

## Summary of Financial Results

For the Fiscal Year Ended December 31, 2019 (Consolidated)

These financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan. The following English translation is based on the original Japanese-language document.

February 14, 2020

### **POLA ORBIS HOLDINGS INC.**

Listing: Tokyo Stock Exchange, First Section (Code No.: 4927)  
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 Annual Shareholders' Meeting: March 24, 2020  
 Filing Date of Securities Report: March 24, 2020  
 Start of Cash Dividend Payment: March 25, 2020  
 Supplemental Materials Prepared for Yearly Financial Results: Yes  
 Conference Presentation for Yearly Financial Results: Yes (for analysts)

(Amounts less than one million yen have been truncated)

### **1. Consolidated Performance for the Fiscal Year Ended December 31, 2019**

(January 1, 2019–December 31, 2019)

#### **(1) Consolidated Operating Results**

(Percentage figures indicate year-on-year change)

|        | Net Sales       |        | Operating Income |        | Ordinary Income |        | Profit Attributable to Owners of Parent |        |
|--------|-----------------|--------|------------------|--------|-----------------|--------|---|--------|
|        | Millions of yen | %      | Millions of yen  | %      | Millions of yen | %      | Millions of yen                         | %      |
| FY2019 | 219,920         | (11.5) | 31,137           | (21.2) | 30,630          | (21.4) | 19,694                                  | 134.8  |
| FY2018 | 248,574         | 1.7    | 39,496           | 1.6    | 38,954          | (0.8)  | 8,388                                   | (69.1) |

Note: Comprehensive income: FY2019: ¥19,972 million (161.8%); FY2018: ¥7,630 million (-72.5 %)

|        | Net Income Per Share | Diluted Net Income Per Share | Return on Shareholders' Equity | Ordinary Income to Total Assets | Operating Income to Net Sales |
|--------|----------------------|------------------------------|--------------------------------|---------------------------------|-------------------------------|
|        | Yen                  | Yen                          | %                              | %                               | %                             |
| FY2019 | 89.04                | 88.93                        | 10.4                           | 13.0                            | 14.2                          |
| FY2018 | 37.93                | 37.88                        | 4.3                            | 15.7                            | 15.9                          |

Reference: Equity in losses of affiliates: FY2019: ¥— million; FY2018: ¥—million

#### **(2) Consolidated Financial Position**

|                | Total Assets    | Net Assets      | Equity Ratio | Net Assets Per Share |
|----------------|-----------------|-----------------|--------------|----------------------|
|                | Millions of yen | Millions of yen | %            | Yen                  |
| At December 31 |                 |                 |              |                      |
| FY2019         | 227,256         | 191,069         | 83.9         | 862.00               |
| FY2018         | 244,596         | 188,797         | 77.0         | 851.78               |

Reference: Equity capital: At December 31, 2019: ¥190,690 million; At December 31, 2018: ¥188,395 million

#### **(3) Consolidated Cash Flows**

|        | Cash Flows from Operating Activities | Cash Flows from Investing Activities | Cash Flows from Financing Activities | Cash and Cash Equivalents at End of Period |
|--------|--------------------------------------|--------------------------------------|--------------------------------------|--|
|        | Millions of yen                      | Millions of yen                      | Millions of yen                      | Millions of yen                            |
| FY2019 | 21,127                               | (12,514)                             | (19,336)                             | 65,789                                     |
| FY2018 | 30,283                               | (9,125)                              | (20,127)                             | 76,462                                     |

## 2. Dividends

|                  | Annual Cash Dividends Per Share |        |        |          |        | Total Dividends Paid (Annual) | Payout Ratio (Consolidated) | Dividends to Net Assets (Consolidated) |
|------------------|---------------------------------|--------|--------|----------|--------|-------------------------------|-----------------------------|--|
|                  | Q1-end                          | Q2-end | Q3-end | Year-end | Total  |                               |                             |  |
|                  | Yen                             | Yen    | Yen    | Yen      | Yen    | Millions of yen               | %                           | %                                      |
| FY2018           | —                               | 35.00  | —      | 45.00    | 80.00  | 17,694                        | 210.9                       | 9.1                                    |
| FY2019           | —                               | 35.00  | —      | 81.00    | 116.00 | 25,678                        | 130.3                       | 13.5                                   |
| FY2020(Forecast) | —                               | 35.00  | —      | 45.00    | 80.00  |                               | 88.5                        |  |

Note 1: Dividend per share for Year-end of ¥81.00 for the fiscal year ended December 31, 2019 consists of ¥45.00 for ordinary dividend and ¥36.00 for commemorative dividend.

## 3. Consolidated Performance Forecast for the Fiscal Year Ending December 31, 2020

(January 1, 2020–December 31, 2020)

(Percentage figures indicate year-on-year change)

|           | Net Sales       |       | Operating Income |     | Ordinary Income |     | Profit Attributable to Owners of Parent |     | Net Income Per Share |
|-----------|-----------------|-------|------------------|-----|-----------------|-----|---|-----|----------------------|
|           | Millions of yen | %     | Millions of yen  | %   | Millions of yen | %   | Millions of yen                         | %   | Yen                  |
| Full year | 217,000         | (1.3) | 31,200           | 0.2 | 30,700          | 0.2 | 20,000                                  | 1.5 | 90.41                |

### Notes to Summary Information

- (1) Changes in significant subsidiaries during the current year  
(Changes in specific subsidiaries resulting in changes in the scope of consolidation) : None
- (2) Changes in accounting policies, accounting estimates, and restatement
- 1) Changes in accounting policies associated with revision of accounting standards : Yes
  - 2) Changes other than (2)-1) : None
  - 3) Changes in accounting estimates : None
  - 4) Restatement : None

Note: For details, please refer to page 16, “Changes in Accounting Policies” in “Notes to Consolidated Financial Statements”.

- (3) Number of shares issued and outstanding (common stock)
- 1) Number of shares issued and outstanding at the end of each period (including treasury stock)
    - At December 31, 2019 229,136,156 shares
    - At December 31, 2018 229,136,156 shares
  - 2) Number of shares of treasury stock at the end of each period
    - At December 31, 2019 7,916,253 shares
    - At December 31, 2018 7,956,853 shares
  - 3) Average number of shares issued and outstanding in each period
    - Fiscal year ended December 31, 2019 221,201,512 shares
    - Fiscal year ended December 31, 2018 221,178,693 shares

Note: The number of shares of treasury stock at December 31, 2019 includes the Company’s shares held by the officer compensation Board Incentive Plan (BIP) trust (148,600 shares). The Company’s shares held by the officer compensation BIP trust are included in shares of treasury stock that are deducted in the calculation of the average number of shares of treasury stock during the period.

**(Reference) Summary of Non-consolidated Financial Performance**

**1. Non-consolidated Financial Performance for the Fiscal Year Ended December 31, 2019**

(January 1, 2019–December 31, 2019)

**(1) Operating Results**

(Percentage figures indicate year-on-year change)

|        | Net Sales       |        | Operating Income |        | Ordinary Income |        | Net Income      |   |
|--------|-----------------|--------|------------------|--------|-----------------|--------|-----------------|---|
|        | Millions of yen | %      | Millions of yen  | %      | Millions of yen | %      | Millions of yen | % |
| FY2019 | 38,059          | 42.1   | 33,793           | 48.7   | 34,150          | 52.9   | 27,963          | — |
| FY2018 | 26,779          | (12.6) | 22,725           | (15.9) | 22,335          | (20.0) | (2,464)         | — |

|        | Net Income Per Share |  | Diluted Net Income Per Share |  |
|--------|----------------------|--|------------------------------|--|
|        | Yen                  |  | Yen                          |  |
| FY2019 | 126.42               |  | 126.27                       |  |
| FY2018 | (11.14)              |  | —                            |  |

**(2) Financial Position**

| At December 31 | Total Assets    | Net Assets      | Equity Ratio | Net Assets Per Share |
|----------------|-----------------|-----------------|--------------|----------------------|
|                | Millions of yen | Millions of yen | %            | Yen                  |
| FY2019         | 198,632         | 110,370         | 55.4         | 497.81               |
| FY2018         | 208,589         | 100,170         | 47.9         | 451.65               |

Reference: Equity capital: At December 31, 2019: ¥110,126 million; At December 31, 2018: ¥99,895 million

**Information Regarding Annual Audit Procedures**

The annual financial results report is exempt from annual audit by certified public accountants or accounting firms.

**Explanation of Appropriate Use of Performance Forecast and Other Special Items**

This report contains projections of performance and other projections based on information currently available and certain assumptions judged to be reasonable. Actual performance may differ materially from these projections resulting from changes in the economic environment and other risks and uncertainties. For performance projections, please refer to “1. Overview of Consolidated Operating Results (4) Performance Forecast” on page 6.

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## 1. Overview of Consolidated Operating Results

### (1) Overview of Consolidated Operating Results for Fiscal 2019

During the fiscal year ended December 31, 2019, the Japanese economy continued on a moderate recovery track, despite weaknesses such as personal consumption due to the effects of natural disasters and the raising of the consumption tax rate, amid continued improvement in the employment and income climate.

The domestic cosmetics market saw a slowdown in recent growth, partly reflecting the impact of China's E-commerce Law coming into effect. The market scale other than inbound consumption temporarily increased due to rush demand before the consumption tax hike and then a reactional decrease continues. In the overseas cosmetics market, a modest expansion continued with steady growth in Asia, mainly in China.

Within this market environment, the POLA ORBIS Group (the "Group") continued its efforts to achieve further improved profitability in Japan, a solid shift toward profitability from overseas operations and creations of brands for next-generation growth. The efforts were in line with the four-year medium-term management plan (from 2017 to 2020) that started in fiscal 2017.

As a result of these factors, the Group achieved the following consolidated operating results for fiscal 2019.

Consolidated net sales decreased 11.5% year on year, to ¥219,920 million, reflecting the impact of a decline in domestic inbound sales of the flagship brand POLA. Operating income declined 21.2% year on year, to ¥31,137 million, resulting from lower gross profit accompanying the decrease in sales. Ordinary income declined 21.4% year on year, to ¥30,630 million. In addition to these results, due to the effects of recording an impairment loss on non-current assets related to Jurlique and a loss on liquidation of business due to a decision to withdraw from the pharmaceuticals business in the previous year, profit attributable to owners of parent increased 134.8% year on year, to ¥19,694 million.

#### Operating Results Overview

(Millions of yen)

|   | Twelve Months Ended December 31 |                 |               |                    |
|---|---------------------------------|-----------------|---------------|--------------------|
|   | 2018                            | 2019            | Year-on-Year  |                    |
|   |                                 |                 | Amount Change | Percent Change (%) |
| Net Sales                               | ¥248,574                        | <b>¥219,920</b> | ¥(28,654)     | (11.5)             |
| Operating Income                        | 39,496                          | <b>31,137</b>   | (8,358)       | (21.2)             |
| Ordinary Income                         | 38,954                          | <b>30,630</b>   | (8,324)       | (21.4)             |
| Profit Attributable to Owners of Parent | ¥8,388                          | <b>¥19,694</b>  | ¥11,306       | 134.8              |

Operating Results by Segment

Net Sales (Segment Sales to External Customers)

(Millions of yen)

| Twelve Months Ended December 31 |                 |                 |                  |                    |
|---------------------------------|-----------------|-----------------|------------------|--------------------|
|                                 | 2018            | 2019            | Year-on-Year     |                    |
|                                 |                 |                 | Amount Change    | Percent Change (%) |
| Beauty Care                     | ¥231,207        | <b>¥214,886</b> | ¥(16,321)        | (7.1)              |
| Real Estate                     | 2,707           | <b>2,619</b>    | (87)             | (3.2)              |
| Others                          | 14,659          | <b>2,415</b>    | (12,244)         | (83.5)             |
| <b>Total</b>                    | <b>¥248,574</b> | <b>¥219,920</b> | <b>¥(28,654)</b> | <b>(11.5)</b>      |

Segment Income (Loss), Operating Income (Loss)

(Millions of yen)

| Twelve Months Ended December 31          |                |                |                 |                    |
|--|----------------|----------------|-----------------|--------------------|
|  | 2018           | 2019           | Year-on-Year    |                    |
|  |                |                | Amount Change   | Percent Change (%) |
| Beauty Care                              | ¥38,294        | <b>¥30,193</b> | ¥(8,100)        | (21.2)             |
| Real Estate                              | 1,001          | <b>1,021</b>   | 19              | 2.0                |
| Others                                   | 796            | <b>130</b>     | (665)           | (83.6)             |
| Reconciliations of Segment Income (Note) | (596)          | <b>(207)</b>   | 388             | —                  |
| <b>Total</b>                             | <b>¥39,496</b> | <b>¥31,137</b> | <b>¥(8,358)</b> | <b>(21.2)</b>      |

Note: Reconciliations of segment income refer to elimination of profits arising from inter-company transactions and expenses not allocated to reportable segments. Please see note 2 in “3. Information about Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment” on page 19 for the details of reconciliations of segment income in fiscal 2019.

### Beauty Care

The Beauty Care segment consists of the flagship brands POLA and ORBIS, the overseas brands Jurlique and H2O PLUS, and the brands under development THREE, DECENCIA, Amplitude, ITRIM, and FIVEISM × THREE.

POLA is seeking to further improve the value of its brand and strengthen its business foundation through efforts to launch highly functional products focused on the field of anti-aging and skin-whitening and to strengthen development of professional human resources who embody the value of the brand. POLA proactively engaged in product development including the launch of White Shot LX and White Shot MX, which contain a new whitening active ingredient, in May, refreshing of the APEX personalized skincare series in July, revamping of esthetic services, which incorporate state-of-the-art esthetic theory, a personalized menu and new equipment as well as professional treatment in October, and the launch of B.A GRANDLUXE III, POLA's highest grade of facial serum in November. POLA also commenced selling POLA Wrinkle Shot Serum at duty-free shops in Japan and abroad, as well as through domestic e-commerce and cross-border e-commerce. POLA will continue this sequential expansion overseas and accelerate growth in overseas operations. Although growth is ongoing in Asia, POLA recorded net sales and operating income below those of the previous year due to the slowdown in inbound demand in the domestic market, reflecting the impact of China's E-commerce Law coming into effect.

ORBIS is making efforts to enhance its presence through the creation of brand differentiation in order to re-grow into a highly profitable business. ORBIS stepped up communication centered on products that embody the world view of the brand message, "Simply you. Simply beautiful." along with consistent marketing communication. The ORBIS U anti-aging skincare series that was completely revamped in October 2018 and ORBIS DEFENCERA, the first Food for Specified Health Uses launched in Japan with recognized skincare functions, contributed to gaining new customers. However, net sales and operating income of ORBIS remained at the same levels as those of the previous year due to the effects of a decrease in existing customers, as a result of strategically narrowing down customer targets.

For overseas brands, the Group took initiatives aimed at business growth in Australia and Asia for Jurlique and in the United States, where H2O PLUS originated. In August, Jurlique launched a new product series containing rose extracts proprietary developed in-house, and contributed to gaining new customers. On the other hand, net sales fell below those of the previous year due to the reduction of wholesale in order to concentrate on directly-operated stores in Australia, and to holding back shipment of products in conjunction with the shift from the distributor model to a directly operated model in China, in an effort to recover brand presence. On the cost front, thanks to efforts such as reforming the cost structure by downsizing headquarters functions, the closing of unprofitable stores in China and the proactive reduction of fixed costs, operating losses improved compared with those of the previous year. H2O PLUS saw a deterioration in net sales and operating losses compared with those of the previous year due to withdrawal from some retailers as well as a decrease in shipments of hotel amenities, despite pursuing expansion in e-commerce channels through launching new product series, enriching the content and improving usability on the brand site.

Brands under development recorded higher net sales than those of the previous year due to growth in overseas sales of THREE, which marked the 10th anniversary of the brand's launch, as well as the contributions of Amplitude, ITRIM, and FIVEISM × THREE, which were launched in 2018. However, operating income fell below that of the previous year due to further growth investments for the new brands.

As a result of the factors noted above, net sales—sales to external customers—were ¥214,886 million, down 7.1% year on year, and operating income was ¥30,193 million, down 21.2% year on year.

### Real Estate

The Real Estate segment concentrates on the leasing of office buildings in urban areas. Efforts are currently directed at sustaining and improving rental income and reducing vacancy rates by creating attractive office environments. Another area of emphasis is the residential properties rental business. This business highlights condominiums perfect for families with young children. During fiscal 2019, although net sales fell below those of the previous year as a result of some tenants moving out, profitability increased due to the implementation of measures to improve the value of buildings as well as revision of occupancy conditions in light of the situation in the market and at other companies. As a result, operating income exceeded that of the previous year.

As a result of the above, net sales—sales to external customers—generated by the Real Estate segment totaled ¥2,619 million, down 3.2% year on year, and operating income was ¥1,021 million, up 2.0% year on year.

### Others

The Others segment is the building maintenance business.

The building maintenance business is mainly engaged in the operation and management of buildings. During fiscal 2019, net sales and operating income were below those of the previous year due to a decrease of construction orders.

As a result of the above, in addition to the impact of withdrawal from the pharmaceuticals business in January

2019, net sales—sales to external customers—generated by the Others segment totaled ¥2,415 million, down 83.5% year on year, and operating income was ¥130 million, down 83.6% year on year.

## (2) Overview of Consolidated Financial Position at End of Fiscal 2019

As of December 31, 2019, total assets stood at ¥227,256 million, down 7.1%, or ¥17,339 million, from December 31, 2018. Factors related to this change included increases of ¥1,921 million in short-term investments in securities and ¥2,419 million in software, as well as decreases of ¥10,784 million in cash and deposits, ¥5,661 million in notes and accounts receivable – trade, and ¥3,349 million in merchandise and finished goods.

Total liabilities amounted to ¥36,186 million, down 35.1%, or ¥19,612 million, from December 31, 2018. Factors related to this change included an increase of ¥669 million in lease obligations, as well as decreases of ¥2,390 million in notes and accounts payable – trade, ¥2,435 million in accounts payable – other, ¥4,057 million in income taxes payable, and ¥9,906 million in provision for loss on business liquidation.

Net assets amounted to ¥191,069 million, up 1.2%, or ¥2,272 million, from December 31, 2018. Factors related to this change included an increase of ¥19,694 million in profit attributable to owners of parent, partially offset by a decrease of ¥17,700 million in dividends from retained earnings.

## (3) Overview of Consolidated Cash Flows for Fiscal 2019

The balance of cash and cash equivalents as of December 31, 2019 was ¥65,789 million, down ¥10,673 million from the end of the previous fiscal year.

The status of cash flows from operating activities, investing activities, and financing activities for fiscal 2019, and noteworthy increases and decreases to these cash flows, are described below.

### Cash flows from operating activities

Net cash provided by operating activities decreased 30.2% from a year ago, to ¥21,127 million. The primary components contributing to an increase in net cash were ¥29,813 million in profit before income taxes, ¥7,377 million in depreciation and amortization, ¥689 million in impairment loss, ¥607 million of decrease in notes and accounts receivable – trade, and ¥1,066 million of decrease in inventories. Major components leading to a decrease in net cash were ¥675 million of decrease in provision for point program, ¥917 million of decrease in notes and accounts payable – trade and ¥16,319 million in income taxes paid.

### Cash flows from investing activities

Net cash used in investing activities increased 37.1% from a year ago, to ¥12,514 million. The main factors were an increase in net cash resulting from ¥25,510 million in proceeds from sales and redemption of short-term investments in securities, and a decrease in net cash resulting from outflows of ¥11,900 million due to purchase of short-term investments in securities and ¥14,390 million due to purchase of investments in securities for the management of surplus funds in line with investment plans, ¥4,589 million due to purchase of property, plant and equipment, and ¥4,730 million due to purchase of intangible assets.

### Cash flows from financing activities

Net cash used in financing activities decreased 3.9 % from a year ago, to ¥19,336 million. The decreases were primarily attributable to the application of ¥1,638 million in repayments of lease obligations and ¥17,697 million in cash dividends paid.

(Reference) Cash flow related indicators

|   | FY2015 | FY2016 | FY2017 | FY2018 | FY2019       |
|---|--------|--------|--------|--------|--------------|
| Equity ratio (%)                              | 76.5   | 79.9   | 78.6   | 77.0   | <b>83.9</b>  |
| Equity ratio based on market value (%)        | 188.1  | 233.2  | 346.3  | 268.5  | <b>254.5</b> |
| Cash flow/Interest-bearing debt ratio (years) | 0.1    | 0.2    | 0.1    | 0.1    | <b>0.1</b>   |
| Interest coverage ratio (times)               | 195.0  | 406.0  | 481.0  | 510.0  | <b>251.1</b> |

Equity ratio = Shareholders' equity/Total assets

Equity ratio based on market value = Market capitalization/Total assets

Cash flow/Interest-bearing debt ratio = Interest-bearing debt/Cash flow

Interest coverage ratio = Cash flow/Interest payments

Notes: 1. All indicators were calculated using consolidated financial figures.

2. Market capitalization was calculated based on the number of shares issued and outstanding, excluding treasury stock.

3. Cash flow refers to cash flows from operating activities.

4. Interest-bearing debt includes all debts on which we pay interest among the debts shown on the consolidated balance sheets.



**(4) Consolidated Performance Forecast for Fiscal 2020**

The Japanese economy is expected to continue on a moderate recovery track for the time being backed by the effects of various government policies amid a continuing trend toward improvement in the employment and income climate, despite certain weaknesses such as personal consumption. However, there is a risk of downward pressure on the Japanese economy due to changes in consumer sentiment, economic downturns in countries around the world, the effects of the outbreak of COVID-19(the novel coronavirus), and government policy trends.

Against this back drop, the Group has formulated its four-year medium-term management plan that has the goal of achieving the long-term vision through 2020 announced immediately after the listing of its shares in 2010. In order to sustain stable growth of flagship brands to lead Group earnings, bring overseas operations solidly into the black overall, expand brands under development, create new brands and pursue M&A activity, the Group will position strengthening of operations (reinforcing R&D, human resources and governance), as well as enhancement of capital efficiency and enrichment of shareholder returns, as key strategies and carry them out.

For the fiscal year ending December 31, 2020, the Group forecasts, on a consolidated basis, net sales of ¥217,000 million, down by 1.3%, operating income of ¥31,200 million, up by 0.2%, ordinary income of ¥30,700 million, up by 0.2%, and profit attributable to owners of parent of ¥20,000 million, up by 1.5% compared with the year ended December 31, 2019, considering steady execution of priority strategy and impact of COVID-19(the novel coronavirus).

**2. Basic Approach to the Selection of Accounting Standards**

Over the near term, the Group will prepare its consolidated financial statements based on Japanese GAAP, taking into account the inter-period comparability of the consolidated financial statements and comparability between companies.

With regard to the application of International Financial Reporting Standards (IFRS), the Group's policy is to take appropriate measures in light of the situation in Japan and abroad while considering.

**3. Consolidated Financial Statements and Notes****(1) Consolidated Balance Sheets**

(Millions of yen)

|  | FY2018<br>December 31, 2018 | FY2019<br>December 31, 2019 |
|--|-----------------------------|-----------------------------|
| <b>Assets</b>                              |                             |                             |
| <b>Current assets</b>                      |                             |                             |
| Cash and deposits                          | ¥ 77,332                    | ¥66,548                     |
| Notes and accounts receivable – trade      | 27,285                      | 21,624                      |
| Short-term investments in securities       | 22,597                      | 24,518                      |
| Merchandise and finished goods             | 17,034                      | 13,684                      |
| Work in process                            | 923                         | 853                         |
| Raw materials and supplies                 | 6,008                       | 5,163                       |
| Other                                      | 6,230                       | 11,617                      |
| Allowance for doubtful accounts            | (1,396)                     | (1,074)                     |
| <b>Total current assets</b>                | <b>156,016</b>              | <b>142,935</b>              |
| <b>Non-current assets</b>                  |                             |                             |
| <b>Property, plant and equipment</b>       |                             |                             |
| Buildings and structures                   | 56,324                      | 53,331                      |
| Accumulated depreciation                   | (36,973)                    | (35,464)                    |
| Buildings and structures, net              | 19,350                      | 17,866                      |
| Machinery, equipment and vehicles          | 11,814                      | 9,387                       |
| Accumulated depreciation                   | (8,458)                     | (7,058)                     |
| Machinery, equipment and vehicles, net     | 3,355                       | 2,329                       |
| Land                                       | 14,675                      | 14,094                      |
| Leased assets                              | 7,579                       | 8,082                       |
| Accumulated depreciation                   | (5,702)                     | (6,306)                     |
| Leased assets, net                         | 1,877                       | 1,775                       |
| Construction in progress                   | 379                         | 253                         |
| Other                                      | 17,555                      | 19,443                      |
| Accumulated depreciation                   | (11,367)                    | (11,775)                    |
| Other, net                                 | 6,187                       | 7,667                       |
| <b>Total property, plant and equipment</b> | <b>45,825</b>               | <b>43,987</b>               |
| <b>Intangible assets</b>                   |                             |                             |
| Right of trademark                         | 29                          | 31                          |
| Software                                   | 5,600                       | 8,019                       |
| Other                                      | 105                         | 98                          |
| <b>Total intangible assets</b>             | <b>5,735</b>                | <b>8,149</b>                |
| <b>Investments and other assets</b>        |                             |                             |
| Investments in securities                  | 22,737                      | 20,301                      |
| Long-term loans receivable                 | 71                          | 67                          |
| Deferred tax assets                        | 9,859                       | 7,386                       |
| Other                                      | 4,610                       | 4,602                       |
| Allowance for doubtful accounts            | (260)                       | (173)                       |
| <b>Total investments and other assets</b>  | <b>37,019</b>               | <b>32,184</b>               |
| <b>Total non-current assets</b>            | <b>88,580</b>               | <b>84,320</b>               |
| <b>Total assets</b>                        | <b>¥244,596</b>             | <b>¥227,256</b>             |

(Millions of yen)

|   | FY2018<br>December 31, 2018 | FY2019<br>December 31, 2019 |
|---|-----------------------------|-----------------------------|
| <b>Liabilities</b>                                    |                             |                             |
| <b>Current liabilities</b>                            |                             |                             |
| Notes and accounts payable – trade                    | ¥ 5,519                     | ¥ 3,129                     |
| Lease obligations                                     | 731                         | 1,401                       |
| Accounts payable – other                              | 15,249                      | 12,813                      |
| Income taxes payable                                  | 5,431                       | 1,374                       |
| Provision for bonuses                                 | 1,585                       | 1,490                       |
| Provision for directors' bonuses                      | 40                          | 36                          |
| Provision for sales returns                           | 26                          | 61                          |
| Provision for point program                           | 3,547                       | 2,872                       |
| Provision for loss on business liquidation            | 9,906                       | —                           |
| Other   | 4,115                       | 3,442                       |
| <b>Total current liabilities</b>                      | <b>46,154</b>               | <b>26,621</b>               |
| <b>Non-current liabilities</b>                        |                             |                             |
| Lease obligations                                     | 1,132                       | 1,590                       |
| Net defined benefit liability                         | 4,236                       | 3,872                       |
| Provision for share benefits for directors            | —                           | 36                          |
| Provision for environmental measures                  | 52                          | 52                          |
| Other   | 4,223                       | 4,012                       |
| <b>Total non-current liabilities</b>                  | <b>9,644</b>                | <b>9,564</b>                |
| <b>Total liabilities</b>                              | <b>55,799</b>               | <b>36,186</b>               |
| <b>Net assets</b>                                     |                             |                             |
| <b>Shareholders' equity</b>                           |                             |                             |
| Common stock  | 10,000                      | 10,000                      |
| Capital surplus                                       | 90,240                      | 80,785                      |
| Retained earnings                                     | 88,968                      | 100,915                     |
| Treasury stock  | (2,188)                     | (2,652)                     |
| <b>Total shareholders' equity</b>                     | <b>187,021</b>              | <b>189,047</b>              |
| <b>Accumulated other comprehensive income</b>         |                             |                             |
| Valuation difference on available-for-sale securities | 2                           | (62)                        |
| Foreign currency translation adjustments              | 2,063                       | 2,047                       |
| Remeasurements of defined benefit plans               | (691)                       | (341)                       |
| <b>Total accumulated other comprehensive income</b>   | <b>1,374</b>                | <b>1,643</b>                |
| Subscription rights to shares                         | 275                         | 243                         |
| Minority interests                                    | 125                         | 134                         |
| <b>Total net assets</b>                               | <b>188,797</b>              | <b>191,069</b>              |
| <b>Total liabilities and net assets</b>               | <b>¥244,596</b>             | <b>¥227,256</b>             |

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

## Consolidated Statements of Income

(Millions of yen)

|  | Twelve Months Ended December 31                   |   |
|--|---|---|
|  | FY2018<br>(January 1, 2018–<br>December 31, 2018) | FY2019<br>(January 1, 2019–<br>December 31, 2019) |
| Net sales  | ¥248,574  | ¥219,920  |
| Cost of sales                                      | 41,521  | 35,925  |
| Gross profit                                       | 207,052   | 183,995   |
| Selling, general and administrative expenses       |   |   |
| Sales commission                                   | 55,664  | 48,376  |
| Promotion expenses                                 | 24,518  | 22,698  |
| Packing and transportation expenses                | 5,217   | 5,034   |
| Advertising expenses                               | 12,584  | 11,486  |
| Provision of allowance for doubtful accounts       | 1,621   | 98  |
| Provision for point program                        | 3,379   | 2,657   |
| Salaries, allowances and bonuses                   | 22,752  | 21,343  |
| Welfare expenses                                   | 4,271   | 3,966   |
| Retirement benefit expenses                        | 894   | 758   |
| Provision for bonuses                              | 1,532   | 1,358   |
| Depreciation and amortization                      | 4,945   | 5,279   |
| Amortization of goodwill                           | 58  | —   |
| Other  | 30,115  | 29,798  |
| Total selling, general and administrative expenses | 167,556   | 152,857   |
| Operating income                                   | 39,496  | 31,137  |
| Non-operating income                               |   |   |
| Interest income                                    | 209   | 191   |
| Rent income  | 55  | 55  |
| Other  | 210   | 147   |
| Total non-operating income                         | 476   | 394   |
| Non-operating expenses                             |   |   |
| Interest expense                                   | 59  | 84  |
| Loss on valuation of investment securities         | —   | 180   |
| Foreign exchange losses                            | 834   | 227   |
| Compensation expenses                              | —   | 332   |
| Other  | 123   | 77  |
| Total non-operating expenses                       | 1,017   | 901   |
| Ordinary income                                    | ¥ 38,954  | ¥30,630   |

(Millions of yen)

|   | Twelve Months Ended December 31                   |   |
|---|---|---|
|   | FY2018<br>(January 1, 2018–<br>December 31, 2018) | FY2019<br>(January 1, 2019–<br>December 31, 2019) |
| Extraordinary income                              |   |   |
| Gain on sales of non-current assets               | ¥ 2   | ¥0  |
| Gain on reversal of subscription rights to shares | 26  | —   |
| Settlement received                               | —   | 286   |
| Total extraordinary income                        | 28  | 286   |
| Extraordinary losses                              |   |   |
| Loss on disposal of non-current assets            | 440   | 345   |
| Impairment loss                                   | 11,426  | 689   |
| Loss on business liquidation                      | 10,327  | —   |
| Other   | 724   | 69  |
| Total extraordinary losses                        | 22,919  | 1,104   |
| Income before income taxes                        | 16,064  | 29,813  |
| Income taxes – current                            | 12,885  | 7,835   |
| Income taxes – deferred                           | (5,210)   | 2,276   |
| Total income taxes                                | 7,675   | 10,111  |
| Net income  | 8,389   | 19,701  |
| Profit attributable to non-controlling interests  | 0   | 6   |
| Profit attributable to owners of parent           | ¥8,388  | ¥19,694   |

## Consolidated Statements of Comprehensive Income

(Millions of yen)

|   | Twelve Months Ended December 31                   |   |
|---|---|---|
|   | FY2018<br>(January 1, 2018–<br>December 31, 2018) | FY2019<br>(January 1, 2019–<br>December 31, 2019) |
| Net income  | ¥8,389  | ¥19,701   |
| Other comprehensive income  |   |   |
| Valuation difference on available-for-sale securities                 | (6)   | (64)  |
| Foreign currency translation adjustments                              | (871)   | (13)  |
| Remeasurements of defined benefit plans                               | 119   | 349   |
| Total other comprehensive income                                      | (758)   | 271   |
| Comprehensive income  | 7,630   | 19,972  |
| Comprehensive income attributable to owners of the parent             | 7,635   | 19,963  |
| Comprehensive income (loss) attributable to non-controlling interests | ¥ (5)   | ¥ 9   |

**(3) Consolidated Statements of Changes in Net Assets**

FY2018 (January 1, 2018 – December 31, 2018)

(Millions of yen)

|  | Shareholders' equity |                 |                   |                |                            |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
|  | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the period               | ¥10,000              | ¥90,240         | ¥98,273           | ¥(2,188)       | ¥196,326                   |
| Changes of items during the period                   |                      |                 |                   |                |                            |
| Dividends from retained earnings                     |                      |                 | (17,694)          |                | (17,694)                   |
| Net income attributable to owners of parent          |                      |                 | 8,388             |                | 8,388                      |
| Purchase of treasury shares                          |                      |                 |                   | (0)            | (0)                        |
| Disposal of treasury stock                           |                      | 0               |                   | 0              | 0                          |
| Net changes of items other than shareholders' equity |                      |                 |                   |                |                            |
| Total changes of items during the period             | —                    | 0               | (9,305)           | 0              | (9,305)                    |
| Balance at the end of the period                     | ¥10,000              | ¥90,240         | ¥88,968           | ¥(2,188)       | ¥187,021                   |

(Millions of yen)

|  | Accumulated other comprehensive income                |  |   |  | Subscription rights to shares | Minority interests | Total net assets |
|--|---|--|---|--|-------------------------------|--------------------|------------------|
|  | Valuation difference on available-for-sale securities | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                               |                    |                  |
| Balance at the beginning of the period               | ¥8  | ¥2,929                                   | ¥(810)                                  | ¥2,127                                       | ¥260                          | ¥131               | ¥198,845         |
| Changes of items during the period                   |   |  |   |  |                               |                    |                  |
| Dividends from retained earnings                     |   |  |   |  |                               |                    | (17,694)         |
| Net income attributable to owners of parent          |   |  |   |  |                               |                    | 8,388            |
| Purchase of treasury shares                          |   |  |   |  |                               |                    | (0)              |
| Disposal of treasury stock                           |   |  |   |  |                               |                    | 0                |
| Net changes of items other than shareholders' equity | (6)   | (865)                                    | 119                                     | (752)  | 15                            | (5)                | (743)            |
| Total changes of items during the period             | (6)   | (865)                                    | 119                                     | (752)  | 15                            | (5)                | (10,048)         |
| Balance at the end of the period                     | ¥2  | ¥2,063                                   | ¥(691)                                  | ¥1,374                                       | ¥275                          | ¥125               | ¥188,797         |

## FY2019 (January 1, 2019 – December 31, 2019)

(Millions of yen)

|  | Shareholders' equity |                 |                   |                |                            |
|--|----------------------|-----------------|-------------------|----------------|----------------------------|
|  | Common stock         | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity |
| Balance at the beginning of the period               | ¥10,000              | ¥90,240         | ¥88,968           | ¥(2,188)       | ¥187,021                   |
| Changes of items during the period                   |                      |                 |                   |                |                            |
| Dividends from retained earnings                     |                      | (9,953)         | (7,747)           |                | (17,700)                   |
| Net income attributable to owners of parent          |                      |                 | 19,694            |                | 19,694                     |
| Purchase of treasury shares                          |                      |                 |                   | (517)          | (517)                      |
| Disposal of treasury stock                           |                      | 497             |                   | 52             | 549                        |
| Net changes of items other than shareholders' equity |                      |                 |                   |                |                            |
| Total changes of items during the period             | —                    | (9,455)         | 11,947            | (464)          | 2,026                      |
| Balance at the end of the period                     | ¥10,000              | ¥80,785         | ¥100,915          | ¥(2,652)       | ¥189,047                   |

(Millions of yen)

|  | Accumulated other comprehensive income                |  |   |  | Subscription rights to shares | Minority interests | Total net assets |
|--|---|--|---|--|-------------------------------|--------------------|------------------|
|  | Valuation difference on available-for-sale securities | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                               |                    |                  |
| Balance at the beginning of the period               | ¥2  | ¥2,063                                   | ¥(691)                                  | ¥1,374                                       | ¥275                          | ¥125               | ¥188,797         |
| Changes of items during the period                   |   |  |   |  |                               |                    |                  |
| Dividends from retained earnings                     |   |  |   |  |                               |                    | (17,700)         |
| Net income attributable to owners of parent          |   |  |   |  |                               |                    | 19,694           |
| Purchase of treasury shares                          |   |  |   |  |                               |                    | (517)            |
| Disposal of treasury stock                           |   |  |   |  |                               |                    | 549              |
| Net changes of items other than shareholders' equity | (64)  | (16)                                     | 349                                     | 268  | (31)                          | 9                  | 246              |
| Total changes of items during the period             | (64)  | (16)                                     | 349                                     | 268  | (31)                          | 9                  | 2,272            |
| Balance at the end of the period                     | ¥(62)   | ¥2,047                                   | ¥(341)                                  | ¥1,643                                       | ¥243                          | ¥134               | ¥191,069         |



**(4) Consolidated Statements of Cash Flows**

(Millions of yen)

|  | Twelve Months Ended December 31                   |   |
|--|---|---|
|  | FY2018<br>(January 1, 2018–<br>December 31, 2018) | FY2019<br>(January 1, 2019–<br>December 31, 2019) |
| Cash flows from operating activities                         |   |   |
| Income before income taxes                                   | ¥16,064   | ¥29,813   |
| Depreciation and amortization                                | 7,075   | 7,377   |
| Impairment loss  | 11,426  | 689   |
| Amortization of goodwill                                     | 58  | —   |
| Increase (decrease) in allowance for doubtful accounts       | 1,623   | (145)   |
| Decrease in provision for point program                      | (129)   | (675)   |
| Increase in other provision                                  | 5   | 118   |
| Increase in net defined benefit liability                    | 25  | 213   |
| Interest and dividend income                                 | (209)   | (191)   |
| Interest expense   | 59  | 84  |
| Loss on valuation of investment securities                   | —   | 180   |
| Foreign exchange gain  | 1,084   | 152   |
| Loss on sales of non-current assets                          | 4   | 1   |
| Loss on disposal of non-current assets                       | 440   | 345   |
| Loss on business liquidation                                 | 10,327  | —   |
| Decrease (increase) in notes and accounts receivable – trade | 1,639   | 607   |
| Decrease (increase) in inventories                           | (4,915)   | 1,066   |
| Increase (decrease) in notes and accounts payable – trade    | (921)   | (917)   |
| Increase (decrease) in consumption taxes payable             | 23  | (218)   |
| Decrease (increase) in other assets                          | 891   | 64  |
| Increase (decrease) in other liabilities                     | (2,559)   | (1,425)   |
| Other  | (127)   | 173   |
| Subtotal   | 41,889  | 37,311  |
| Interest and dividends received                              | 257   | 219   |
| Interest paid  | (59)  | (84)  |
| Income taxes paid  | (11,583)  | (16,319)  |
| Other  | (220)   | —   |
| Net cash provided by operating activities                    | ¥30,283   | ¥21,127   |

(Millions of yen)

|  | Twelve Months Ended December 31                   |   |
|--|---|---|
|  | FY2018<br>(January 1, 2018–<br>December 31, 2018) | FY2019<br>(January 1, 2019–<br>December 31, 2019) |
| Cash flows from investing activities   |   |   |
| Payments into time deposits  | ¥(245)  | ¥(280)  |
| Proceeds from withdrawal of time deposits  | 352   | 385   |
| Purchase of short-term investments in securities   | (1,000)   | (11,900)  |
| Proceeds from sales and redemption of short-term investments in securities                 | 20,884  | 25,510  |
| Purchase of property, plant and equipment  | (6,363)   | (4,589)   |
| Proceeds from sales of property, plant and equipment                                       | 203   | 64  |
| Purchase of intangible assets  | (2,783)   | (4,730)   |
| Payments for disposal of non-current assets  | (193)   | (41)  |
| Purchase of investments in securities  | (19,456)  | (14,390)  |
| Purchase of long-term prepaid expenses   | (384)   | (166)   |
| Payments for lease and guarantee deposits  | (342)   | (347)   |
| Proceeds from collection of lease and guarantee deposits                                   | 281   | 175   |
| Payments for sales of shares of subsidiaries resulting in change in scope of consolidation | —   | (2,203)   |
| Other  | (77)  | (0)   |
| Net cash used in investing activities  | (9,125)   | (12,514)  |
| Cash flows from financing activities   |   |   |
| Decrease in short-term loans payable   | (1,600)   | —   |
| Repayments of lease obligations  | (833)   | (1,638)   |
| Cash dividends paid  | (17,694)  | (17,697)  |
| Purchase of treasury shares  | (0)   | (517)   |
| Proceeds from sales of treasury shares   | —   | 517   |
| Other  | 0   | 0   |
| Net cash used in financing activities  | (20,127)  | (19,336)  |
| Effect of exchange rate change on cash and cash equivalents                                | (511)   | 49  |
| Net increase in cash and cash equivalents  | 518   | (10,673)  |
| Cash and cash equivalents at beginning of period   | 75,944  | 76,462  |
| Cash and cash equivalents at end of period   | ¥76,462   | ¥65,789   |

**(5) Notes to Consolidated Financial Statements****(Going Concern Assumptions)**

None

**(Changes in Accounting Policies)**

The Group subsidiaries which have been prepared their financial statements in accordance with IFRS, adopted IFRS 16 “Leases” (Issued in January 2016; hereafter, “IFRS 16”) at the beginning of the current fiscal year. As a transitional measure upon the adoption of IFRS 16, the subsidiaries have recognized the cumulative effect of initially applying this Standard on the initial date of application.

For leases that the Group as lessee previously classified as operating leases applying IAS 17, right-of-use assets and lease liabilities are recognized at the date of initial application.

With the application of this Standard, “Other” under “Property, plant and equipment” has increased ¥1,270 million, “Other” under “Current liabilities” has increased ¥713 million, and “Other” under “Non-current liabilities” has increased ¥603 million in the Consolidated Balance Sheets.

And the impact of this change on the profit and loss for the current fiscal year is minor.

**(Changes in Method of Display)**

Application of the Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company has applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) at the beginning of the first quarter of the current fiscal year. Accordingly, deferred tax assets and deferred tax liabilities are reclassified and included in the investments and other assets section and the non-current liabilities section, respectively.

As a result, the deferred tax assets, ¥7,230 million under “Current assets” are included in the deferred tax assets, ¥9,859 under “Investments and other assets” in the Consolidated Balance Sheets for the fiscal year ended December 31, 2018.

**(Additional Information)****(Performance-based Share-based Compensation Plan)**

At the 13th Annual Shareholders’ Meeting held on March 26, 2019, the Company decided to introduce performance based share-based compensation plan (the “Plan”), with a view toward materializing the Group’s long-term vision and medium-term management plan, in order to further clarify the linkage between compensation for the applicable directors and corporate officers of the Company (excluding non-resident persons for Japanese tax purposes), as well as directors of its subsidiaries (excluding outside directors and non-residents for Japanese tax purposes) and the business performance of the Group, as well as its stock value, while enhancing motivation for boosting of its corporate value over medium to long term, and further promoting the common interest shared with shareholders.

## 1. Summary of the Plan

The Plan is structured based on the adoption of a scheme referred to as a Board Incentive Plan Trust (the “BIP Trust”). The BIP Trust delivers and grants shares of the Company to the applicable directors, etc., along with the cash proceeds from the conversion thereof (collectively, the “shares in the Company, etc.”), commensurate with their individual executive ranking and level of achievement against the corporate performance targets.

## 2. The Company’s shares remaining in the trust

The Company’s shares remaining in the trust are booked in nets assets as treasury stock at their book value (excluding the amount of ancillary expenses) in the trust. The book value and the number of shares of the treasury stock at December 31, 2019 are ¥517 million and 148,600 shares, respectively.

**(Investment and Rental Property)**

The Group owns office buildings and residential properties for lease in Tokyo and other areas.

In fiscal 2018, net rental income from investment and rental properties was ¥1,069 million (rental income is recorded under net sales and non-operating income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and non-operating expenses).

In fiscal 2019, net rental income from investment and rental properties is ¥852 million (rental income is recorded under net sales and non-operating income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and non-operating expenses).

The carrying amounts on the consolidated balance sheet, net change during fiscal 2018 and fiscal 2019 and the fair value of those properties are stated below.

(Millions of yen)

|   |                                      | FY2018<br>(January 1, 2018–December 31, 2018) | FY2019<br>(January 1, 2019–December 31, 2019) |
|---|--------------------------------------|---|---|
| Carrying Amounts<br>on the<br>Consolidated<br>Balance Sheet | Balance at<br>Beginning of<br>Period | ¥16,915                                       | ¥18,388                                       |
|   | Change                               | ¥1,473  | ¥(311)  |
|   | Balance at<br>End of Period          | ¥18,388                                       | ¥18,077                                       |
| Fair Value at End of Period                                 |                                      | ¥54,985                                       | ¥56,684                                       |

Notes: 1. The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.

2. Main change

(Fiscal 2018)

|           |   |                |
|-----------|---|----------------|
| Increase: | Acquisition of office buildings for lease and land:   | ¥1,789 million |
|           | Refurbishment of office buildings for lease:  | ¥210 million   |
| Decrease: | Depreciation on office buildings and residential properties and other properties for lease: | ¥653 million   |

(Fiscal 2019)

|           |   |              |
|-----------|---|--------------|
| Increase: | Refurbishment of office buildings for lease:  | ¥289 million |
| Decrease: | Depreciation on office buildings and residential properties and other properties for lease: | ¥535 million |

3. Method for calculating fair values

The fair values of the major properties are determined at the amounts using appraisal certificates provided by outside real estate assessors. For the other properties, however, the fair value of land is determined at the amount adjusted using the indices that are considered to properly reflect market price. The fair values of depreciable assets such as buildings are determined at the carrying amounts on the consolidated balance sheets.

**(Segment Information)**

## 1. General Information about Reportable Segments

A reportable segment is a component of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance.

The Group primarily develops, manufactures and markets cosmetics products and related products. It promotes a multi-brand strategy of holding a range of brands and winning market shares for each of its high-profile brands in order to satisfy the diversifying needs of its customers based on their values. Comprehensive strategies are planned and products are marketed by each brand name in Japan and overseas. In addition to its cosmetics business, a variety of businesses is conducted to contribute to the Group's profits.

Therefore, reportable segments consist of the Beauty Care business, the Group's core business, and the Real Estate business, which indirectly supports the Group's core business.

The Beauty Care business manufactures and distributes cosmetics and health foods and sells fashion items (women's underwear, women's apparel and jewelry) under the following brand names: ***POLA, ORBIS, Jurlique, H2O PLUS, THREE, DECENCIA, Amplitude, ITRIM, and FIVEISM × THREE***. The Real Estate business is engaged in the leasing of office buildings and residential properties.

## 2. Calculation Method for Net Sales, Profit (Loss), Assets, Liabilities and Other Items by Reportable Segment

The accounting method for the Group's reportable business segments is generally the same as described in "Basis for Preparation of Consolidated Financial Statements."

Segment income is based on operating income. The amounts of inter-segment unrealized profits and transfers are calculated based on prevailing market prices.

3. Information about Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment  
Fiscal Year Ended December 31, 2018 (January 1, 2018–December 31, 2018)

(Millions of yen)

|   | Reportable Segments |               |                | Others<br>(Note 1) | Subtotal       | Reconciliations<br>(Note 2) | Amount<br>Shown on the<br>Consolidated<br>Financial<br>Statements<br>(Note 3) |
|---|---------------------|---------------|----------------|--------------------|----------------|-----------------------------|---|
|   | Beauty Care         | Real Estate   | Subtotal       |                    |                |                             |   |
| <b>Net Sales</b>  |                     |               |                |                    |                |                             |   |
| Sales to External Customers                                     | ¥231,207            | ¥2,707        | ¥233,914       | ¥14,659            | ¥248,574       | —                           | ¥248,574  |
| Intersegment Sales or Transfers                                 | 73                  | 508           | 582            | 2,673              | 3,256          | ¥(3,256)                    | —   |
| <b>Total</b>  | <b>231,281</b>      | <b>3,215</b>  | <b>234,497</b> | <b>17,333</b>      | <b>251,831</b> | <b>(3,256)</b>              | <b>248,574</b>  |
| <b>Segment Income</b>   | <b>38,294</b>       | <b>1,001</b>  | <b>39,296</b>  | <b>796</b>         | <b>40,092</b>  | <b>(596)</b>                | <b>39,496</b>   |
| <b>Segment Assets</b>   | <b>191,766</b>      | <b>23,436</b> | <b>215,202</b> | <b>15,086</b>      | <b>230,288</b> | <b>14,308</b>               | <b>244,596</b>  |
| <b>Other Items</b>  |                     |               |                |                    |                |                             |   |
| Depreciation and Amortization                                   | 5,940               | 694           | 6,635          | 343                | 6,979          | 96                          | 7,075   |
| Amortization of Goodwill  | 58                  | —             | 58             | —                  | 58             | —                           | 58  |
| Increase in property, plant and equipment and intangible assets | ¥7,693              | ¥1,869        | ¥9,562         | ¥869               | ¥10,432        | ¥82                         | ¥10,514   |

Notes: 1. “Others” comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance businesses.

2. Reconciliations consist of the following:

- (1) The segment income reconciliation of ¥ (596) million includes intersegment transaction eliminations of ¥3,090 million and less corporate expenses of ¥ (3,686) million, not allocated to each segment. Corporate expenses are primarily the Company’s administrative expenses not allocated to reportable segments.
- (2) The segment assets reconciliation of ¥ 14,308 million includes less intersegment eliminations of ¥(104,730) million and corporate assets of ¥119,038 million, not allocated to each segment. Corporate assets are primarily the Company’s financial assets and assets in the administrative division not allocated to reportable segments.
- (3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment, and intangible assets are those related to corporate assets and intersegment eliminations.

3. Segment income is adjusted for operating income reported in the consolidated statements of income.

4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment, and intangible assets, respectively.

Fiscal Year Ended December 31, 2019 (January 1, 2019–December 31, 2019)

|   | Reportable Segments |             |           | Others<br>(Note 1) | Subtotal  | Reconciliations<br>(Note 2) | Amount Shown<br>on the<br>Consolidated<br>Financial<br>Statements<br>(Note 3) |
|---|---------------------|-------------|-----------|--------------------|-----------|-----------------------------|---|
|   | Beauty Care         | Real Estate | Subtotal  |                    |           |                             |   |
| Net Sales   |                     |             |           |                    |           |                             |   |
| Sales to External Customers                                     | ¥ 214,886           | ¥ 2,619     | ¥ 217,505 | ¥ 2,415            | ¥ 219,920 | —                           | ¥ 219,920   |
| Intersegment Sales or Transfers                                 | 56                  | 511         | 567       | 2,298              | 2,866     | ¥ (2,866)                   | —   |
| Total   | 214,942             | 3,130       | 218,072   | 4,714              | 222,787   | (2,866)                     | 219,920   |
| Segment Income  | 30,193              | 1,021       | 31,214    | 130                | 31,345    | (207)                       | 31,137  |
| Segment Assets  | 178,573             | 23,254      | 201,828   | 2,800              | 204,628   | 22,627                      | 227,256   |
| Other Items   |                     |             |           |                    |           |                             |   |
| Depreciation and Amortization                                   | 6,683               | 576         | 7,260     | 2                  | 7,262     | 115                         | 7,377   |
| Amortization of Goodwill  | —                   | —           | —         | —                  | —         | —                           | —   |
| Increase in property, plant and equipment and intangible assets | ¥ 8,928             | ¥ 398       | ¥ 9,326   | ¥ 54               | ¥ 9,380   | ¥ 710                       | ¥ 10,091  |

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the building maintenance business. The pharmaceuticals business, which was previously included in "Others", is excluded from the scope of the consolidation with the transfer of all shares of POLA PHARMA INC. at January 1, 2019.

2. Reconciliations consist of the following:

- (1) The segment income reconciliation of ¥ (207) million includes intersegment transaction eliminations of ¥3,731 million less corporate expenses of ¥(3,938) million, not allocated to each segment. Corporate expenses are primarily the Company's administrative expenses not allocated to reportable segments.
- (2) The segment assets reconciliation of ¥22,627 million includes less intersegment eliminations of ¥(88,602) million and corporate assets of ¥111,230 million, not allocated to each segment. Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
- (3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment, and intangible assets are those related to corporate assets and intersegment eliminations.

3. Segment income is adjusted for operating income reported in the consolidated statements of income.

4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment, and intangible assets, respectively.

**(Per Share Information)**

|                              | FY2018<br>(January 1, 2018<br>–December 31, 2018) | FY2019<br>(January 1, 2019<br>–December 31, 2019) |
|------------------------------|---|---|
| Net assets per share         | ¥851.78   | ¥862.00   |
| Net income per share         | ¥37.93  | ¥89.04  |
| Diluted net income per share | ¥37.88  | ¥88.93  |

Note 1: The Company's shares held by the officer compensation BIP trust are included in shares of treasury stock that are deducted from the number of shares issued and outstanding at December 31, 2019 in the calculation of net assets per share and are included in shares of treasury stock that are deducted in the calculation of the average number of shares of treasury stock during the period for calculating net income per share and diluted net income per share. The number of shares of deducted treasury stock at December 31, 2019 is 148,600 and the average number of shares is 91,446 during the period.

Note 2: Basis for calculation of net income per share and diluted net income per share is stated below:

| Item   | FY2018<br>(January 1, 2018–<br>December 31, 2018) | FY2019<br>(January 1, 2019–<br>December 31, 2019) |
|--|---|---|
| <b>Net income per share</b>  |   |   |
| Profit attributable to owners of parent (millions of yen)  | ¥8,388  | ¥19,694   |
| Amounts not attributable to shareholders of common stock (millions of yen)   | –   | –   |
| Profit attributable to owners of parent associated with common stock (millions of yen)   | ¥8,388  | ¥19,694   |
| Weighted average number of shares of common stock during the fiscal year   | 221,178,693                                       | 221,201,512                                       |
| <b>Diluted net income per share</b>  |   |   |
| Adjustment of profit attributable to owners of parent (millions of yen)  | –   | –   |
| Number of shares of common stock increased   | 281,602   | 253,813   |
| [Of which, subscription rights to shares]  | (281,602)   | (253,813)   |
| Outline of the dilutive shares not included in the calculation of diluted net income per share due to their antidilutive effects | –   | –   |

Note 3: Basis for calculation of net assets per share is stated below:

| Item   | FY2018<br>(At December 31, 2018) | FY2019<br>(At December 31, 2019) |
|--|----------------------------------|----------------------------------|
| Total net assets (millions of yen)   | ¥188,797                         | ¥191,069                         |
| Amount deducted from total net assets (millions of yen)                          | ¥401                             | ¥378                             |
| [Of which, subscription rights to shares (millions of yen)]                      | ¥(275)                           | ¥(243)                           |
| [Of which, non-controlling interests (millions of yen)]                          | ¥(125)                           | ¥(134)                           |
| Net assets associated with common stock (millions of yen)                        | ¥188,395                         | ¥190,690                         |
| Number of shares of common stock used in the calculation of net assets per share | 221,179,303                      | 221,219,903                      |

**(Subsequent Event)**

None