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.

November 8, 2018

Consolidated Settlement of Accounts for the First Nine Months 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: November 12, 2018
Start of cash dividend payments: —
Supplementary quarterly materials prepared: Yes
Quarterly financial results information meeting held: Yes (Conference call for institutional investors, analysts, etc.)

1. Performance for the First Nine Months of the Fiscal Year Ending December 31, 2018 (From January 1 to September 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 Nine Months Ended September 30, 2018	805,760	[10.2%]	101,412	[43.5%]	102,663	[45.9%]	64,000	[—%]
First Nine Months Ended September 30, 2017	731,201	[17.4%]	70,654	[82.4%]	70,370	[84.2%]	(16,958)	[—%]

Note: Comprehensive income
First Nine Months Ended September 30, 2018: ¥65,033 million [—%]
First Nine Months Ended September 30, 2017: ¥(8,907) million [—%]

	Net Earnings per Share (Yen)	Fully Diluted Net Earnings per Share (Yen)
First Nine Months Ended September 30, 2018	160.23	160.04
First Nine Months Ended September 30, 2017	(42.45)	—

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Equity Ratio
As of September 30, 2018	988,062	491,205	47.5%
As of December 31, 2017	949,425	445,872	44.6%

[Reference] Equity: As of September 30, 2018: ¥469,598 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: None

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%]	167.74

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

Notes

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries causing 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 (3) Notes Concerning Consolidated Quarterly Financial Statements (Changes in Accounting Policies)" on page 15 for further details.

(4) Shares outstanding (common stock)
   1) Number of shares outstanding (including treasury stock)

As of September 30, 2018:	400,000,000
As of December 31, 2017:	400,000,000

   2) Number of treasury stock outstanding

As of September 30, 2018:	673,079
As of December 31, 2017:	460,033

   3) Average number of shares over the period

First nine months ended September 30, 2018:	399,427,535
First nine months ended September 30, 2017:	399,445,426

Implementation status of quarterly review procedures

This Consolidated Settlement of Accounts for the First Nine Months 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 (2) Consolidated Forecasts and Other Forward-Looking Information" on page 10 for information on preconditions underlying the above outlook and other related information.

Contents

1. Analysis of Operating Results

(1) Consolidated Performance

(Millions of yen unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income (Loss) Attributable to Owners of Parent	Net Earnings per Share (Yen)
First Nine Months of the Fiscal Year Ending December 31, 2018	805,760	101,412	102,663	64,000	160.23
First Nine Months of the Fiscal Year Ended December 31, 2017	731,201	70,654	70,370	(16,958)	(42.45)
Percentage Change Increase/(Decrease)	10.2%	43.5%	45.9%	—	—
Percentage Change Increase/(Decrease) in Local Currency	9.7%				

In the first nine months 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 firm despite the occurrence of a typhoon and earthquake, 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. Growth slowed in the Americas, while 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.

The 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 employees are the source of all value creation and are actively investing in them.

Net sales in the first nine months of the fiscal year ending December 31, 2018 increased 9.7% year on year on a local currency basis. This represents organic growth of 14% year on year excluding the impact of the sale of Zotos International, Inc. (hereafter, "Zotos") and other factors. The overall growth in net sales was led by the prestige brands segment, where we are continuing to strategically strengthen investment. On a regional basis, we also engaged in strategic cross-border marketing aimed mainly at Chinese consumers across the entire Asian region, spurring growth in China and Travel Retail. When converted into Japanese yen, consolidated net sales reached ¥805.8 billion, 10.2% higher than the previous year.

As marketing investment was proactively increased, strong sales of the highly profitable prestige brands and other brands significantly improved the cost structure and contributed substantially to higher profits in Japan, China, Travel Retail, and other businesses. Operating income consequently rose to ¥101.4 billion, an increase of 43.5% year on year, and net income attributable to owners of parent in the first nine months reached ¥64.0 billion. An extraordinary loss was recognized last fiscal year due to an impairment loss on intangible assets and other assets of Bare Escentuals, Inc.

The major foreign currency exchange rates applicable to income and expense accounting line items in the Company's financial statements are US$1:¥109.6, €1:¥131.0, and CNY1:¥16.9 for the first nine months of the fiscal year under review.

[Consolidated Performance]

(Millions of yen)

Classification		First Nine Months Ended September 30, 2018	% of Total	First Nine Months Ended September 30, 2017	% of Total	Year-on-Year Increase/(Decrease)		
						Amount	% Change	Change in Local Currency
Net Sales	Japan Business	340,143	42.2%	310,582	42.5%	29,560	9.5%	9.5%
	China Business	140,540	17.5%	105,353	14.3%	35,187	33.4%	31.9%
	Asia Pacific Business	51,878	6.4%	45,166	6.2%	6,711	14.9%	13.2%
	Americas Business	94,559	11.7%	94,079	12.8%	479	0.5%	2.2%
	EMEA Business	75,072	9.3%	72,403	9.9%	2,668	3.7%	(1.1)%
	Travel Retail Business	67,256	8.3%	48,655	6.7%	18,601	38.2%	38.8%
	Professional Business	14,937	1.9%	34,810	4.8%	(19,873)	(57.1)%	(57.4)%
	Other	21,373	2.7%	20,149	2.8%	1,223	6.1%	6.1%
	Subtotal	805,760	100.0%	731,201	100.0%	74,559	10.2%	9.7%
	Adjustments	—	—	—	—	—	—	—
	Total	805,760	100.0%	731,201	100.0%	74,559	10.2%	9.7%

(Millions of yen)

Classification		Intersegment sales or sales including internal transfers between accounts	
		First Nine Months Ended September 30, 2018	First Nine Months Ended September 30, 2017
Net Sales	Japan Business	363,744	332,305
	China Business	140,800	105,469
	Asia Pacific Business	53,386	46,340
	Americas Business	122,174	105,235
	EMEA Business	84,064	79,396
	Travel Retail Business	67,377	48,748
	Professional Business	15,246	35,103
	Other	100,227	76,435
	Subtotal	947,023	829,034
	Adjustments	(141,262)	(97,833)
	Total	805,760	731,201

(Millions of yen)

Classification		First Nine Months Ended September 30, 2018	Ratio to Net Sales	First Nine Months Ended September 30, 2017	Ratio to Net Sales	Year-on-Year Increase/(Decrease)	
						Amount	% Change
Operating Income (Loss)	Japan Business	71,703	19.7%	64,338	19.4%	7,365	11.4%
	China Business	23,452	16.7%	11,151	10.6%	12,301	110.3%
	Asia Pacific Business	7,129	13.4%	6,718	14.5%	411	6.1%
	Americas Business	(9,611)	(7.9)%	(12,472)	(11.9)%	2,860	—
	EMEA Business	(4,759)	(5.7)%	(3,213)	(4.0)%	(1,546)	—
	Travel Retail Business	14,990	22.2%	12,269	25.2%	2,721	22.2%
	Professional Business	610	4.0%	2,029	5.8%	(1,419)	(69.9)%
	Other	1,019	1.0%	(4,368)	(5.7)%	5,388	—
	Subtotal	104,534	11.0%	76,452	9.2%	28,082	36.7%
	Adjustments	(3,122)	—	(5,798)	—	2,675	—
	Total	101,412	12.6%	70,654	9.7%	30,757	43.5%

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 the EMEA Business, is now included in the Asia Pacific Business. The travel retail fragrance business, which was previously included in the EMEA Business, is now included in the Travel Retail Business. ***NAVISION*** and ***2e***, which were previously included in the Other segment, are now included in the 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 the Asia Pacific Business, EMEA Business, and Travel Retail Business. The segment information for the first nine months of the previous fiscal year has been restated in line with the new method of classification.
2. From the third quarter of the current consolidated fiscal year, the results of IPSA Co., Ltd., which were previously included in the Japan Business, are now included in the Other segment. The segment information for the first nine months of the current and previous fiscal years has been restated in line with the new method of classification.
3. The Other segment includes head office administration departments, IPSA Co., Ltd., and manufacturing operations, as well as the activities of the Frontier Science business (cosmetic raw materials and pharmaceuticals), the Restaurant business, etc.
4. 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.
5. 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, growth continued in the mid- to high-price range. Performance was especially strong for the ***SHISEIDO*** brand makeup products that were updated and ***ELIXIR*** which benefitted from growth in new consumers for wrinkle-reducing cream. Despite the negative impact from the typhoons and earthquakes that occurred from July onward, tangible progress on capturing the growing inbound demand achieved by strengthening cross-border marketing throughout Asia resulted in a 9.5% increase in sales in this segment year on year, to ¥340.1 billion. Operating income rose 11.4% year on year to ¥71.7 billion, boosted by higher profit margins accompanying growth in overall sales, a lower COGS ratio, and other factors, offsetting enhanced marketing investment.

[China Business]

In the China Business, the strong performance of prestige brands such as ***SHISEIDO***, ***Clé de Peau Beauté***, and ***IPSA*** continued. Sales of the "Made in Japan" cosmetics brands ***ANESSA*** and ***ELIXIR*** surged, contributing to a 31.9% increase in sales in this segment year on year on a local currency basis. When converted into Japanese yen, segment sales grew 33.4% year on year, to ¥140.5 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 agreements resulted in strong growth in operating income to ¥23.5 billion, an increase of 110.3% year on year.

[Asia Pacific Business]

In the Asia Pacific Business, continued solid performance of ***NARS***, ***SHISEIDO***, and other prestige brands combined with strong results for ***ANESSA*** and ***SENKA*** produced steady growth in South Korea, Thailand, and other countries. This contributed to a 13.2% increase in sales in this segment year on year on a local currency basis. When converted into Japanese yen, sales increased 14.9% year on year, to ¥51.9 billion. The larger margins that accompanied higher sales and other factors resulted in 6.1% growth in operating income year on year to ¥7.1 billion.

[Americas Business]

In the Americas Business, prestige brands such as ***SHISEIDO***, ***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 in the previous fiscal year. These factors contributed to a 2.2% year-on-year growth in sales on a local currency basis. When converted into Japanese yen, sales rose 0.5% year on year to ¥94.6 billion. Organic sales growth would amount to 7% 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 by ¥2.9 billion from the previous year to ¥9.6 billion.

[EMEA Business]

In the EMEA Business, ***Dolce&Gabbana*** sales were strong, but underperformance of other fragrances resulted in a 1.1% year-on-year decrease in sales on a local currency basis. When converted into Japanese yen, sales rose 3.7% year on year to ¥75.1 billion. If the impact from the terminated agreement with Burberry is excluded, organic sales growth amounted to 2% year on year. The operating loss increased by ¥1.5 billion to ¥4.8 billion, owing to lower margins that accompanied the decline in sales and increased investment in marketing.

[Travel Retail Business]

In the Travel Retail Business, the benefits derived from active investment in marketing, which included a 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 38.8% year on year on a local currency basis. When converted into Japanese yen, sales climbed 38.2% year on year, to ¥67.3 billion. If the impact from the terminated agreement with Burberry is excluded, organic sales growth amounted to 45% year on year. Larger margins accompanying growth in sales and other factors increased operating income by 22.2% over the previous year to ¥15.0 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 in the previous fiscal year caused sales in this segment to decline 57.4% year on year on a local currency basis. When converted into Japanese yen, sales were ¥14.9 billion, a year-on-year decrease of 57.1%. If the impact of the sale of Zotos is excluded, organic sales growth amounted to 1% year on year. Lower margins resulting from the decline in sales and other factors led to a 69.9% year-on-year reduction in operating income to ¥0.6 billion.

(2) Consolidated Forecasts and Other Forward-Looking Information

There is no change in the consolidated earnings forecasts from those announced on August 8, 2018.

2. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheets

(Millions of yen)

	As of December 31, 2017	As of September 30, 2018
ASSETS		
Current Assets:		
Cash and time deposits	166,698	136,692
Notes and accounts receivable	162,058	172,916
Short-term investments in securities	7,781	1,911
Inventories	129,954	148,356
Deferred tax assets	25,467	27,775
Other current assets	36,012	37,367
Less: Allowance for doubtful accounts	(1,727)	(2,070)
Total current assets	526,245	522,949
Fixed Assets:		
Property, Plant and Equipment:		
Buildings and structures	162,538	161,639
Less: Accumulated depreciation	(104,382)	(105,070)
Buildings and structures, net	58,156	56,568
Machinery, equipment and vehicles	81,175	83,688
Less: Accumulated depreciation	(63,367)	(64,074)
Machinery, equipment and vehicles, net	17,808	19,613
Tools, furniture and fixtures	81,783	82,366
Less: Accumulated depreciation	(56,520)	(56,958)
Tools, furniture and fixtures, net	25,262	25,408
Land	36,971	36,046
Leased assets	7,244	8,063
Less: Accumulated depreciation	(3,957)	(3,494)
Leased assets, net	3,286	4,569
Construction in progress	17,196	59,674
Total property, plant and equipment	158,681	201,880
Intangible Assets:		
Goodwill	12,166	13,372
Leased assets	247	214
Trademarks	121,347	116,147
Other intangible assets	34,825	40,107
Total intangible assets	168,586	169,841
Investments and Other Assets:		
Investments in securities	26,280	24,078
Long-term loans receivable	90	88
Long-term prepaid expenses	13,991	14,809
Deferred tax assets	30,658	26,996
Other investments	25,131	27,483
Less: Allowance for doubtful accounts	(241)	(65)
Total investments and other assets	95,910	93,391
Total Fixed Assets	423,179	465,112
Total Assets	949,425	988,062

(Millions of yen)

	As of December 31, 2017	As of September 30, 2018
LIABILITIES		
Current Liabilities:		
Notes and accounts payable	49,140	39,109
Electronically recorded obligations – operating	37,892	58,271
Short-term debt	8,540	6,393
Current portion of long-term debt	731	731
Lease obligations	1,391	1,715
Other payables	59,903	49,678
Accrued income taxes	25,032	17,522
Reserve for sales returns	14,012	8,406
Refund liabilities	–	5,049
Accrued bonuses for employees	25,019	29,074
Accrued bonuses for directors	119	147
Provision for liabilities and charges	2,005	1,133
Provision for loss on business withdrawal	–	2,922
Other current liabilities	67,590	67,647
Total current liabilities	291,379	287,802
Long-Term Liabilities:		
Bonds	40,000	40,000
Long-term debt	28,835	28,470
Lease obligations	1,966	2,445
Long-term payables	59,255	56,744
Liability for retirement benefits	73,745	71,147
Allowance for loss on guarantees	350	350
Allowance for environmental measures	260	124
Deferred tax liabilities	3,762	3,670
Other long-term liabilities	3,998	6,102
Total long-term liabilities	212,173	209,055
Total Liabilities	503,552	496,857
NET ASSETS		
Shareholders' Equity:		
Common stock	64,506	64,506
Capital surplus	70,808	70,804
Retained earnings	271,681	321,645
Treasury stock	(874)	(3,079)
Total shareholders' equity	406,121	453,876
Accumulated Other Comprehensive Income:		
Unrealized gains (losses) on available-for-sale securities	8,664	7,002
Foreign currency translation adjustments	28,726	25,097
Accumulated adjustment for retirement benefits	(20,064)	(16,379)
Total accumulated other comprehensive income	17,326	15,721
Stock Acquisition Rights	874	984
Non-Controlling Interests in Consolidated Subsidiaries	21,550	20,622
Total Net Assets	445,872	491,205
Total Liabilities and Net Assets	949,425	988,062

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

Consolidated Quarterly Statements of Income Cumulative for the First Nine Months

(Millions of yen)

	First Nine Months Ended September 30, 2017 (From January 1 to September 30, 2017)	First Nine Months Ended September 30, 2018 (From January 1 to September 30, 2018)
Net Sales	731,201	805,760
Cost of Sales	168,398	170,095
Gross Profit	562,803	635,665
Selling, General and Administrative Expenses	492,148	534,253
Operating Income	70,654	101,412
Other Income		
Interest income	587	890
Dividend income	306	302
Equity in earnings of affiliates	238	213
Rental income	542	537
Subsidy income	10	2,803
Other	869	941
Total other income	2,555	5,687
Other Expenses		
Interest expense	664	563
Foreign exchange loss	426	2,260
Other interest on debt	1,019	1,049
Other	728	562
Total other expenses	2,839	4,435
Ordinary Income	70,370	102,663
Extraordinary Gains		
Gain on sales of property, plant and equipment	940	628
Gain on sales of investments in securities	299	2,715
Gain on transfer of business	–	48
Gain on sale of shares in subsidiaries and affiliates	211	–
Total extraordinary gains	1,451	3,392
Extraordinary Losses		
Loss on disposal of property, plant and equipment	895	781
Impairment loss	70,710	–
Loss on sales of investments in securities	6	–
Loss on business withdrawal	–	3,586
Structural reform expenses	1,030	310
Voluntary product recall-related expenses	3,264	–
Loss on liquidation of subsidiaries and affiliates	136	–
Temporary expenses associated with reforms to human resource systems	130	–
Total extraordinary losses	76,174	4,678
Quarterly Income (Loss) Before Income Taxes	(4,353)	101,377
Income Taxes – Current	23,745	34,962
Income Taxes – Deferred	(13,446)	(633)
Total Income Taxes	10,298	34,329
Quarterly Net Income (Loss)	(14,652)	67,048
Quarterly Net Income Attributable to Non-Controlling Interests	2,306	3,047
Quarterly Net Income (Loss) Attributable to Owners of Parent	(16,958)	64,000

Consolidated Quarterly Statements of Comprehensive Income
Cumulative for the First Nine Months

(Millions of yen)

	First Nine Months Ended September 30, 2017 (From January 1 to September 30, 2017)	First Nine Months Ended September 30, 2018 (From January 1 to September 30, 2018)
Quarterly Net Income (Loss)	(14,652)	67,048
Other Comprehensive Income		
Unrealized gains (losses) on available-for-sale securities	938	(1,581)
Foreign currency translation adjustments	(460)	(4,140)
Adjustment for retirement benefits	5,301	3,698
Share of other comprehensive income of associates accounted for under the equity method	(34)	8
Total other comprehensive income	5,744	(2,014)
Quarterly Comprehensive Income	(8,907)	65,033
(Breakdown)		
Quarterly comprehensive income attributable to owners of parent	(11,474)	62,395
Quarterly comprehensive income attributable to non-controlling interests	2,566	2,637

(3) 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 nine months of the fiscal year ending December 31, 2018 (From January 1 to September 30, 2018)
Net proceeds from the sale of shares in Zotos International, Inc.

Loss on Business Withdrawal

First nine months of the fiscal year ending December 31, 2018 (From January 1 to September 30, 2018)
Expenses related to discontinuation of some brands and withdrawal from the commercial cosmetics sales business and other businesses.

Structural Reform Expenses

First nine months of the fiscal year ending December 31, 2018 (From January 1 to September 30, 2018)
Structural reform expenses mainly reflect early retirement premiums and the closure of ***bareMinerals*** stores operated by Bare Escentuals Beauty, Inc. 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.

(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 nine months of the consolidated fiscal year ending December 31, 2018 is minor.

Moreover, the method of presentation in 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 has decreased by ¥5,049 million and refund liabilities has increased by ¥5,049 million in the Consolidated Quarterly Balance Sheets for the first nine months 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.