Consolidated Financial Results for the Fiscal Year Ended December 31, 2019 [Japanese GAAP]

February 12, 2020

Name of registrant: Milbon Co., Ltd. Tokyo Stock Exchange, First Section

Code No.: 4919 URL http://www.milbon.co.jp

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Scheduled date of annual general meeting of shareholders: March 26, 2020

Scheduled filing date for Securities Report: March 27, 2020
Scheduled starting date of dividend payments: March 26, 2020

Preparation of supplementary materials on the Consolidated Financial Results: Yes

Holding of an explanatory meeting on the Consolidated Financial Results: Yes (For institutional investors and analysts)

(Amounts of less than one million yen have been omitted.)

1. Consolidation Performance for December 2019 (January 1, 2019-December 31, 2019)

(1) Consolidated operating results (Percentages show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Year ending December 31, 2019	36,266	7.0	6,751	7.8	6,231	7.2	4,517	0.5
As of December 31, 2018	33,882	-	6,260	-	5,811	-	4,495	-

(NOTE) Comprehensive income Year ending December 31, 2019 4,601 million yen (24.7%) Fiscal year ending December 31, 2018 3,689 million yen (-%)

	Basic earnings per share	Diluted earnings per share	Return on equity (ROE)	Return on assets (ROA)	Operating income ratio
	Yen	Yen	%	%	%
Year ending December 31, 2019	137.99	—	13.1	15.3	18.6
As of December 31, 2018	137.31	—	14.0	15.0	18.5

(Reference)Equity in earnings (losses) of affiliates Fiscal Year 2019 (66) million yen Year ended December 31, 2018 (3) million yen

(NOTE)
1. From the beginning of the fiscal year under review, the Company has early adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and the "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018). In accordance with the basic treatment, the previous fiscal year has been applied retrospectively. 2. As of the fiscal year ended December 31, 2017, the Company changed its fiscal year end from December 20 to December 31. In addition, the Company changed its fiscal year-end for overseas subsidiaries from September 30 to December 31. Accordingly, the rate of change from the previous period does not appear because the year 2018 (January 1, 2,018 to December 31, 2018) and the year 2017 (December 21, 2,016 to December 31, 2017) are different from the year 2018.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
Year ending December 31, 2019	41,912	35,882	85.6	1,096.02
As of December 31, 2018	39,634	33,151	83.6	1,012.58

(Reference)Equity Fiscal Year 12/2019 35,882 million yen As of December 31, 2018: 33,151 million yen

(NOTE) Partial revision of the "Economic Criteria for Tax Effect Index" was applied from the beginning of the term of this concatenated fiscal year (No. 28 of the company's Economic Criteria No. 28, February 16, 2018). The total wealth and self-capital ratios for the December 2018 period were calculated after retrospectively applying these accounting criteria, etc.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Year ending December 31, 2019	4,486	(2,777)	(1,869)	9,376
As of December 31, 2018	6,487	(1,202)	(1,639)	9,541

2. Payment of dividends

	Annual dividends					Total dividends (Total)	Dividend payout ratio (Consolidated)	Dividends on equity (DOE) (Consolidated)
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	End of fiscal year	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
As of December 31, 2018	—	24.00	—	30.00	54.00	1,767	39.3	5.5
Year ending December 31, 2019	—	27.00	—	29.00	56.00	1,833	40.6	5.3
Fiscal Year 12/2020(forecast)	—	28.00	—	30.00	58.00		40.1	

3. Forecasts for the year ended December 2020 (January 1, 2020 to December 31, 2020)

(Percentages show year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending December 31, 2020	39,000	7.5	7,300	8.1	6,670	7.0	4,730	4.7	144.48

*Notes

(1) Significant changes in subsidiaries during the period
(changes in specified subsidiaries resulting in the change in the scope of consolidation) : None

New: 0 companies (Company name:) Exclude: 0 companies (Company name:)

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatements

1) Changes in accounting policies due to amendment to the accounting standards, etc. : None
2) Changes in accounting policies other than those in 1) above : Yes
3) Changes in accounting estimates : Yes
4) Retrospective restatements : None

(NOTE) For details, please refer to "4. Consolidated Financial Statements and Major Notes (5) Notes on Consolidated Financial Statements (Changes in Accounting Policies)" on the attached material page.

(3) Number of shares issued (common stock)

1) Number of shares issued at the end of the period (including treasury shares)	As of December 31, 2019	33,117,234 shares	As of December 31, 2018	33,117,234 shares
2) Number of treasury shares at the end of the period	As of December 31, 2019	378,250 shares	As of December 31, 2018	377,460 shares
3) Average number of shares during the period	Year ended December 31, 2019	32,739,355 shares	Year ended December 31, 2018	32,740,018 shares

*These financial statements are not subject to audit by a certified public accountant or an audit corporation.

*Explanation on the appropriate use of operating forecasts and other special instructions

Operating forecasts and other statements regarding the future presented in these materials are based on information currently available and certain assumptions deemed to be reasonable, and actual performance may differ substantially due to various factors. Please refer to "1. Overview of Operating Results, etc., (1) Progress of Business and Its Results" on page 2 of the attached materials for the assumptions underlying the forecasts and notes for using the forecasts.

○ Accompanying Materials – Contents

1. Overview of Operating Results, etc.

(1) Analysis of operating results

① Operating results for the fiscal year under review

During the consolidated fiscal year under review, the Japanese economy continued to recover moderately on the back of an improvement in the employment and income environment, but exports and production were weak. Overseas economies are generally on a recovery trend, but there are concerns about the future of the impact of the prolonged U.S.-China trade friction, the turmoil surrounding the United Kingdom's exit from the European Union, and the unstable situation in the Middle East. The operating environment in the beauty industry remains severe, as it has become a challenge to recruit and retain human resources due to the impact of population movements.

Amid this environment, the Milbon Group is working with salons premised on the goal of "Creating a Lifetime Beauty Salon meaning that supporting the creation of a lifetime beauty salon that continues to provide beauty and emotional fulfillment through lifetime beauticians with the aim of achieving a monthly productivity of 1 million yen per beautician."

Consolidated net sales for the fiscal year under review were 36,266 million yen (year-on-year increase of 7.0%). In the hair care product category, sales of Aujua grew thanks in part to the effects of new products. In addition, sales of milbon for the global market were favorable, reflecting steady progress in establishing contact points for customers in Japan and overseas. There was also continued substantial growth in the fashion color Ordeve Addicthy, which was released in 2017, in the hair coloring product category. In overseas markets, the East Asian region, mainly South Korea and, performed steadily.

Operating income was 6,751 million yen (up 7.8% year-on-year), ordinary income was 6,231 million yen (up 7.2% year-on-year), and profit attributable to owners of parent was 4,517 million yen (up 0.5% year-on-year).

From the beginning of the fiscal year under review, the Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and the "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018). The Company applied the Accounting Standard for Revenue Recognition retrospectively to the previous fiscal year in accordance with the basic treatment stipulated in Paragraph 84 of the Accounting Standard for Revenue Recognition.

Breakdown of net sales by product category and breakdown of net sales into domestic and overseas sales are shown below:

[Breakdown of consolidated net sales by product category]

(Unit: Million yen)

Product category	Previous fiscal year		Current fiscal year		Increase (decrease) amount	Year-on-year change (%)
	Amount	Ratio (%)	Amount	Ratio (%)		
Hair care products	20,222	59.7	21,328	58.8	1,105	5.5
Hair coloring products	11,857	35.0	12,994	35.8	1,137	9.6
Permanent wave products	1,544	4.5	1,515	4.2	(29)	(1.9)
Cosmetic products	-	-	165	0.5	165	-
Other	257	0.8	263	0.7	5	2.0
Total	33,882	100.0	36,266	100.0	2,383	7.0

[Breakdown of net sales into domestic and overseas sales]

(Unit: Million yen)

	Previous fiscal year		Current fiscal year		Increase (decrease) amount	Year-on-year change (%)
	Amount	Ratio (%)	Amount	Ratio (%)		
Domestic sales	28,569	84.3	30,409	83.8	1,839	6.4
Overseas sales	5,312	15.7	5,857	16.2	544	10.2
Total	33,882	100.0	36,266	100.0	2,383	7.0

② Outlook for fiscal 2020

The Environment economy has been slightly behind schedule since the consumption tax hike in October of last year. In addition, there are concerns about the impact of the slowdown in the Chinese economy caused by a new coronaviral infectious disease.

Against this backdrop, Milbon group is committed to supporting beauty salons to be the "Lifetime Beauty Salon", meaning that beauty salons will become the communities for both beauty and spiritual wealth. In addition, we have established a Basic Sustainability Policy and will contribute to the achievement of SDGs by working to develop sustainable beauty markets.

For the next fiscal year, we forecast net sales of 39 thousand million yen (up 7.5% year on year), operating income of 7.3 thousand million yen (up 8.1% year on year), ordinary income of 6,670 million yen (up 7.0% year on year), and profit attributable to owners of parent of 4,730 million yen (up 4.7% year on year).

(2) Analysis of financial position

① Assets, liabilities and net assets

Total assets at the end of the fiscal year under review increased 2,277 million yen from the end of the previous fiscal year, to 41,912 million yen.

Current assets increased 1,498 million yen from the end of the previous fiscal year to 20,330 million yen. The main factors behind this increase were increases of 837 million yen in cash and deposits, 304 million yen in notes and accounts receivable-trade, and 268 million yen in merchandise and finished goods.

Non-current assets increased 778 million yen from the end of the previous fiscal year to 21,581 million yen. The main factors behind this change were an increase of 372 million yen in buildings and structures and a decrease of 156 million yen in investment securities due to a decrease in unrealized gains on the fair value of listed stocks.

Current liabilities decreased 938 million yen from the end of the previous fiscal year to 5,407 million yen. The main factor for the change was a 694 million yen decrease in income taxes payable.

Non-current liabilities increased 484 million yen from the end of the previous fiscal year to 622 million yen. The main factor for the change was the recording of 505 million yen in asset retirement obligations.

Net assets increased 2,730 million yen from the end of the previous fiscal year to 35,882 million yen. This was mainly due to the 2,651 million yen increase in retained earnings.

As a result, the equity ratio changed from 83.6% at the end of the previous fiscal year to 85.6%. Net assets per share based on the number of shares outstanding at the end of the period were 1,096.02 yen, compared with 1,012.58 yen at the end of the previous fiscal year.

② Cash flows

Cash and cash equivalents (hereinafter “net cash”) at the end of the current consolidated fiscal year decreased by 165 million yen compared to the end of the previous consolidated fiscal year to 9,376 million yen.

The status of cash flows during the current fiscal year and the factors responsible are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities amounted to 4,486 million yen. This was mainly attributable to income before income taxes and minority interests of 6,217 million yen, depreciation and amortization of 1,493 million yen, an increase in notes and accounts receivable-trade of 300 million yen, an increase in inventories of 278 million yen, and income taxes paid of 2,264 million yen.

(Cash flows from investing activities)

Net cash used in investing activities amounted to 2,777 million yen. This was mainly attributable to purchases of property, plant and equipment of 1,098 million yen, purchases of intangible assets of 407 million yen, and payments into time deposits of 1,000 million yen.

(Cash flows from financing activities)

Net cash used in financing activities amounted to 1,869 million yen. This was mainly due to the cash dividends paid to shareholders of 1,865 million yen.

(Reference) Cash flow-related indicators

	Year ended December 20, 2015	Year ended December 20, 2016	As of December 31, 2017	As of December 31, 2018	Year ending December 31, 2019
Equity ratio (%)	85.1	85.4	82.6	83.6	85.6
Equity ratio based on market value (%)	264.2	223.3	329.6	369.2	484.3
Interest-bearing debt to cash flows ratio (%)	2.1	2.4	1.8	1.2	1.7

(Notes) Equity ratio: Equity/net assets
Equity ratio based on market value: Total market capitalization/total assets
Interest-bearing debt to cash flows ratio: Interest-bearing debt/cash flows

* All indicators were calculated using consolidated financial statements.

* Total market capitalization was calculated by multiplying the closing stock price at the end of the period by the total number of outstanding shares at the end of the period (excluding treasury shares). For the fiscal year ended December 31, 2017, total market capitalization was calculated by the following formula, due to the impact at the end of the period of ex-rights resulting from the stock split:
Closing stock price at the end of the period multiplied by (total number of outstanding shares at the end of the period plus the number of additional shares resulting from the stock split)

* Cash flows were shown as an operating cash flow in the consolidated statements of cash flows.

* Interest-bearing debt refers to all debt posted in the balance sheets upon which interest is paid. The amount of interest paid in the consolidated statements of cash flows was treated as an interest payment in the calculations above.

* Interest-coverage ratio is not shown due to the fact that there were no interest payments.

(3) Basic policy on the distribution of profit and dividends for the fiscal year under review and the following fiscal year

The Milbon Group considers the returning of profits to shareholders as an important management issue and makes it a basic policy to pay dividends in accordance with its operating results, while enhancing its business structure by maintaining internal reserves to the end of improving its earnings in the future. Moreover, we have set the target dividend payout ratio at 40%. Interim dividends are determined at the Board of Directors meetings and year-end dividends at the general meeting of shareholders, and it is the Group’s basic policy to pay dividends twice every fiscal year.

For the current fiscal year, upon comprehensively taking into account factors including our financial position and profit levels, we have decided to pay a year-end dividend of 29 yen per share. As a result, the total annual dividend per share will amount to 56 yen per share, which includes the interim dividend of 27 yen per share that has already been paid.

For the following fiscal year, we plan to pay an annual dividend of 58 yen per share.

(4) Business and other risks

Risks that could potentially affect the operating results, stock price and financial position of the Milbon Group include the following.

The future risks identified in this section are based on assessments made by the Company as of the end of the fiscal year under review. The Group recognizes the possibility of these risk events actually occurring and has prepared policies to prevent and avert such risks and take appropriate measures to minimize the impact of such risks when they do occur.

① Risks associated with global expansion

The Milbon Group is aggressively expanding its business into the overseas markets. Global expansion entails risks relating to intellectual property rights including counterfeit goods, unforeseeable changes in laws and regulations, and risks of social unrest due to terrorism, war and other factors. Such risks could have a major impact on the Group's operating results and financial position.

② Information security

The Milbon Group has taken various measures to protect information assets including customers' personal information and confidential information.However, unforeseeable events, such as the leakage of information due to unauthorized access, could have a major impact on the Group's operating results and financial position.

③ Risks associated with debt collection

The Milbon Group deliberates records necessary reserves upon regularly reviewing its business partners from both quantitative qualitative perspectives in terms of collection status. However, deterioration in the business partner's credit standing or events such as bankruptcy could have a major impact on the Group's operating results and financial position.

④ Risks associated with major accidents

The Milbon Group utilizes company cars in its sales activities. The Group implements safety measures that place maximum priority on human life, including strict control over driving and the reinforcement of safety training.However, should a major accident event occur, it could lead to the loss of the customers' and the public's trust in the Group and have a major impact on the Group's operating results and financial position.

⑤ Risks associated with product-related health hazards

Many Milbon Group products come into direct contact with consumers' hair and scalp, And as such the Milbon Group places top priority on its efforts to ensure product safety and quality.However, should an unforeseeable incident involving a major health hazard occur, it could lead to the loss of the customers' and the public's trust in the Group and have a major impact on the Group's operating results and financial position.

2. Outline of the Milbon Group

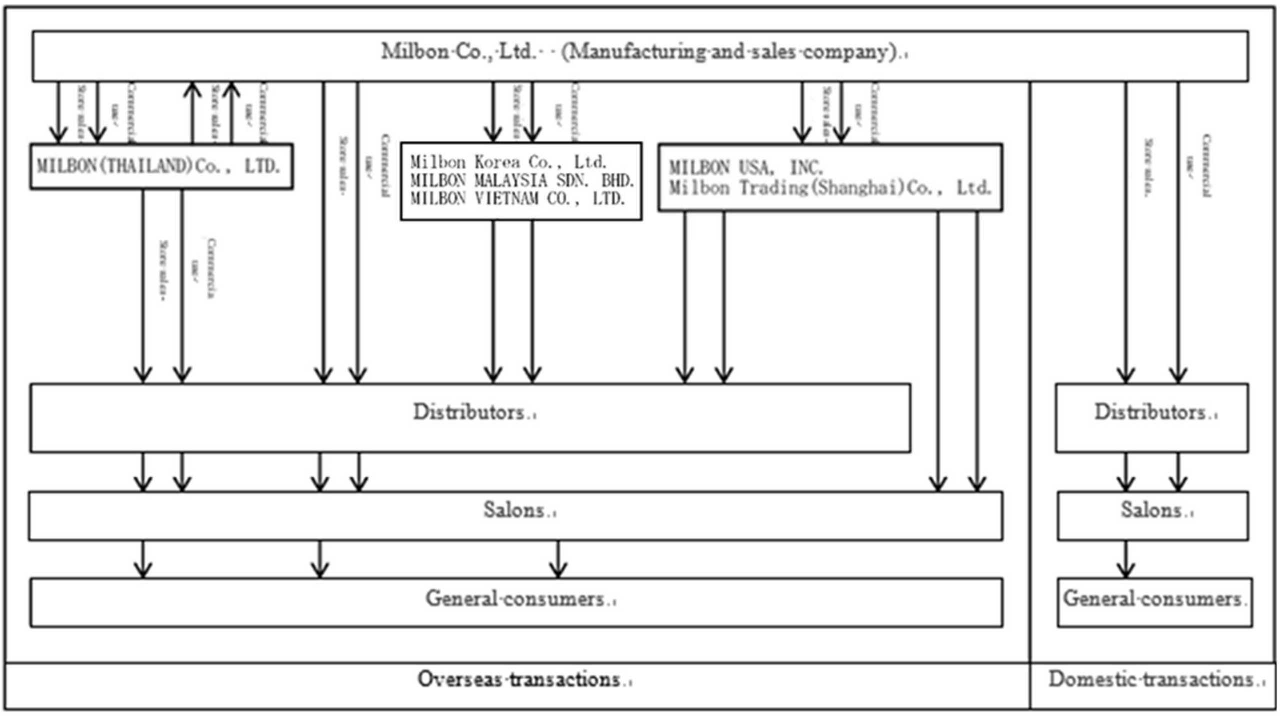
Name	Location	Capital stock or capital contribution	Main line of business	Share of voting rights Percentage (%)	Relationship with the Company
(Consolidated subsidiary) MILBON USA, INC. (NOTE) 1	United States New York State	USD 2 million	Sale of hair products	100.0	Sells the Company's hair products in the U.S.
(Consolidated subsidiary) Milbon Trading (Shanghai) Co., Ltd. (NOTE) 1	China Shanghai City	JPY 430 million	Sale of hair products	100.0	Sells the Company's hair products in China. Three executives hold concurrent posts at the Company.
(Consolidated subsidiary) Milbon Korea Co., Ltd. (NOTE) 1	South Korea Seoul City	KRW 3,000 million	Sale of hair products	100.0	Sells the Company's hair products in South Korea. Three executives hold concurrent posts at the Company.
(Consolidated subsidiary) MILBON (THAILAND) CO., LTD. (NOTE) 1	Kingdom of Thailand Rayong	THB 450 million	Manufacture and sale of hair products	100.0	Manufactures and sells the Company's hair products in Thailand.
(Consolidated subsidiary) MILBON MALAYSIA SDN. BHD.	Malaysia Kuala Lumpur	1.5 thousand thousand Malaysia Ringgit	Sale of hair products	100.0	We sell our hair cosmetics in Malaysia.
(Consolidated subsidiary) MILBON VIETNAM CO., LTD.	Vietnam Ho Chi Minh City	22,594 thousand thousand VND	Sale of hair products	100.0	We sell our hair cosmetics in Vietnam.
(Consolidated subsidiary) MILBON SINGAPORE PTE. LTD.	Singapore	250 thousand Singapore dollars	Sale of hair products	100.0	Plans to sell the Company's hair products in Singapore.

(NOTE) 1. The company falls under the category of "specified subsidiary."

2. In addition to the companies noted above, the Group has one equity-method affiliate.

The following diagram shows the positioning of Milbon Group companies and the Group's businesses.

(Diagram of business activities)



(Notes) 1.For overseas transactions, sales channels differ depending on the country.

2 The main items for store sales are hair-care products.

3 MILBON SINGAPORE PTE. LTD. was newly established in the current consolidated fiscal year, but as it has not commenced operations as of the end of Fiscal Year 2019, it has not been described in the above business chart.

3. Basic Rationale for Selecting the Accounting Standards

The Milbon Group currently prepares the consolidated financial statements according to the generally accepted accounting standards in Japan (Japanese GAAP), as it makes it possible to compare the consolidated financial statements against previous fiscal year and against other companies.

With regard to adoption of International Financial Reporting Standards (IFRS), it is the Group's policy to respond to this issue appropriately based on consideration of various domestic and international circumstances.

4. Consolidated Financial Statements and Main Notes

(1) Consolidated Balance Sheets

(Thousand yen)

	Previous fiscal year (As of December 31, 2018)	Current fiscal year (As of December 31, 2019)
Assets		
Current assets		
Cash and deposits	9,778,129	10,615,390
Notes and accounts receivable - trade	3,875,865	4,180,186
Merchandise and finished goods	3,643,382	3,912,361
Work in process	39,687	34,781
Raw materials and supplies	1,140,083	1,120,202
Other	410,547	470,610
Allowance for doubtful accounts	(56,335)	(3,185)
Total current assets	18,831,359	20,330,346
Non-current assets		
Property, plant and equipment		
Buildings and structures	11,312,678	12,015,077
Accumulated depreciation	(4,661,323)	(4,991,438)
Buildings and structures, net	6,651,355	7,023,638
Machinery, equipment and vehicles	6,541,039	6,638,981
Accumulated depreciation	(4,433,316)	(4,631,019)
Machinery, equipment and vehicles, net	2,107,722	2,007,962
Land	5,028,467	5,001,021
Construction in progress	13,830	84,801
Other	2,542,100	2,718,267
Accumulated depreciation	(2,002,027)	(2,137,166)
Other, net	540,072	581,100
Total property, plant and equipment	14,341,447	14,698,524
Intangible assets	987,821	1,174,902
Investments and other assets		
Investment securities	4,147,992	3,991,136
Long-term loans receivable	-	149,125
Net defined benefit asset	-	155,832
Deferred tax assets	324,909	204,502
Other	1,049,684	1,266,204
Allowance for doubtful accounts	(48,272)	(58,381)
Total investments and other assets	5,474,314	5,708,420
Total non-current assets	20,803,583	21,581,847
Total assets	39,634,942	41,912,194

(Thousand yen)

	Previous fiscal year (As of December 31, 2018)	Current fiscal year (As of December 31, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	865,878	797,033
Accounts payable - other	2,376,675	2,479,907
Income taxes payable	1,585,720	891,258
Provision for bonuses	419,922	397,297
Other	1,097,287	841,726
Total current liabilities	6,345,484	5,407,223
Non-current liabilities		
Net defined benefit liability	57,243	4,290
Deferred tax liabilities	-	670
Asset retirement obligations	-	505,563
Other	80,417	111,835
Total non-current liabilities	137,660	622,359
Total liabilities	6,483,145	6,029,582
Net assets		
Shareholders' equity		
Capital stock	2,000,000	2,000,000
Capital surplus	200,613	200,742
Retained earnings	30,614,693	33,266,155
Treasury shares	(558,811)	(563,197)
Total shareholders' equity	32,256,496	34,903,700
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	859,702	773,082
Foreign currency translation adjustment	264,024	267,184
Remeasurements of defined benefit plans	(228,425)	(61,355)
Total accumulated other comprehensive income	895,301	978,911
Total net assets	33,151,797	35,882,612
Total liabilities and net assets	39,634,942	41,912,194

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

Consolidated Statements of Comprehensive Income

(Thousand yen)

	Previous fiscal year (On January 1, 2018 From December 31, 2018	Current fiscal year (On January 1, 2019 To December 31, 2019
Net sales	33,882,496	36,266,444
Cost of sales	11,693,433	12,554,646
Gross profit	22,189,063	23,711,797
Selling, general and administrative expenses	15,928,538	16,959,857
Operating income	6,260,524	6,751,939
Non-operating income		
Interest income	6,980	16,380
Dividend income	60,870	64,034
Company house defrayment income	57,686	14,392
Gain on surrender of insurance	3,255	-
Subsidy income	50,528	44,013
Other	57,251	88,647
Total non-operating income	236,571	227,468
Non-operating expenses		
Sales discounts	608,641	643,133
Share of loss of entities accounted for using equity method	3,399	66,585
Foreign exchange losses	69,657	29,105
Other	4,025	9,045
Total non-operating expenses	685,723	747,869
Ordinary income	5,811,372	6,231,538
Extraordinary income		
Gain on sales of non-current assets	229	799
Gain on sales of investment securities	310,341	-
Total extraordinary income	310,571	799
Extraordinary losses		
Loss on sales of non-current assets	-	3,403
Loss on retirement of non-current assets	8,158	11,371
Total extraordinary losses	8,158	14,774
Profit before income taxes	6,113,785	6,217,563
Income taxes - current	1,583,193	1,614,943
Income taxes - deferred	35,174	85,004
Total income taxes	1,618,367	1,699,947
Profit	4,495,417	4,517,615
Profit attributable to owners of parent	4,495,417	4,517,615

Consolidated Statements of Comprehensive Income

(Thousand yen)

	Previous fiscal year (On January 1, 2018 From December 31, 2018	Current fiscal year (On January 1, 2019 To December 31, 2019
Profit	4,495,417	4,517,615
Other comprehensive income		
Valuation difference on available-for-sale securities	(472,318)	(86,620)
Foreign currency translation adjustment	(117,367)	3,159
Remeasurements of defined benefit plans, net of tax	(216,247)	167,070
Total other comprehensive income	(805,933)	83,610
Comprehensive income	3,689,484	4,601,226
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,689,484	4,601,226
Comprehensive income attributable to non-controlling interests	-	-

(3) Consolidated Statements of Changes in Shareholders' Equity

Previous fiscal year (January 1, 2018, to December 31, 2018)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	2,000,000	200,066	27,756,292	(554,227)	29,402,131
Changes of items during period					
Dividends of surplus			(1,637,016)		(1,637,016)
Profit attributable to owners of parent			4,495,417		4,495,417
Purchase of treasury shares				(4,894)	(4,894)
Disposal of treasury shares		547		309	857
Net changes of items other than shareholders' equity					
Total changes of items during period	-	547	2,858,401	(4,584)	2,854,364
Balance at end of current period	2,000,000	200,613	30,614,693	(558,811)	32,256,496

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	1,332,021	381,392	(12,178)	1,701,234	31,103,366
Changes of items during period					
Dividends of surplus					(1,637,016)
Profit attributable to owners of parent					4,495,417
Purchase of treasury shares					(4,894)
Disposal of treasury shares					857
Net changes of items other than shareholders' equity	(472,318)	(117,367)	(216,247)	(805,933)	(805,933)
Total changes of items during period	(472,318)	(117,367)	(216,247)	(805,933)	2,048,431
Balance at end of current period	859,702	264,024	(228,425)	895,301	33,151,797

Fiscal Year 2019 (January 1, 2,019 to December 31, 2019)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	
Balance at beginning of current period	2,000,000	200,613	30,614,693	(558,811)	32,256,496
Changes of items during period					
Dividends of surplus			(1,866,153)		(1,866,153)
Profit attributable to owners of parent			4,517,615		4,517,615
Purchase of treasury shares				(4,439)	(4,439)
Disposal of treasury shares		128		53	182
Net changes of items other than shareholders' equity					
Total changes of items during period	-	128	2,651,461	(4,385)	2,647,204
Balance at end of current period	2,000,000	200,742	33,266,155	(563,197)	34,903,700

	Accumulated other comprehensive income				Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of current period	859,702	264,024	(228,425)	895,301	33,151,797
Changes of items during period					
Dividends of surplus					(1,866,153)
Profit attributable to owners of parent					4,517,615
Purchase of treasury shares					(4,439)
Disposal of treasury shares					182
Net changes of items other than shareholders' equity	(86,620)	3,159	167,070	83,610	83,610
Total changes of items during period	(86,620)	3,159	167,070	83,610	2,730,815
Balance at end of current period	773,082	267,184	(61,355)	978,911	35,882,612

(4) Consolidated Statements of Cash Flows

(Thousand yen)

	Previous fiscal year (On January 1, 2018 From December 31, 2018	Current fiscal year (On January 1, 2019 To December 31, 2019
Cash flows from operating activities		
Profit before income taxes	6,113,785	6,217,563
Depreciation	1,380,881	1,493,857
Increase (decrease) in allowance for doubtful accounts	(78,710)	(43,014)
Increase (decrease) in provision for bonuses	102,079	(22,381)
Decrease (increase) in net defined benefit asset	(34,042)	82,538
Increase (decrease) in net defined benefit liability	10,092	(48,095)
Interest and dividend income	(67,850)	(80,414)
Share of (profit) loss of entities accounted for using equity method	3,399	66,585
Foreign exchange losses (gains)	(1,475)	(25,286)
Loss (gain) on sales of investment securities	(310,341)	-
Loss (gain) on sales of non-current assets	(229)	2,603
Loss on retirement of non-current assets	8,158	11,371
Decrease (increase) in notes and accounts receivable - trade	1,191,330	(300,087)
Decrease (increase) in inventories	(813,250)	(278,807)
Increase (decrease) in notes and accounts payable - trade	(272,641)	(77,902)
Other, net	1,287	(325,953)
Subtotal	7,232,471	6,672,577
Interest and dividend income received	67,849	78,297
Income taxes paid	(812,988)	(2,264,011)
Net cash provided by (used in) operating activities	6,487,332	4,486,862
Cash flows from investing activities		
Purchase of property, plant and equipment	(941,457)	(1,098,797)
Proceeds from sales of property, plant and equipment	266	2,901
Purchase of intangible assets	(396,429)	(407,709)
Payments of loans receivable	(4,110)	(150,840)
Collection of loans receivable	5,313	4,626
Payments into time deposits	(325)	(1,000,189)
Purchase of investment securities	(244,100)	-
Proceeds from sales of investment securities	476,722	-
Payments for guarantee deposits	(141,009)	(193,986)
Proceeds from collection of guarantee deposits	46,617	67,444
Proceeds from cancellation of insurance funds	6,589	-
Other, net	(10,226)	(1,160)
Net cash provided by (used in) investing activities	(1,202,149)	(2,777,709)
Cash flows from financing activities		
Net decrease (increase) in treasury shares	(4,036)	(4,257)
Cash dividends paid	(1,635,166)	(1,865,017)
Net cash provided by (used in) financing activities	(1,639,203)	(1,869,274)

(Thousand yen)

	Previous fiscal year (On January 1, 2018 From December 31, 2018	Current fiscal year (On January 1, 2019 To December 31, 2019
Effect of exchange rate change on cash and cash equivalents	(32,513)	(5,062)
Net increase (decrease) in cash and cash equivalents	3,613,466	(165,183)
Cash and cash equivalents at beginning of period	5,928,017	9,541,483
Cash and cash equivalents at end of period	※ 9,541,483	※ 9,376,300

(5) Notes regarding consolidated financial statements

(Notes regarding going concern assumption)

None

(Significant matters that serve as the basis for preparation of consolidated financial statements)

1 The scope of consolidation

Matters regarding Number of consolidated subsidiaries: 7

Names of consolidated subsidiaries

MILBON USA,INC.
Milbon Trading (Shanghai)Co.,Ltd.
Milbon Korea Co.,Ltd.
MILBON (THAILAND)CO., LTD.
MILBON MALAYSIA SDN. BHD.
MILBON VIETNAM CO., LTD.
MILBON SINGAPORE PTE. LTD.

Of the above, MILBON SINGAPORE PTE. LTD. is included in the scope of consolidation because it was newly established in the current consolidated fiscal year.

2 Matters regarding application of equity method

Number of equity-method affiliates: 1

Names of companies, etc.

KOSÉ Milbon Cosmetics Co., Ltd.

3 Matters regarding the fiscal year, etc. of consolidated subsidiaries

The account closing date of consolidated subsidiaries is the same as the consolidated account closing date.

4 Matters regarding accounting policies

(1) Valuation standards and methods for important assets

① Securities

1) Held-to-maturity bonds

Stated using the amortized cost method

2) Available-for-sale securities

With market value

Stated at market value based on the market price, etc. of the account closing date (unrealized gains and losses are reported as a separate component of net assets, and cost of sales is calculated by the moving-average method)

Market value not available

Stated at cost using the moving-average method

② Inventories

Merchandise

Stated primarily at cost using the first-in first-out method (the balance sheet value is calculated using the inventory write- down method based on decreased profitability)

Finished goods and work in process

Stated primarily at cost using the weighted average method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

Raw materials

Stated primarily at cost using the weighted average method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

Supplies

Stated primarily at cost using the last-purchase-price method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

(2) Depreciation and amortization methods for important depreciable assets

① Property, plant and equipment

They are amortized using the straight-line method.

Useful lives of principal assets are as follows.

Buildings and structures 31 to 50 years

Machinery, equipment and vehicles 6 to 8 years

② Intangible assets

They are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over the estimated period of internal use (3 to 5 years).

(3) Accounting standards for major allowances

① Allowance for doubtful accounts

To provide for possible losses on doubtful receivables, the Company and its overseas consolidated subsidiaries provide an allowance for doubtful receivables based on the historical write-off ratio for general receivables and on an estimated uncollectible amount for specific receivables, such as doubtful receivables.

② Provision for bonuses

To provide for payment of bonuses to employees (including those for employees also serving as officers), the Company and its overseas consolidated subsidiaries record the estimated amount of payment of bonuses.

(4) Accounting method for retirement benefits

① Periodic allocation of projected retirement benefits

In calculating retirement benefit obligations, the benefit formula basis is applied for allocation of projected retirement benefits to the periods up to the end of the fiscal year under review.

② Method of amortizing actuarial differences and past service costs

Actuarial differences are amortized using the straight-line method over a certain number of years (5 years) within the average remaining period of service of the corresponding employees at the time of the occurrence, starting from the fiscal year following the occurrence.

Past service costs are amortized using the straight-line method over a certain number of years (5 years) within the average remaining period of service of the corresponding employees at the time of the occurrence.

③ Adoption of simplified method in small companies

Some of the overseas consolidated subsidiaries adopt a simplified method for calculating net defined benefit liability and retirement benefit expenses, in which the amount of retirement benefit payable at fiscal year-end due to voluntary termination is recognized as retirement benefit obligations.

(5) The standards for recognition of significant revenues and expenses

We apply the Accounting Standard for Recognition of Revenue (Corporate Accounting Standard No. 29 March 30, 2018) and the Guidelines for Applying the Accounting Standard for Recognition of Revenue (Corporate Accounting Standard No. 30, March 30, 2018) and recognize revenue as being in the amount that is expected to be received in exchange for such goods or services when the promised product or service control transfers to the customer.

(6) Standard for translation of significant foreign currency dominated assets and liabilities into yen

Foreign currency denominated monetary claims and liabilities are translated into yen at the spot exchange rate on the consolidated account closing date, and translation differences are accounted for as profit or loss. The assets and liabilities of overseas consolidated subsidiaries are translated into yen at the spot exchange rate on the local account closing dates of overseas consolidated subsidiaries, while revenue and expenses are translated into yen at the average exchange rate for the period, and translation differences are recorded in foreign currency translation adjustment under net assets.

(7) Scope of funds in the consolidated statements of cash flows

Funds (cash and cash equivalents) in the consolidated statements of cash flows comprise cash on hand, deposits available for withdrawal as needed and short-term investments due for redemption within three months from the date of acquisition, which are easily cashable and are subject to minimal risk of fluctuation in value.

(8)Other significant matters in the preparation of consolidated financial statements, etc.

Taxes are accounted for by the tax

Consumption tax and other similar taxes are accounted for by the tax-exclusion method.

(Changes in accounting policies)

The Financial Statements for Revenue Recognition (Corporate Accounting Standard No. 29, March 30, 2018) and the Guidelines for Applying the Financial Statements for Revenue Recognition (Corporate Accounting Standard 30, March 30, 2018) are now applicable from the beginning of the consolidated fiscal year beginning of April 1, 2018, and therefore the Financial Statements for Revenue Recognition are being applied early on from the beginning of the current fiscal year.

When consideration arising from contracts with customers includes variable consideration, the Company includes such variable consideration within the transaction price to the extent that it is highly probable that a significant reversal of previously recognized cumulative revenue will not occur when the uncertainty is subsequently resolved. Accordingly, sales rebates previously presented as selling, general and administrative expenses are deducted from net sales and expenses related to the goods transferred to business partners free of charge according to their sales results are added to cost of sales.

The Company applied the Accounting Standard for Revenue Recognition retrospectively to the previous fiscal year in accordance with the basic treatment stipulated in Paragraph 84 of the Accounting Standard for Revenue Recognition.

As a result, net sales and gross profit for the previous fiscal year decreased by 1,302 million yen and 2,172 million yen, respectively, compared with the figures before retroactively applying these standards. However, there was no effect on operating income, ordinary income, income before income taxes and minority interests, or net income.

(Change of Labeling Methods)

(Changes due to the adoption of "Partial Revision of Accounting Standard for Tax Effect Accounting")

"Partial Revision of Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) has been applied from the beginning of the fiscal year under review. Deferred tax assets are presented as investments and other assets, and deferred tax liabilities are presented as non-current liabilities.

As a result, "Deferred tax assets" under "Current assets" decreased by 472 million yen and "Deferred tax assets" under "Investments and other assets" increased by 313 million yen in the consolidated balance sheets for the previous fiscal year. In addition, "Deferred tax liabilities" under "Non-current liabilities" decreased by 159 million yen.

Deferred tax assets of the same entity and deferred tax liabilities are presented after offsetting each other. As a result, total assets decreased by 159 million yen from the previous year.

(Changes in accounting estimates)

During the fiscal year under review, estimates of asset retirement obligations related to the obligation to restore properties to their original state at the expense of tenants vacating were changed due to the relocation of the business offices of the Company and its consolidated overseas subsidiaries.

Regarding the recognition of asset retirement obligations, in place of the recognition of liabilities, the Company has reasonably estimated the amount that it would not be possible to ultimately collect lease deposits related to the real estate rental agreement, and accounted for the amount that was borne in the current consolidated fiscal year as expenses. From the current consolidated fiscal year, however, the Company has decided to record the expense of restoration as an asset retirement obligation as an asset retirement obligation.

This was due to the fact that the total amount of restoration expenses exceeded the total amount of lease deposits in the consolidated fiscal year under review, and it was no longer permitted to apply the conventional method.

As a result, asset retirement obligations of 505,563 thousand yen were recorded in the fiscal year under review. The impact of changes in estimates is insignificant.