The figures for these financial statements are prepared in accordance with the accounting principles based on Japanese law. Accordingly, they do not necessarily match the figures in the Annual Report issued by the Company, which present the same statements in a form that is more familiar to foreign readers through certain reclassifications or the summarization of accounts.

August 8, 2018

Consolidated Settlement of Accounts for the First Half of the Fiscal Year Ending December 31, 2018
[Japanese Standards]

Shiseido Company, Limited

Listings: Tokyo Stock Exchange, First Section (Code Number: 4911)
URL: https://www.shiseidogroup.com/
Representative: Masahiko Uotani, Representative Director, President and CEO
Contact: Harumoto Kitagawa, Department Director, Investor Relations Department
Tel. +81-3-3572-5111

Filing date of quarterly securities report: August 9, 2018
Start of cash dividend payments: September 4, 2018
Supplementary quarterly materials prepared: Yes
Quarterly financial results information meeting held: Yes (For institutional investors, analysts, etc.)

1. Performance for the First Half of the Fiscal Year Ending December 31, 2018 (From January 1 to June 30, 2018)

* 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	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent
First Half Ended June 30, 2018	532,596 [12.8%]	71,111 [105.1%]	72,807 [112.9%]	47,666 [153.5%]
First Half Ended June 30, 2017	472,109 [14.5%]	34,671 [73.9%]	34,197 [86.5%]	18,805 [(23.2)%]

Note: Comprehensive income
First half ended June 30, 2018: ¥39,808 million [116.5%]
First half ended June 30, 2017: ¥18,388 million [—%]

	Net Earnings per Share (Yen)	Fully Diluted Net Earnings per Share (Yen)
First Half Ended June 30, 2018	119.32	119.18
First Half Ended June 30, 2017	47.08	47.02

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio
As of June 30, 2018	966,954	473,925	46.9%
As of December 31, 2017	949,425	445,872	44.6%

[Reference] Equity: As of June 30, 2018: ¥453,592 million
As of December 31, 2017: ¥423,447 million

2. Cash Dividends

	Cash Dividends per Share (Yen)				
	1Q	2Q	3Q	Year-End	Full Year
Fiscal Year Ended December 31, 2017	—	12.50	—	15.00	27.50
Fiscal Year Ending December 31, 2018	—	20.00			
Fiscal Year Ending December 31, 2018 (plan)			—	20.00	40.00

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

3. Forecast for the Fiscal Year Ending December 31, 2018 (From January 1 to December 31, 2018)

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

	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent	Net Earnings per Share (Yen)
Fiscal Year Ending December 31, 2018	1,090,000 [8.5%]	110,000 [36.8%]	110,000 [36.9%]	67,000 [194.5%]	167.72

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

Notes

(1) Significant changes in subsidiaries during the period (changes in specific subsidiaries due to a change in the scope of consolidation): None

(2) Adoption of special accounting treatment in preparation of consolidated quarterly financial statements: None

(3) Changes in accounting policies; changes in accounting estimates; restatements
   1) Changes in accounting policies due to amendments of accounting standards: Yes
   2) Other changes in accounting policies: None
   3) Changes in accounting estimates: None
   4) Restatements: None

   Group subsidiaries that have adopted IFRS standards have implemented IFRS 15, Revenue from Contracts with Customers, from the first quarter of the fiscal year ending December 31, 2018. See "2. Consolidated Quarterly Financial Statements (4) Notes Concerning Consolidated Quarterly Financial Statements (Changes in Accounting Policies)" on page 19 for further details.

(4) Shares outstanding (common stock)
   1) Number of shares outstanding (including treasury stock)
      As of June 30, 2018: 400,000,000
      As of December 31, 2017: 400,000,000
   2) Number of treasury stock outstanding
      As of June 30, 2018: 685,547
      As of December 31, 2017: 460,033
   3) Average number of shares over the period
      First half ended June 30, 2018: 399,481,487
      First half ended June 30, 2017: 399,410,497

Implementation status of quarterly review procedures

This Consolidated Settlement of Accounts for the First Half of the Fiscal Year Ending December 31, 2018 is not subject to quarterly review procedures by a certified public accountant or audit firm.

Appropriate use of business forecasts; other special items

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. Analysis of Operating Results (3) Consolidated Forecasts and Other Forward-Looking Information" on page 11 for information on preconditions underlying the above outlook and other related information.

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1. Analysis of Operating Results

(1) Consolidated Performance

(Millions of yen unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent	Net Earnings per Share (Yen)
First Half of the Fiscal Year Ending December 31, 2018	532,596	71,111	72,807	47,666	119.32
First Half of the Fiscal Year Ended December 31, 2017	472,109	34,671	34,197	18,805	47.08
Percentage Change Increase/(Decrease)	12.8%	105.1%	112.9%	153.5%	153.4%
Percentage Change Increase/(Decrease) in Local Currency	11.9%				

In the first half of the fiscal year ending December 31, 2018, economic conditions in Japan continued along a path of moderate recovery. This included signs of a positive turnaround in consumer spending underpinned by improvement in employment and income gains. The domestic cosmetics market was also firm thanks to a similar ongoing trend of recovery and inbound demand supported by the continued increase in overseas tourists to Japan. Meanwhile, in overseas cosmetics markets, growth in Europe remained weak with varied performance from country to country. While growth slowed in the Americas, growth in China and the rest of Asia continued to expand steadily.

In 2015, the Shiseido Group (hereafter, the "Group") launched VISION 2020, a six-year medium-to-long-term strategy to ensure that the company remains vital for the next 100 years. To "Be a Global Winner with Our Heritage," we are shifting all of our activities toward a consumer-oriented focus and working to globally enhance our brand value.

Fiscal year ending December 31, 2018 is the first year of our new three-year plan, which is Phase 2 of VISION 2020. We are working to accomplish the new strategy to accelerate growth. To speed up sales growth, we are accelerating digitalization, developing new businesses, and generating new value through innovation as we continue substantial marketing investment with a focus on our prestige brands. Moreover, we believe our people are the source of all value creation and are actively investing in them.

Net sales in the first half of the fiscal year ending December 31, 2018 increased 11.9% year on year on a local currency basis. This represents organic growth of 17% year on year excluding the impact of the sale of Zotos International, Inc. (hereafter, "Zotos") and other factors. As we pursued selection and concentration of our businesses and brands as well as proactively increased investment in eight key brands, these brands contributed ¥66.2 billion in overall net sales growth. On a regional basis, we engaged in strategic cross-border marketing aimed mainly at Chinese consumers across the entire Asian region, spurring growth in Japan, China, and Travel Retail. When converted into Japanese yen, consolidated net sales reached ¥532.6 billion, 12.8% higher than the previous year.

As marketing investment was proactively increased, strong sales of the highly profitable prestige brands and other products in the Japan, China, Travel Retail, and other businesses. Operating income consequently rose to ¥71.1 billion, an increase of 105.1% year on year, and net income attributable to owners of parent in the first half reached ¥47.7 billion, an increase of 153.5% year on year.

The major foreign currency exchange rates applicable to income and expense accounting line items in the Company's financial statements are US$1:¥108.7, €1:¥131.6, and CNY1:¥17.1 for the first half of the fiscal year under review.

[Consolidated Performance]

(Millions of yen)

Classification		First Half Ended June 30, 2018	% of Total	First Half Ended June 30, 2017	% of Total	Year-on-Year Increase/(Decrease)		
						Amount	% Change	Change in Local Currency
Net Sales	Japan Business	238,525	44.8%	209,201	44.3%	29,324	14.0%	14.0%
	China Business	92,895	17.5%	68,658	14.6%	24,236	35.3%	32.4%
	Asia Pacific Business	33,335	6.3%	28,493	6.0%	4,842	17.0%	14.5%
	Americas Business	58,841	11.0%	59,201	12.6%	(360)	(0.6)%	1.8%
	EMEA Business	46,859	8.8%	44,919	9.5%	1,939	4.3%	(3.0)%
	Travel Retail Business	45,261	8.5%	32,255	6.8%	13,006	40.3%	41.4%
	Professional Business	10,261	1.9%	23,199	4.9%	(12,938)	(55.8)%	(56.2)%
	Other	6,615	1.2%	6,179	1.3%	435	7.0%	7.1%
	Subtotal	532,596	100.0%	472,109	100.0%	60,486	12.8%	11.9%
	Adjustments	—	—	—	—	—	—	—
	Total	532,596	100.0%	472,109	100.0%	60,486	12.8%	11.9%

(Millions of yen)

Classification		Intersegment sales or sales including internal transfers between accounts	
		First Half Ended June 30, 2018	First Half Ended June 30, 2017
Net Sales	Japan Business	256,024	225,633
	China Business	93,087	68,729
	Asia Pacific Business	34,365	29,275
	Americas Business	75,753	66,656
	EMEA Business	52,917	48,435
	Travel Retail Business	45,341	32,318
	Professional Business	10,468	23,402
	Other	59,018	44,121
	Subtotal	626,977	538,571
	Adjustments	(94,381)	(66,461)
	Total	532,596	472,109

(Millions of yen)

Classification		First Half Ended June 30, 2018	Ratio to Net Sales	First Half Ended June 30, 2017	Ratio to Net Sales	Year-on-Year Increase/(Decrease)	
						Amount	% Change
Operating Income (Loss)	Japan Business	54,726	21.4%	40,845	18.1%	13,881	34.0%
	China Business	15,637	16.8%	5,007	7.3%	10,629	212.3%
	Asia Pacific Business	4,461	13.0%	3,091	10.6%	1,369	44.3%
	Americas Business	(7,215)	(9.5)%	(9,786)	(14.7)%	2,571	—
	EMEA Business	(5,013)	(9.5)%	(4,138)	(8.5)%	(874)	—
	Travel Retail Business	11,093	24.5%	8,447	26.1%	2,646	31.3%
	Professional Business	484	4.6%	1,169	5.0%	(684)	(58.5)%
	Other	(857)	(1.5)%	(5,442)	(12.3)%	4,585	—
	Subtotal	73,317	11.7%	39,192	7.3%	34,124	87.1%
	Adjustments	(2,205)	—	(4,521)	—	2,315	—
	Total	71,111	13.4%	34,671	7.3%	36,440	105.1%

Notes:

1. The Group has revised its reportable segment classification method in line with its internal management structure, effective from the fiscal year ending December 31, 2018. The fragrance business in the Asia Pacific region, which was previously included in EMEA Business, is now included in Asia Pacific Business. The travel retail fragrance business, which was previously included in EMEA Business, is now included in Travel Retail Business. ***NAVISION*** and ***2e***, which were previously included in Other, are now included in Japan Business. Some of ***NARS***, ***bareMinerals***, and ***Laura Mercier*** product distribution operations conducted by distributors in each region, which were previously included in the Americas Business, are now included in Asia Pacific Business, EMEA Business, and Travel Retail Business. The segment information for the first half of the previous fiscal year has been restated in line with the new method of classification.
2. "Other" includes head office administration departments, manufacturing operations as well as the activities of the Frontier Science business (cosmetic raw materials and pharmaceuticals), the Restaurant business, etc.
3. The ratio of operating income/(loss) to net sales shows operating income as a percentage of total sales including intersegment sales, or sales including internal transfers between accounts.
4. The operating income/(loss) adjustment amount is mainly the elimination of transactions between segments.

Results by reportable segment are provided below.

[Japan Business]

In the Japan Business, increased investment in marketing mainly for the three skin-related categories of skincare, base makeup, and sun care spurred growth of brands in the mid- to high-price range. In particular, the ***SHISEIDO*** brand performed strongly, driven by an improved version of **ULTIMUNE** serum, as did ***ELIXIR*** which benefitted from growth in new consumers for wrinkle-reducing cream. The above performance, combined with tangible progress on capturing the growing inbound demand achieved by strengthening cross-border marketing throughout Asia and other initiatives, resulted in a 14.0% increase in sales in this segment year on year, to ¥238.5 billion. Operating income rose 34.0% year on year to ¥54.7 billion, boosted mainly by higher profit margins accompanying growth in overall sales, a lower COGS ratio, and more efficient marketing investment achieved through concentration on the three highly profitable skin-related categories.

[China Business]

In the China Business, the strong performance in prestige brands such as ***SHISEIDO***, ***Clé de Peau Beauté***, and ***IPSA*** continued. Sales of the "made in Japan" cosmetic brands ***ANESSA*** and ***ELIXIR*** surged which, among other factors, contributed to a 32.4% increase in sales in this segment year on year on a local currency basis. When converted into Japanese yen, segment sales grew 35.3% year on year, to ¥92.9 billion. Such factors as larger margins from higher sales, more efficient marketing investment, and higher profitability of ***Za*** and ***PURE&MILD*** due to revision of distribution agreements resulted in strong growth in operating income to ¥15.6 billion, an increase of 212.3% year on year.

[Asia Pacific Business]

In the Asia Pacific Business, continued solid performance of ***NARS*** and other prestige brands combined with strong results for ***ANESSA*** produced steady growth in South Korea, Thailand, and other key countries and regions. This contributed to a 14.5% increase in sales in this segment year on year on a local currency basis. When converted into Japanese yen, sales increased 17.0% year on year, to ¥33.3 billion. The larger margins that accompanied higher sales and other factors resulted in 44.3% growth in operating income year on year to ¥4.5 billion.

[Americas Business]

In the Americas Business, prestige brands such as ***NARS*** and ***Laura Mercier*** continued to see growth, and the fragrance brand ***Dolce&Gabbana*** performed strongly. In contrast, ***bareMinerals***, which is undergoing the closing of boutiques with low profitability and other structural reforms, underperformed the previous fiscal year. These factors contributed to 1.8% year-on-year growth in sales on a local currency basis. When converted into Japanese yen, sales declined 0.6% year on year to ¥58.8 billion. Organic sales growth would be 6% year on year on a local currency basis if the extraordinary factors of the previous fiscal year are excluded, such as the termination of the distribution agreement with Burberry and the impact of the sale of ***RéVive***. The larger margins that accompanied sales growth and other factors decreased the operating loss to ¥7.2 billion, an improvement of ¥2.6 billion from the previous year. Broken down by function, the Americas Business consists of sales business in the Americas, the makeup brand holder function, and the Center of Excellence* function for makeup, digital, and technology categories. The sales business has an operating margin in the mid-single digits, however active investment in makeup, digital, and technology categories on a global basis resulted in an operating loss for the Americas Business as a whole.

[EMEA Business]

In the EMEA Business, ***Dolce&Gabbana*** sales were strong, but underperformance of other fragrances resulted

in a 3.0% year-on-year decrease in sales on a local currency basis. When converted into Japanese yen, sales rose 4.3% year on year, to ¥46.9 billion. If the impact from the terminated distribution agreement with Burberry is excluded, the organic sales growth would be 0.2% year on year. The operating loss increased by ¥0.9 billion, to ¥5.0 billion, owing to lower margins that accompanied the decline in sales and increased investment in marketing. Broken down by function, the EMEA Business consists of the sales business in EMEA, the fragrance brand holder function, and the Center of Excellence function for fragrances. The sales business has an operating margin in the high single digits, however active investment in the fragrance category on a global basis resulted in an operating loss for the EMEA Business as a whole.

[Travel Retails Business]

In the Travel Retail Business, the benefits derived from active investment in marketing, which included further increase of advertising and promotion in airports around the world, led to continued growth in sales of ***SHISEIDO***, ***Clé de Peau Beauté***, ***NARS***, and ***ANESSA*** that far outperformed last year, mainly in Asia. This caused sales in this segment to surge 41.4% year on year on a local currency basis. When converted into Japanese yen, sales climbed 40.3% year on year, to ¥45.3 billion. If the impact from the terminated agreement with Burberry is excluded, the organic sales growth would be 47% year on year. Larger margins accompanying growth in sales and other factors increased operating income by 31.3% over the previous year, to ¥11.1 billion.

[Professional Business]

In the Professional Business, sales in China and elsewhere in the Asia Pacific region were strong, but the impact from the sale of Zotos last fiscal year caused sales in this segment to decline 56.2% year on year on a local currency basis. When converted into Japanese yen, sales were ¥10.3 billion, a year-on-year decrease of 55.8%. If the impact of the sale of Zotos is excluded, organic sales growth would be 4% year on year on a local currency basis. Lower margins resulting from the decline in sales and other factors led to a 58.5% year-on-year reduction in operating income, to ¥0.5 billion.

* Center of Excellence (CoE) refers to a system where each product category is led by the region that excels in that category. The designated CoEs then formulate global strategies and develop products for the whole Group. Japan hosts the CoE for skincare; the Americas, for makeup and digital marketing; and EMEA, for fragrances.

(2) Consolidated Financial Position

(a) Assets, Liabilities and Net Assets

Total assets increased by ¥17.5 billion compared with the end of the previous fiscal year to ¥967.0 billion. This was mainly due to an increase in construction in progress from the erection of the Global Innovation Center and inventory assets from the increase in net sales. Total liabilities decreased by ¥10.5 billion to ¥493.0 billion, owing primarily to a decrease in accrued bonuses for employees resulting from the payment of bonuses. Net assets rose by ¥28.1 billion to ¥473.9 billion, due to an increase in retained earnings and other factors, and despite a decrease in foreign currency translation adjustments. The debt-to-equity ratio, which indicates the level of interest-bearing debt as a percentage of net equity, was 0.17.

(b) Cash Flows

Net cash provided by operating activities totaled ¥39.3 billion in the first half of the fiscal year ending December 31, 2018. Net cash used in investing activities was ¥26.2 billion. Expenditures consisted mainly of investment in the construction of the Global Innovation Center, which is underway. This resulted in free cash flow of ¥13.1 billion. Net cash used in financing activities amounted to ¥17.6 billion, mainly due to cash dividends paid.

As a result of these activities, cash and cash equivalents as of June 30, 2018 stood at ¥148.1 billion, a decrease of ¥8.7 billion compared with the beginning of the fiscal year under review.

(3) Consolidated Forecasts and Other Forward-Looking Information

In light of the Company's consolidated results for the first half, Shiseido has decided to revise the consolidated forecast for the full fiscal year ending December 31, 2018 it previously announced on March 5, 2018. Brief details are presented as follows. Assumptions regarding the major average foreign currency exchange rates for the full fiscal year are US$1:¥109.3, €1:¥129.8, and CNY1:¥16.8.

Forecast for Consolidated Results for the Fiscal Year Ending December 31, 2018
(From January 1, 2018 to December 31, 2018)

(Millions of yen unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent	Net Earnings per Share (Yen)
Previous Forecast (A)	1,033,000	90,000	90,000	54,000	135.15
Revised Forecast (B)	1,090,000	110,000	110,000	67,000	167.72
Change (B-A)	57,000	20,000	20,000	13,000	
Percentage Change	5.5	22.2	22.2	24.1	
Results for the Previous Fiscal Year (Ended December 31, 2017)	1,005,062	80,437	80,327	22,749	56.95

In the future, we plan to further increase production and supply capacity to meet the strong demand for products made in Japan. This will result in even greater growth in sales, mainly for prestige brands, improve the COGS ratio, and boost marketing investment efficiency. We will aim to increase operating income by another ¥10 billion to ¥15 billion over the revised forecast provided above.

The Company now expects to achieve the initial goals set in VISION 2020 of ¥100 billion in operating income and an operating margin of 10% two years ahead of schedule. After taking this into account, along with the results for the first half and the aforementioned revision to the consolidated forecast for the full fiscal year, the Company has decided to increase its interim dividend to ¥20 per share, an increase of ¥5 from the previous forecast of ¥15. The Company has also decided to increase its year-end dividend forecast by ¥5 per share to ¥20 per share. As a result, Shiseido plans to pay a full-year dividend of ¥40 per share, an increase of ¥12.5 from the previous fiscal year and double the initial goal when work on VISION 2020 first began.

[Reference Information] Consolidated Net Sales Forecast by Reportable Segment

The consolidated results forecast for the fiscal year ending December 31, 2018 by reportable segment is presented as follows.

Consolidated Net Sales Forecast for Fiscal Year ending December 31, 2018 (Full Year) (Billions of yen unless otherwise stated)

Clasification	Revised Forecast (A)	Percentage Change (A/B-1)	Percentage Change in Local Currency	Organic Growth Rate[*2]	Previous Forecast		(Reference) Results for the Previous Fiscal Year	
					Before Reclassification (announced in March	After Reclassification	Before Reclassification (announced in March)	After Reclassification (B)
Japan Business	464.0	11.3%	11%	12%	459.0	442.5	431.6	417.1
China Business	184.0	27.5%	28%	28%	163.0	163.0	144.3	144.3
Asia Pacific Business	65.5	9.5%	10%	10%	64.0	64.0	59.9	59.8
Americas Business	128.0	(4.6)%	(2)%	2%	125.0	125.0	134.1	134.1
EMEA Business	113.0	4.1%	2%	5%	115.0	115.0	108.5	108.5
Travel Retail Business	86.0	32.2%	34%	39%	74.0	74.0	65.0	65.0
Professional Business	21.0	(56.2)%	(56)%	2%	21.0	21.0	48.0	48.0
Other	28.5	0.8%	1%	5%	12.0	28.5	13.7	28.3
Total	1,090.0	8.5%	9%	13%	1,033.0	1,033.0	1,005.1	1,005.1

Notes:

1. Due to changes in management structure of the Shiseido Group, results for IPSA Co., Ltd., which were previously included in Japan Business, will be included in Other, from the third quarter of fiscal year ending December 31, 2018. From the third quarter onward, the Company therefore intends to restate the segment results for the second quarter and the previous fiscal year in terms of the new classification. This is reflected in the current revised forecasts. This table provides both the figures for the previous forecasts and the previous fiscal year results announced in March before reclassification and after reclassification.
2. The organic growth rate indicates the percentage growth in the local currency after excluding the impact from the sales of Zotos International, Inc. and termination of the distribution agreement with Burberry last fiscal year.

2. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheets

(Millions of yen)

	As of December 31, 2017	As of June 30, 2018
ASSETS		
Current Assets:		
Cash and time deposits	166,698	159,864
Notes and accounts receivable	162,058	155,445
Short-term investments in securities	7,781	4,779
Inventories	129,954	141,648
Deferred tax assets	25,467	23,691
Other current assets	36,012	38,150
Less: Allowance for doubtful accounts	(1,727)	(1,819)
Total current assets	526,245	521,760
Fixed Assets:		
Property, Plant and Equipment:		
Buildings and structures	162,538	160,856
Less: Accumulated depreciation	(104,382)	(104,371)
Buildings and structures, net	58,156	56,485
Machinery, equipment and vehicles	81,175	81,895
Less: Accumulated depreciation	(63,367)	(63,403)
Machinery, equipment and vehicles, net	17,808	18,491
Tools, furniture and fixtures	81,783	78,970
Less: Accumulated depreciation	(56,520)	(55,282)
Tools, furniture and fixtures, net	25,262	23,688
Land	36,971	36,611
Leased assets	7,244	7,292
Less: Accumulated depreciation	(3,957)	(3,275)
Leased assets, net	3,286	4,016
Construction in progress	17,196	47,933
Total property, plant and equipment	158,681	187,226
Intangible Assets:		
Goodwill	12,166	13,487
Leased assets	247	241
Trademarks	121,347	113,830
Other intangible assets	34,825	37,223
Total intangible assets	168,586	164,783
Investments and Other Assets:		
Investments in securities	26,280	24,312
Long-term loans receivable	90	85
Long-term prepaid expenses	13,991	14,486
Deferred tax assets	30,658	29,860
Other investments	25,131	24,504
Less: Allowance for doubtful accounts	(241)	(64)
Total investments and other assets	95,910	93,184
Total Fixed Assets	423,179	445,193
Total Assets	949,425	966,954

(Millions of yen)

	As of December 31, 2017	As of June 30, 2018
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	49,140	60,610
Electronically recorded obligations – operating	37,892	42,354
Short-term debt	8,540	5,174
Current portion of long-term debt	731	730
Lease obligations	1,391	1,508
Other payables	59,903	61,464
Accrued income taxes	25,032	18,426
Reserve for sales returns	14,012	8,839
Refund liabilities	–	4,899
Accrued bonuses for employees	25,019	15,229
Accrued bonuses for directors	119	59
Provision for liabilities and charges	2,005	1,135
Other current liabilities	67,590	62,047
Total current liabilities	291,379	282,482
Long-Term Liabilities:		
Bonds	40,000	40,000
Long-term debt	28,835	28,470
Lease obligations	1,966	2,120
Long-term payables	59,255	55,305
Liability for retirement benefits	73,745	71,918
Allowance for losses on guarantees	350	350
Allowance for environmental measures	260	124
Deferred tax liabilities	3,762	6,357
Other long-term liabilities	3,998	5,899
Total long-term liabilities	212,173	210,547
Total Liabilities	503,552	493,029
NET ASSETS		
Shareholders' Equity:		
Common stock	64,506	64,506
Capital surplus	70,808	70,804
Retained earnings	271,681	313,326
Treasury stock	(874)	(3,133)
Total shareholders' equity	406,121	445,504
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	8,664	7,286
Foreign currency translation adjustments	28,726	18,265
Accumulated adjustments for retirement benefits	(20,064)	(17,464)
Total accumulated other comprehensive income	17,326	8,087
Stock Acquisition Rights	874	929
Non-Controlling Interests in Consolidated Subsidiaries	21,550	19,403
Total Net Assets	445,872	473,925
Total Liabilities and Net Assets	949,425	966,954

(2) Consolidated Quarterly Statements of Income and Consolidated Quarterly Statements of Comprehensive Income

Consolidated Quarterly Statements of Income Cumulative for the First Half

(Millions of yen)

	First Half Ended June 30, 2017 (From January 1 to June 30, 2017)	First Half Ended June 30, 2018 (From January 1 to June 30, 2018)
Net Sales	472,109	532,596
Cost of Sales	108,417	109,069
Gross Profit	363,692	423,526
Selling, General and Administrative Expenses	329,021	352,414
Operating Income	34,671	71,111
Other Incomes		
Interest income	395	617
Dividend income	294	290
Equity in earnings of affiliates	65	127
Rental income	370	359
Subsidy income	12	2,577
Other	717	902
Total other income	1,855	4,874
Other Expenses		
Interest expense	417	390
Foreign exchange loss	706	1,794
Other interest on debt	663	704
Other	541	289
Total other expenses	2,330	3,178
Ordinary Income	34,197	72,807
Extraordinary Gains		
Gain on sales of property, plant and equipment	252	606
Gain on sales of investments in securities	299	1,566
Gain on transfer of business	–	520
Total extraordinary gains	551	2,693
Extraordinary Losses		
Loss on disposal of property, plant and equipment	633	421
Loss on sales of investments in securities	6	–
Loss on business withdrawal	–	511
Structural reform expenses	719	197
Voluntary product recall-related expenses	2,538	–
Loss of liquidation of subsidiaries and affiliates	136	–
Temporary expenses associated with reforms to human resource systems	130	–
Total extraordinary losses	4,166	1,129
Quarterly Income before Income Taxes	30,582	74,371
Income Taxes – Current	10,873	20,998
Income Tax –Deferred	(163)	3,611
Total Income Taxes	10,709	24,609
Quarterly Net Income	19,872	49,762
Quarterly Net Income Attributable to Non-Controlling Interests	1,067	2,095
Quarterly Net Income Attributable to Owners of Parent	18,805	47,666

Consolidated Quarterly Statements of Comprehensive Income
Cumulative for the First Half

(Millions of yen)

	First Half Ended June 30, 2017 (From January 1 to June 30, 2017)	First Half Ended June 30, 2018 (From January 1 to June 30, 2018)
Quarterly Net Income	19,872	49,762
Other Comprehensive Income		
Unrealized gains (losses) on available-for-sale securities	891	(1,333)
Foreign currency translation adjustments	(5,955)	(11,237)
Adjustment for retirement benefits	3,616	2,609
Share of other comprehensive income of associates accounted for under the equity method	(36)	7
Total other comprehensive income (loss)	(1,484)	(9,954)
Quarterly Comprehensive Income	18,388	39,808
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	17,361	38,427
Quarterly comprehensive income attributable to non-controlling interests	1,027	1,380

(3) Consolidated Quarterly Statements of Cash Flows

(Millions of yen)

	First Half Ended June 30, 2017 (From January 1 to June 30, 2017)	First Half Ended June 30, 2018 (From January 1 to June 30, 2018)
Cash Flows from Operating Activities:		
Income before income taxes	30,582	74,371
Depreciation and amortization	19,191	20,195
Amortization of goodwill	2,721	928
(Gain) loss on disposal of property, plant and equipment	381	(185)
(Gain) loss on sales of investments in securities	(292)	(1,566)
Gain on transfer of business	–	(520)
Loss on business withdrawal	–	511
Increase (decrease) in allowance for doubtful accounts	(168)	(637)
Increase (decrease) in reserve for sales returns	363	(4,931)
Increase (decrease) in refund liabilities	–	5,014
Increase (decrease) in accrued bonuses for employees	(9,725)	(9,458)
Increase (decrease) in accrued bonuses for directors	(51)	(60)
Increase (decrease) in provision for liabilities and charges	(128)	(787)
Increase (decrease) in liability for retirement benefits	3,927	2,112
Increase (decrease) in allowance for environmental measures	(81)	(136)
Interest and dividend income	(690)	(908)
Interest expense	417	390
Other interest on debt	663	704
Equity in (earnings) losses of affiliates	(65)	(127)
(Increase) decrease in notes and accounts receivable	(4,297)	1,558
(Increase) decrease in inventories	(15,897)	(15,666)
Increase (decrease) in notes and accounts payable	11,552	(2,133)
Other	(352)	(2,640)
Subtotal	38,051	66,025
Interest and dividends received	865	1,140
Interest paid	(420)	(388)
Interest paid on other debt	(1,003)	(704)
Income tax paid	(4,349)	(26,810)
Net cash provided by operating activities	33,143	39,262

(Millions of yen)

	First Half Ended June 30, 2017 (From January 1 to June 30, 2017)	First Half Ended June 30, 2018 (From January 1 to June 30, 2018)
Cash Flows from Investing Activities:		
Transfers to time deposits	(14,478)	(17,403)
Proceeds from maturity of time deposits	12,368	17,922
Acquisition of investment securities	(3)	(982)
Proceeds from sales of investment securities	373	2,901
Acquisition of property, plant and equipment	(20,959)	(15,099)
Proceeds from sales of property, plant and equipment	425	1,531
Acquisition of intangible assets	(4,404)	(7,227)
Payments of long-term prepaid expenses	(2,993)	(3,959)
Payment for acquisition of business	–	(2,250)
Payment for acquisition of shares in a subsidiary resulting in a change in the scope of consolidation	(4,715)	–
Other	(134)	(1,601)
Net cash provided by (used in) investing activities	(34,521)	(26,168)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term debt and commercial papers	2,228	(2,878)
Proceeds from long-term debt	10,000	—
Repayment of long-term debt	(2,867)	(365)
Repayment of lease obligations	(551)	(1,110)
Repayment of long-term accounts payable	(658)	(744)
Acquisition of treasury stock	(6)	(2,414)
Disposal of treasury stock	443	127
Cash dividends paid	(3,993)	(5,936)
Cash dividends paid to non-controlling interests	(2,160)	(4,231)
Other	49	(27)
Net cash used in financing activities	2,482	(17,580)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(243)	(4,249)
Net Change in Cash and Cash Equivalents (Decrease)	861	(8,735)
Cash and Cash Equivalents at Beginning of Term	113,122	156,834
Decrease in Cash and Cash Equivalents Resulting from Exclusion of Subsidiaries from Consolidation	(0)	–
Cash and Cash Equivalents at End of Term	113,983	148,098

(4) Notes Concerning Consolidated Quarterly Financial Statements

(Note on Assumptions of a Going Concern)

Not applicable.

(Consolidated Quarterly Statements of Income)

Gain on Transfer of Business

First half of the fiscal year ending December 31, 2018 (From January 1 to June 30, 2018)
Net proceeds from the sale of shares in Zotos International Inc.

Loss on Business Withdrawal

First half of the fiscal year ending December 31, 2018 (From January 1 to June 30, 2018)
Expenses related to withdrawal from the wholesale cosmetics business and other businesses.

Structural Reform Expenses

First half of the fiscal year ending December 31, 2018 (From January 1 to June 30, 2018)
Structural reform expenses mainly reflect early retirement premiums included in temporary expenses incurred as a result of ongoing structural reforms across all global regions.

(Note in the Event of Major Changes in Shareholders' Equity)

Not applicable.

(Adoption of Special Accounting Treatment in Preparation of Consolidated Quarterly Financial Statements)

Not applicable.

(Changes in Accounting Policies)

Group subsidiaries that have adopted IFRS standards have implemented IFRS 15, Revenue from Contracts with Customers, from the first quarter of the current consolidated fiscal year.

Payments to some customers were previously recognized as selling, general and administrative expenses, but are deducted from net sales from the first quarter of the current consolidated fiscal year.

The impact of these changes on the profit and loss for the first half of the consolidated fiscal year ending December 31, 2018 is minor.

Moreover, the method of presentation on the Consolidated Quarterly Balance Sheets from the first quarter of the consolidated fiscal year ending December 31, 2018 has changed with the application of this standard.

As a result, the reserve for sales returns will decrease by ¥4,899 million and the refund liabilities will increase by ¥4,899 million on the Consolidated Quarterly Balance Sheets for the first half of the consolidated fiscal year ending December 31, 2018, compared to the figures under the previous accounting standard.

Please note that the method of recognition adopted in applying this standard is to recognize the cumulative impact on the initial date of application as a transitional measure.