)	(2,069)
Interest paid on other financial liabilities	(493)	-
Income taxes paid	(27,093)	(67,522)
Net cash provided by (used in) operating activities	134,249	46,735
Cash flows from investing activities:		
Payments into time deposits	(23,693)	(18,006)
Proceeds from withdrawal of time deposits	24,706	19,101
Purchase of property, plant and equipment	(75,287)	(36,289)
Proceeds from sales of property, plant and equipment and intangible assets	1,501	5,288
Purchase of intangible assets	(19,927)	(29,915)
Proceeds from sale of investment property	7,916	-
Proceeds from transfer of business	149,936	13,778
Other	1,581	4,733
Net cash provided by (used in) investing activities:	66,733	(41,308)

	Fiscal year ended December, 31 2021	Fiscal year ended December, 31 2022
	Millions of yen	Millions of yen
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings and commercial papers	(57,885)	73
Proceeds from long-term borrowings	10,000	-
Repayments of long-term borrowings	(94,714)	(730)
Proceeds from issuance of bonds	-	20,000
Redemption of bonds	-	(15,000)
Purchase of treasury shares	(23)	(9)
Proceeds from disposal of treasury shares	71	244
Dividends paid	(15,987)	(21,969)
Dividends paid to non-controlling interests	(3,677)	(4,663)
Repayments of lease liabilities	(24,804)	(29,704)
Repayments of long-term accounts payable	(3,437)	(295)
Other	(117)	(363)
Net cash provided by (used in) financing activities	<u>(190,575)</u>	<u>(52,418)</u>
Net change in cash and cash equivalents (decrease)	10,407	(46,991)
Cash and cash equivalents at beginning of period	136,347	156,503
Effect of exchange rate changes on cash and cash equivalents	9,747	10,024
Net change in cash and cash equivalents included in assets held for sale	-	(500)
Cash and cash equivalents at end of period	<u><u>156,503</u></u>	<u><u>119,036</u></u>

(5) Notes Concerning 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, 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 fiscal year ended December 31, 2022. The business results of Shiseido Beauty Salon Co., Ltd., previously included in the Other segment, are now included in the Japan Business.

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

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

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

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

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

(3) Segment Revenue and Business Result

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

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

(Millions of yen)

	Reportable Segment					
	Japan Business (Note 4)	China Business (Note 4)	Asia Pacific Business (Note 4)	Americas Business	EMEA Business (Note 1)	Travel Retail Business
Net sales						
Sales to external customers	258,837	274,721	63,597	121,369	117,016	120,562
Intersegment sales or transfer	24,759	1,108	2,108	7,776	10,438	154
Total	283,596	275,830	65,705	129,146	127,455	120,717
Segment profit (loss) i.e. Core operating profit	6,481	4,095	5,048	1,624	2,706	22,737
	Reportable Segment Professional Business	Other (Note 2, 4)	Total	Adjustments (Note 3)	Consolidation	
Net sales						
Sales to external customers	15,282	38,579	1,009,966	-	1,009,966	
Intersegment sales or transfer	607	230,524	277,478	(277,478)	-	
Total	15,890	269,103	1,287,445	(277,478)	1,009,966	
Segment profit (loss) i.e. Core operating profit	714	14,122	57,531	(14,977)	42,553	

Note:

1. The EMEA Business includes the Middle East and African regions.
2. The Other segment includes head office administration departments, IPSA Co., Ltd., manufacturing operations and the Restaurant business, etc.
3. Segment profit (loss) adjustment is mainly intersegment transaction eliminations.
4. Net sales from regional sales subsidiaries related to the Personal Care business, previously recorded in Japan, China, and Asia Pacific Business, are no longer recorded with some exceptions from July 1, 2021 due to the transfer of said business and resulting changes in product distribution. Meanwhile, Personal Care products sales from the Company and its manufacturing subsidiaries to Fine Today Co., Ltd. and its affiliates are recorded in the Other segment effective from the same date.

Fiscal Year Ended December 31, 2022 (January 1 to December 31, 2022)

(Millions of yen)

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (Note 1)	Travel Retail Business
Net sales						
Sales to external customers	237,565	258,226	68,017	137,916	128,440	163,650
Intersegment sales or transfer	6,705	1,643	3,118	3,518	9,461	138
Total	244,271	259,870	71,136	141,434	137,901	163,789
Segment profit (loss) i.e. Core operating profit	(13,089)	(3,941)	4,716	7,660	6,926	37,678

	Reportable Segment	Other (Note 2)	Total	Adjustments (Note 3)	Consolidation
	Professional Business (Note 4)				
Net sales					
Sales to external customers	9,337	64,200	1,067,355	—	1,067,355
Intersegment sales or transfer	351	237,353	262,291	(262,291)	—
Total	9,688	301,554	1,329,646	(262,291)	1,067,355
Segment profit (loss) i.e. Core operating profit	750	6,078	46,780	4,559	51,340

Note:

1. The EMEA Business includes Europe, the Middle East and African regions.
2. The Other segment includes head office administration departments, IPSA Co., Ltd., manufacturing operations and the Restaurant business, etc.
3. Segment profit (loss) adjustment is mainly intersegment transaction eliminations.
4. Net sales from regional sales subsidiaries previously recorded in the Professional Business is no longer recorded with some exceptions from July 1, 2022 due to the transfer of Professional Business.

Adjustments from segment profit to operating profit are as follows:

	Fiscal year ended December, 31 2021	Fiscal year ended December, 31 2022
	Millions of yen	Millions of yen
Segment profit	42,553	51,340
Gain on transfer of business	133,843	15,294
Structural reform expenses	(28,807)	(6,568)
Government grant income on COVID-19	1,894	592
Loss on COVID-19	(4,440)	(1,816)
Impairment losses	(44,472)	(16,410)
Reversal of impairment losses	-	494
Gain on sale of fixed assets	-	3,645
Operating profit	100,571	46,572

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

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

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

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

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

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

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

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

(Per-Share Data)

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

	Fiscal year ended December, 31 2021	Fiscal year ended December, 31 2022
Profit attributable to owners of parent (Millions of yen)	46,909	34,202
Profit not attributable to common shareholders of parent (Millions of yen)	-	-
Profit used for calculating basic earnings per share (Millions of yen)	46,909	34,202
Weighted-average number of shares of common stock (Thousands of shares)	399,480	399,538
Basic earnings per share (Yen)	117.43	85.60

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

	Fiscal year ended December, 31 2021	Fiscal year ended December, 31 2022
Profit attributable to owners of parent (Millions of yen)	46,909	34,202
Profit not attributable to common shareholders of parent (Millions of yen)	-	-
Profit used for calculating basic earnings per share (Millions of yen)	46,909	34,202
Weighted-average number of shares of common stock (Thousands of shares)	399,480	399,538
Increase in common stock		
Increase from stock options (Thousands of shares)	335	284
Weighted-average number of shares of common stock after dilution (Thousands of shares)	399,816	399,822
Diluted earnings (loss) per share (Yen)	117.33	85.54

(Significant Subsequent Events)

Not applicable.

(First-time adoption of IFRS)

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

(1) Exemption in IFRS 1

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

- Business combinations

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

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

- Exchange differences on translation of foreign operations

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

- Share-based payments

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

- Leases

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

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

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

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

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

- Borrowing costs

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

- Designation of financial instruments recognized before the transition date

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

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

- (2) Mandatory exceptions under IFRS 1

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

(3) Reconciliations

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

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

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

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

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Liabilities						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, 23 24, 25	Other current liabilities
Total current liabilities	352,977	276	28,136	381,390		Total current liabilities

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

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

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

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Liabilities						Liabilities and equity
Current liabilities						Liabilities
Notes and accounts payable	28,021	175,699	(2)	203,718	11	Current liabilities
Electronically recorded obligations - operating	40,584	(40,584)	-	-	11	Trade and other payables
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
					13, 14	
Other current liabilities	92,291	1,233	13,945	107,470	15, 23	Other current liabilities
					24, 25	
Total current liabilities	384,031	126	29,404	413,561		Total current liabilities

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

Notes on reconciliation of equity

(Reclassification)

Reclassifications consist mainly of the following:

- 1) **Reclassification of cash and deposits**
Short-term investments whose redemption date is due within three months from the acquisition date, which were included in “Short-term investment securities” under Japanese GAAP, are reclassified to “Cash and cash equivalents” under IFRS.
- 2) **Reclassification of account receivables**
Account receivables, which were included in “Other current assets” under Japanese GAAP, are reclassified to “Trade and other receivables” under IFRS.
- 3) **Reclassification of allowance for doubtful accounts**
“Allowance for doubtful accounts (current),” which was separately presented under Japanese GAAP, is reclassified to be presented on a net basis by directly deducting the item from “Trade and other receivables” and “Other financial assets (current)” under IFRS. Likewise, “Allowance for doubtful accounts (non-current)” is reclassified to be presented on a net basis by directly deducting the item from “Other financial liabilities (non-current).”
- 4) **Reclassification of other financial assets**
Time deposits with maturities of more than three months, which were included in “Cash and time deposits” under Japanese GAAP, are reclassified to “Other financial assets (current)” under IFRS.
Meanwhile, guarantee and leasehold deposits, etc. which were included in “Other investments” and “Long-term loans receivable” in fixed assets under Japanese GAAP, are reclassified to “Other financial assets (non-current)” under IFRS.
- 5) **Reclassification of assets held for sale**
Non-current assets held for sale or disposal groups are presented as “Assets held for sale” under IFRS.
- 6) **Reclassification of property, plant and equipment**
Under Japanese GAAP, some store furniture and fixtures in the Cosmetics Business were presented as “Long-term prepaid expenses,” but they are presented as “Property, plant and equipment” under IFRS.
- 7) **Reclassification of intangible assets**
“Trademark rights” of intangible assets, which were stated separately under Japanese GAAP, are presented as “Intangible assets” under IFRS.
- 8) **Reclassification of right-of-use assets**
Rights-to-use assets previously recorded at foreign subsidiaries to which IFRS was applied were included in “Property, plant and equipment.” Under IFRS, they are presented separately as “Right-of-use assets.”
- 9) **Reclassification of recorded amounts of investments accounted for using the equity method**
“Investments accounted for using equity method,” which was included in “Investment securities” under Japanese GAAP, is separately presented under IFRS.
- 10) **Reclassification of other non-current assets**
“Long-term prepaid expenses”, which were stated separately under Japanese GAAP, are presented as “Other non-current assets” under IFRS.
- 11) **Reclassification of trade and other payables**
“Notes and accounts payable,” “Electronically recorded obligations,” “Other payable,” “Reserve for sales returns” and “Refund liabilities,” which were stated separately under Japanese GAAP, are presented as “Trade and other payables” under IFRS.

- 12) Reclassification of bonds and borrowings
 “Short-term debt,” “Current portion of long-term debt,” and “Current portion of corporate bonds scheduled for redemption,” which were classified as current liabilities under Japanese GAAP, are represented as “Bonds and borrowings (current)” Under IFRS. “Bonds payable” and “Long-term debt,” which were separately presented as long-term liabilities under Japanese GAAP, are presented as “Bonds and borrowings (non-current)” under IFRS.
- 13) Reclassification of provisions
 “Provision for liabilities and charges,” “Provision for loss on business withdrawal,” and “Provision for structural reforms”, which were separately presented under Japanese GAAP, and asset retirement obligations and other provisions, which were included in “Other current liabilities” under current liabilities, under Japanese GAAP, are presented as “Provisions (current)” under IFRS. Asset retirement obligations, which were included in “Other long-term liabilities” in long-term liabilities under Japanese GAAP, and other provisions are presented as “Provisions (non-current)” under IFRS.
- 14) Reclassification of other financial liabilities
 Deposits received and temporary receipts included in “Other current liabilities” under Japanese GAAP have been reclassified as “Other financial liabilities (current)” under IFRS. Meanwhile, “Allowance for losses on guarantees” and “Long-term payables,” which were presented separately in long-term liabilities and Long-term deposits received, which were included in “Other long-term liabilities,” are reclassified to “Other financial liabilities (non-current)” under IFRS.
- 15) Reclassification of other current liabilities
 “Accrued bonuses for employees” and “Accrued bonuses for directors,” which were separately presented under Japanese GAAP, are presented as “Other current liabilities” under IFRS.
- 16) Reclassification of capital surplus
 “Stock acquisition rights,” which were stated separately under Japanese GAAP, are presented as “Capital surplus” under IFRS.

(Recognition and measurement differences)

Recognition and measurement differences consist mainly of the following:

- 17) Adjustments to the recorded amount of inventories
 Promotional assets, which were included in “Inventories” under Japanese GAAP, are recognized as expenses at the time of purchase because they do not meet the definition of assets under IFRS.
- 18) Adjustments to recorded amount of property, plant and equipment
 Real estate acquisition taxes, which was expensed under Japanese GAAP, are capitalized under IFRS.
- 19) Application of impairment accounting
 After assessing the recoverability of non-current assets based on IFRS, impairment loss is recorded for certain right-of-use assets and a reversal of impairment loss is recorded for certain intangible assets as of the transition date. Difference from impairment loss under Japanese GAAP is recorded for certain goodwill and intangible assets in the previous fiscal year.
- 20) Adjustments to recorded amount of goodwill
 Under Japanese GAAP, the amortization period for goodwill was estimated and amortized over that number of years. Under IFRS, however, goodwill is not amortized after the transition date.
- 21) Adjustments to lease transactions
 Operating lease transactions and finance lease transactions that were accounted for as operating leases under Japanese GAAP are accounted for as “Right-of-use assets” under IFRS in accordance with purchase and sale transactions, and the corresponding obligations are included in “Lease liabilities (current)” and “Lease liabilities (non-current).”

- 22) Partial sales of shares of subsidiaries that result in a loss of control
In the case that a subsidiary becomes an affiliate due to loss of control as a result of partial sales of shares of subsidiary, the residual investment was adjusted to investment appraisal value by the equity method under Japanese GAAP, but under IFRS, the residual investment is measured in fair value.
- 23) Adjustments to accrued paid absences
Unused paid absences, which were not accounted for under Japanese GAAP, are recoded as liabilities in “Other current liabilities” under IFRS.
- 24) Adjustments to the timing of revenue recognition
For points provided to customers in accordance with sales of products, under Japanese GAAP, revenue was recorded in full at the time of sale and the amount expected to be used by customers in the future was recorded as an allowance. Under IFRS, however, transaction prices allocated to points expected to be used by customers in the future at the time of sale are recorded as “Other current liabilities” and revenue is recognized based on the use of points.
- 25) Adjustments to government subsidies
Under Japanese GAAP, subsidies related to assets were recognized as revenue collectively when they were finalized to be received, but under IFRS, they are recorded as deferred revenue in “Other current liabilities” and “Other non-current liabilities” and are recognized as revenue on a regular basis over the period in which the corresponding assets are recognized as expenses.
- 26) Adjustments to postretirement benefits
Under Japanese GAAP, actuarial gains and losses and past service costs in retirement benefits were recognized in other comprehensive income when incurred and amortized through profit or loss over a certain number of years within the average remaining service period of employees when incurred. Under IFRS, remeasurements of defined benefit plans are recognized in other comprehensive income when incurred, and past service costs are recognized in profit or loss when incurred. Remeasurements of defined benefit plans recognized in other comprehensive income are immediately reclassified to “Retained earnings” after being recognized in other components of equity.
In addition, IFRS recalculates the mortality rate, which is one of the assumptions used to determine the defined benefit obligation, using figures that are expected to change in the future.
- 27) Adjustments to deferred tax assets and deferred tax liabilities
The amounts of “Deferred tax assets and deferred tax liabilities” have been adjusted due to temporary differences arising from the reconciliation of Japanese GAAP to IFRS and a reexamination of the recoverability of deferred tax assets.
Under Japanese GAAP, the recording of deferred tax assets for elimination of unrealized gains on internal transactions within the consolidated group was assessed for recoverability based on taxable income generated by the selling entities and calculated using the effective tax rate of the selling entities. Under IFRS, the recoverability is assessed based on future taxable income generated by the acquiring entities and calculated using the effective tax rate of the acquiring entities.
- 28) Measurements of financial instruments
Under Japanese GAAP, unlisted shares were accounted for based on their historical cost, and impairment losses were recognized as the issuer's financial condition deteriorated as required. However, under IFRS, changes in fair value are measured at fair value and recognized in other comprehensive income. Accumulated amounts recognized in other comprehensive income are immediately reclassified to “Retained earnings” after being recognized in other components of equity.
- 29) Adjustments to capital surplus
Under Japanese GAAP, the estimated amount of benefits related to stock compensation plans (performance-linked stock compensation plans) was recorded in “Other long-term liabilities.” Under IFRS, the estimated amount of stock-based benefits is accounted for as equity-settled stock-based payment, and the adjustments are recorded in “Capital surplus.”

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

31) Adjustments to retained earnings

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

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

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

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

Notes on reconciliation of profit and loss and comprehensive income

(Reclassification of Presentation Items)

Reclassifications consist mainly of the following:

- 1) Reclassification of Net sales
Certain rebates, etc. presented as “Selling, general and administrative expenses” under Japanese GAAP have been deducted from “Net sales” under IFRS.
- 2) Other Reclassifications
For items presented as “Non-operating income,” “Non-operating expenses,” “Extraordinary income” and “Extraordinary losses” under Japanese GAAP, finance-related profits or losses are recorded as “Finance income” and “Finance costs”, and other items are presented as “Cost of sales,” “Selling, general and administrative expenses,” “Other operating income,” “Other operating expenses,” and “Share of profit (loss) of investment accounted for using equity method.” under IFRS.
- 3) Income tax expense
“Income taxes - current,” “Refund of income taxes for prior years,” and “Income taxes - deferred,” which were separately presented under Japanese GAAP, are presented in total as “Income tax expense” under IFRS.

(Recognition and measurement differences)

Recognition and measurement differences consist mainly of the following:

- 4) Reconciliation of selling, general and administrative expenses
Promotional assets, which were included in “Inventories” under Japanese GAAP, are recognized as “Selling, general and administrative expenses” at the time of purchase because they do not meet the definition of assets under IFRS.
- 5) Adjustment to recorded amount of goodwill
Under Japanese GAAP, the amortization period for goodwill was estimated and amortized over that number of years. Under IFRS, however, goodwill is not amortized after the transition date.
- 6) Adjustments for remeasurement of defined benefit plans
Under Japanese GAAP, actuarial gains and losses and past service costs in retirement benefits were recognized in other comprehensive income when incurred and amortized through profit or loss over a certain number of years within the average remaining service period of employees when incurred. Under IFRS, remeasurements of defined benefit plans are recognized in other comprehensive income when incurred, and past service costs are recognized in profit or loss when incurred.
Under Japanese GAAP, interest cost was recognized by multiplying the retirement benefit obligation by the discount rate and expected return on plan assets was recognized by multiplying by the expected rate of return on plan assets, respectively. Under IFRS, net interest is recognized by multiplying the net retirement benefit obligation and plan assets by the discount rate. The expected return on plan assets and interest cost related to retirement benefits were included in “Cost of sales” and “Selling, general and administrative expenses” as retirement benefit expenses under Japanese GAAP, but net interest related to retirement benefits is presented as “Finance costs” under IFRS.
- 7) Adjustment to accrued paid absences
Unused paid absences, which were not accounted for under Japanese GAAP, are recoded as liabilities in “Cost of sales” and “Selling, general and administrative expenses” under IFRS.

- 8) Adjustment to government subsidies
Under Japanese GAAP, subsidies related to assets were recognized as revenue collectively when they were finalized to be received, but under IFRS, they are treated as deferred revenue and recognized as “Other operating income” on a regular basis over the period in which the corresponding assets are recognized as expenses.
- 9) Partial sales of shares of subsidiaries that result in a loss of control
In the case that a subsidiary becomes an affiliate due to loss of control as a result of partial sales of shares of subsidiary, the residual investment was adjusted to investment appraisal value by the equity method under Japanese GAAP, but under IFRS, the residual investment is measured in fair value and the difference from the carrying amount is recognized as “Other operating income.”
- 10) Application of impairment accounting
After assessing the recoverability of non-current assets based on IFRS, difference from impairment loss under Japanese GAAP is recorded to certain goodwill and intangible assets in the previous fiscal year.
- 11) Income tax expense
The amounts of “Income tax expense” have been adjusted due to temporary differences arising from the reconciliation of Japanese GAAP to IFRS and a reexamination of the recoverability of deferred tax assets.
Under Japanese GAAP, the recording of deferred tax assets for elimination of unrealized gains on internal transactions within the consolidated group was assessed for recoverability based on taxable income generated by the selling entities and calculated using the effective tax rate of the selling entities. Under IFRS, the recoverability is assessed based on future taxable income generated by the acquiring entities and calculated using the effective tax rate of the acquiring entities.

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

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