

November 10, 2022



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

### Shiseido Company, Limited

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Start of cash dividend payments: -

Supplementary quarterly materials prepared: Yes

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

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

\* Amounts under one million yen have been rounded down.

#### (1) Consolidated Operating Results

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

	Net Sales	Core Operating Profit	Operating Profit	Profit	Profit Attributable to Owners of Parent	Total Comprehensive Income
	%	%	%	%	%	%
Nine Months Ended September 30, 2022	762,743 [4.7]	36,235 [21.9]	35,660 [(62.7)]	31,745 [(34.8)]	29,046 [(38.2)]	106,166 [42.9]
Nine Months Ended September 30, 2021	728,430 [-]	29,715 [-]	95,588 [-]	48,671 [-]	47,019 [-]	74,270 [-]

[Reference] Profit before tax

Nine months ended September 30, 2022: ¥43,585 million [(53.8)%]

Nine months ended September 30, 2021: ¥94,278 million [-%]

	Basic Earnings per Share (Yen)	Diluted Earnings per Share (Yen)
Nine Months Ended September 30, 2022	72.70	72.65
Nine Months Ended September 30, 2021	117.70	117.60

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

## (2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Equity	Equity Attributable to Owners of Parent	Ratio of Equity Attributable to Owners of Parent
As of September 30, 2022	1,358,012	642,749	620,891	45.7%
As of December 31, 2021	1,300,979	562,179	540,695	41.6%

## 2. Cash Dividends

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

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

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

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

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

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

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

## Notes

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

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

As of September 30, 2022:	452,149
As of December 31, 2021:	506,767
  - 3) Average number of shares outstanding during the period

Nine months ended September 30, 2022:	399,535,079
Nine months ended September 30, 2021:	399,477,665

### **Implementation status of quarterly review procedures**

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

### **Appropriate use of business forecasts; other special items**

(Adoption of International Financial Reporting Standards (IFRS))

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

(Cautionary note concerning forward-looking statements)

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

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# 1. Summary of Consolidated Financial Results for the First Nine Months

## (1) Consolidated Performance

(Millions of yen)

	Net Sales	Core Operating Profit	Operating Profit	Profit before Tax	Profit Attributable to Owners of Parent	EBITDA
Nine Months Ended September 30, 2022	762,743	36,235	35,660	43,585	29,046	74,564
Nine Months Ended September 30, 2021	728,430	29,715	95,588	94,278	47,019	67,493
Year-on-Year Increase (Decrease)	4.7%	21.9%	(62.7)%	(53.8)%	(38.2)%	10.5%
FX-Neutral	(4.1)%					
Like-for-Like	1.8%					

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 impact from all business transfers in the first nine months of fiscal year 2022 and the first nine months of fiscal 2021 as well as the impact of all related transfer agreements (“business transfer impacts”).

In the first nine months of the fiscal year 2022, the global economy as a whole experienced normalization of economic activities in line with the relaxation of impacts from COVID-19. On the other hand, uncertainties continued to persist due to intermittent lockdowns in China, prolonged conflict in Ukraine, rising resource and energy prices, and sharp appreciation of U.S. dollar against other currencies especially Japanese yen.

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

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

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

Net sales in the first nine months of the fiscal year 2022 increased 4.7% year on year to ¥762.7 billion on reported figures, down 4.1% year on year on an FX-neutral basis, or up 1.8% year on year on a like-for-like basis. While net sales on a like-for-like basis were lower than last year in the China Business which continues to be impacted by lockdowns, we achieved strong growth in the Travel Retail, Asia Pacific, EMEA, and Americas Businesses. Our key skin beauty brand *Clé de Peau Beauté* and core makeup brand *NARS* grew strongly and drove the growth. In the Japan Business, the growth turned to positive thanks to the renewal of *Elixir* in September and other factors.

Core operating profit increased by ¥6.5 billion year on year to ¥36.2 billion, thanks to lower fixed costs achieved through structural reforms and the agile cost management we implemented, which outweighed lower margins resulting from weaker sales in China and the impact from the transfer of the personal care business, etc.

Profit attributable to owners of parent dropped by ¥18.0 billion year on year to ¥29.0 billion, mainly due to the impairment losses associated with the transfer of personal care manufacturing business posted in the first nine months of fiscal year 2022 while the gains on the transfer of personal care business were posted in the first nine months of fiscal year 2021.

The EBITDA margin was 9.8%.

Major foreign currency exchange rates applicable to income and expense accounting line items in the Company's financial statements for the first nine months of the fiscal year 2022 are JPY128.1/USD, JPY136.0/EUR, and JPY19.4/CNY.

**[Consolidated Performance]**

(Millions of yen)

Classification		Nine Months Ended September 30, 2022	% of Total	Nine Months Ended September 30, 2021	% of Total	Year-on-Year Increase (Decrease)			
						Amount	Percentage	FX-Neutral	Like-for-Like
Net Sales	Japan Business	178,557	23.4%	198,145	27.2%	(19,587)	(9.9)%	(9.9)%	1.3%
	China Business	171,899	22.5%	190,892	26.2%	(18,993)	(9.9)%	(22.1)%	(10.7)%
	Asia Pacific Business	48,737	6.4%	47,146	6.5%	1,590	3.4%	(6.4)%	10.2%
	Americas Business	97,910	12.8%	89,775	12.3%	8,134	9.1%	(7.3)%	7.7%
	EMEA Business	89,700	11.8%	79,446	10.9%	10,253	12.9%	7.8%	10.0%
	Travel Retail Business	120,137	15.8%	88,670	12.2%	31,466	35.5%	16.5%	15.2%
	Professional Business	8,381	1.1%	10,999	1.5%	(2,617)	(23.8)%	(28.8)%	—
	Other	47,419	6.2%	23,354	3.2%	24,065	103.0%	101.1%	1.1%
Total		762,743	100.0%	728,430	100.0%	34,312	4.7%	(4.1)%	1.8%

Classification		Total sales including intersegment sales and internal transfers between segments	
		Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net Sales	Japan Business	183,270	220,922
	China Business	172,594	191,662
	Asia Pacific Business	50,968	48,891
	Americas Business	100,624	96,436
	EMEA Business	97,762	86,895
	Travel Retail Business	120,275	88,989
	Professional Business	8,732	11,456
	Other	218,800	192,554
	Subtotal	953,029	937,809
	Adjustments	(190,286)	(209,378)
Total		762,743	728,430

(Millions of yen)

Classification	Nine Months Ended September 30, 2022	Ratio to Net Sales	Nine Months Ended September 30, 2021	Ratio to Net Sales	Year-on-Year Increase (Decrease)		
					Amount	Percentage	
Core Operating Profit (Loss)	Japan Business	(5,949)	(3.2)%	7,488	3.4%	(13,438)	—
	China Business	(8,652)	(5.0)%	(5,240)	(2.7)%	(3,412)	—
	Asia Pacific Business	4,083	8.0%	4,122	8.4%	(38)	(0.9)%
	Americas Business	6,776	6.7%	1,284	1.3%	5,491	427.5%
	EMEA Business	8,598	8.8%	2,739	3.2%	5,859	213.9%
	Travel Retail Business	26,812	22.3%	15,491	17.4%	11,320	73.1%
	Professional Business	1,314	15.0%	1,089	9.5%	224	20.6%
	Other	5,721	2.6%	12,601	6.5%	(6,880)	(54.6)%
	Subtotal	38,703	4.1%	39,577	4.2%	(873)	(2.2)%
	Adjustments	(2,468)	—	(9,861)	—	7,393	—
Total	36,235	4.8%	29,715	4.1%	6,519	21.9%	

## Notes:

- The Group has revised its reportable segment classifications from the fiscal year 2022. The business results of Shiseido Beauty Salon Co., Ltd., previously included in the Other segment, are now included in the Japan Business. The business results related to the brand holder functions of the *NARS* and *Drunk Elephant* brands, previously included in the Americas Business, are now included in the Other segment. The segment information for the first six months ended September 30, 2021 has been restated in line with the reclassification.
- Net sales from regional sales subsidiaries related to the Personal Care business, previously recorded in the Japan, China, and Asia Pacific Businesses, are no longer recorded with some exceptions from July 1, 2021 due to the transfer of the said business and resulting changes in commercial distribution. Meanwhile, Personal Care products sales from the Company and its manufacturing subsidiaries to Fine Today Shiseido Co., Ltd. and its affiliates are recorded in the Other segment effective from the same date.
- 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.
- Like-for-like increase (decrease) in net sales excludes business transfer impacts.
- The Other segment includes head office administration departments, IPSA Co., Ltd., manufacturing operations, and the restaurant business, etc.
- The ratio of core operating profit (loss) to net sales shows core operating profit or loss as a percentage of total sales including intersegment sales and internal transfers between segments.
- The core operating profit (loss) adjustment amount is mainly the elimination of transactions between segments.

Results by reportable segment are provided below.

### **Japan Business**

In the Japan Business, in addition to the promotions commemorating the 150th anniversary of our founding, we continued to enhance strategic investments in skin beauty brands. In September, we launched *Elixir* lotion and emulsion revamped with latest collagen technologies and enhanced the value communication of the brand and the products in collaboration with business partners. 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 ¥178.6 billion, down by 9.9% year on year, up 1.3% year on year on a like-for-like basis excluding business transfer impacts. Core operating loss increased by ¥13.4 billion year on year, resulting in core operating loss of ¥5.9 billion, mainly due to lower profit 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 primarily driven by large-scale promotions to a more sustainable growth model which focuses on value-based brand and product communication more tailored to the consumer needs. E-commerce sales continued to grow on the back of the expansion into major platforms and enhanced communication focusing on effect and efficacy. As we continued to strengthen the unique experience at brick-and-mortar stores and on the expansion of the loyal user base, offline consumer purchase which was negative year on year in the first half of 2022 recovered in Q3 to the level of the previous year. On the other hand, we were affected by retail inventory adjustments in light of the difficult market environment from lockdowns and the sense of uncertainties about the future.

As a result, net sales were ¥171.9 billion, down 9.9 % year on year on a reported basis, down 22.1% year on year on an FX-neutral basis, or down 10.7% year on year on a like-for-like basis excluding business transfer impacts. Core operating loss increased by ¥3.4 billion year on year to ¥8.7 billion, mainly due to lower margins from a decline in sales.

### **Asia Pacific Business**

In the Asia Pacific Business, although there were some delays in recovery in some countries and regions including Taiwan, strong growth was achieved mainly in South Korea and Southeast Asia. In addition, we increased our share 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 ¥ 48.7 billion, up 3.4% year on year on a reported basis, down 6.4% year on year on an FX-neutral basis, or up 10.2% year on year on a like-for-like basis excluding business transfer impacts. Core operating profit stayed flat at ¥4.1 billion, mainly due to increased profit thanks to the increased sales offsetting an increase in personnel and other expenses.

### **Americas Business**

In the Americas, the cosmetics market continued to grow in all categories with the normalization of economic activities due to the relaxation of impacts from COVID-19. *NARS* in particular saw share gains, driven by successful new product launches and growth in e-commerce supported by digital marketing enhancements. Sales of *Clé de Peau Beauté* were also strong thanks to localized promotions, including the appointment of new U.S. skincare ambassadors.

As a result, net sales were ¥97.9 billion, up 9.1% year on year on a reported basis, down 7.3% year on year on an FX-neutral basis, or up 7.7% year on year on a like-for-like basis excluding business transfer impacts. Core operating profit improved by ¥5.5 billion year on year to ¥6.8 billion, mainly due to lower fixed costs as a result of structural reforms.

### **EMEA Business**

In EMEA, the cosmetics market continued to grow in all categories with the normalization of economic activities due to the relaxation of impacts from COVID-19. We conducted 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 doors for *Clé de Peau Beauté*, which contributed to the sales growth.

As a result, net sales were ¥89.7 billion, up 12.9% year on year on a reported basis, up 7.8% year on year on an FX-neutral basis, or up 10.0% year on year on a like-for-like basis excluding business transfer impacts. Core operating profit improved by ¥5.9 billion year on year to ¥8.6 billion, mainly due to higher margins associated with an increase in sales and lower fixed costs due to structural reforms, etc.

### **Travel Retail Business**

The Travel Retail Business (sales of cosmetics and fragrances mainly through airport and downtown duty-free stores) was affected by lockdowns in Hainan Island in China. However, tourist traffic resumed in other areas with the relaxation of impacts from COVID-19 and we saw rapid recovery especially in the Americas and Europe. We also increased the number of doors for skin beauty brands such as *Clé de Peau Beauté* and *IPSA*.

As a result, net sales were ¥120.1 billion, up 35.5% year on year on a reported basis, up 16.5% year on year on an FX-neutral basis, or up 15.2% year on year on a like-for-like basis excluding business transfer impacts. Core operating profit increased by ¥11.3 billion year on year to ¥26.8 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.

As a result, net sales were ¥8.4 billion, down 23.8% year on year on a reported basis, or down 28.8% year on year on an FX-neutral basis. Core operating profit increased by ¥0.2 billion year on year to ¥1.3 billion.

## (2) Financial Position

Total assets increased by ¥57.0 billion from the end of the previous fiscal year to ¥1,358.0 billion, mainly from exchange differences on translation of foreign operations due to the yen depreciation, which outweighed the decrease in cash and cash equivalents due to income taxes paid on business transfers executed in the previous fiscal year as well as cash dividend payments, and a decrease in tangible fixed assets due to the impairment losses associated with the transfer of personal care product manufacturing business. Liabilities decreased by ¥23.5 billion to ¥715.3 billion, primarily due to a decrease in current liabilities associated with a decrease in income taxes payable, while short-term borrowings increased to source funds for business operations. Equity increased by ¥80.6 billion to ¥642.7 billion, mainly due to exchange differences on translation of foreign operations.

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

Net cash used in operating activities in the first nine months of the fiscal year 2022 totaled ¥17.8 billion, mainly due to income taxes paid on business transfers executed in the previous fiscal year. Meanwhile, days sales of inventory (DSI) were 163 days. Net cash used in investing activities was ¥23.6 billion, mostly due to investment in plants and equipment as well as IT systems. Net cash used by financing activities amounted to ¥19.6 billion, primarily due to cash dividend payments.

As a result, cash and cash equivalents at the end of the first nine months was ¥108.9 billion, down ¥47.6 billion from the beginning of the year.

### Consolidated Statements of Cash Flows (Summary)

		(Billions of yen)
Category		Amount
Cash and cash equivalents at beginning of period		156.5
Net cash provided by (used in) operating activities		(17.8)
Net cash provided by (used in) investing activities		(23.6)
Net cash provided by (used in) financing activities		(19.6)
Effect of exchange rate changes on cash and cash equivalents		13.9
Net change in cash and cash equivalents included in assets held for sale		(0.5)
Net change in cash and cash equivalents (decrease)		(47.6)
Cash and cash equivalents at end of period		108.9

## (3) Consolidated Forecast and Other Forward-Looking Information

Profit attributable to owners of parent for the nine months ended September 30, 2022, is ¥29.0 billion, which exceeds our full-year consolidated forecast of ¥25.5 billion. However, as we expect to incur costs from non-recurrent items such as those associated with structural reforms in the fourth quarter of the fiscal year 2022, our full-year consolidated forecast including the profit attributable to owners of parent remains unchanged.

## 2. Condensed Quarterly Consolidated Financial Statements and Notes

### (1) Condensed Quarterly Consolidated Statement of Financial Position

	IFRS transition date (January 1, 2021)	As of December 31, 2021	As of September 30, 2022
	Millions of yen	Millions of yen	Millions of yen
<b>Assets</b>			
Current assets			
Cash and cash equivalents	136,347	156,503	108,906
Trade and other receivables	146,507	158,791	199,586
Inventories	163,001	134,147	148,179
Other financial assets	15,829	16,429	16,074
Other current assets	44,698	45,117	60,024
Subtotal	506,385	510,989	532,771
Assets held for sale	-	1,933	15,349
Total current assets	506,385	512,922	548,121
Non-current assets			
Property, plant and equipment	329,478	340,037	325,141
Goodwill	54,429	50,429	63,107
Intangible assets	197,753	101,814	122,187
Right-of-use assets	131,665	127,832	120,166
Investments accounted for using equity method	2,224	21,691	17,587
Other financial assets	44,246	73,777	86,789
Deferred tax assets	60,428	67,433	68,596
Other non-current assets	13,163	5,040	6,312
Total non-current assets	833,390	788,056	809,890
Total assets	1,339,775	1,300,979	1,358,012

	IFRS transition date (January 1, 2021)	As of December 31, 2021	As of September 30, 2022
	Millions of yen	Millions of yen	Millions of yen
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	185,896	203,718	186,904
Bonds and borrowings	67,221	15,730	62,385
Lease liabilities	22,781	25,283	24,658
Other financial liabilities	4,926	4,914	3,794
Income taxes payable	7,374	45,600	7,785
Provisions	2,773	10,843	6,729
Other current liabilities	90,417	107,470	114,985
Subtotal	381,390	413,561	407,243
Liabilities directly associated with assets held for sale	-	-	1,576
Total current liabilities	381,390	413,561	408,819
Non-current liabilities			
Bonds and borrowings	232,861	145,915	130,000
Lease liabilities	121,774	118,909	114,359
Other financial liabilities	54,046	5,646	5,347
Retirement benefit liability	49,902	42,159	42,401
Provisions	1,679	1,753	1,307
Deferred tax liabilities	3,951	1,605	1,982
Other non-current liabilities	2,858	9,248	11,044
Total non-current liabilities	467,073	325,237	306,442
Total liabilities	848,464	738,799	715,262
Equity			
Share capital	64,506	64,506	64,506
Capital surplus	72,696	73,035	73,305
Treasury shares	(2,455)	(2,338)	(2,087)
Retained earnings	335,878	372,202	380,104
Other components of equity	(237)	33,288	105,062
Total equity attributable to owners of parent	470,388	540,695	620,891
Non-controlling interests	20,922	21,484	21,857
Total equity	491,310	562,179	642,749
Total liabilities and equity	1,339,775	1,300,979	1,358,012

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

**Condensed Quarterly Consolidated Statement of Profit and Loss**  
**Nine Months Ended September 30**

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
	Millions of yen	Millions of yen
Net sales	728,430	762,743
Cost of sales	195,375	239,516
Gross profit	533,055	523,226
Selling, general and administrative expenses	565,733	507,102
Other operating income	138,119	22,662
Other operating expenses	9,853	3,126
Operating profit	95,588	35,660
Finance income	2,492	7,379
Finance costs	3,247	2,231
Share of profit (loss) of investment accounted for using equity method	(555)	2,776
Profit before tax	94,278	43,585
Income tax expense	45,607	11,839
Profit	48,671	31,745
Profit attributable to		
Owners of parent	47,019	29,046
Non-controlling interests	1,652	2,698
Profit	48,671	31,745
Earnings per share		
Basic earnings per share (yen)	117.70	72.70
Diluted earnings per share (yen)	117.60	72.65

**Condensed Quarterly Consolidated Statement of Comprehensive Income**  
**Nine Months Ended September 30**

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
	Millions of yen	Millions of yen
Profit	48,671	31,745
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	262	(208)
Remeasurements of defined benefit plans	(3)	949
Share of other comprehensive income of investments accounted for using equity method	(0)	15
Total of items that will not be reclassified to profit or loss	259	756
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	25,174	72,344
Cash flow hedges	48	52
Share of other comprehensive income of investments accounted for using equity method	117	1,268
Total of items that may be reclassified to profit or loss	25,339	73,664
Other comprehensive income, net of tax	25,599	74,421
Comprehensive income	74,270	106,166
Comprehensive income attributable to		
Owners of parent	71,253	101,618
Non-controlling interests	3,017	4,548
Comprehensive income	74,270	106,166

**(3) Condensed Quarterly Consolidated Statement of Changes in Equity**  
**Nine Months Ended September 30, 2021 (January 1 to September 30, 2021)**

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Exchange differences on transition of foreign operations	Financial assets measured at fair value through other comprehensive income
Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
Balance as of January 1, 2021	64,506	72,696	(2,455)	335,878	-	-
Profit				47,019		
Other comprehensive income					23,894	293
Total comprehensive income	-	-	-	47,019	23,894	293
Purchase of treasury shares			(18)			
Disposal of treasury shares			112	(56)		
Dividends				(15,978)		
Change in scope of consolidation						
Share-based payment transactions		168		331		
Transfer to retained earnings				291		(293)
Other				(39)		
Total transactions with owners	-	168	94	(15,451)	-	(293)
Balance as of September 30, 2021	64,506	72,864	(2,361)	367,446	23,894	-

	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			-	47,019	1,652	48,671
Other comprehensive income	48	(1)	24,234	24,234	1,364	25,599
Total comprehensive income	48	(1)	24,234	71,253	3,017	74,270
Purchase of treasury shares			-	(18)		(18)
Disposal of treasury shares			-	55		55
Dividends			-	(15,978)	(3,405)	(19,384)
Change in scope of consolidation			-	-	10	10
Share-based payment transactions			-	499		499
Transfer to retained earnings		1	(291)	-		-
Other			-	(39)		(39)
Total transactions with owners	-	1	(291)	(15,481)	(3,395)	(18,876)
Balance as of September 30, 2021	(189)	-	23,704	526,160	20,544	546,704

## Nine Months Ended September 30, 2022 (January 1 to September 30, 2022)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Exchange differences on transition of foreign operations	Financial assets measured at fair value through other comprehensive income
Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Millions of yen	
Balance as of January 1, 2022	64,506	73,035	(2,338)	372,202	33,427	-
Profit				29,046		
Other comprehensive income					71,721	(167)
Total comprehensive income	-	-	-	29,046	71,721	(167)
Purchase of treasury shares			(5)			
Disposal of treasury shares			256	36		
Dividends				(21,973)		
Changes in ownership interest in subsidiaries		(69)				
Change in scope of consolidation						
Share-based payment transactions		340				
Transfer to retained earnings				797		167
Other				(4)		
Total transactions with owners	-	270	250	(21,144)	-	167
Balance as of September 30, 2022	64,506	73,305	(2,087)	380,104	105,149	-

	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			-	29,046	2,698	31,745
Other comprehensive income	52	965	72,571	72,571	1,849	74,421
Total comprehensive income	52	965	72,571	101,618	4,548	106,166
Purchase of treasury shares			-	(5)		(5)
Disposal of treasury shares			-	292		292
Dividends			-	(21,973)	(3,919)	(25,893)
Changes in ownership interest in subsidiaries			-	(69)	(275)	(345)
Change in scope of consolidation			-	-	20	20
Share-based payment transactions			-	340		340
Transfer to retained earnings		(965)	(797)	-		-
Other			-	(4)		(4)
Total transactions with owners	-	(965)	(797)	(21,421)	(4,175)	(25,596)
Balance as of September 30, 2022	(86)	-	105,062	620,891	21,857	642,749

#### (4) Condensed Quarterly Consolidated Statement of Cash Flows

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
	Millions of yen	Millions of yen
Cash flows from operating activities:		
Profit before tax	94,278	43,585
Depreciation and amortization	55,667	56,974
Impairment losses (reversal of impairment losses)	38,450	14,845
Loss (gain) on disposal of fixed assets	1,149	(3,030)
Gain on transfer of business	(132,162)	(15,210)
Increase (decrease) in retirement benefit liability	1,797	841
Interest and dividend income	(929)	(3,571)
Interest expenses	2,473	1,854
Interest on other financial liabilities	500	81
Share of loss (profit) of investments accounted for using equity method	555	(2,776)
Decrease (increase) in trade receivables	(9,391)	(21,259)
Decrease (increase) in inventories	10,418	(4,233)
Increase (decrease) in trade payables	19,042	(26,973)
Other	14,601	4,077
Subtotal	96,452	45,205
Interest and dividends received	1,096	990
Interest paid	(2,234)	(1,394)
Interest paid on other financial liabilities	(492)	-
Income taxes paid	(15,429)	(62,608)
Net cash provided by (used in) operating activities	79,392	(17,806)
Cash flows from investing activities:		
Payments into time deposits	(20,988)	(14,689)
Proceeds from withdrawal of time deposits	22,537	17,061
Purchase of property, plant and equipment	(68,039)	(25,931)
Proceeds from sales of property, plant and equipment and intangible assets	633	4,697
Purchase of intangible assets	(13,421)	(21,454)
Proceeds from sale of investment property	7,912	-
Proceeds from transfer of business	132,165	12,115
Other	3,697	4,563
Net cash provided by (used in) investing activities:	64,495	(23,638)

	Nine months ended September 30, 2021	Nine months ended September 30, 2022
	Millions of yen	Millions of yen
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings and commercial papers	(47,758)	46,101
Proceeds from long-term borrowings	10,000	-
Repayments of long-term borrowings	(53,849)	(365)
Redemption of bonds	-	(15,000)
Purchase of treasury shares	(18)	(5)
Proceeds from disposal of treasury shares	55	243
Dividends paid	(15,707)	(21,373)
Dividends paid to non-controlling interests	(3,685)	(4,900)
Repayments of lease liabilities	(19,586)	(23,681)
Repayments of long-term accounts payable	(3,434)	(208)
Other	600	(363)
Net cash provided by (used in) financing activities	<u>(133,383)</u>	<u>(19,553)</u>
Net change in cash and cash equivalents (decrease)	10,504	(60,997)
Cash and cash equivalents at beginning of period	136,347	156,503
Effect of exchange rate changes on cash and cash equivalents	5,677	13,900
Net change in cash and cash equivalents included in assets held for sale	<u>(611)</u>	<u>(500)</u>
Cash and cash equivalents at end of period	<u><u>151,918</u></u>	<u><u>108,906</u></u>

## (5) Notes Concerning Condensed Quarterly Consolidated Financial Statements

### (Note on Assumptions of a Going Concern)

Not applicable.

### (Segment Information, etc.)

#### (1) Overview of Reportable Segments

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

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

The Japan Business mainly comprises domestic business by brand category (Prestige, Fragrance, Premium, etc.) and the healthcare business (sale of health & beauty foods as well as over-the-counter drugs).

The China Business covers business in China by brand category (Prestige, Fragrance, Cosmetics, etc.).

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

The Americas Business covers business in the Americas region by brand category (Prestige, Fragrance, etc.).

The EMEA Business covers business in Europe, the Middle East and African regions by brand category (Prestige, Fragrance, etc.).

The Travel Retail Business covers the operation of worldwide duty-free stores by brand category (Prestige, Fragrance, Cosmetics, etc.).

The Professional Business encompasses the sale of hair and beauty salon products in Japan, China, and other countries and regions in Asia.

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

#### (Changes of reportable segments, etc.)

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

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

Segment information for the nine months ended September 30, 2021 has been restated to reflect the reclassification.

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

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

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

## (3) Segment Revenue and Business Result

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

Nine Months Ended September 30, 2021 (January 1 to September 30, 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	Professional Business
Net sales							
Sales to external customers	198,145	190,892	47,146	89,775	79,446	88,670	10,999
Intersegment sales or transfer	22,777	769	1,745	6,661	7,448	318	457
Total	220,922	191,662	48,891	96,436	86,895	88,989	11,456
Segment profit (loss) i.e. Core operating profit	7,488	(5,240)	4,122	1,284	2,739	15,491	1,089

	Other (Note 2, 4)	Total	Adjustments (Note 3)	Consolidation
Net sales				
Sales to external customers	23,354	728,430	-	728,430
Intersegment sales or transfer	169,200	209,378	(209,378)	-
Total	192,554	937,809	(209,378)	728,430
Segment profit (loss) i.e. Core operating profit	12,601	39,577	(9,861)	29,715

Note:

1. The EMEA Business includes Europe, the Middle East and African regions.
2. The Other segment includes head office administration departments, IPISA 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 Shiseido Co., Ltd. and its affiliates are recorded in the Other segment effective from the same date.

Nine Months Ended September 30, 2022 (January 1 to September 30, 2022)

(Millions of yen)

	Reportable Segment						
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (Note 1)	Travel Retail Business	Professional Business (Note 4)
Net sales							
Sales to external customers	178,557	171,899	48,737	97,910	89,700	120,137	8,381
Intersegment sales or transfer	4,712	695	2,231	2,714	8,061	138	351
Total	183,270	172,594	50,968	100,624	97,762	120,275	8,732
Segment profit (loss) i.e. Core operating profit	(5,949)	(8,652)	4,083	6,776	8,598	26,812	1,314
	Other (Note 2)	Total	Adjustments (Note 3)	Consolidation			
Net sales							
Sales to external customers	47,419	762,743	-	762,743			
Intersegment sales or transfer	171,380	190,286	(190,286)	-			
Total	218,800	953,029	(190,286)	762,743			
Segment profit (loss) i.e. Core operating profit	5,721	38,703	(2,468)	36,235			

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:

	Nine Months Ended September 30, 2021	Nine Months Ended September 30, 2022
	Millions of yen	Millions of yen
Segment profit	29,715	36,235
Gain on transfer of business	132,162	15,210
Structural reform expenses	(24,572)	(3,398)
Subsidy income on COVID-19	1,615	581
Loss on COVID-19	(4,440)	(1,795)
Impairment losses	(38,892)	(14,845)
Gain on sales of fixed assets	-	3,673
Operating profit	95,588	35,660

“Gain on transfer of business” for the nine months ended September 30, 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 Shiseido Co., Ltd. The gain on transfer of business is included in “Other operating income” in condensed quarterly consolidated statement of profit and loss.

“Gain on transfer of business” for the nine months ended September 30, 2022 are the gain on transfer of assets which six of the Company’s subsidiaries operating the Personal Care Business in Asia Pacific (Taiwan Shiseido Co., Ltd., FLELIS International Inc., Shiseido Malaysia Sdn. Bhd., PT. Shiseido Cosmetics Indonesia, Shiseido Philippines Corporation, and Shiseido Thailand Co., Ltd.) transferred to affiliates of Fine Today Shiseido 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 Group companies. The gain on transfer of business is included in “Other operating income” in condensed quarterly consolidated statement of profit and loss.

“Structural reform expenses” for the nine months ended September 30, 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 condensed quarterly consolidated statement of profit and loss.

“Structural reform expenses” for the nine months ended September 30, 2022 are mainly the costs associated with the transfer of the three prestige makeup brands, the transfer of the Personal Care Business, and the transfer of the Professional Business. The expenses are included in “Cost of sales,” “Selling, general and administrative expenses,” and “Other operating expenses” in condensed quarterly consolidated statement of profit and loss.

“Impairment losses” for the nine months ended September 30, 2021 are the impairment losses associated with the trademark rights for termination of an exclusive global license agreement with Dolce&Gabbana S.r.l., 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 condensed quarterly consolidated statement of profit and loss.

“Impairment losses” for the nine months ended September 30, 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 condensed quarterly consolidated statement of profit and loss.

“Gain on sales of fixed assets” for the nine months ended September 30, 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 condensed quarterly consolidated statement of profit and loss.

### **(First-time adoption of IFRS)**

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

#### (1) Exemption in IFRS 1

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

- Business combinations

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

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

- Exchange differences on translation of foreign operations

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

- Share-based payments

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

- Leases

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

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

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

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

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

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

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

(2) Mandatory exceptions under IFRS 1

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

(3) Reconciliations

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

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

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

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Assets						Assets
Current assets						Current assets
Cash and time deposits	130,013	6,334	-	136,347	1, 4	Cash and cash equivalents
Notes and accounts receivable	144,728	1,041	738	146,507	2, 3	Trade and other receivables
Short-term investment securities	21,000	(5,170)	-	15,829	1, 3, 4	Other financial assets
Inventories	170,031	276	(7,306)	163,001	17	Inventories
Other current assets	52,634	(6,241)	(1,694)	44,698	2	Other current assets
Allowance for doubtful accounts	(3,644)	3,644	-	-	3	
Total current assets	514,763	(115)	(8,262)	506,385		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	341,044	(13,011)	1,444	329,478	6, 8, 18	Property, plant and equipment
Goodwill	54,429	-	-	54,429		Goodwill
Trademark rights	131,636	54,380	11,736	197,753	7, 19	Intangible assets
Other intangible assets	55,326	(55,047)	(278)	-		
	-	24,320	107,344	131,665	8, 19, 21	Right-of-use assets
	-	2,230	(6)	2,224	9	Investments accounted for using equity method
Investment securities	13,527	25,766	4,952	44,246	3, 4, 9, 29	Other financial assets
Long-term prepaid expenses	14,125	(14,125)	-	-	6, 10	
Deferred tax assets	42,501	-	17,927	60,428	28	Deferred tax assets
Other investments	37,015	(23,485)	(366)	13,163	4, 10	Other non-current assets
Allowance for doubtful accounts	(140)	140	-	-	3	
Total fixed assets	689,466	1,168	142,754	833,390		Total non-current assets
Total assets	1,204,229	1,053	134,492	1,339,775		Total assets

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Liabilities						Liabilities and equity
Current liabilities						Liabilities
Notes and accounts payable	21,187	164,863	(154)	185,896	11	Current liabilities
Electronically recorded obligations - operating	55,740	(55,740)	-	-	11	Trade and other payables
Short-term debt	56,491	10,730	-	67,221	12	Bonds and borrowings
Current portion of long-term debt	10,730	(10,730)	-	-	12	
Lease obligations	8,344	-	14,436	22,781	21	Lease liabilities
Other payables	75,695	(75,695)	-	-	11	
Accrued income taxes	7,374	-	-	7,374		Income taxes payable
Reserve for sales returns	6,227	(6,227)	-	-	11	
Refund liabilities	10,518	(10,518)	-	-	11	
Accrued bonuses for employees	15,024	(15,024)	-	-	15	
Accrued bonuses for directors	165	(165)	-	-	15	
Provision for liabilities and charges	545	2,228	-	2,773	13	Provisions
Provision for loss on business withdrawal	725	(725)	-	-	13	
	-	4,926	-	4,926	14	Other financial liabilities
Other current liabilities	84,208	(7,646)	13,855	90,417	13, 14, 15, 24, 25, 26	Other current liabilities
Total current liabilities	352,977	276	28,136	381,390		Total current liabilities

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
<b>Long-Term Liabilities</b>						<b>Non-current liabilities</b>
Bonds	65,000	167,861	-	232,861	12	Bonds and borrowings
Long-term debt	167,861	(167,861)	-	-	12	
Lease obligations	15,872	-	105,902	121,774	21	Lease liabilities
Long-term payables	52,968	824	253	54,046	14	Other financial liabilities
Liability for retirement benefits	27,189	777	21,935	49,902	27	Retirement benefit liability
Allowance for losses on guarantees	350	(350)	-	-	14	
	-	1,679	-	1,679	13	Provisions
Deferred tax liabilities	2,944	-	1,007	3,951	28	Deferred tax liabilities
Other long-term liabilities	12,472	(2,153)	(7,460)	2,858	13, 14, 26, 30	Other non-current liabilities
<b>Total long-term liabilities</b>	<b>344,658</b>	<b>777</b>	<b>121,638</b>	<b>467,073</b>		<b>Total non-current liabilities</b>
<b>Total liabilities</b>	<b>697,635</b>	<b>1,053</b>	<b>149,775</b>	<b>848,464</b>		<b>Total liabilities</b>
<b>Net assets</b>						<b>Equity</b>
Common stock	64,506	-	-	64,506		Share capital
Capital surplus	70,741	1,399	555	72,696	16, 30	Capital surplus
Treasury stock	(2,455)	-	-	(2,455)		Treasury shares
Stock acquisition rights	1,399	(1,399)	-	-	16	
Retained earnings	339,817	-	(3,939)	335,878	32	Retained earnings
Total accumulated other comprehensive income	11,678	-	(11,916)	(237)	27, 29, 31	Other components of equity
	485,688	-	(15,300)	470,388		Total equity attributable to owners of parent
Non-controlling interests in consolidated subsidiaries	20,905	-	17	20,922		Non-controlling interests
<b>Total net assets</b>	<b>506,593</b>	<b>-</b>	<b>(15,283)</b>	<b>491,310</b>		<b>Total equity</b>
<b>Total liabilities and net assets</b>	<b>1,204,229</b>	<b>1,053</b>	<b>134,492</b>	<b>1,339,775</b>		<b>Total liabilities and equity</b>

Reconciliations of equity as of the end of the nine months of the previous fiscal year (September 30, 2021)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Assets						Assets
Current assets						Current assets
Cash and time deposits	160,895	(8,977)	-	151,918	1, 4	Cash and cash equivalents
Notes and accounts receivable	156,690	3,139	1,059	160,889	2, 3	Trade and other receivables
Short-term investment securities	6,000	9,221	-	15,221	1, 3, 4	Other financial assets
Inventories	148,979	(8,505)	(7,003)	133,470	17	Inventories
Other current assets	50,013	(10,099)	(1,274)	38,639	2, 28	Other current assets
Allowance for doubtful accounts	(4,353)	4,353	-	-	3	
Total current assets	518,226	(10,867)	(7,218)	500,140		Subtotal
	-	55,010	-	55,010	5	Assets held for sale
	518,226	44,142	(7,218)	555,150		Total current assets
Fixed assets						Non-current assets
Property, plant and equipment	358,555	(22,024)	243	336,774	6, 8, 18	Property, plant and equipment
Goodwill	46,162	-	2,844	49,006	19,20	Goodwill
Trademark rights	73,541	18,907	2,874	95,322	7, 19	Intangible assets
Other intangible assets	59,207	(59,207)	-	-		
	-	27,983	100,140	128,124	8, 19, 21	Right-of-use assets
	-	2,400	20,064	22,464	9, 22	Investments accounted for using equity method
Investment securities	12,192	24,598	8,430	45,221	3, 4, 9, 29	Other financial assets
Long-term prepaid expenses	12,902	(12,902)	-	-	6, 10	
Deferred tax assets	73,318	(176)	(8,647)	64,494	28	Deferred tax assets
Other investments	28,038	(22,799)	(281)	4,957	4, 10	Other non-current assets
Allowance for doubtful accounts	(30)	30	-	-	3	
Total fixed assets	663,888	(43,190)	125,668	746,366		Total non-current assets
Total assets	1,182,114	952	118,449	1,301,516		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	24,646	151,413	(128)	175,932	11, 23	Current liabilities
Electronically recorded obligations - operating	41,343	(41,343)	-	-	11	Trade and other payables
Short-term debt	9,901	15,730	-	25,631	12	Bonds and borrowings
Current portion of long-term debt	730	(730)	-	-	12	
Current portion of corporate bonds scheduled for redemption	15,000	(15,000)	-	-	12	
Lease obligations	10,078	(411)	14,411	24,078	21	Lease liabilities
Other payables	77,966	(77,966)	-	-	11	
Accrued income taxes	44,278	80	(3,387)	40,970	28	Income taxes payable
Reserve for sales returns	2,807	(2,807)	-	-	11	
Refund liabilities	11,268	(11,268)	-	-	11	
Accrued bonuses for employees	29,816	(29,816)	-	-	15	
Accrued bonuses for directors	160	(160)	-	-	15	
Provision for liabilities and charges	368	9,264	-	9,632	13	Provisions
Provision for loss on business withdrawal	600	(600)	-	-	13	
Provision for structural reforms	5,358	(5,358)	-	-	13	
	-	4,092	-	4,092	14	Other financial liabilities
Other current liabilities	83,669	4,488	14,103	102,261	13, 14, 15, 24, 25, 26	Other current liabilities
Total current liabilities	357,996	(395)	24,998	382,599		Subtotal
	-	1,422	-	1,422	5	Liabilities directly associated with assets held for sale
	357,996	1,026	24,998	384,021		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		
<b>Long-Term Liabilities</b>						<b>Non-current liabilities</b>
Bonds	50,000	136,280	-	186,280	12	Bonds and borrowings
Long-term debt	136,280	(136,280)	-	-	12	
Lease obligations	19,619	(862)	97,162	115,919	21	Lease liabilities
Long-term payables	4,617	775	187	5,580	14	Other financial liabilities
Liability for retirement benefits	25,047	796	26,017	51,861	27	Net defined benefit liability
Allowance for losses on guarantees	350	(350)	-	-	14	
	-	1,720	-	1,720	13	Provisions
Deferred tax liabilities	1,761	-	500	2,261	28	Deferred tax liabilities
Other long-term liabilities	36,132	(2,153)	(26,812)	7,167	13, 14, 22, 26, 30	Other non-current liabilities
<b>Total long-term liabilities</b>	<b>273,809</b>	<b>(74)</b>	<b>97,055</b>	<b>370,790</b>		<b>Total non-current liabilities</b>
<b>Total liabilities</b>	<b>631,805</b>	<b>952</b>	<b>122,054</b>	<b>754,812</b>		<b>Total liabilities</b>
<b>Net assets</b>						<b>Equity</b>
Common stock	64,506	-	-	64,506		Share capital
Capital surplus	70,741	1,082	1,040	72,864	16, 30	Capital surplus
Treasury stock	(2,361)	-	-	(2,361)		Treasury shares
Stock acquisition rights	1,082	(1,082)	-	-	16	
Retained earnings	360,499	-	6,946	367,446	32	Retained earnings
Total accumulated other comprehensive income	35,387	-	(11,682)	23,704	27, 29, 31	Other components of equity
	529,856	-	(3,695)	526,160		Total equity attributable to owners of parent
Non-controlling interests in consolidated subsidiaries	20,452	-	91	20,544		Non-controlling interests
<b>Total net assets</b>	<b>550,309</b>	<b>-</b>	<b>(3,604)</b>	<b>546,704</b>		<b>Total equity</b>
<b>Total liabilities and net assets</b>	<b>1,182,114</b>	<b>952</b>	<b>118,449</b>	<b>1,301,516</b>		<b>Total liabilities and equity</b>

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		
<b>Assets</b>						<b>Assets</b>
<b>Current assets</b>						<b>Current assets</b>
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
<b>Fixed assets</b>						<b>Non-current assets</b>
Property, plant and equipment	357,405	(19,156)	1,787	340,037	6, 8, 18	Property, plant and equipment
Goodwill	44,159	-	6,269	50,429	19, 20	Goodwill
Trademark rights	40,322	61,458	33	101,814	7, 19	Intangible assets
Other intangible assets	62,007	(62,007)	-	-		
	-	29,013	98,818	127,832	8, 19, 21	Right-of-use assets
	-	2,418	19,273	21,691	9, 22	Investments accounted for using equity method
Investment securities	9,717	55,212	8,847	73,777	3, 4, 9, 29	Other financial assets
Long-term loans receivable	31,116	(31,116)	-	-	4	
Long-term prepaid expenses	12,367	(12,367)	-	-	6, 10	
Deferred tax assets	72,968	-	(5,534)	67,433	28	Deferred tax assets
Other investments	27,792	(22,636)	(115)	5,040	4, 10	Other non-current assets
Allowance for doubtful accounts	(30)	30	-	-	3	
Total fixed assets	657,827	849	129,380	788,056		Total non-current assets
<b>Total assets</b>	<b>1,179,360</b>	<b>953</b>	<b>120,664</b>	<b>1,300,979</b>		<b>Total assets</b>

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Liabilities						Liabilities and equity
Current liabilities						Liabilities
						Current liabilities
Notes and accounts payable	28,021	175,699	(2)	203,718	11	Trade and other payables
Electronically recorded obligations - operating	40,584	(40,584)	-	-	11	
Short-term debt	-	15,730	-	15,730	12	Bonds and borrowings
Current portion of long-term debt	730	(730)	-	-	12	
Current portion of corporate bonds scheduled for redemption	15,000	(15,000)	-	-	12	
Lease obligations	9,664	-	15,618	25,283	21	Lease liabilities
Other payables	96,488	(96,488)	-	-	11	
Accrued income taxes	45,600	-	-	45,600		Income taxes payable
Reserve for sales returns	3,379	(3,379)	-	-	11	
Refund liabilities	13,631	(13,631)	-	-	11	
Accrued bonuses for employees	29,557	(29,557)	-	-	15	
Accrued bonuses for directors	169	(169)	-	-	15	
Provision for liabilities and charges	293	10,708	(158)	10,843	13	Provisions
Provision for loss on business withdrawal	95	(95)	-	-	13	
Provision for structural reforms	8,524	(8,524)	-	-	13	
	-	4,914	-	4,914	14	Other financial liabilities
Other current liabilities	92,291	1,233	13,945	107,470	13, 14, 15, 24, 25, 26	Other current liabilities
Total current liabilities	384,031	126	29,404	413,561		Total current liabilities

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
<b>Long-Term Liabilities</b>						<b>Non-current liabilities</b>
Bonds	50,000	95,915	-	145,915	12	Bonds and borrowings
Long-term debt	95,915	(95,915)	-	-	12	
Lease obligations	19,673	(12)	99,248	118,909	21	Lease liabilities
Long-term payables	4,756	772	117	5,646	14	Other financial liabilities
Liability for retirement benefits	18,587	827	22,745	42,159	27	Retirement benefit liability
Allowance for losses on guarantees	350	(350)	-	-	14	
	-	1,753	-	1,753	13	Provisions
Deferred tax liabilities	1,040	-	564	1,605	28	Deferred tax liabilities
					13, 14,	
Other long-term liabilities	37,573	(2,163)	(26,161)	9,248	22, 26, 30	Other non-current liabilities
<b>Total long-term liabilities</b>	<b>227,896</b>	<b>827</b>	<b>96,514</b>	<b>325,237</b>		<b>Total non-current liabilities</b>
<b>Total liabilities</b>	<b>611,927</b>	<b>953</b>	<b>125,918</b>	<b>738,799</b>		<b>Total liabilities</b>
<b>Net assets</b>						<b>Equity</b>
Common stock	64,506	-	-	64,506		Share capital
Capital surplus	70,741	1,067	1,226	73,035	16, 30	Capital surplus
Treasury stock	(2,338)	-	-	(2,338)		Treasury shares
Stock acquisition rights	1,067	(1,067)	-	-	16	
Retained earnings	366,306	-	5,895	372,202	32	Retained earnings
Total accumulated other comprehensive income	45,805	-	(12,516)	33,288	27, 29, 31	Other components of equity
	546,089	-	(5,394)	540,695		Total equity attributable to owners of parent
Non-controlling interests in consolidated subsidiaries	21,343	-	141	21,484		Non-controlling interests
<b>Total net assets</b>	<b>567,433</b>	<b>-</b>	<b>(5,253)</b>	<b>562,179</b>		<b>Total equity</b>
<b>Total liabilities and net assets</b>	<b>1,179,360</b>	<b>953</b>	<b>120,664</b>	<b>1,300,979</b>		<b>Total liabilities and equity</b>

## Notes on reconciliation of equity

### (Reclassification)

Reclassifications consist mainly of the following:

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

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

(Recognition and measurement differences)

Recognition and measurement differences consist mainly of the following:

- 17) Adjustments to the recorded amount of inventories  
 Promotional assets, which were included in “Inventories” under Japanese GAAP, are recognized as expenses at the time of purchase because they do not meet the definition of assets under IFRS.
- 18) Adjustments to recorded amount of property, plant and equipment  
 Real estate acquisition taxes, which was expensed under Japanese GAAP, are capitalized under IFRS.
- 19) Application of impairment accounting  
 After assessing the recoverability of non-current assets based on IFRS, impairment loss is recorded for certain right-of-use assets and a reversal of impairment loss is recorded for certain intangible assets as of the transition date. Difference from impairment loss under Japanese GAAP is recorded for certain goodwill and intangible assets in the nine months ended September 30, 2021 and the previous fiscal year.
- 20) Adjustments to recorded amount of goodwill  
 Under Japanese GAAP, the amortization period for goodwill was estimated and amortized over that number of years. Under IFRS, however, goodwill is not amortized after the transition date.
- 21) Adjustments to lease transactions  
 Operating lease transactions and finance lease transactions that were accounted for as operating leases under Japanese GAAP are accounted for as “Right-of-use assets” under IFRS in accordance with purchase and sale transactions, and the corresponding obligations are included in “Lease liabilities (current)” and “Lease liabilities (non-current).”

- 22) Partial sales of shares of subsidiaries that result in a loss of control  
 In the case that a subsidiary becomes an affiliate due to loss of control as a result of partial sales of shares of subsidiary, the residual investment was adjusted to investment appraisal value by the equity method under Japanese GAAP, but under IFRS, the residual investment is measured in fair value.
- 23) Adjustments to levies  
 Under Japanese GAAP, expenses were recognized for items qualified as levies such as property tax, etc. over the fiscal year in which the taxes were paid. Under IFRS, they are recognized as “Trade and other payables” on the date when an obligation event occurs.
- 24) Adjustments to accrued paid absences  
 Unused paid absences, which were not accounted for under Japanese GAAP, are recoded as liabilities in “Other current liabilities” under IFRS.
- 25) Adjustments to the timing of revenue recognition  
 For points provided to customers in accordance with sales of products, under Japanese GAAP, revenue was recorded in full at the time of sale and the amount expected to be used by customers in the future was recorded as an allowance. Under IFRS, however, transaction prices allocated to points expected to be used by customers in the future at the time of sale are recorded as “Other current liabilities” and revenue is recognized based on the use of points.
- 26) Adjustments to government subsidies  
 Under Japanese GAAP, subsidies related to assets were recognized as revenue collectively when they were finalized to be received, but under IFRS, they are recorded as deferred revenue in “Other current liabilities” and “Other non-current liabilities” and are recognized as revenue on a regular basis over the period in which the corresponding assets are recognized as expenses.
- 27) Adjustments to postretirement benefits  
 Under Japanese GAAP, actuarial gains and losses and past service costs in retirement benefits were recognized in other comprehensive income when incurred and amortized through profit or loss over a certain number of years within the average remaining service period of employees when incurred. Under IFRS, remeasurements of defined benefit plans are recognized in other comprehensive income when incurred, and past service costs are recognized in profit or loss when incurred. Remeasurements of defined benefit plans recognized in other comprehensive income are immediately reclassified to “Retained earnings” after being recognized in other components of equity.  
 In addition, IFRS calculates the mortality rate, which is one of the assumptions used to determine the defined benefit obligation, using figures that are expected to change in the future.
- 28) Adjustments to income tax expense  
 The amounts of “Deferred tax assets” and “Deferred tax liabilities” have been adjusted due to temporary differences arising from the reconciliation of Japanese GAAP to IFRS and a reexamination of the recoverability of deferred tax assets.  
 Under Japanese GAAP, the recording of deferred tax assets for elimination of unrealized gains on internal transactions within the consolidated group was assessed for recoverability based on taxable income generated by the selling entities and calculated using the effective tax rate of the selling entities. Under IFRS, the recoverability is assessed based on future taxable income in the acquiring entities and calculated using the effective tax rate of the acquiring entities.  
 In addition, income tax expense in the quarterly financial statements were calculated in the same manner as in the annual financial statements under Japanese GAAP, but under IFRS, they are calculated based on the estimated annual effective tax rate, and the adjustments are recorded in “Other current assets” and “Income taxes payable.”

29) Measurements of financial instruments

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

30) Adjustments to capital surplus

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

31) Adjustments to cumulative exchange differences on translation of foreign operations

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

32) Adjustments to retained earnings

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

	IFRS transition date (January 1, 2021)	As of September 30, 2021	As of December 31, 2021
	Millions of yen	Millions of yen	Millions of yen
Adjustments to the recorded amount of inventories (Note 17)	(7,342)	(6,581)	(8,225)
Application of impairment accounting (Note 19)	11,536	1,448	(202)
Adjustments to recorded amount of goodwill (Note 20)	-	2,763	5,996
Adjustments to lease transactions (Note 21)	(2,431)	(2,238)	(4,935)
Adjustments to recorded amount of investment accounted for equity method (Note 22)	-	45,197	44,824
Adjustments to levies (Note 23)	-	(553)	-
Adjustments to accrued paid absences (Note 24)	(11,757)	(11,618)	(12,021)
Adjustments to the timing of revenue recognition (Note 25)	(3,554)	(3,837)	(4,059)
Adjustments to governmental subsidies (Note 26)	(539)	(2,004)	(1,962)
Adjustments to postretirement benefits (Note 27)	(18,533)	(21,634)	(16,289)
Adjustments to income tax expense (Note 28)	16,813	(4,251)	(6,242)
Measurements of financial instruments (Note 29)	5,827	5,687	4,228
Adjustments to cumulative exchange differences on translation of foreign operations (Note 31)	5,257	5,257	5,257
Others	784	(689)	(470)
<b>Total</b>	<b>(3,939)</b>	<b>6,946</b>	<b>5,895</b>

Reconciliations of profit or loss and comprehensive income for the Nine Months Ended September 30, 2021 (January 1, 2021 - September 30, 2021)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Net sales	745,373	(16,887)	(55)	728,430	1	Net sales
Cost of sales	187,226	7,194	954	195,375	2, 4, 7, 8	Cost of sales
Gross profit	558,147	(24,082)	(1,009)	533,055		Gross profit
Selling, general and administrative expenses	531,893	26,451	7,387	565,733	1, 2, 4, 5, 6, 7, 8, 11	Selling, general and administrative expenses
	-	93,477	44,641	138,119	2, 9, 10	Other operating income
	-	7,329	2,523	9,853	2, 11	Other operating expenses
Operating profit	26,253	35,613	33,720	95,588		Operating profit
Non-operating income	7,424	(7,424)	-	-	2	
Non-operating expenses	4,000	(4,000)	-	-	2	
Extraordinary gains	89,412	(89,412)	-	-	2	
Extraordinary losses	56,731	(56,731)	-	-	2	
	-	3,091	(598)	2,492	2	Finance income
	-	2,468	779	3,247	2, 7	Finance costs
	-	(130)	(424)	(555)	2	Share of profit (loss) of investment accounted for using equity method
Quarterly profit before income taxes	62,359	-	31,919	94,278		Profit before tax
Income taxes – current	55,701	(31,701)	21,606	45,607	3, 12	Income tax expense
Income taxes – deferred	(31,701)	31,701	-	-	3	
Quarterly net profit	38,358	-	10,312	48,671		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Valuation difference on available-for-sale securities	(393)	-	656	262		Financial assets measured at fair value through other comprehensive income
Adjustment for retirement benefits	1,036	-	(1,039)	(3)	7	Remeasurements of defined benefit plans
	-	0	(0)	(0)		Share of other comprehensive income of investments accounted for using equity method
	-	-	48	48		Items that may be reclassified to profit or loss
Foreign currency translation adjustments	24,500	-	674	25,174		Cash flow hedges
Share of other comprehensive income of associates accounted for under the equity method	0	(0)	117	117		Exchange differences on translation of foreign operations
Total other comprehensive income	25,143	-	455	25,599		Share of other comprehensive income of investments accounted for using equity method
Quarterly Comprehensive Income	63,502	-	10,767	74,270		Other comprehensive income, net of tax
						Comprehensive income

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

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRSs
	Millions of yen	Millions of yen	Millions of yen	Millions of yen		
Net sales	1,035,165	(25,036)	(162)	1,009,966	1	Net sales
Cost of sales	262,959	7,900	948	271,808	2, 4, 7, 8	Cost of sales
Gross profit	772,206	(32,936)	(1,110)	738,158		Gross profit
Selling, general and administrative expenses	730,619	27,232	9,154	767,007	1, 2, 4, 5, 6, 7, 8, 11	Selling, general and administrative expenses
	-	96,383	44,615	140,999	2, 9, 10	Other operating income
	-	7,427	4,152	11,579	2, 11	Other operating expenses
Operating profit	41,586	28,787	30,197	100,571		Operating profit
Non-operating income	9,453	(9,453)	-	-	2	
Non-operating expenses	6,204	(6,204)	-	-	2	
Extraordinary gains	93,066	(93,066)	-	-	2	
Extraordinary losses	64,644	(64,644)	-	-	2	
	-	6,764	(2,685)	4,079	2	Finance income
	-	2,790	1,039	3,829	2, 7	Finance costs
	-	(1,090)	(618)	(1,709)	2	Share of 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, 12	Income tax expense
Refund of income taxes for prior years	(1,165)	1,165	-	-	3	
Income taxes – deferred	(32,413)	32,413	-	-	3	
Net profit	44,912	-	4,538	49,450		Profit
Other comprehensive income						Other comprehensive income
						Items that will not be reclassified to profit or loss
Valuation difference on available-for-sale securities	(1,779)	-	1,889	110		Financial assets measured at fair value through other comprehensive income
Adjustment for retirement benefits	3,322	-	1,639	4,961	7	Remeasurements of defined benefit plans
	-	(0)	0	0		Share of other comprehensive income of investments accounted for using equity method
	-	-	98	98		Items that may be reclassified to profit or loss
Foreign currency translation adjustments	34,247	-	815	35,062		Cash flow hedges
Share of other comprehensive income of associates accounted for under the equity method	519	0	(4)	515		Exchange differences on translation of foreign operations
						Share of other comprehensive income of investments accounted for using equity method
Total other comprehensive income	36,310	-	4,438	40,748		Other comprehensive income, net of tax
Comprehensive Income	81,222	-	8,976	90,198		Comprehensive income

## Notes on reconciliation of profit and loss and comprehensive income

### (Reclassification of Presentation Items)

Reclassifications consist mainly of the following:

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

### (Recognition and measurement differences)

Recognition and measurement differences consist mainly of the following:

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

9) Adjustment to government subsidies

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

10) Partial sales of shares of subsidiaries that result in a loss of control

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

11) Application of impairment accounting

After assessing the recoverability of non-current assets based on IFRS, difference from impairment loss under Japanese GAAP is recorded to certain goodwill and intangible assets in the nine months ended September 30, 2021 and the previous fiscal year.

12) Income tax expense

The amounts of “Income tax expense” have been adjusted due to temporary differences arising from the reconciliation of Japanese GAAP to IFRS and a reexamination of the recoverability of deferred tax assets.

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

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

Reconciliations of cash flows for the Nine Months Ended September 30, 2021 (January 1, 2021 - September 30, 2021) and the fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021) (Fiscal year of most recent consolidated financial statements based Japanese GAAP)

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