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 summarization of accounts.

February 8, 2018

Consolidated Settlement of Accounts for the Fiscal Year Ended December 31, 2017 [Japanese Standards]

Shiseido Company, Limited

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

Annual meeting of shareholders: March 27, 2018 (plan)
Filing date of securities report: March 27, 2018 (plan)
Start of cash dividend payments: March 28, 2018 (plan)
Supplementary materials prepared: Yes
Financial results information meeting held: Yes (For institutional investors, analysts, etc.)

1. Performance for the Fiscal Year Ended December 31, 2017 (From January 1–December 31, 2017)

* 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	
Fiscal Year Ended December 31, 2017	1,005,062	[18.2%]	80,437	[118.7%]	80,327	[116.1%]	22,749	[(29.1)%]
Fiscal Year Ended December 31, 2016	850,306	[—%]	36,780	[—%]	37,174	[—%]	32,101	[—%]

Note: Comprehensive income
Fiscal Year ended December 31, 2017: ¥42,456 million [372.9%]
Fiscal Year ended December 31, 2016: ¥8,978 million [—%]

	Net Earnings per Share (Yen)	Fully Diluted Net Earnings per Share (Yen)	Return on Equity	Ordinary Income/ Total Assets	Operating Income/ Net Sales
Fiscal Year Ended December 31, 2017	56.95	56.87	5.6%	8.5%	8.0%
Fiscal Year Ended December 31, 2016	80.41	80.30	8.2%	4.2%	4.3%

[Reference] Equity in earnings/(losses) of affiliates: As of December 31, 2017: ¥284 million
As of December 31, 2016: ¥260 million

Shiseido changed its fiscal year-end from March 31 to December 31 from the fiscal year 2015. As a result, the fiscal year ended December 31, 2016 (January 1, 2016 to December 31, 2016) differs from the fiscal year ended December 31, 2015 (April 1, 2015 to December 31, 2015). As the comparative figures in 2015 and 2016 are not comparable, year-on-year change for the fiscal year ended December 31, 2016 has not been provided.

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share (Yen)
As of December 31, 2017	949,425	445,872	44.6%	1,059.84
As of December 31, 2016	934,590	413,870	42.0%	984.13

[Reference] Equity: As of December 31, 2017: ¥423,447 million
As of December 31, 2016: ¥392,963 million

Note: Effective from the first quarter of the fiscal year ended December 31, 2017, the company has made certain changes to its presentation method. Deferred tax assets and deferred tax liabilities data for the fiscal year ended December 31, 2016 has been restated retrospectively to reflect the changes.

(3) Consolidated Cash Flows

(Millions of yen)

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at Year-End
Fiscal Year Ended December 31, 2017	95,392	(1,061)	(53,117)	156,834
Fiscal Year Ended December 31, 2016	59,129	(70,640)	22,378	113,122

2. Cash Dividends

	Cash Dividends per Share (Yen)					Total Dividends Paid (Full Year) (Millions of Yen)	Payout Ratio (Consolidated)	Dividends Paid/ Net Assets (Consolidated)
	1Q	2Q	3Q	Year-End	Full Year			
Fiscal Year Ended December 31, 2016	—	10.00	—	10.00	20.00	7,985	24.9%	2.0%
Fiscal Year Ended December 31, 2017	—	12.50	—	15.00	27.50	10,986	48.3%	2.7%
Fiscal Year Ending December 31, 2018 (Forecast)	—	—	—	—	—		—	

The Shiseido Group formulated VISION 2020, a medium- to long-term strategy in 2014 while positioning the three years from fiscal years 2018 to 2020, as the period to accelerate growth in order to tackle a new strategy. We plan to announce the new three-year medium-term management plan on March 5, and will disclose the consolidated results forecasts and the dividend forecast for the fiscal year ending December 2018, the initial year of the plan.

Notes

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

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

(3) Shares outstanding (common stock) at term-end
   1) Number of shares outstanding (including treasury stock)
      As of December 31, 2017: 400,000,000
      As of December 31, 2016: 400,000,000
   2) Number of treasury stocks outstanding
      As of December 31, 2017: 460,033
      As of December 31, 2016: 700,745
   3) Average number of shares over the period
      Fiscal year ended December 31, 2017: 399,466,940
      Fiscal year ended December 31, 2016: 399,227,831

[Reference] Summary of Nonconsolidated Results

Performance in the Fiscal Year Ended December 31, 2017
(January 1–December 31, 2017)

(1) Nonconsolidated Operating Results

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

	Net Sales		Operating Income		Ordinary Income		Net Income	
Fiscal Year Ended December 31, 2017	220,407	[8.7%]	7,883	[13.1%]	23,778	[(10.2)%]	(55,232)	[—%]
Fiscal Year Ended December 31, 2016	202,774	[—%]	6,968	[—%]	26,468	[—%]	37,805	[—%]

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal Year Ended December 31, 2017	(138.26)	—
Fiscal Year Ended December 31, 2016	94.70	94.57

Shiseido changed its fiscal year-end from March 31 to December 31 from the fiscal year 2015. As a result, the fiscal year ended December 31, 2016 (January 1, 2016 to December 31, 2016) differs from the fiscal year ended December 31, 2015 (April 1, 2015 to December 31, 2015). As the comparative figures in 2015 and 2016 are not comparable, year-on-year change for the fiscal year ended December 31, 2016 has not been provided.

"Fully Diluted Net Income per Share" for the fiscal year ended December 31, 2017 is not presented because of a net loss per share, even though there are dilutive shares.

(2) Nonconsolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio (%)	Net Assets per Share (Yen)
As of December 31, 2017	582,589	334,665	57.3%	835.44
As of December 31, 2016	620,984	397,318	63.9%	992.99

[Reference] Equity at year-end:
Fiscal year ended December 31, 2017: ¥333,791 million
Fiscal year ended December 31, 2016: ¥396,500 million

*** This report is not subject to auditing.**

Contents

1. Analysis of Operating Results and Financial Position

(1) Analysis of Operating Results

(Billions of yen unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of Parent	Net Earnings per Share (Yen)	Fully Diluted Net Earnings per Share (Yen)
Fiscal Year Ended December 31, 2017	1,005.1	80.4	80.3	22.7	56.95	56.87
Fiscal Year Ended December 31, 2016	850.3	36.8	37.2	32.1	80.41	80.30
% of Change	18.2%	118.7%	116.1%	(29.1)%	(29.2)%	(29.2)%
% Change in Local Currency	16.0%					

1) Review of Performance in the Fiscal Year Ended December 31, 2017

In the fiscal year ended December 31, 2017, 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, China and the rest of Asia continued to expand steadily.

In the fiscal year ended December 31, 2015, the Shiseido Group (hereinafter “the Group”) launched its VISION 2020 medium-to-long-term strategy in a bid to ensure that it remains vital for the next 100 years. To transform “from a leader in Japan to a winner worldwide,” we are shifting all of our activities toward a consumer-oriented focus and working to globally enhance our brand value. We have positioned the three years beginning from fiscal year 2015 as a period for rebuilding our business foundation to generate outstanding growth over the next three-year period commencing fiscal year 2018. In addition to undertaking aggressive investment activities, we have established the foundation to accelerate growth.

During the period under review, the Group increased investment in the prestige category, digital communication and e-commerce, and other areas where future sales growth can be expected. We also expanded investment in marketing aimed at achieving higher growth for ***Laura Mercier***, a prestige brand focusing on makeup, which we acquired in 2016, and ***Dolce&Gabbana***, a brand that mainly offers fragrances, with which we concluded a licensing agreement in the same year. The company also expanded borderless marketing across the entire Asia region to capture Japan, China, and travel retail as one market with a focus mainly on Chinese consumers. To improve profitability, we implemented strict management of profit by business and brand and scaled back products that were not contributing sufficiently to sales and income. We also restructured our global business and brand portfolios and moved forward with such steps as the sale of Zotos International, Inc. (hereinafter, “Zotos”), a North American subsidiary.

As a result, net sales for the fiscal year under review increased 16.0% year on year on a local currency basis. This resulted from such factors as global growth in the prestige market segment where the company has increased strategic investment, and the cumulative effect of new brands added by the Group since last fiscal year. When converted into yen, net sales reached ¥1,005.1 billion, an increase of 18.2% year on year, due to the positive effect of yen depreciation.

Operating income rose 118.7% year on year to ¥80.4 billion. This was mainly due to an increase in the operating margin accompanying the growth in sales, improved efficiency in marketing investment and benefits derived from cost structure reform.

Net income attributable to owners of parent was ¥22.7 billion, a decrease of 29.1% year on year. This decrease resulted from the expense of voluntary recalls of some products and the recognition of an impairment loss on intangible and other assets related to Bare Escentuals, Inc. (hereinafter “Bare Escentuals”) in the Americas as an extraordinary loss. This loss exceeded the extraordinary income recognized for the gain on the sale of Zotos shares and related assets.

After we acquired Bare Escentuals in 2010, we were not able to achieve brand growth as planned despite expansion of consumer contact points, enhancing product development, and various other steps. Fiscal year 2017 was the final year of the first phase of VISION 2020, a phase aimed at rebuilding the business foundation. Based on our management policy of “facing reality,” we examined the future potential of our business and brands closely in order to ensure that problems are handled without delay and to enable swift response. After careful deliberation by the Board of Directors on marketing and structural reforms and an achievable profit plan that reflects those reforms, the decision was made to recognize an impairment loss.

A net loss of ¥55.2 billion was also recorded at the unconsolidated level due to a loss on the valuation of affiliated company shares stemming from the impairment loss on Bare Escentuals.

For the fiscal year under review, the consolidated operating margin was 8.0%. Consolidated return on equity was 5.6%. The major foreign currency exchange rates applied to income and expense accounting line items in the Company’s financial statements for the fiscal year under review are JPY112.2/USD, JPY126.7/EUR, and JPY16.6/CNY.

[Consolidated Performance]

(Millions of yen)

Classification		Fiscal Year Ended December 31, 2017	% of Total	Fiscal Year Ended December 31, 2016	% of Total	Year-on-Year Increase/(Decrease)		
						Amount	% Change	% Change in Local Currency
Net Sales	Japan Business	431,026	42.9%	381,232	44.8%	49,793	13.1%	13.1 %
	China Business	144,266	14.3%	118,087	13.9%	26,179	22.2%	20.1%
	Asia Pacific Business	54,169	5.4%	45,593	5.4%	8,576	18.8%	11.2%
	Americas Business	140,413	14.0%	127,499	15.0%	12,913	10.1%	6.6%
	EMEA Business	128,418	12.8%	94,138	11.1%	34,280	36.4%	30.0%
	Travel Retail Business	44,495	4.4%	24,811	2.9%	19,683	79.3%	73.8%
	Professional Business	47,959	4.8%	44,947	5.3%	3,012	6.7%	4.3%
	Other	14,314	1.4%	13,997	1.6%	316	2.3%	2.3%
	Total	1,005,062	100.0%	850,306	100.0%	154,756	18.2%	16.0%

Note: Sales by reportable segment are sales to outside customers.

(Millions of yen)

Classification		Fiscal Year Ended December 31, 2017	Ratio to Net Sales	Fiscal Year Ended December 31, 2016	Ratio to Net Sales	Year-on-Year Increase/(Decrease)	
						Amount	% Change
Operating Income (Loss)	Japan Business	83,154	18.0%	56,356	14.1%	26,797	47.6%
	China Business	11,329	7.8%	3,629	3.1%	7,700	212.2%
	Asia Pacific Business	5,745	10.3%	1,064	2.3%	4,680	439.5%
	Americas Business	(10,288)	(6.5)%	(12,799)	(9.4)%	2,510	—
	EMEA Business	(3,181)	(2.3)%	(6,712)	(6.8)%	3,531	—
	Travel Retail Business	12,361	27.6%	5,368	21.6%	6,993	130.3%
	Professional Business	2,958	6.1%	1,103	2.4%	1,854	168.1%
	Other	(12,926)	(13.9)%	(11,940)	(20.5)%	(986)	—
	Subtotal	89,154	7.8%	36,071	3.9%	53,082	147.2%
	Adjustments	(8,716)	—	708	—	(9,425)	—
	Total	80,437	8.0%	36,780	4.3%	43,657	118.7%
Ordinary Income		80,327	8.0%	37,174	4.4%	43,152	116.1%
Net Income (Loss) Attributable to Owners of Parent		22,749	2.3%	32,101	3.8%	(9,351)	(29.1)%

Notes:

1. The ratio of operating income/(loss) to net sales includes intersegment transactions.
2. Effective from the fiscal year ended December 31, 2017, the Company has revised its reportable segment classification method in line with the Group's internal financial management structure. As a result, reportable segment classifications have been changed to the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail

Business” and “Professional Business” segments.

3. “Other” includes head office administration departments, manufacturing operations as well as the activities of the Frontier Science business (production and sale of cosmetic raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment), the Restaurant business, etc.
4. The operating income/(loss) adjustment amount is mainly intersegment transaction eliminations.
5. Effective from the fiscal year ended December 31, 2017, ***bareMinerals, NARS*** etc. in the United Kingdom, which were included in the “Americas Business” under the Company’s previous segment classification, have been included in the “EMEA Business.” This reflects the change in the Company’s management structure in line with our matrix organization approach.
6. Effective from the fiscal year ended December 31, 2017, the Fragrance business in Latin America included in the “EMEA Business” under the Company’s previous segment classification has been included in the “Americas Business” in line with the aforementioned change in the Company’s management structure.
7. Segment information for the previous period has been restated in line with changes in the method of classifying reportable segments.

Results by reportable segment are provided below.

[Japan Business]
In the Japan Business, brands in the mid- to high-price range, which benefitted from increased investment in marketing, continued to perform well as sales to Japanese consumers expanded and the company steadily captured inbound demand from overseas visitors to Japan. This caused growth to outstrip market growth substantially. Our goal of achieving sustainable growth by focusing on skincare, foundation, and sun care, the three skin-related segments in which the company is strong, led to substantial growth in market share in each of those segments. Our focus on narrowing down the key brands and categories in the personal care segment to resolve certain issues and strengthening points of contact with consumers led to a rebound in sales and substantial improvement in profitability.

We also debuted the Shiseido Facial Expression Project in April 2017, an initiative to liberate women to show their intrinsic rich facial expressions, with our innovative wrinkle improvement technology that uses pure retinol as the active ingredient. The initial wrinkle-reducing product, ELIXIR SUPERIEUR Enriched Wrinkle Cream S, was launched in June, and SHISEIDO VITAL-PERFECTION Wrinklelift Deep Retinowhite 4, a second product that offers the benefits of both wrinkle reduction and skin brightening, was debuted in November. Combined sales (including China, the rest of Asia, and Travel Retail) of the two products reached 1.7 million tubes.

The factors mentioned above led to a 13.1% increase in sales in the Japan Business compared with the previous fiscal year, to ¥431.0 billion. Operating income rose 47.6 % year on year to ¥83.2 billion. This growth resulted from the effect of the cost structure reform and improvement in the efficiency of marketing investments, in addition to higher margins accompanying the growth in sales.

[China Business]
In the China Business, prestige brands such as ***SHISEIDO***, ***Clé de Peau Beauté***, and ***IPSA*** continued to record high growth by leveraging their appeal as products “made in Japan.” Growth in sales was also strong in the personal care category, driven by e-commerce sales. The majority of sales in the e-commerce segment has always been in personal care products, but sales have grown substantially due to the active launch of products in the prestige and cosmetics categories to capitalize on changes in consumer purchasing behavior, the roll-out of digital marketing, and greater marketing collaboration with a major local online site operator. We also positioned the ***ELIXIR*** brand, which is produced in Japan, as a strategic brand to take advantage of a market environment in which an increasing number of consumers are perceiving value in products “made in Japan,” and increased efforts to expand sales of products matched to the lifestyles and preferences of local consumers. We worked to improve profitability in the cosmetics category by introducing a product renewal of ***AUPRES***, which resulted in sales growth over the previous year, and reinforced self-service selling of ***Za*** and ***PURE&MILD***.

The factors mentioned above resulted in sales growth of 20.1% year on year on a local currency basis, to ¥144.3 billion, an increase of 22.2% year on year, after conversion into yen. Operating income grew 212.2% year on year to ¥11.3 billion. In addition to higher margins accompanying the increase in sales, this also reflected such factors as greater efficiency in marketing investment.

[Asia Pacific Business]
In the Asia Pacific Business, strong growth in sales of ***Clé de Peau Beauté***, ***NARS***, and other brands in the prestige category was recorded, mainly in South Korea, Thailand, and Taiwan. Sales of ***Clé de Peau Beauté*** were particularly strong in the flagship store opened in Singapore. In the cosmetics and personal care categories, sales growth was seen for ***SENKA***, which benefitted from enhanced marketing tailored to the differing consumer preferences and lifestyles in each country, and for the sunscreen ***ANESSA***, owing to an expansion of sales channels.

The above factors resulted in sales growth of 11.2 % year on year on a local currency basis, and 18.8% year on year to ¥54.2 billion when converted into yen. Operating income rose 439.5% year on year to ¥5.7 billion, boosted by improvement in the product mix and higher margins accompanying the growth in sales.

[Americas Business]
In the Americas Business, sales growth continued for brands in the prestige category such as ***NARS*** and ***SHISEIDO***. We also increased marketing investment in the ***Laura Mercier*** brand that we acquired in 2016. Sales of the ***bareMinerals*** brand, which we are working to restructure, declined compared to last fiscal year due to the impact of department store closures and to increased competition in specialty stores. The Group is pursuing a strategy of selection and concentration to further strengthen our business and brand portfolios. As part of this strategy, we acquired MATCHCo., a technology that determines the unique skin tone through a mobile app and uses the data to blend a perfectly matching custom foundation for each consumer. We also acquired Giaran, Inc., which possesses AI-based personalization technology, and sold the ***RéVive*** brand in the skincare category.

The above factors resulted in sales growth of 6.6% year on year on a local currency basis, and 10.1% year on year to ¥140.4 billion when converted into yen. Despite the decline in ***bareMinerals*** sales, combined with an increase in costs associated with the Center of Excellence and advance investment in ***Laura Mercier*** and digital marketing, the efficient use of expenditures and the beneficial increase in sales of ***NARS*** and ***SHISEIDO*** resulted in a ¥2.5 billion reduction in the operating loss from last fiscal year to ¥10.3 billion.

[EMEA Business]
In the EMEA Business, we increased marketing investment in ***Dolce&Gabbana***, for which we concluded a licensing agreement in 2016, in an effort to raise brand value. We also worked to create a more profitable business base by integrating the previously separate businesses of cosmetics and fragrances into one organization, and implementing other structural reforms such as integrating the back office and logistics systems.

Sales rose 30.0% year on year on a local currency basis, and 36.4% year on year to ¥128.4 billion when converted to yen. This increase resulted from a combination of steady growth in existing brands driven by ***NARS*** and the fragrance brand, ***narciso rodriguez***, and the additive effect of ***Dolce&Gabbana*** sales. Operating loss declined by ¥3.5 billion over last fiscal year to ¥3.2 billion due to higher margins accompanying the increase in sales, despite the increase in marketing investment and other factors.

[Travel Retail Business]
The Travel Retail Business (sale of cosmetics through airport duty-free stores and other such channels) market is expanding with the increase in travelers, mainly in Asia. We are working actively to strengthen it as one of our most important businesses to further reinforce Shiseido's position in the global prestige domain because we recognize the potential for further growth of this business. During the fiscal year under review, we actively engaged in promotions and advertising in airports around the world, introduced products exclusively available through travel retail channels, and strengthened our relationships with major retailers.

These efforts expanded sales per airport duty-free store, and resulted in substantially higher sales in South Korea, China, Thailand, and other countries in Asia. This resulted in sales growth of 73.8% year on year on a local currency basis, and growth of 79.3% year on year to ¥44.5 billion when converted to yen. Operating income soared 130.3% year on year to ¥12.4 billion on the back of such factors as improvement in productivity per store, in addition to a higher operating margin which accompanied the growth in sales.

[Professional Business]
In the Professional Business, we sell professional products such as hair care, hair styling products, hair color, and hair-perming products to hair salons, and also operate directly-owned beauty salons in Japan and Thailand. During the fiscal year under review we worked to strengthen products and marketing with the intent of accelerating growth in China and the rest of Asia.

These efforts resulted in sales growth of 4.3% year on year on a local currency basis, and 6.7% year on year to ¥48.0 billion when converted into yen. Operating income rose to ¥3.0 billion, an increase of 168.1% year on year, owing to improvement in the operating margin which accompanied the growth in sales.

In December 2017, we sold our subsidiary, Zotos, which operates a hair care business primarily in the Americas, to Henkel AG & Co. KGaA of Germany. This sale was part of our efforts to restructure our business and brand portfolios.

[Reference Information]

Details of the principal business domains and companies of each reportable segment are presented as follows.

<table>
<tr><th colspan="2">Classification</th><th>Principal Business Domains and Companies</th></tr>
<tr><td rowspan="7">Reportable Segment</td><td>Japan Business</td><td>Business in the Japan region generally (excluding PF) including the operations of such companies as Shiseido Japan Co., Ltd., domestic TR business in Japan</td></tr>
<tr><td>China Business</td><td>Business in the China region generally including the operations of such companies as Shiseido China Co., Ltd. (excluding TR and PF)</td></tr>
<tr><td>Asia Pacific Business</td><td>Operations of such companies as Shiseido Asia Pacific Pte. Ltd., business in the Asia and Oceania regions generally excluding Japan and China
(excluding TR and PF)</td></tr>
<tr><td>Americas Business</td><td>Operations of such companies as Shiseido Americas Corporation, business in the Americas region generally (excluding TR and PF)</td></tr>
<tr><td>EMEA Business</td><td>Operations of such companies as Shiseido Europe S.A., business in the EMEA (Europe, the Middle East and Africa) region generally (excluding TR)</td></tr>
<tr><td>Travel Retail Business</td><td>Operations of worldwide duty-free shops generally excluding Japan
(excluding TR in the Fragrance business)</td></tr>
<tr><td>Professional Business</td><td>Global Professional Business generally</td></tr>
<tr><td colspan="2">Other</td><td>Manufacturing operations, Frontier Science business, Restaurant business, etc.</td></tr>
</table>

Notes:

1. Professional business operations, which were included in each business segment excluding the EMEA and Travel Retail businesses under the Company’s previous segment classification, have been recorded as the separate “Professional Business” segment effective from the fiscal year ended December 31, 2017 in order to match the Company’s business management structure.
2. Manufacturing operations, the Frontier Science business, Restaurant business, etc., which were included in the “Japan Business” under the Company’s previous segment classification, have been included in the separate “Other” segment effective from the fiscal year ended December 31, 2017 in order to match the Company’s business management structure.
3. Effective from the fiscal year ended December 31, 2017, ***bareMinerals, NARS*** etc. in the United Kingdom, which were included in the “Americas Business” under the Company’s previous segment classification, have been included in the “EMEA Business.” This reflects the change in the Company’s management structure in line with our matrix organization approach.
4. Effective from the fiscal year ended December 31, 2017, the Fragrance business in Latin America, which was included in the “EMEA Business” under the Company’s previous segment classification, has been included in the “Americas Business” in line with the aforementioned change in the Company's management structure.
5. The fragrance business includes such brands as ***Dolce&Gabbana, ISSEY MIYAKE*** and ***narciso rodriguez*** and excludes the ***SHISEIDO*** fragrance.
6. PF: “Professional Business”
   TR: “Travel Retail Business”

2) Outlook for the Fiscal Year Ending December 31, 2018

The Group formulated VISION 2020, a medium- to long-term strategy in 2014 while positioning the three years from fiscal years 2018 to 2020, as the period to accelerate growth in order to tackle a new strategy. We plan to announce the new three-year medium-term management plan on March 5, and will disclose the consolidated results forecasts and the dividend forecast for the fiscal year ending December 2018, the initial year of the plan.

(2) Analysis of Financial Position

Total assets increased by ¥14.8 billion from the end of the previous fiscal year to ¥949.4 billion. This change resulted from an increase in current assets which accompanied business expansion and other assets, despite the decrease in intangible assets and other assets from the impairment loss recognized on Bare Escentuals. Total liabilities decreased by ¥17.2 billion from the end of the previous fiscal year to ¥503.6 billion. This decrease resulted from a decrease in liabilities due to repayment of debt, among other factors. Net assets increased by ¥32.0 billion to ¥445.9 billion, owing to an increase in retained earnings and other factors. The equity ratio of the period under review was 44.6%, an increase from 42.0% at the end of the previous fiscal year.

Net cash provided by operating activities totaled ¥95.4 billion for the fiscal year under review. Net cash used in investing activities totaled ¥1.1 billion. The net outflow resulted from investment in the Global Innovation Center on which construction is underway, and other investments which exceeded gains on the sale of Zotos shares and related assets. Net cash outflow from financing activities totaled ¥53.1 billion, which mainly resulted from the repayment of debt. The net cash flows from the activities above resulted in total cash and cash equivalents at the end of the fiscal year under review of ¥156.8 billion, an increase of ¥43.7 billion.

Consolidated Cash Flows (Summary)

(Billions of yen)

Category	Amount
Cash and cash equivalents at beginning of term	113.1
Net cash provided by operating activities	95.4
Net cash used in investing activities	(1.1)
[Investments in fixed assets]	[(51.2)]*
Net cash used in financing activities	(53.1)
Effect of exchange rate changes on cash and cash equivalents	2.5
Net change in cash and cash equivalents	43.7
Cash and cash equivalents at end of term	156.8

*Capital Expenditures (Billions of yen)

Category	Amount
Acquisition of property, plant, and equipment	(36.0)
Increase in intangibles	(8.6)
Long-term prepaid expenses	(6.6)

(3) Basic Shareholder Return Policy; Cash Dividends

Our total shareholder return policy emphasizes maximizing returns to shareholders through direct means, in addition to generating medium-to-long-term share price gains. To this end, our fundamental policy is to deploy growth-oriented strategic investments to drive increases in earnings and improvements in capital efficiency, which will lead to medium-to-long-term increases in dividends and higher share prices. Our medium-term profit return objective is to achieve a consolidated dividend payout ratio of 40%. Our policy is to maintain dividend payments in a stable and consistent manner, and to act appropriately while considering free cash flow levels and the market environment with respect to share buy-backs.

The Company increased its year-end dividend by ¥2.50 from the previous forecast to ¥15.00 per share for the fiscal year under review, based on the shareholder return policy noted above and in consideration of the operating results for the fiscal year under review and factors such as future business expansion. Combined with the ¥12.50 per share interim dividend, this brings the total annual dividend to ¥27.50 per share. As a result, the consolidated payout ratio for the fiscal year under review is 48.3%. We plan to announce our new medium-term management plan for the period spanning fiscal years 2018 through 2020 on March 5, 2018. Our basic shareholder return policy and other aspects of our new financial strategy will also be posted on our website at that time.

(4) Business and Other Risks

Business and other risks that could potentially affect the Group are described in its most recent Securities Report (filed on March 28, 2017). Since there are no major changes, the “Business and Other Risks” section has been omitted from this report.

(Group Website)

http://www.shiseidogroup.jp/ir/library/syoken/pdf/2016/1703all.pdf (Japanese only)

2. The Shiseido Group

For details about major changes in subsidiaries during the period, please refer to “Basis of Presenting Consolidated Financial Statements” under “4. Consolidated Financial Statements and Notes (5) Notes Concerning Consolidated Financial Statements (Basis of Presenting Consolidated Financial Statements)” on page 20.

3. Basic Approach to the Selection of Accounting Standards

The Group applies Japanese accounting standards.

We believe that financial statements based on Japanese accounting standards provide appropriate disclosure of the Group’s business results, financial position and cash flow status.

With respect to applying International Financial Reporting Standards (IFRS), we are currently undertaking an assessment while monitoring convergence with Japanese standards, revisions of IFRS itself, and the impact of changes in standards as well as the responses to such changes on our operations.

4. Consolidated Financial Statements and Notes
(1) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2016	As of December 31, 2017
ASSETS		
Current Assets:		
Cash and time deposits	120,126	166,698
Notes and accounts receivable	136,768	162,058
Short-term investments in securities	7,905	7,781
Inventories	115,672	129,954
Deferred tax assets	21,773	25,467
Other current assets	31,589	36,012
Less: Allowance for doubtful accounts	(1,933)	(1,727)
Total current assets	431,903	526,245
Fixed Assets:		
Property, Plant and Equipment:		
Buildings and structures	164,817	162,538
Less: Accumulated depreciation	(106,338)	(104,382)
Buildings and structures, net	58,478	58,156
Machinery, equipment and vehicles	86,847	81,175
Less: Accumulated depreciation	(71,867)	(63,367)
Machinery, equipment and vehicles, net	14,980	17,808
Tools, furniture and fixtures	80,371	81,783
Less: Accumulated depreciation	(55,969)	(56,520)
Tools, furniture and fixtures, net	24,402	25,262
Land	36,604	36,971
Leased assets	7,414	7,244
Less: Accumulated depreciation	(4,096)	(3,957)
Leased assets, net	3,317	3,286
Construction in progress	18,411	17,196
Total property, plant and equipment	156,194	158,681
Intangible Assets:		
Goodwill	59,795	12,166
Leased assets	401	247
Trademarks	146,209	121,347
Other intangible assets	39,927	34,825
Total intangible assets	246,333	168,586
Investments and Other Assets:		
Investments in securities	24,899	26,280
Long-term loans receivable	240	90
Long-term prepaid expenses	13,377	13,991
Deferred tax assets	37,800	30,658
Other investments	23,874	25,131
Less: Allowance for doubtful accounts	(33)	(241)
Total investments and other assets	100,158	95,910
Total Fixed Assets	502,687	423,179
Total Assets	934,590	949,425

(Millions of yen)

	As of December 31, 2016	As of December 31, 2017
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	51,080	49,140
Electronically recorded obligations - operating	32,312	37,892
Short-term debt	6,339	8,540
Commercial papers	5,243	–
Current portion of long-term debt	3,230	731
Lease obligations	1,744	1,391
Other payables	43,453	59,903
Accrued income taxes	5,561	25,032
Reserve for sales returns	12,948	14,012
Accrued bonuses for employees	22,110	25,019
Accrued bonuses for directors	99	119
Provision for liabilities and charges	2,024	2,005
Other current liabilities	60,539	67,590
Total current liabilities	246,687	291,379
Long-Term Liabilities:		
Bonds	40,000	40,000
Long-term debt	62,196	28,835
Lease obligations	1,826	1,966
Long-term payables	53,135	59,255
Liability for retirement benefits	94,489	73,745
Allowance for losses on guarantees	350	350
Allowance for environmental measures	376	260
Deferred tax liabilities	18,402	3,762
Other long-term liabilities	3,257	3,998
Total long-term liabilities	274,033	212,173
Total Liabilities	520,720	503,552
NET ASSETS		
Shareholders' Equity:		
Common stock	64,506	64,506
Capital surplus	70,846	70,808
Retained earnings	258,005	271,681
Treasury stock	(1,325)	(874)
Total shareholders' equity	392,033	406,121
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	7,389	8,664
Foreign currency translation adjustments	26,516	28,726
Accumulated adjustments for retirement benefits	(32,975)	(20,064)
Total accumulated other comprehensive income	930	17,326
Stock Acquisition Rights	818	874
Non-Controlling Interests in Consolidated Subsidiaries	20,087	21,550
Total Net Assets	413,870	445,872
Total Liabilities and Net Assets	934,590	949,425

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

Consolidated Statements of Income

(Millions of yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)
Net Sales	850,306	1,005,062
Cost of Sales	207,553	231,327
Gross Profit	642,753	773,735
Selling, General and Administrative Expenses	605,972	693,298
Operating Income	36,780	80,437
Other Income		
Interest income	771	882
Dividend income	521	557
Equity in earnings of affiliates	260	284
Rental income	776	743
Subsidy income	624	10
Other	1,194	1,069
Total other income	4,149	3,547
Other Expenses		
Interest expense	814	991
Foreign exchange loss	1,270	216
Other interest on debt	336	1,382
Other	1,332	1,068
Total other expenses	3,754	3,658
Ordinary Income	37,174	80,327
Extraordinary Income		
Gain on sales of property, plant and equipment	9,132	1,168
Gain on sales of investments in securities	403	1,173
Gain on transfer of business	8,952	36,787
Gain on sales of shares of subsidiaries and affiliates	–	211
Total extraordinary income	18,489	39,341
Extraordinary Losses		
Loss on disposal of property, plant and equipment	1,010	2,181
Impairment loss	153	70,922
Loss on sales of investments in securities	0	27
Loss on revaluation of investments in securities	21	–
Structural reform expenses	4,037	4,479
Voluntary product recall-related expenses	–	3,233
Loss on liquidation of subsidiaries and affiliates	–	136
Temporary expenses associated with reforms to human resource systems	–	130
Information security expenses	574	–
Total extraordinary losses	5,797	81,112
Income before Income Taxes	49,866	38,555
Income Taxes – Current	17,507	29,416
Income Taxes – Deferred	(1,565)	(16,215)
Total Income Taxes	15,941	13,200
Net Income	33,925	25,355
Net Income Attributable to Non-Controlling Interests	1,823	2,606
Net Income Attributable to Owners of Parent	32,101	22,749

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)
Net Income	33,925	25,355
Other Comprehensive Income		
Unrealized gains (losses) on available-for-sale securities	(813)	1,166
Foreign currency translation adjustments	(14,906)	3,073
Adjustment for retirement benefits	(9,136)	12,890
Share of other comprehensive income of associates accounted for under the equity method	(90)	(30)
Total other comprehensive income (loss)	(24,946)	17,100
Comprehensive Income	8,978	42,456
(Breakdown)		
Comprehensive income attributable to owners of parent	8,367	39,145
Comprehensive income attributable to non-controlling interests	611	3,310

(3) Consolidated Statements of Changes in Net Assets

Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity
Balance at beginning of year	64,506	70,258	233,933	(1,700)	366,999
Changes during year					
Dividend from retained earnings			(7,983)		(7,983)
Net income attributable to owners of parent			32,101		32,101
Acquisition of treasury stock				(6)	(6)
Disposal of treasury stock		11		380	392
Non-controlling interests, capital transactions, others		575	(46)		529
Net changes of items other than shareholders' equity					—
Total changes during year	—	587	24,071	374	25,033
Balance at end of year	64,506	70,846	258,005	(1,325)	392,033

	Accumulated Other Comprehensive Income				**Stock Acquisition Rights**	**Non-controlling Interests**	**Total Net Assets**
	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Accumulated Adjustment for Retirement Benefits	Total Accumulated Other Comprehensive Income			
Balance at beginning of year	8,144	40,374	(23,854)	24,664	863	20,806	413,334
Changes during year							
Dividend from retained earnings							(7,983)
Net income attributable to owners of parent							32,101
Acquisition of treasury stock							(6)
Disposal of treasury stock							392
Non-controlling interests, capital transactions, others							529
Net changes of items other than shareholders' equity	(755)	(13,858)	(9,120)	(23,734)	(44)	(718)	(24,497)
Total changes during year	(755)	(13,858)	(9,120)	(23,734)	(44)	(718)	535
Balance at end of year	7,389	26,516	(32,975)	930	818	20,087	413,870

Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)

(Millions of yen)

	Shareholders' Equity				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock, at Cost	Total Shareholders' Equity
Balance at beginning of year	64,506	70,846	258,005	(1,325)	392,033
Changes during year					
Dividend from retained earnings			(8,986)		(8,986)
Net income attributable to owners of parent			22,749		22,749
Acquisition of treasury stock				(17)	(17)
Disposal of treasury stock		43		468	511
Non-controlling interests, capital transactions, others		(81)	(87)		(168)
Net changes of items other than shareholders' equity					—
Total changes during year	—	(37)	13,675	450	14,088
Balance at end of year	64,506	70,808	271,681	(874)	406,121

	Accumulated Other Comprehensive Income				**Stock Acquisition Rights**	**Non-controlling Interests**	**Total Net Assets**
	Unrealized Gains (Losses) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Accumulated Adjustment for Retirement Benefits	Total Accumulated Other Comprehensive Income			
Balance at beginning of year	7,389	26,516	(32,975)	930	818	20,087	413,870
Changes during year							
Dividend from retained earnings							(8,986)
Net income attributable to owners of parent							22,749
Acquisition of treasury stock							(17)
Disposal of treasury stock							511
Non-controlling interests, capital transactions, others							(168)
Net changes of items other than shareholders' equity	1,275	2,210	12,910	16,395	55	1,462	17,913
Total changes during year	1,275	2,210	12,910	16,395	55	1,462	32,002
Balance at end of year	8,664	28,726	(20,064)	17,326	874	21,550	445,872

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)
Cash Flows from Operating Activities:		
Income before income taxes	49,866	38,555
Depreciation and amortization	34,480	39,614
Amortization of goodwill	4,916	4,235
Impairment loss	153	70,922
(Gain) loss on disposal of property, plant and equipment	(7,132)	1,013
(Gain) loss on sales of investments in securities	(402)	(1,146)
(Gain) loss on revaluation of investments in securities	21	—
Gain on transfer of business	(8,952)	(36,787)
Loss (Gain) on the sale of shares in subsidiaries and affiliates	–	(211)
Increase (decrease) in allowance for doubtful accounts	233	17
Increase (decrease) in reserve for sales returns	(1,526)	934
Increase (decrease) in accrued bonuses for employees	3,917	3,207
Increase (decrease) in accrued bonuses for directors	44	19
Increase (decrease) in provision for liabilities and charges	896	(207)
Increase (decrease) in provision for structural reforms	(990)	—
Increase (decrease) in liability for retirement benefits	(2,168)	(2,472)
Increase (decrease) in allowance for environmental measures	(1)	(115)
Interest and dividend income	(1,293)	(1,439)
Interest expense	814	991
Other interest on debt	336	1,382
Equity in (earnings) losses of affiliates	(260)	(284)
(Increase) decrease in notes and accounts receivable	(10,578)	(25,447)
(Increase) decrease in inventories	(9,500)	(13,287)
Increase (decrease) in notes and accounts payable	19,058	22,082
Other	2,898	4,916
Subtotal	74,831	106,494
Interest and dividends received	1,552	1,516
Interest paid	(838)	(984)
Interest paid on other debt	–	(1,736)
Income tax paid	(16,415)	(9,898)
Net cash provided by operating activities	59,129	95,392

(Millions of yen)

	Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017 to December 31, 2017)
Cash Flows from Investing Activities:		
Transfers to time deposits	(14,207)	(17,439)
Proceeds from maturity of time deposits	17,641	15,148
Acquisition of short-term investments in securities	(4)	(3)
Acquisition of investments in securities	(430)	(4)
Proceeds from sales of investment securities	650	1,922
Proceeds from transfer of business	10,938	53,549
Acquisition of property, plant and equipment	(31,366)	(36,015)
Proceeds from sales of property, plant and equipment	8,832	1,703
Acquisition of intangible assets	(32,340)	(8,618)
Payments of long-term prepaid expenses	(6,124)	(6,581)
Payment for acquisition of shares in a subsidiary resulting in a change in the scope of consolidation	(24,426)	(5,226)
Proceeds from sale of shares in a subsidiary resulting in change in the scope of consolidation	–	500
Other	197	4
Net cash provided by (used in) investing activities	(70,640)	(1,061)
Cash Flows from Financing Activities:		
Net increase (decrease) in short-term debt and commercial papers	529	(3,170)
Proceeds from long-term debt	30,000	10,000
Repayment of long-term debt	(5,738)	(45,762)
Proceeds from issuance of bonds	10,000	–
Repayment of lease obligations	(2,187)	(2,125)
Acquisition of treasury stock	(6)	(17)
Disposal of treasury stock	392	511
Cash dividends paid	(8,214)	(8,977)
Cash dividends paid to non-controlling interests	(3,359)	(2,390)
Repayment of long-term accounts payable	–	(1,145)
Sales of shares in subsidiaries not resulting in change in scope of consolidation	962	–
Other	0	(39)
Net cash used in financing activities	22,378	(53,117)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(2,672)	2,498
Net Change in Cash and Cash Equivalents (Decrease)	8,196	43,711
Cash and Cash Equivalents at Beginning of Term	104,926	113,122
Cash and Cash Equivalents at End of Term	113,122	156,834

(5) Notes Concerning Consolidated Financial Statements

(Note on Assumptions of a Going Concern)

Not applicable.

(Basis of Presenting Consolidated Financial Statements)

1. Scope of Consolidation

(1) Number of consolidated subsidiaries: 79

Apart from the change described below, principal subsidiaries are listed in the Group's most recent Securities Report (submitted March 28, 2017). Since there are no other major changes, the list is omitted from this report. Please refer to the following website for the list of principal subsidiaries.
http://www.shiseidogroup.jp/ir/library/syoken/pdf/2016/1703all.pdf (Japanese only)

[Additions: 4 companies]

MATCHCo. and JWALK, LLC have been included in the scope of consolidation following the new acquisition of shares. In addition, KODOMOLOGY Co., Ltd. and Shiseido Group Middle East LLC have been included in the scope of consolidation since they were established as subsidiaries. Furthermore, Giaran, Inc. has been merged with Shiseido Americas Corporation by way of absorption after the acquisition of new shares during the fiscal year 2017.

[Exclusions: 15 companies]

KINARI Inc., Shiseido Irica Technology Inc., Zotos International, Inc., Piidea Canada, Ltd., Joico Holdings B.V., Joico Laboratories Europe B.V., and Joico Belgium N.V. were excluded from the scope of consolidation following the transfer of shares held.

The following companies were excluded from the scope of consolidation following absorption-type mergers into other companies: Shiseido Information Network Co., Ltd. into Shiseido Japan Co., Ltd., Shiseido Professional Korea into Shiseido Korea Co., Ltd., Shiseido España S.A. into Beauté Prestige International S.A.U., Shiseido Europe S.A.S. into Beauté Prestige International S.A., Beauté Prestige International S.p.A. (Italy) into Shiseido Group Italy S.p.A., and Beauté Prestige International GmbH (Germany) into Shiseido Group Germany GmbH.

InterAct Co., Ltd. was excluded from the scope of consolidation due to its liquidation.

Shiseido India Private Limited. was excluded from the scope of consolidation because it is not materially significant.

(2) Names, etc. of main subsidiaries excluded from consolidation

Main unconsolidated subsidiary: Beauté Prestige International Ltd. (UK)

(Reason for Exclusion from Consolidation)

Unconsolidated subsidiaries are excluded from the scope of consolidation because they are small in size or are not involved in the main business of the company. They are materially insignificant in terms of total assets, net sales, net income (portion attributable to equity interest), and retained earnings (portion attributable to equity interest), etc., have a minimal impact on the consolidated financials, and are materially insignificant in general.

2. Matters Concerning Application of the Equity Method

(1) Number of affiliated companies accounted for by the equity method: 3

Major Company Name: Pierre Fabre Japon Co., Ltd.

(2) Nonconsolidated subsidiaries that are not accounted for by the equity method

Nonconsolidated subsidiaries that are not accounted for by the equity method including Beauté Prestige International Ltd. (UK) are small in scale and do not engage in full-scale operations, and net income (the Company's interest share) and retained earnings (the Company's interest share) have a minimal effect on the Company's consolidated financial statements. Also, these subsidiaries are insignificant in general, thus these companies are excluded from the scope of equity method application.

3. Matters Concerning the Business Terms and Other Items of Consolidated Subsidiaries

The accounts settlement dates of consolidated subsidiaries match the consolidated account settlement date.

(Consolidated Statements of Income)

<u>Gain on Transfer of Business</u>

Fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)
This gain is attributed mainly to the transfer of the shares of Zotos International, Inc. and related business assets.

<u>Gain on Sales of Shares of Subsidiaries and Affiliates</u>

Fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)
The gain is attributed to the transfer of KINARI Inc.

<u>Impairment Losses</u>

Fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)
The Company recognized impairment losses on the fixed assets of domestic and overseas subsidiaries.

Use	Type	Location
Assets for business use	Goodwill, trademarks, other intangible assets, and buildings and structures, etc.	United States
Unutilized assets, etc.	Other intangible fixed assets, etc.	China, etc.

The Group groups its business-use assets according to the minimum independent cash-flow-generating units, based on business classifications. Unutilized assets are grouped by the individual property.

As a result, the goodwill, etc. recorded at the time Bare Escentuals, Inc. was acquired in the Americas business, which are considered among the assets for business use, was written down to fair value after an impairment test based on U.S. accounting standards was performed, after consideration of all facts, including the fact that sales were trending below the plan. This impairment loss was recorded as an extraordinary loss. The breakdown is shown below. Primarily, fair value was determined by the income approach, and a discount rate of 10% was used.

Goodwill	¥43,195 million
Trademarks	¥23,711 million
Customer-related intangible assets	¥2,418 million
Buildings and structures, etc.	¥1,548 million
Total	¥70,874 million

Unutilized Group assets that are no longer expected to be used in the future have been written down to their recoverable value, resulting in a ¥48 million extraordinary loss. The recoverable amount is estimated based on the expected selling price after calculating net sale value.

Structural Reform Expenses

Fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)

Structural reform expenses mainly reflect early retiree retirement premiums and the closure of the company stores of Bare Escentuals Beauty, Inc. included in temporary expenses incurred as a result of ongoing structural reforms across all global regions.

Voluntary Product Recall-Related Expenses

Fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)

The expenses reflect voluntary recalls of products that do not meet the Company’s quality standards.

Loss on Liquidation of Subsidiaries and Affiliates

Fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)

A loss on the ongoing liquidation of a subsidiary in India.

Temporary Expenses Associated with Reforms to Human Resource Systems

Fiscal year ended December 31, 2017 (January 1, 2017 to December 31, 2017)

Temporary expenses associated with the reorganization of the human resource systems of certain employees working at the Company’s factories.

(Changes in Accounting Policies; Changes in Accounting Estimates; Restatements)

Not applicable.

(Business Combinations and Other Related Events)

Business Divestiture

The Group concluded an agreement on transferring the shares of its consolidated subsidiary, Zotos International, Inc. (hereinafter “Zotos”), which operates a professional hair care business globally, and related business assets to Henkel AG & Co. KGaA (hereinafter, Henkel) on October 26, 2017, and completed the sale of the business on December 28, 2017.

1. ***Reason for the Transfer:***

The Group has been promoting a selection and concentration strategy in order to enhance its brand portfolio across the globe and drive growth under its mid- to long-term business strategy VISION 2020, with which the Group aims to “Be a Global Winner with Our Heritage.” The Group’s Professional business plays an important role in its brand portfolio, and it plans to concentrate and boost its investment in the professional market in Asia.

While pursuing the selection and concentration strategy, the Group underwent a thorough review with Henkel regarding the transfer of Zotos, which is based in North America and generates the majority of its sales from the North American market. As a result, it arrived at the conclusion that transferring Zotos to Henkel would be the best option for Zotos and the Group, and thus, decided to sign the transfer agreement.

2. ***Name of the Transferee:***

Henkel AG & Co. KGaA

3. ***Date of the Transfer:***

December 28, 2017

4. Outline of Transaction Including Legal Form:

Share transfer for which consideration is funded only by cash

5. Name of the Subsidiary and Business Description:

(1)	Name:	Zotos International, Inc.
(2)	Business Description:	Manufacturing and distribution of professional hair care, hair color and styling products

6. Summary of Accounting Treatment Used:

(1) Amount of gain on transfer

Gain on transfer of business ¥35,999 million

(2) Book value of assets and liabilities related to the transferred business and main breakdown

Current assets	¥11,578 million
Fixed assets	¥11,647 million
Total assets	¥23,225 million

Current liabilities	¥3,752 million
Long-term liabilities	¥987 million
Total liabilities	¥4,739 million

(3) Accounting treatment

The difference between book value and sales price of the transferred shares, etc. is recorded in "Gain on transfer of business" under extraordinary income.

7. Reporting Segment of the Separated Business:

Professional Business

8. Estimated Profit Related to the Separated Business Recorded in the Consolidated Statements of Income for the Fiscal Year under Review:

Net sales	¥26,982 million
Operating income	¥2,381 million

(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 five brand categories based on consumer purchasing style (Prestige, Fragrance, Cosmetics, Personal Care and Professional) and six regions (Japan, China, Asia Pacific, the Americas, EMEA and Travel Retail). This matrix organization gives the leader in each region broad authority as well as responsibility for sales and profits to ensure flexible decision-making. In specific terms, the Company's seven reportable segments, which are mainly regions, are comprised of the "Japan Business," "China Business," "Asia Pacific Business," "Americas Business," "EMEA Business," "Travel Retail Business" and "Professional Business."

The Japan Business is mainly comprised of the domestic business by brand category (Prestige, Cosmetics and Personal Care, etc.) and the healthcare business (production and sale of health & beauty foods as well as over-the-counter drugs).

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

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

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

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

The Travel Retail Business covers the operation of worldwide duty-free stores excluding Japan by brand category (Prestige and Fragrance).

The Professional Business encompasses the manufacture and sale of hair and beauty salon products in the Americas, Japan, China, and the rest of Asia.

Other includes the manufacturing business, the frontier science business (manufacture and sale of cosmetic ingredients, etc.), and the restaurant business.

2. Method of Computing Sales, Income/(Loss), and Other Items by Reportable Segment

The accounting treatment method for the Company's reported business segments is generally the same as described in the Company's most recent Securities Report (filed on March 28, 2017) and "Basis of Presenting Consolidated Financial Statements." Segment income is based on operating income. Pricing on intersegment transactions and transfers is determined based on market conditions.

3. Sales and Income/(Loss) by Reportable Segment

Fiscal Year Ended December 31, 2016 (January 1, 2016 to December 31, 2016)

(Millions of yen)

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (Note 1)	Travel Retail Business
Net Sales						
Sales to Outside Customers	381,232	118,087	45,593	127,499	94,138	24,811
Intersegment Sales or Transfers	19,489	153	161	9,010	4,828	3
Total	400,721	118,240	45,754	136,510	98,966	24,815
Segment Income/(Loss)	56,356	3,629	1,064	(12,799)	(6,712)	5,368
Other Items						
Depreciation and Amortization	7,088	4,190	1,659	8,176	3,002	409
Amortization of Goodwill	141	385	61	3,702	-	-

	Reportable Segment	Other (Note 2)	Total	Adjustments (Note 3)	Total Shown in Consolidated Financial Statements (Note 4)
	Professional Business				
Net Sales					
Sales to Outside Customers	44,947	13,997	850,306	-	850,306
Intersegment Sales or Transfers	382	44,178	78,207	(78,207)	-
Total	45,329	58,176	928,514	(78,207)	850,306
Segment Income/(Loss)	1,103	(11,940)	36,071	708	36,780
Other Items					
Depreciation and Amortization	1,183	8,769	34,480	-	34,480
Amortization of Goodwill	624	-	4,916	-	4,916

Notes:

1. The EMEA Business includes the Middle East and African regions.
2. “Other” includes head office administration departments, manufacturing operations as well as the activities of the Frontier Science business (production and sale of cosmetic raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment), the Restaurant business, etc.
3. Segment income/(loss) adjustment is mainly intersegment transaction eliminations.
4. Segment income/(loss) is adjusted for operating income described in the consolidated statements of income.
5. Assets and liabilities by segment are not provided because they are not subject to reallocation and appraisal of management resources on a periodic basis.

(Major Impairment Loss on Fixed Assets)

Not applicable.

(Major Change in Goodwill)

Not applicable.

Fiscal Year Ended December 31, 2017
(From January 1, 2017 to December 31, 2017)

(Millions of yen)

	Reportable Segment					
	Japan Business	China Business	Asia Pacific Business	Americas Business	EMEA Business (Note 1)	Travel Retail Business
Net Sales						
Sales to Outside Customers	431,026	144,266	54,169	140,413	128,418	44,495
Intersegment Sales or Transfers	30,574	305	1,471	19,000	9,153	349
Total	461,600	144,572	55,640	159,413	137,572	44,844
Segment Income/(Loss)	83,154	11,329	5,745	(10,288)	(3,181)	12,361
Other Items						
Depreciation and Amortization	6,928	3,964	1,933	9,795	6,679	396
Amortization of Goodwill	141	396	61	3,304	-	-

	Reportable Segment	Other (Note 2)	Total	Adjustments (Note 3)	Total Shown in Consolidated Financial Statements (Note 4)
	Professional Business				
Net Sales					
Sales to Outside Customers	47,959	14,314	1,005,062	-	1,005,062
Intersegment Sales or Transfers	399	78,728	139,982	(139,982)	-
Total	48,359	93,042	1,145,045	(139,982)	1,005,062
Segment Income/(Loss)	2,958	(12,926)	89,154	(8,716)	80,437
Other Items					
Depreciation and Amortization	856	9,059	39,614	-	39,614
Amortization of Goodwill	331	-	4,235	-	4,235

Notes:

1. The EMEA Business includes the Middle East and African regions.
2. “Other” includes head office administration departments, manufacturing operations as well as the activities of the Frontier Science business (production and sale of cosmetic raw materials, medical-use drugs, medical cosmetics, precision and analytical equipment), the Restaurant business, etc.
3. Segment income/(loss) adjustment is mainly intersegment transaction eliminations.
4. Segment income/(loss) is adjusted for operating income described in the consolidated statements of income.
5. Assets and liabilities by segment are not provided because they are not subject to reallocation and appraisal of management resources on a periodic basis.

(Material Impairment Loss on Fixed Assets and Material Changes in Goodwill)

An impairment loss of ¥70,874 million is recognized in the Americas Business. Please refer to "4. Consolidated Financial Statements and Notes (5) Notes Concerning Consolidated Financial Statements (Consolidated Statements of Income)" on page 21 for details.

4. Items Related to Changes in Reportable Segments

(Changes in the Method of Classifying Reportable Segment)

The Company has revised its reportable segment classification method in line with the Group’s internal financial management structure. As a result, the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business” and “Travel Retail Business” reportable segments have been changed to the “Japan Business,” “China Business,” “Asia Pacific Business,” “Americas Business,” “EMEA Business,” “Travel Retail Business” and “Professional Business” segments effective from the fiscal year ended December 31, 2017.

In line with this change, manufacturing operations, Frontier Science business, Restaurant business, etc. included in the “Japan Business” have been included in the “Other” segment.

According to the change in the Company’s management structure in line with our matrix organization approach, ***bareMinerals, NARS*** etc. in the United Kingdom included in the “Americas Business” have been included in the “EMEA Business.” The Fragrance business in Latin America included in the “EMEA Business” has been included in the “Americas Business.”

Segment information for the previous fiscal year has been restated in line with changes in the method of classifying reportable segments.

(Per-Share Data)

(Yen)

Fiscal Year Ended December 31, 2016 (January 1, 2016–December 31, 2016)		Fiscal Year Ended December 31, 2017 (January 1, 2017–December 31, 2017)	
Net assets per share	984.13	Net assets per share	1,059.84
Net income per share	80.41	Net income per share	56.95
Net income per share (fully diluted)	80.30	Net income per share (fully diluted)	56.87

Notes: 1. The basis for calculating net assets per share is shown below.

	As of December 31, 2016	As of December 31, 2017
Total net assets (millions of yen)	413,870	445,872
Amount deducted from total net assets (millions of yen)	20,906	22,424
[Stock acquisition rights (millions of yen)]	(818)	(874)
[Non-controlling interests (millions of yen)]	(20,087)	(21,550)
Net assets at term-end related to common stock (millions of yen)	392,963	423,447
Common stock at term-end used to calculate net assets per share (1,000 shares)	399,299	399,539

2. The basis for calculating net income/(loss) per share and fully diluted net income per share is shown below.

	Fiscal Year Ended December 31, 2016 (January 1, 2016–December 31, 2016)	Fiscal Year Ended December 31, 2017 (January 1, 2017–December 31, 2017)
Net income/(loss) per share		
Net income attributable to owners of parent (millions of yen)	32,101	22,749
Amount not belonging to common stockholders (millions of yen)	–	–
Net income attributable to owners of parent related to common stock (millions of yen)	32,101	22,749
Average shares outstanding (1,000 shares)	399,227	399,466
Net income per share (fully diluted)		
Net income attributable to owners of parent adjustment (millions of yen)	–	–
Increase in common stock (1,000 shares)	533	566
(Stock options made available through new share subscription rights) (1,000 shares)	(533)	(566)
Latent shares not included in fully diluted net income per share calculation due to lack of dilution effect	–	–

(Important Subsequent Events)

Not applicable.