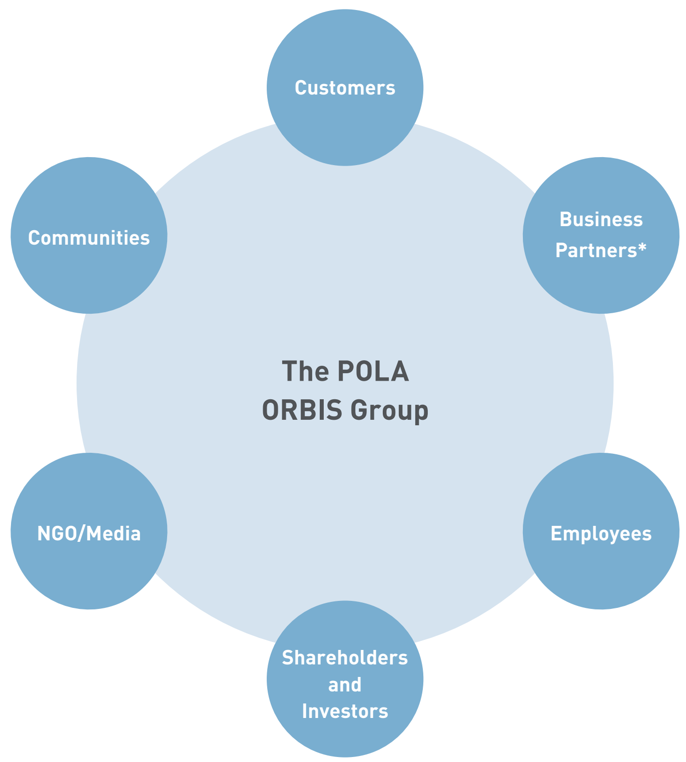
POLA ORBIS HOLDINGS

Corporate Report 2017

POLA ORBIS Group Philosophy 【Vision】

To maximize the unique character of each brand, and become a global corporate group that enriches the lives of people around the world.

The POLA ORBIS Group's Stakeholders



*Including Beauty Directors

Contents

Editorial Policy

This report, incorporating non-financial information such as management's policies, strategies, and the underlying basis for these decisions in addition to financial information, is intended to give stakeholders greater insight into our activities. The information has been compiled with reference to the International Integrated Reporting Framework, issued by the International Integrated Reporting Council (IIRC).

Time Frame

This report focuses on activities and results achieved in fiscal 2017—the 12 months from January 1, 2017 to December 31, 2017—but some fiscal 2018 content is also included.

Scope

POLA ORBIS HOLDINGS INC. and consolidated subsidiaries

Disclaimer

Forecasts and other forward-looking statements in this report are predictions related to future results or events, except where the information is historical fact, and are based on assumptions made by the Company using information available at the time. The risks and uncertainties inherent in such assumptions may cause actual results to differ from stated expectations. Information related to the closing of accounts has been prepared on the basis of data available as of February 14, 2018.

Satoshi Suzuki

鈴木郷史

Representative Director and President

POLA ORBIS Group Philosophy

【Mission】

Sensitize the world to beauty.

Approach life with boundless curiosity and fill it with heartwarming encounters and new discoveries. Make the world different tomorrow. Inspire a sensitivity to beauty that changes people's lives, making them feel happier and more emotionally fulfilled.

【Vision】

To maximize the unique character of each brand, and become a global corporate group that enriches the lives of people around the world.

Striving for person-centered management—the Group's starting point

Over the past few years, I have thought about how best to ensure that we, the POLA ORBIS Group, can achieve continuous growth into the future, given the accelerating pace of change in the lifestyles and communication practices of people today. From this thinking, an image formed in my mind that an organization is a collection of individual strengths and that each person must go beyond existing concepts and organizational theories in making daily decisions, according to personal perceptions—that is, sensitivity to surroundings—and personality. Drawing all these strengths together creates tremendous power. I also believe that we must cultivate a greater sense of unity with all Group companies firmly behind this concept and a clear-cut ideal that we, as a corporate group, aspire to, together with our strengths and the value we provide to customers and society at large. The Group philosophy was redefined in 2017 with this in mind.

Our mission—to sensitize the world to beauty—and our vision—to maximize the unique character of each brand, and become a global corporate group that enriches the lives of people around the world—embody a desire to stimulate the senses and present people with opportunities powerful enough to make their lives more fulfilling. We aim to do this not only through our portfolio of cosmetics and services but also through different experiences and access to a wide assortment of information, culture, art and other original values. To realize our objective, we must first look at ourselves, as our philosophy reflects an underlying determination to constantly fine-tune our own perceptions and individuality.

In the past, door-to-door sales—the direct sales approach that launched POLA and, by extension, the POLA ORBIS Group—were established to encourage customers to buy products and also to utilize the personality and charm of sales representatives to attract and keep customers. I believe in the potential of people. Even today, with our world marked by the rapid advance of technology, I strive for person-centered management—because people are the starting point of everything that happens within the POLA ORBIS Group. I have been committed to this idea my whole life.

Looking back on 2017

Our long-term vision for 2020 is to become a highly profitable global company in the field of beauty and health, and to realize this vision, we have been working our way gradually through three stages of business strategies. Fiscal 2017 was the first year of the medium-term management plan running from 2017 through 2020, which is the last stage of our current vision. *Wrinkle Shot Serum* debuted from flagship brand POLA in January 2017 and fueled sales of the Group throughout the year. Meanwhile, THREE and DECENCIA, two of our brands under development, continued to deliver favorable results. In the end, net sales and operating income exceeded initial predictions for fiscal 2017, on a consolidated basis, with net sales climbing 11.8%, to ¥244.3 billion, and operating income jumping 44.9%, to ¥38.8 billion. This was the eighth consecutive year of higher sales and operating income for the POLA ORBIS Group.

In domestic operations, *Wrinkle Shot Serum* got off to a great start, with sales hitting ¥13.0 billion and beating the original target by 30%. The product made media headlines often, touted as innovative because it was the first cosmetics product in Japan with an active ingredient approved as a quasi-drug capable of "improving wrinkles*," and wrinkles are a concern of many women. *Wrinkle Shot Serum* also sparked comments about creating a new market and starting a social movement. In addition, this product had the effect of energizing the POLA brand overall, as robust efforts to provide information through face-to-face consulting and promotions prompted an increase in new customers whose interest was piqued by *Wrinkle Shot Serum*, triggering an obvious cross-selling effect on other skincare products through greater purchasing activity from existing customers. In response, seeking to turn these results into a platform for long-term stable growth, POLA invested in approaches to achieve deeper brand penetration and emphasized hiring and training for professional Beauty Directors.

ORBIS carried out a total renewal of *AQUA FORCE*, a core skincare product line, in January 2017, and took steps to reinforce communication with customers using social media. But the company could not escape the adverse effect of tighter control of advertising and promotional expenses in fiscal 2016, which led to a decrease in customers that year, and posted a year-on-year decline in sales in fiscal 2017. Going forward, the company will strive to boost customer satisfaction through an integrated brand message and omnichannel presence, endeavoring to return to a growth trajectory.

In brands under development, THREE and DECENCIA continued to chart favorable growth. Energetic overseas expansion efforts for THREE buoyed the brand's profile in seven markets. Meanwhile, DECENCIA, which celebrated its 10th anniversary in 2017, maintained high growth, fueled by steady demand for its mainstay skincare series.

In overseas operations, POLA's sales activities abroad moved into the black. The company dramatically ramped up its sales strategy in China, shifting to an emphasis on raising brand value, particularly for mainstay *B.A* skincare. The new strategy yielded obvious rewards.

Jurlique struggled in the travel retail market and was negatively impacted by fewer customer visits to stores in Australia. This translated into a year-on-year decrease in sales. But in the second half of the fiscal year, the company released a series of new products drawing on Group synergies, and management anticipates a recovery, with business results going forward.

H2O PLUS showed a drop in sales, reflecting a one-time shipment swingback paralleling a switch in products, but the company is working to find retailers well suited to the brand and reinforce its e-commerce efforts.

Wrinkle Shot Serum

As expected, Jurlique and H2O PLUS recorded operating losses but to a lesser extent. Both companies are making steady progress toward the level of profitability outlined in the current medium-term management plan.

Progress on medium-term management plan

We selected three management indicators and set targets—net sales of at least ¥250 billion, an operating margin of at least 15% and return-on-equity of at least 12%—to achieve under our long-term vision for 2020. But consolidated results in fiscal 2017, the first year of the current medium-term management plan, far exceeded expectations, with results for all but net sales already achieving goals set for 2020. From fiscal 2018 onward, we will rethink our direction, looking beyond the original targets, and disclose anticipated single-year values every year until 2020.

2018 activities

In 2018, we will take steps with the potential to favorably impact business far into the future. We started by reframing the research and development structure, seeking to create innovative products to follow the success of *Wrinkle Shot Serum* and innovative services to drive the corporate growth engine over the long term. In January 2018, we established the Multiple Intelligence Research Center (MIRC), which is responsible for research and development within the Group, formulates intellectual property strategies, integrates new technologies and perspectives and creates new value beyond the cosmetics field, and the Frontier Research Center (FRC), which cultivates seeds for business growth through research that draws on leading-edge technologies in the cosmetics field. In conjunction with the enhanced research and development structure, research and development expenditures will be expanded.

POLA, which is raising brand recognition at home and abroad, will take efforts to the next stage in Japan and overseas. In the domestic market, the company will promote the new store format called Touch & Talk at crowd-attracting locations, such as station buildings, to increase points of contact with new customers. In China, a key overseas market for POLA, the company will accelerate its presence over a high-prestige channel that includes department stores, luxury malls and duty-free stores. With a focus on establishing stores offering hands-on experience where customers can enjoy total brand value, POLA intends to triple the number of stores by 2020 and expand points of contact with customers.

ORBIS will pursue structural reform from multiple perspectives—products, pricing, channels and sales strategies—and will strive to create market differentiation and resume growth as a highly profitable business by 2020.

THREE will strive to expand the skincare lineup and promote a store format that integrates a restaurant into the marketing footprint, along with a message to global markets highlighting THREE as a lifestyle brand. In the autumn, ACRO, the company behind THREE, will debut three new brands.

DECENCIA will emphasize product development on two fronts: gentle-to-skin formulations and ingredient performance. Efforts will be directed toward building a wider market presence to fortify its position as a highly profitable brand in the sensitive-skin domain.

*Test to evaluate effectiveness, as stipulated by the Japanese Cosmetic Science Society, completed. In 12 weeks, wrinkles on the outer corner of the eye were improved in 70% of people and wrinkle depth decreased as much as 34%.

ESG management

Society is placing greater expectations and demands on corporations to set and meet sustainable development goals (SDGs). From long before, when the term used was ESG (environment, society and governance), the POLA ORBIS Group has subscribed to the idea that building good relationships with all stakeholders, including communities, lays a solid foundation for business activities. In this pursuit, we think about society, human rights, the environment and other issues that a good corporate citizen should take into account, and we strive to contribute to a better world.

One activity is to encourage women to be more active in the workplace. The POLA ORBIS Group can, through POLA, trace its efforts back to 1937 and the debut of POLA LADIES—currently Beauty Directors—that created work opportunities for women. Workstyles matched to the life stages of women and the chance to realize an upwardly mobile career have underpinned the Group's business strategies, and these remain very noteworthy features of the POLA ORBIS Group today. Throughout our business history, the agents of change have always been women. I have often witnessed this wonderful women's power—people power—in action, exemplified by quick and appropriate responses to whatever situation arises and the courage to be perfectly honest and take a stand, free from organizational logic and established concepts. I know firsthand that women represent a huge part of the Group's human resources. The fact that in 2017 POLA ORBIS HOLDINGS was selected for inclusion in the MSCI Japan Empowering Women Index, an ESG index, is perhaps an inevitable result of our ongoing efforts.

Sustainable development goals (SDGs): A set of goals to be achieved by 2030 adopted by member countries of the United Nations in September 2015. (see p.12.)

We have set specific KPIs (key performance indicators) for activities aimed at sustainable growth and will continue to work toward further improvement.

As for global environmental initiatives, POLA ORBIS HOLDINGS has established targets for the Group on CO_2 emissions, waste and water consumption, and everyone in the Group participates in reduction initiatives that apply target values to each company and each division within each company. We recognize that access to natural resources necessary to our operations carries enormous risks that could adversely affect the future of our business, and we will promote efforts to procure raw materials and ingredients for products in our brand portfolio conscious of not only any potential impact on the environment but on human rights as well.

In governance-related activities, we introduced a senior corporate officer system to separate the execution of operations from management activities and facilitate fast and flexible decision-making. Also, to enhance the functioning of the Board of Directors, we incorporate evaluations from third-party organizations.

Sustainable growth

In 2017, to instill a deeper awareness of the new Group philosophy, I visited Group companies and undertook activities to directly convey in my own words my thoughts about the philosophy. At the Jurlique head office in Sydney, Australia, I spoke to a multinational employee audience about being attentive to surroundings and perceiving what others do not, and suggested that new ideas spring from layers of chaos and that everyone will have a different perspective. Employees responded with tremendous enthusiasm and asked many questions.

If there are 4,000 employees, there will be 4,000 different perceptions, and the ideas that emerge from this diverse thinking will be of equal value. Right now, the Board of Directors at POLA ORBIS HOLDINGS is trying to define the image that the Group should project to society, looking ahead to 2029, a milestone year marking our 100th anniversary and beyond. For example, in 30 years, use of cosmetics may disappear, and people will have access to another way of looking beautiful. In that world, what would we provide? A pivotal clue to answering that question lies in our history to date. I believe the factor with the biggest influence on our development as a corporate group is that we not have categorized customers into blocks, like housewives or businesspeople, but rather embraced person-centered management that sees each customer as an individual. Our purpose has never been simply to sell cosmetics but to make each customer feel happy and beautiful through the products and services we offer. It is imperative that this carefully crafted form of customer/brand engagement be maintained well into the future.

The Multiple Intelligence Research Center (MIRC) will explore new cosmetics territory and consider what the world might desire when cosmetics are no longer in demand. We want to be a corporate group that constantly seeks out new possibilities and delivers amazing results. And, hand in hand with all our stakeholders, we will strive to realize a future that transcends the imagination. As we travel this road, I look forward to the continued support and encouragement of our stakeholders.

Progress to Date

Ability to respond to change, evolving along with the changing times

POLA ORBIS Group companies expedite responses to evolving market and customer needs and facilitate swift innovations matched to the changing times. The ability to respond as prevailing conditions require is a corporate strength, and with this in mind, Group companies will continue to take full advantage of excellent capabilities in R&D and direct marketing to fuel growth into the future.

1929 — 1979 Growth of sales channels of door-to-door business

Active participation of women in society
As Japan welcomes more active participation of women in society, POLA embarks on what is now an 88-year history in the cosmetics business with expansion of its door-to-door business.

POLA

1929 Shinobu Suzuki founds the business in Shizuoka Prefecture.
1940 POLA CHEMICAL INDUSTRIES INC. is established.
1946 The current POLA INC. is established.

Mortar used by the Company's founder

1980 — 1999 Business diversification

Diversifying lifestyles
Business activities becoming more diversified to match changing lifestyles. ORBIS is established and will later develop into a flagship brand.

1981 Fashion business is launched.
1989 Department store business is launched.

ORBIS

1984 ORBIS Inc. is established.
1988 Mail-order business is launched.
1999 Internet order system is launched.

ORBIS' first generation 100% oil-free series

2000 — 2004 More sales channel variety

Fragmentation of needs
New ways to shop appear with advances in information technology. Sales channels expand in response to changes in society.

2000 Begins steps to transform sales* approach of door-to-door business.
*Ability to attract customers with approach combining esthetic treatments and consultations with product sales
2004 POLA enters the Chinese market.

2000 ORBIS THE SHOP is launched.

2001 ORBIS commences international sales.

2005 — 2010 Multi-brand strategy

Multi-brand emphasis
Launches multiple brands matched to diversifying customer needs.

2006 POLA ORBIS HOLDINGS INC. is established and the Group transitions to a pure holding company system in September.

POLA ORBIS HOLDINGS

2010 POLA ORBIS HOLDINGS INC. is listed on the Tokyo Stock Exchange, First Section, in December.

2005 POLA THE BEAUTY stores are launched.

2006 ORBIS enters the Taiwanese market.
2008 ORBIS enters the Chinese market.

Brands under Development

2007—2008
decencia INC. is established. DECENCIA
ACRO INC. is established. THREE

2011 — 2013 Accelerated growth through stock listing

New stage of growth
Drafts long-term vision and medium-term management plan, prompted by stock listing. Acquires H2O PLUS and Jurlique brands.

2011–2013 Medium-Term Management Plan

Management Indicators (Results)

Consolidated net sales	CAGR	5.0%
Higher operating income paralleling higher net sales	CAGR	9.3%
Industry-leading profitability	Operating margin	8.4% (11.4% for domestic business) (FY2013)

Growth Strategies
1 Generate stable profits with flagship brands
2 Accelerate growth of the portfolio of brands under development
3 Develop the Group's presence overseas by leveraging its strengths
4 Reinforce R&D capabilities
5 Reinforce the operating base

Overseas Brands

2011 The Group acquires H2O PLUS HOLDINGS INC. in July. H2O+ BEAUTY
2012 The Group acquires Jurlique International Pty. Ltd. in February. Jurlique

2014 — 2016 Second stage of medium-term management plan

Dramatic improvement in domestic profitability
Laying of stable foundation for domestic operations geared toward realization of long-term vision.

2014–2016 Medium-Term Management Plan

Management Indicators (Results)

Consolidated net sales	CAGR 4.5% ¥218.4 billion in FY2016
Overseas sales ratio	8.7% in FY2016
Operating income	CAGR 18.9%
Operating margin	12.3% in FY2016
Capital efficiency	ROE 9.5% in FY2016

Growth Strategies
1 Sustain stable growth of flagship brands to lead Group earnings
2 Sales growth and monetization of brands under development
3 Overseas brands contributing to profitability through high sales growth
4 Restructure overseas expansion of flagship brands
5 Strengthen operations (human resources, R&D and production)
6 Improve capital efficiency and shareholder returns

2014 THREE commences international sales.

2017 — 2020 Seeking to be a highly profitable global company

Working toward long-term vision
Positioned to achieve remarkable progress toward becoming a highly profitable global company.

2017–2020 Medium-Term Management Plan

Management Indicators (Plan)

Consolidated net sales	CAGR 3%–4% ¥250.0 billion in FY2020
Operating income	CAGR 10% or higher
Operating margin	15% or higher in FY2020
Capital efficiency	ROE 12% in FY2020
Shareholder returns Consolidated payout ratio	60% or higher from FY2017

Growth Strategies
1 Sustain stable growth of flagship brands to lead Group earnings
2 Bring overseas operations solidly into black overall
3 Expand brands under development, create new brands, pursue M&A activity
4 Strengthen operations (reinforce R&D, human resources and governance)
5 Enhance capital efficiency and enrich shareholder returns

2017 POLA launches *Wrinkle Shot Serum*
2018 Group's R&D structure realigned and research oversight function consolidated at Multiple Intelligence Research Center
2018 ACRO to debut three new brands (planned)

Environment/Society/Governance Efforts

1937 POLA hires its first POLA LADIES.
1979 The current POLA Foundation for the Promotion of Traditional Japanese Culture is established.

1985 POLA introduces product refills.
1990 ORBIS introduces simplified packaging.
1996 The current POLA Art Foundation is established.
1998 The Shizuoka and Fukuroi factories obtain ISO 9001 certification (quality-related).

2000 The Shizuoka and Fukuroi factories obtain ISO 14001 certification (environment-related).
2002 POLA dubs 2002 "Year of Re-Establishment." Formulates corporate philosophy "POLA VALUE."
2005 In-house training across the Group. Introduction of Future Study Program and Top Management Development Program (Currently, Business Innovation Academy).

2008 Appoints outside corporate auditor.
2009 Seeking to energize local industry, POLA initiates the "3-9 Project."
2009 Creates Groupwide risk management structure.
2010 POLA obtains "Kurumin" certification mark from Japan's Ministry of Health, Labour and Welfare for efforts supporting development of the next generation.

2011 Group companies embark on activities to support reconstruction in areas affected by the Great East Japan Earthquake.
2011 Opens stakeholder dialogue.
2012 ORBIS introduces employee code of conduct, dubbed "ORBIS STYLE."
2013 Introduces corporate officer system.

2015 Appoints outside directors.
2015 Measures and redefines director competencies.
2015 Elevates level of communication with shareholders (Captures first Best IR Award).
2016 Puts together Corporate Governance Report and forms Basic Policy on Corporate Governance.
2016 Initiates Board of Directors' effectiveness evaluation.

2017 Formulates new Group philosophy.
2017 Becomes signatory to UN Global Compact.
2017 Formulates Group Code of Conduct.
2017 Captures Best IR Award for second time.
2018 Introduces senior corporate officer system.

The POLA ORBIS Group's Value Creation Process

Given market and social issues, the POLA ORBIS Group will strive to create value for society and achieve its vision through business activities using three strengths as engines of growth—a multi-brand strategy, R&D emphasizing the application of resources into the field of skincare and direct marketing that builds close connections with customers.

Market Environment

- Domestic market for prestige skincare is expanding
- Solid growth now in China and ASEAN markets, complemented by inbound demand

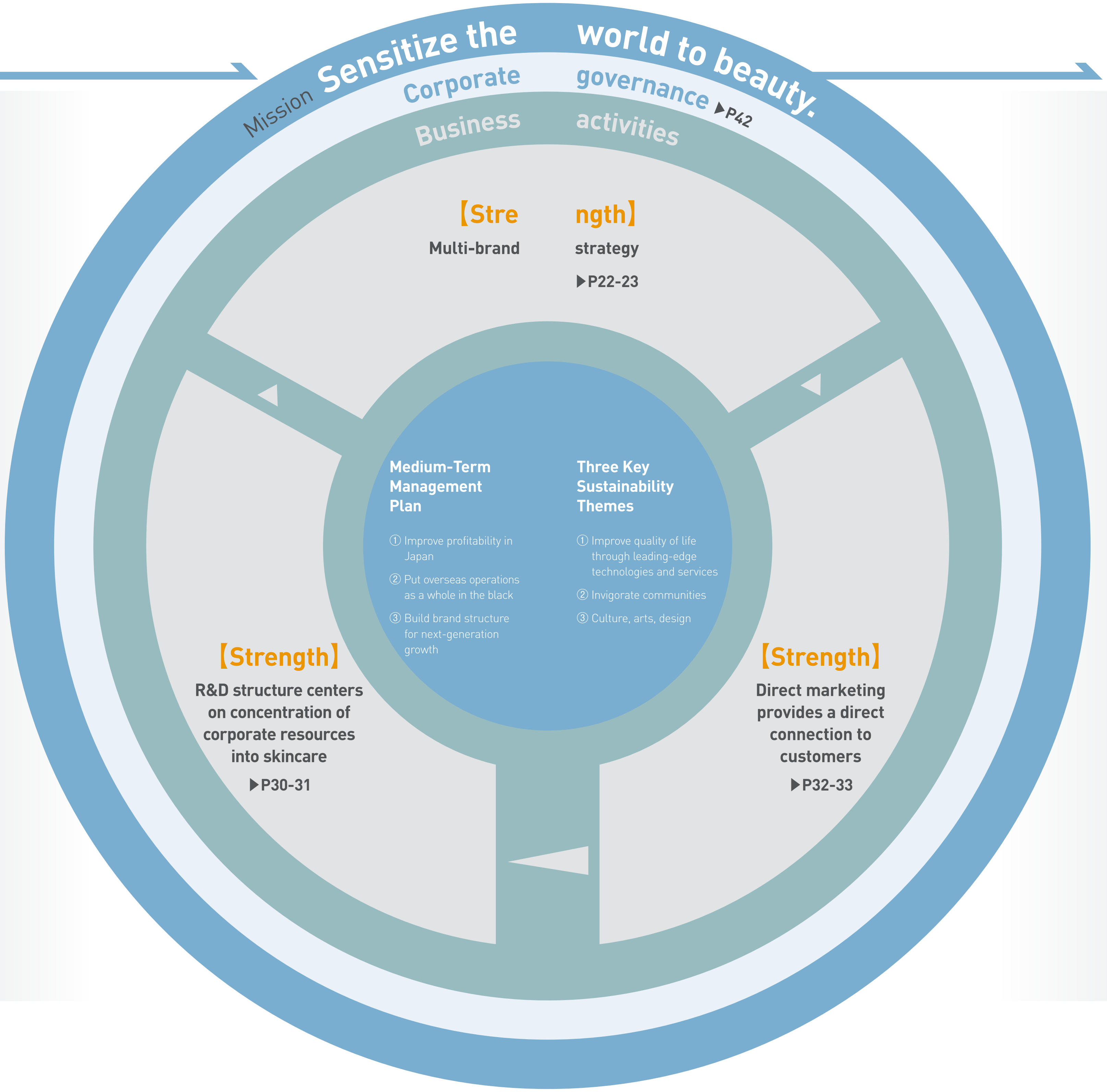
Social Environment

- Faster decrease in working population
- Faster rural depopulation
- Changing structure of international industry

INPUT

Six Key Types of Invested Capital

1. Funds
2. Human resources
3. Technologies
4. Infrastructure
5. Society
6. Natural capital



OUTCOME

[Financial Indicators] ▶P14-15

Management indicators (planned)

Consolidated net sales
CAGR 3%-4%
¥250 billion in FY2020

Operating income
CAGR 10% or higher

Operating margin
15% or higher in FY2020

Capital efficiency
ROE 12% in FY2020

Shareholder returns
Consolidated payout ratio
60% or higher from FY2017

[Non-Financial Indicators] ▶P12-13

Human resources
Number of executives completing the Business Innovation Academy course/Total number of executives in the Group
Percentage of women in management positions

Improve quality of life
Number of research awards collected at home and abroad
Number of researchers in field of leading-edge skin science
Return-to-work rate for cancer survivors

Regional revitalization
Number of local start-up owners
Number of joint projects with local governments

Culture, arts, design
Number of joint projects with artists
Number of participants in art workshops

Realizing Our Vision

We will maximize the unique character of each brand, and become a global corporate group that enriches the lives of people around the world.

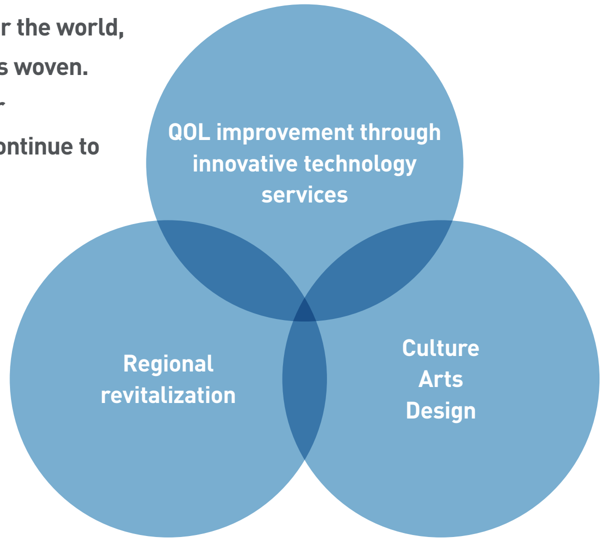
Thoughts on Sustainability

We will contribute to a sustainable society and improve corporate value by implementing activities based on the Sustainability Statement drawn up by the Board of Directors.

The POLA ORBIS Group's Sustainability Statement

We, the POLA ORBIS Group, offer enriched lives to people all over the world, with our supple minds in which rich sensitivity and individuality is woven. In order to do so, we hereby declare that we will deal with all our stakeholders and global/social environments in good faith and continue to grow as a company which helps create a sustainable society.

The POLA ORBIS Group's sustainability activities hinge on the three themes shown on the right.



Sustainable Development Goals

Sustainable development goals (SDGs) are universal aims adopted by the UN General Assembly in 2015 with a 2030 deadline for achievement.

Through its business activities, the POLA ORBIS Group seeks to help solve social issues by directing a particular SDG emphasis on numbers 5, 8, 9 and 11 and working to be a corporate group that inspires people around the world.

After comparing issues in society and issues within the POLA ORBIS Group, management recognized the following as warranting particular attention, based on comments from stakeholders.

Dialogue with stakeholders

- Customers
- Beauty Directors
- Institutional investors (ESG interview)
- NPOs/NGOs, citizen groups (human rights-related)

Risks (recognized issues)

- Resource depletion (particularly, water)
- Potential violation of human rights during global expansion
- Sustainable resource procurement (palm oil)

Expectations

- Provide opportunities for women and the elderly to be active in society
- Contribute to the local community
- Reduce environmental impact on supply chains
- Product traceability

Our focus on SDGs

Materiality

Encourage women to pursue entrepreneurial opportunities and help develop local economies through innovation in traditional arts. Expand potential through leading-edge technologies and services that draw on a woman's point of view to contribute to society. Regarding environmental considerations, set and manage goals that cover everything from procurement to disposal.

Signed the UN Global Compact

The POLA ORBIS Group became a signatory to the UN Global Compact in February 2017. The Company will promote widespread awareness of the four themes advocated under the compact—human rights, labour, the environment and anti-corruption—through domestic study groups for employees and other opportunities to encourage employees to act with a sense of self-awareness.

WE SUPPORT

Activities in Four Areas of UN Global Compact

	Activities
Human rights	· Disclose policy on human rights in May 2018. · Offer instruction on human rights (e-learning, in-house lectures, pamphlet distribution).
Labour	· Implement CSR procurement. · Made health management declaration in 2017. Selected for White 500 in 2018.
Environment	Set and manage reduced targets for CO_2 emissions, amount of waste and water consumption. Consider expanding scope and tracking progress.
Anti-Corruption	Set guidelines for gifts and entertainment in each country with a growing market presence, and educate employees about guidelines.

Management added the category of human resources to the three themes of our Sustainability Statement and made these the key CSR issues—materiality—of the Group. Each activity is assigned a KPI as part of an objective to promote a continuously rising cycle of activities designed to realize our long-term vision and underpin improvement in corporate value.

Human Resources

Materiality

People are the most important
We believe that people are our most important asset. In an era characterized by intense change, a desire to embrace reforms is essential. This attitude encourages us to constantly question the status quo, stimulates our collective curiosity and fuels our pursuit of something new. It matches our definition of *bi-i-shiki* (sense of esthetics).

Business Innovation Academy
The president of POLA ORBIS HOLDINGS nurtures employees to realize reforms and apply results to business.

MSCI Japan Empowering Women Index
POLA ORBIS HOLDINGS is a company in which women can play active roles in business. This perspective is tangibly substantiated by the Company's inclusion in the MSCI Japan Empowering Women Index in 2017.

***Nikkei Woman*'s Woman of the Year 2018 Grand Prize**
The *Nikkei Woman*'s Woman of the Year 2018 Grand Prize recognized the efforts of a woman in acquiring approval for NEI-L1*, the first active ingredient in Japan to "improve wrinkles." Many women can demonstrate their capabilities in a corporate environment that supports project leaders, regardless of gender.

* Neutrophil Elastase Inhibitor License 1 (Active ingredient: Sodium [[trifluoro-isopropyl-oxopropyl] aminocarbonyl] pyrrolidinyl] carbonyl]-methylpropyl] aminocarbonyl] benzoylamino] acetate)

KPI

- Number of executives completing the Business Innovation Academy course/Total number of executives in the Group
- Percentage of women in management positions

KPI explanation

We have always actively hired women and provided an environment in which women can thrive. The Business Innovation Academy helps hone the ability to implement reforms as leaders and to promote personal growth. Every year, we offer classes with content ideas from the POLA ORBIS HOLDINGS president to cultivate leaders of reform.

Quality-of-Life Improvement

Materiality

Captured highest IFSCC award six times
In R&D pursuits, resources are concentrated into skincare themes. We actively announce our results at domestic academic gatherings, and the Group has captured the highest award six times at IFSCC* events overseas, including interim conferences. Products that successfully utilize research results not only help the skin but also relieve stress and give customers greater confidence in face-to-face contact.

* See p. 30.

Cutting-edge skin sciences research
The Multiple Intelligence Research Center and the Frontier Research Center were established in 2018. These centers will strengthen efforts to pursue research into new possibilities for cosmetics going beyond skin-related applications. In addition, consideration will be given to new seeds, not limited to cosmetics, that create value.

Efforts to encourage display of individuality and generate new value
We believe accepting each other and mutually improving capabilities while actively striving for work-related success are the sources of new value. We seek to create a corporate culture that supports people who live life true to themselves, even if they fall ill or must care for the family. Our corporate culture sees each person as a unique individual. This is an attitude we want society to emulate as well.

KPI

- Number of domestic and overseas research awards received
- Number of researchers in the field of cutting-edge skin sciences
- Return-to-work rate for cancer survivors

KPI explanation

- The R&D expenditure will increase 20% to 30% by 2020, and the number of researchers will rise by 20, creating a structure of 120 people.
- In Japan, one in every two people is at risk of developing cancer. We will offer various work programs, including a treatment support system and a remote work option, so that employees undergoing treatment can keep working without worrying about job-related matters.

Regional Revitalization

Materiality

Providing women with work opportunities
The first POLA LADIES debuted in 1937. Since then, POLA has believed in the capabilities and potential of women, inspiring them to step forward. Currently, the company's Beauty Director network comprises 46,000 women active all over Japan.

Growth model for women leaders
The first work of Beauty Directors is to make the customers they serve beautiful by offering consulting and advice. Later, the scope of responsibility expands to management, and these women discover a new value perspective. They become leaders who head their own business networks, not only realizing personal goals but also developing into women indispensable to society. By conveying the brand value of POLA, Beauty Directors build a wider customer base.

Comprehensive partnership agreement signed
In November 2017, POLA signed a comprehensive partnership agreement with Akita Prefecture, which is dealing with a declining population, and has become involved in several activities including a project to give form to the concept of *Bi-no-kuni Akita* and makeup classes for job-searching women. POLA's reputation rose, and the higher profile should eventually translate into growth for the company as well.

KPI

- Number of local start-up owners*
  * Shop owners making more than ¥5 million in monthly sales
- Number of joint projects with local governments

KPI explanation

POLA develops female leaders who promote POLA's value creation and contribute to society. Management believes that women who share POLA's perspective on provided value and develop businesses based on this perspective help to create employment opportunities and revitalize local economies. They achieve success along with their local community.

Culture, Arts, Design

Materiality

Cosmetics—cultural materials
The cosmetics handled by the POLA ORBIS Group are cultural materials that have the potential to appeal to the five senses through design, such as packaging, which is premised on efficacy. By providing cosmetics in packaging that incorporates artr, which is not typically in the portfolio of other companies, the Group piques curiosity and inspires people with its products.
Distinctive features and originality inherent in art give products in the Group's portfolio a competitive edge.

Art workshops
We integrate art into employee training to develop employees who value individuality and sensitivity.
Art appreciation and creative painting sessions bring personal values to the surface, but these workshops are also a portal to the diverse points of view held by colleagues. A work of art is interpreted differently by each person who views it. The workshops spotlight personal values and help participants discover their inner voice.

KPI

- Number of joint projects with artists
- Number of participants in art workshops

KPI explanation

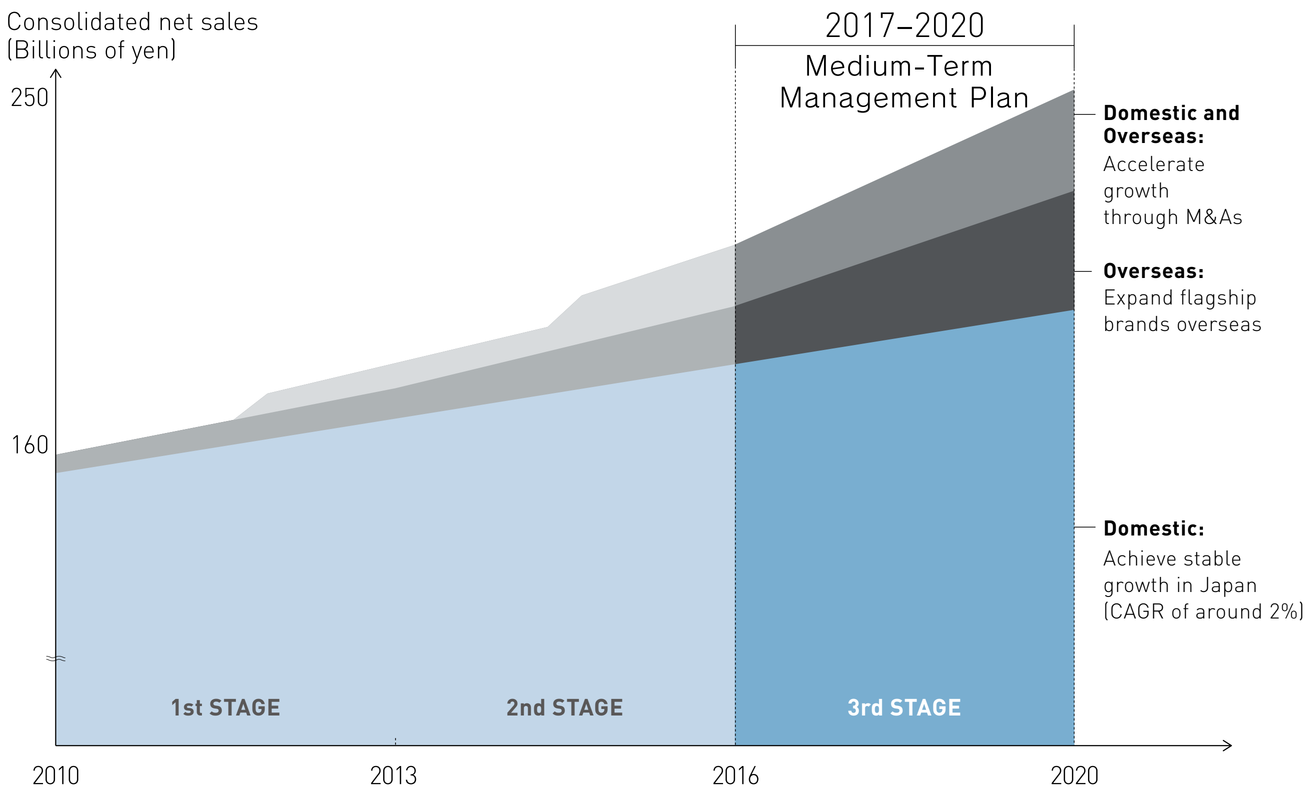
We are adding more opportunities for employees to experience art to encourage them to draw on their individuality and sensitivity and demonstrate inherent qualities. Efforts to develop human resources who show deep feeling and emotion will enhance our ability to inspire customers through our products and services. Therefore, we pursue joint projects with artists.

Medium-Term Management Plan

Long-Term Vision: Last Stage —2017–2020 Medium-Term Management Plan—

In 2011, we announced a long-term vision to become a highly profitable global company by 2020. The medium-term management plan that runs from 2017 to 2020 is the last stage of the journey toward this goal.

Long-Term Vision—Goals for 2020



1st STAGE
Generate stable domestic profits and create a successful business model overseas

2nd STAGE
Further strengthen domestic earnings structure and accelerate overseas expansion

3rd STAGE
Become a "highly profitable global company"

FY2013 Results

Net sales	¥191.3 billion
Overseas sales ratio	12.2%
Operating margin	8.4%

FY2016 Results

Net sales	¥218.4 billion
Overseas sales ratio	8.7%
Operating margin	12.3%

Goals for FY2020

Net sales	¥250.0 billion or higher
Overseas sales ratio	20% or higher
Operating margin	13%-15%

Recognizing Opportunities

- Expand domestic market for prestige skincare
- Strong growth in China and ASEAN region and inbound demand

Knowing Risks

- Respond to changes in market environment (including inbound demand)
- Heightened corporate governance
- A quick return to profitability for operations in the red

Understanding Issues

- Put ORBIS back on growth trajectory
- Put overseas brands back on growth track and enhance profitability status
- Emphasize business operations and development of human resources, based on common set of values shared throughout the Group

Allocating Resources

- Utilize stable revenue of flagship brands to invest in overseas business and brands under development
- Create new brands and pursue M&A activity
- Invest in research in anti-aging and skin-whitening
- Create new value beyond the cosmetics fields (Multiple Intelligence Research Center)

2017–2020 Medium-Term Management Plan

Improve profitability in Japan, promote a solid shift toward overall profitability from overseas operations and build a brand structure for next-generation growth

Strategy	Brands
Strategy 1 Sustain stable growth of flagship brands to lead Group earnings	POLA, ORBIS
Strategy 2 Bring overseas operations solidly into the black overall	Jurlique, H2O+ BEAUTY, POLA, ORBIS, THREE
Strategy 3 Expand brands under development, create new brands, pursue M&A activity	THREE, DECENCIA, New Brands
Strategy 4 Strengthen operations (reinforce R&D, human resources and governance)	
Strategy 5 Enhance capital efficiency and enrich shareholder returns	

Consolidated net sales
¥250 billion | CAGR 3%-4%

Operating income
Operating margin 15% or higher | CAGR 10% or higher

Capital efficiency
ROE 12%

Shareholder returns
Consolidated payout ratio 60% or higher

FY2017 Results

Already achieved final-year targets for operating margin and ROE in first year of plan, and will strive to keep the momentum going

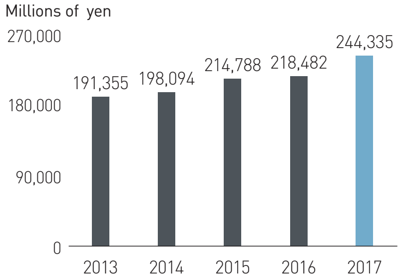
Consolidated net sales	Operating income	Operating margin	Profit attributable to owners of parent	ROE	Consolidated payout ratio
¥244,335 million (Up 11.8% yoy)	¥38,881 million (Up 44.9% yoy)	15.9% (Up 3.6 ppt yoy)	¥27,137 million (Up 66.2% yoy)	14.2% (Up 5.2 ppt yoy)	57.1% (Down 10.6 ppt yoy)

Financial and Non-Financial Highlights

Financial Capital

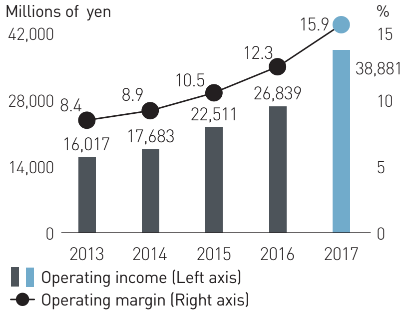
■ Net sales

¥244,335 million



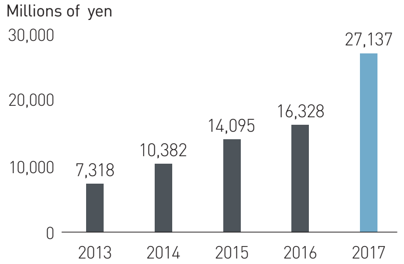
■ Operating income/ Operating margin

¥38,881 million/15.9%



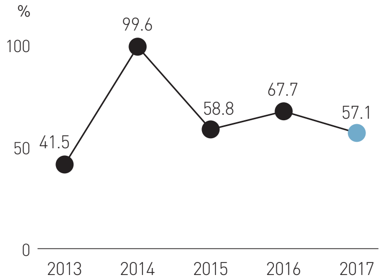
■ Profit attributable to owners of parent

¥27,137 million



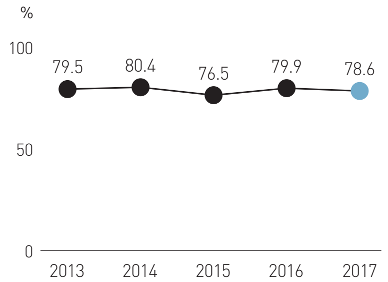
■ Payout ratio

57.1%



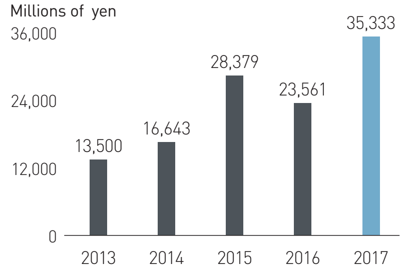
■ Equity ratio

78.6%



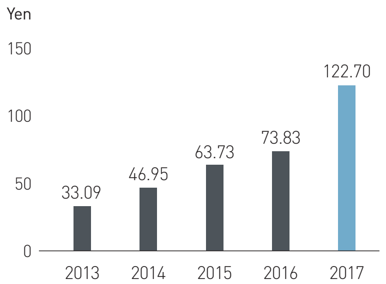
■ Cash flows from operating activities

¥35,333 million



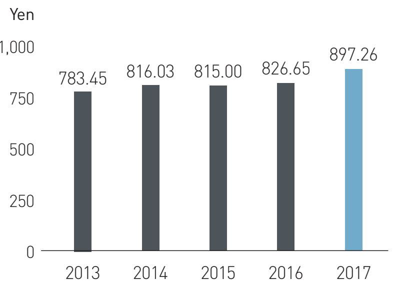
■ Net income per share

¥122.70



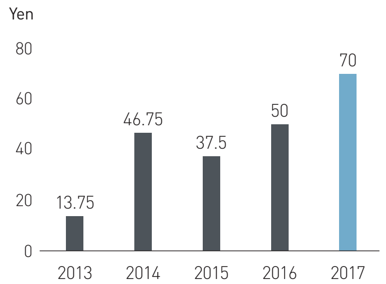
■ Net assets per share

¥897.26



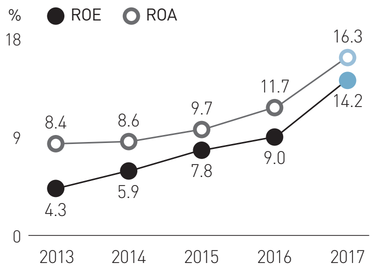
■ Cash dividends per share

¥70



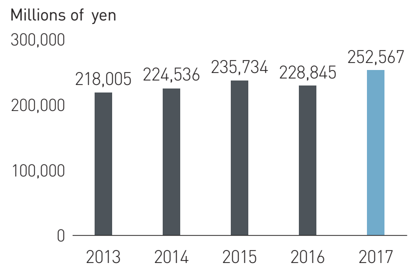
■ Return on equity/ Return on assets

14.2%/16.3%



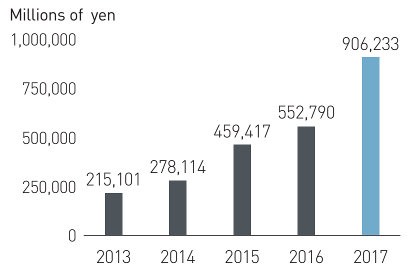
■ Total assets

¥252,567 million



■ Total market value

¥906,233 million

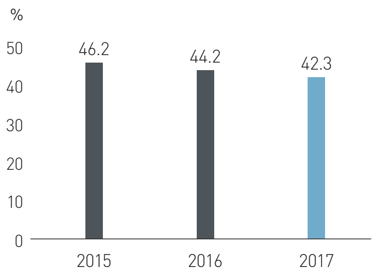


Notes: 1. Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment following revisions to Australian accounting standards.
2. A four-for-one stock split was executed on April 1, 2017. Per-share information is calculated on the assumption this stock split took place at the beginning of fiscal 2013.

Non-Financial Capital

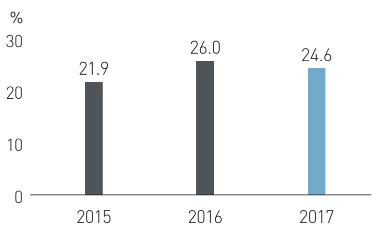
■ Ratio of women in management positions

42.3%



■ Number of directors who have completed the Top Management Development Program/Ratio of directors at Group companies

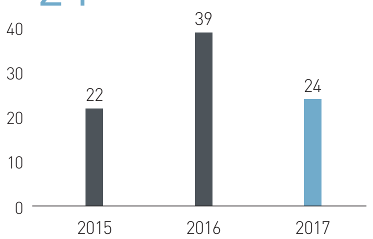
24.6%



*Excludes part-time directors and outside directors.

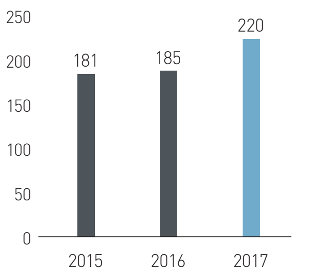
■ Number of papers presented at scientific conferences by POLA CHEMICAL INDUSTRIES

24



■ Number of POLA Grand Owners*

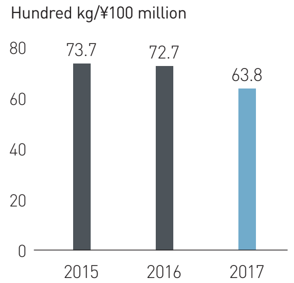
220



* Group leaders with monthly sales of ¥10 million. See p. 32.

■ CO_2 emissions

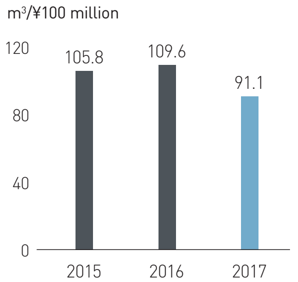
63.8 hundred kg/¥100 million



On a per unit of sales basis

■ Water consumption

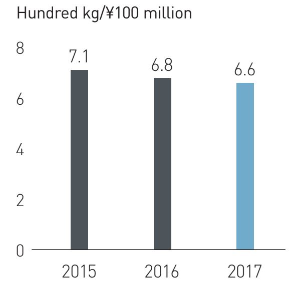
91.1 m³/¥100 million



On a per unit of sales basis

■ Waste

6.6 hundred kg/¥100 million



On a per unit of sales basis

Special Feature

Soaring far and wide from Japan—to the world New brand-creation theory

Yasushi Ishibashi, Director and Chairman, ACRO INC.

THREE—which has delivered many hit products and marked rapid growth after being launched eight years ago—turned a profit in 2016. The brand has successfully captured the interest of a trend-conscious customer segment not only in Japan but also in seven overseas markets, including Singapore and Hong Kong. As a branding mastermind always looking half a step ahead, Yasushi Ishibashi created THREE from scratch and has embarked on a new journey in brand development. In 2018, ACRO will again send new winds of change through the industry.

Yasushi Ishibashi's Background and Milestones

1951	Born in Kagoshima Prefecture. With great admiration, watched makeup artists at department store cosmetics counters beautify customers and set his sights on a career where he could sell a dream at department stores.
1973	Hired at a cosmetics company. In charge of sales to cosmetics shops and retail stores.
1997	Transferred to cosmetics subsidiary specializing in products for department stores, the sales channel he was so keen to explore. Involved in the launch of brands under distinctive concepts, which he turned into hit product lines.
2006	Brands he launched generated record-high sales. Had only a few years before company-set retirement age. Wanted to continue working at least 10 more years and develop another brand, so he decided to move to a new company.
2007	Joined POLA ORBIS Group.
2009	Launched THREE.
2016	THREE turned a profit.

Demonstrating a presence in an industry crowded with big brands

Whisper Gloss for Eye was tremendously popular when it debuted in January 2016, with women in their teens and 20s rushing to buy whatever color was still available. The entire inventory sold out in just one month.

"Young women who before hadn't shopped much at department stores visited our sales counter for the specific purpose of buying lip gloss and eye gloss. What was foremost in my mind when launching THREE was how to demonstrate a presence amid all the big domestic and foreign brands already jockeying for customer attention on the department store sales floor. I knew we couldn't compete on the same playing field as big brands with a history and track record, so I decided to change the playing field. And this playing field would feature naturally derived, domestically produced ingredients and fashion-forward makeup that could compete with the well-established U.S. and European brands. I figured that if I could create a brand that combined factors that seemed at odds with each other, that brand would be totally unique. And today, 10 years on, there is no other brand like THREE.

THREE eye gloss, *Whisper Gloss for Eye*

Since then, I have believed the next big trends would come from a Japanese brand. Japan is a fabulous country. Clean air and water. A safe and comfortable environment. And cosmetics made here would reflect all these good aspects."

Sending a message worldwide about fabulous cosmetics from Japan

An image—an ultimate objective—has been firmly implanted in Mr. Ishibashi's mind since ACRO's earliest days. He wanted to create a brand originating in Japan strong enough to be recognized worldwide.

"When I go overseas, I see how machine tools, cars and other products of Japanese technology have swept the world. But this is not so true of consumables. Consider fashion and cosmetics. An extremely large amount of bags, clothing and cosmetics under foreign labels comes into Japan, but equivalent-category Japanese brands have almost no presence in overseas markets. Japanese skincare products are sold in other parts of Asia, but sales in Europe are very low and market position is not high. I created THREE because I wanted to send a message to world markets that cosmetics from Japan are fabulous. In the near future, I expect to see solid inroads made in Europe and the United States."

Also, the market for makeup among young people is growing along with rising in-bound demand in Japan, and Mr. Ishibashi says the favorable wind that is blowing through the industry is gaining strength noticeably.

"I often make unannounced visits to department store cosmetics corners. The demand environment is so positive, and yet companies aren't bringing out new brands. To me, this indicates an opening that we could fill. Customers are probably looking for products—hoping for products—that just aren't appearing on the market. For ACRO, this is a wonderful opportunity that will be used to advantage."

Bringing to market what hasn't been brought before. Doing what couldn't be done with existing brands

In 2018, ACRO will launch three new brands—a luxury, natural skincare brand evoking the image of Japanese sophistication for stylishly elegant women in their 40s and 50s; a top-quality, high-prestige makeup brand originating in Japan; and the industry's first total cosmetics brand with a makeup emphasis for men.

"As we go into the Olympics year, ACRO's business portfolio will be crammed with new brands. Our concept hinges on the debut of products that the market hasn't seen before and doing what hasn't been possible with existing brands.

Our luxury skincare is an organic brand that will deliver results, underpinned by an aggressive approach into the growth field of natural cosmetics.

Our high-prestige makeup will enable us to establish a position not available with our existing brands. When I look at customer preferences, it seems that many may use skincare that is made in Japan but turn to French and U.S. brands for makeup. What this actually means is that there are no Japanese makeup brands strong enough to compete with U.S. and European brands. That said, I think we can open the market with Japanese cosmetics in trend-setting colors, attractive cases that women want to show off and high-quality products."

2018 will be a year that all eyes are on ACRO

Mr. Ishibashi takes a bird's-eye view of the whole market, which reveals openings and weak spots. And then, rather than just establish a brand to fill a space, he thoroughly pursues originality and quality aspects to create brands with the power to impress customers and transform the market. Behind his methodology is a strong desire to encourage people around the world to use cosmetics from Japan.

"Makeup for men has already attracted a positive response. This may be a world first because men's makeup is not available even at major department stores in London, Paris or New York. Among young men, some make it a practice to use skincare products and trim their eyebrows and beards, but I'd like men to include makeup as part of their personal grooming routine on a regular basis. We're working on the design of makeup—containers and tools—matched to the size of a man's hand to create a manly appearance. This is so exciting. Men, in general, don't have any experience with makeup, so we'll have to explain techniques and concepts as we cultivate demand. How long will this take? I don't know exactly. But we will work as quickly as we can to promote men's makeup in markets such as South Korea, Singapore and Thailand, where men have a high sense of style, and in the in-bound market in Japan, to develop demand."

Promoting a four-brand structure. Accelerating overseas expansion.

This year—2018—will be the year that ACRO truly reflects the corporate philosophy "Create the beauty of an era with a well-honed sense of style." ACRO is poised to headline the industry again and again.

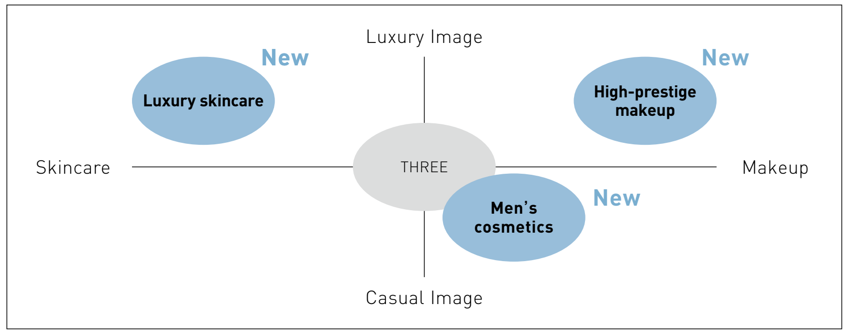


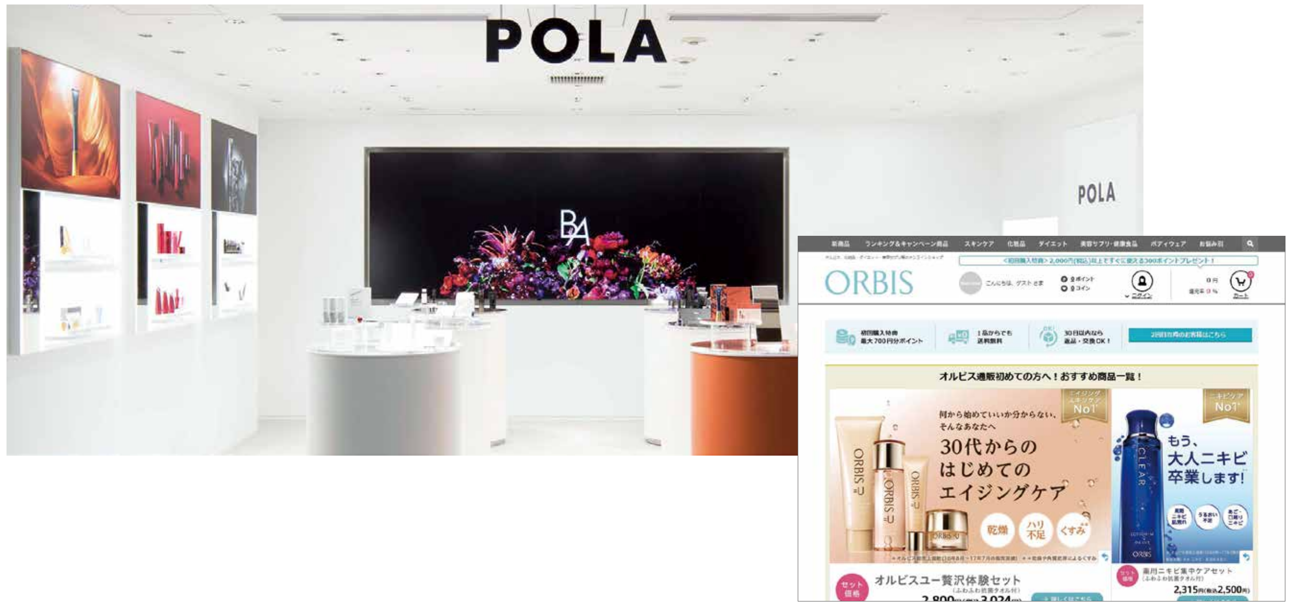
Diagram: ACRO's brand positioning map

Emphasizing THREE, its lifestyle cosmetics brand, ACRO seeks to grow as a company with multiple global brands originating in Japan.

Flagship shop, THREE AOYAMA. A space where customers can experience THREE's world view through a shop, restaurant and spa.

Strengths of the POLA ORBIS Group

Responsiveness to Change, Derived from Direct Ties with Customers, and Value Creation through Multi-Value Chains



Direct ties with customers are the pivotal resource of the POLA ORBIS Group.

Efforts are made to pinpoint even the slightest change in customer lifestyles and beauty care needs, including preferences for cosmetics, and then anticipating market conditions and social trends, operations that evolve to meet changing times and consumer preferences.

The spirit of this evolution infuses the Group like DNA—a quality that runs through its generations—all the way back to POLA's establishment in 1929.

High brand loyalty through direct ties with customers

The Group's most important business resource is its direct connection to customers. With this in mind, POLA and ORBIS, our flagship brands, promote respective namesake brands to customers through specific sales channels appropriate to each brand concept.

POLA draws on its cross-country network of about 46,000 Beauty Directors to deepen relationships with customers through face-to-face meetings and consultation opportunities. Beauty Directors provide more than just products. They strive to create experiences that elicit a positive feeling and build relationships that bring out the best in themselves and their customers.

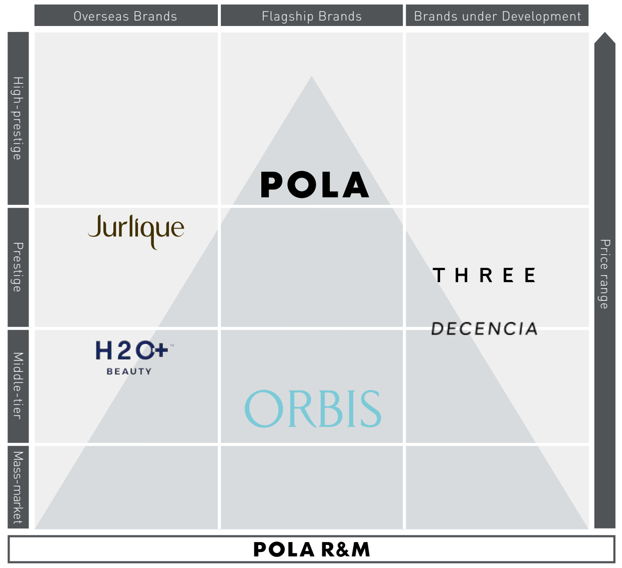
ORBIS, while focused on mail-order sales, reinforces its connection to customers through one-to-one communication over the Internet. As a result, the company can gather customers' responses in real time. This allows ORBIS to anticipate and provide information and products matched to the different purchasing cycles of each customer, an approach that consistently earns high marks on the Japanese Customer Satisfaction Index, compiled by Service Productivity & Innovation for Growth (No. 1 in own brand of mail order in 2017 for third straight year).

These direct-selling channels enable each company to manage information on nearly all respective customers in-house. With this information, the companies have built a database of more than 17.5 million entries on the condition of Japanese women's skin and collected other useful information, such as customers' purchasing history and profiles. This diverse information is analyzed and pertinent results are used in R&D, product planning and marketing, allowing POLA and ORBIS to build strong, trusting relationships with customers and secure extremely high repeat purchase rates not only from an in-house perspective but also from an industry perspective as well as enviable brand loyalty—achievements that are impossible for other companies to attain.

Multi-value chain strategy exploiting strong synergistic effects of our brands upon each other

Today, with customer perceptions and lifestyles becoming increasingly diversified, a single-brand approach to attract many customers dilutes brand concept and causes image cohesiveness to crumble. That is why POLA ORBIS HOLDINGS stresses a different approach in brand development.

Women's lifestyles and value perceptions change with the times. To better address trends whenever they appear, POLA ORBIS HOLDINGS maintains a portfolio of six cosmetics brands, each with its own concepts, sales channels and price range. In this way, each brand is distinct, using independent management to facilitate targeted brand identity to expand total Group shares of the cosmetics market.

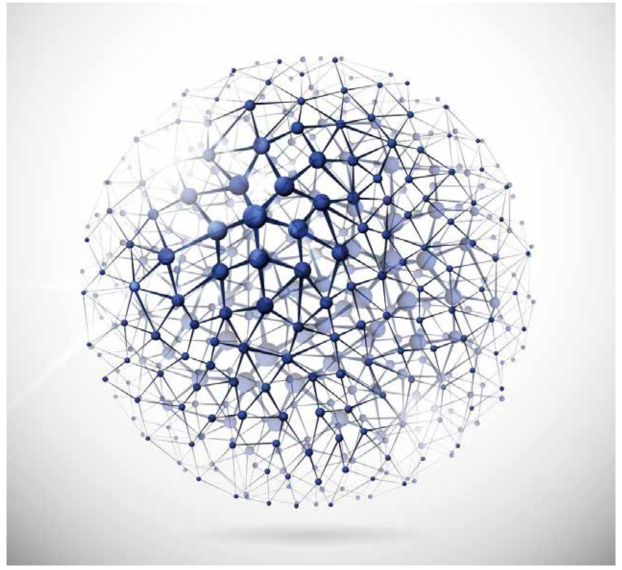


R&D capabilities in the skincare area through concentration of our resources

The Group's biggest strength from an R&D perspective is the concentration of corporate resources into products that fight the two biggest skincare concerns of women—dark spots and wrinkles. Particular attention is directed toward basic research into the areas of anti-aging and skin-whitening and the development of new materials, and efforts have generated original ingredients, patents and other materials available only to the Group. For example, POLA pioneered the world's first application of hyaluronic acid in cosmetics in the 1980s and brought these products to market. More recently, in 2017, POLA debuted the industry's first quasi-drug to improve wrinkles.

The skincare market is stable and has been for some time, according to past statistics. Efforts to refine skincare-oriented research and technology development capabilities underpin the competitiveness and excellence of each Group brand and fuel high rates of repeat purchases and enhanced profitability overall.

The Multiple Intelligence Research Center (MIRC) was established to coordinate research activities for the whole Group. The center is composed of an R&D intellectual property strategy team, which takes a Groupwide perspective to formulate research- and intellectual property-related strategies and effects the optimal allocation of research results, and a curation team of dedicated staff known informally as "wandering researchers," who collect information even beyond the realm of cosmetics from all over the world, and seek out collaboration on cutting-edge technologies and investment proposals. These two teams have specific roles to play and, along with existing cosmetics R&D divisions, pursue scientific exploration and cultivate new areas of research to explore.



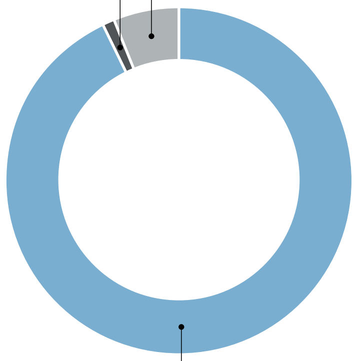
Business Structure and Brand Portfolio

Business Structure

■ Net Sales Breakdown by Business Segment

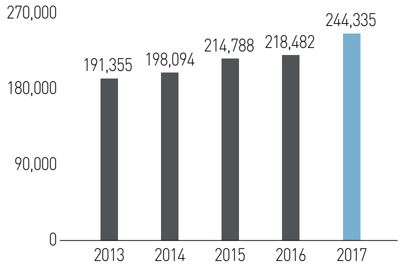
Real Estate
¥2,694 million
Business focus on leasing office space

Others
¥14,507 million
Pharmaceuticals and building maintenance businesses, etc.

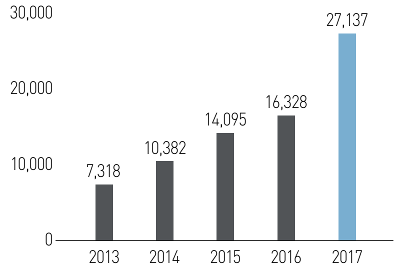


Beauty Care
¥227,133 million
Core business built on six cosmetics brands, with emphasis on POLA and ORBIS

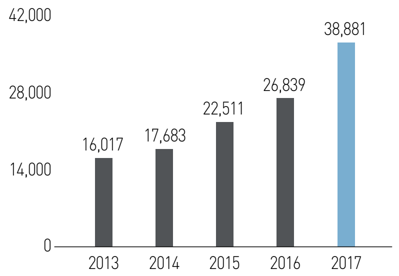
■ Net Sales



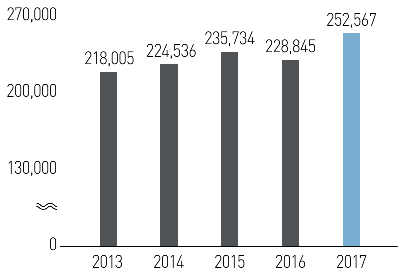
■ Profit Attributable to Owners of Parent



■ Operating Income



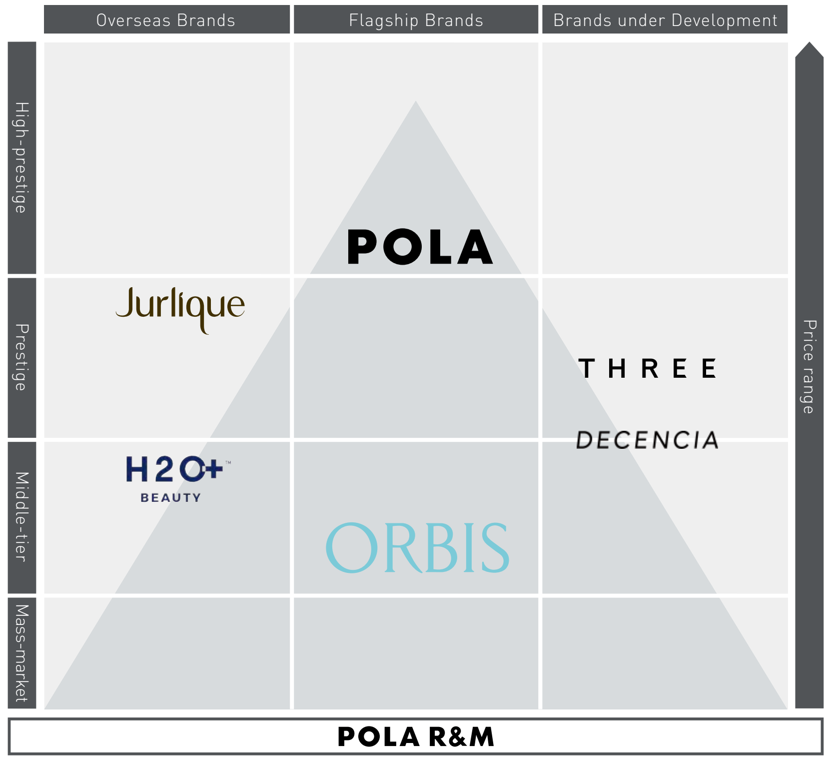
■ Total Assets



Note: Figures for the fiscal year ended December 31, 2016, reflect retroactive application due to changes in Australian accounting standards.

Brand Portfolio

The POLA ORBIS Group pursues businesses related to beauty and health, centering on cosmetics, a segment that dates back to 1929 and the establishment of POLA INC. Currently, the Group's cosmetics portfolio centers on POLA and ORBIS but comprises six brands in total, each with its own concept, sales channels, price range and distinctive appeal matched to diversifying customer lifestyles and needs.



Flagship Brands

POLA

Concept
A high-prestige brand built on leading-edge technology in the fields of anti-aging and skin-whitening

Sales Channels
POLA THE BEAUTY, Esthe Inn, conventional door-to-door business, department stores and the Internet

ORBIS

Concept
Skincare based on an original oil-free concept to draw out the natural strength of skin

Sales Channels
Mail-order business (catalog and Internet) as well as directly operated retail stores

Overseas Brands

Jurlique

Concept
A natural skincare brand utilizing the power of plant ingredients cultivated at a company-owned farm in southern Australia

Sales Channels
Sold at department stores and directly operated retail stores and on the Internet in 17 countries and regions, including Australia, China, Hong Kong and duty-free shops

H2O+ BEAUTY

Concept
Skincare brand based on a concept emphasizing the hydrating power of water and innovative formulas

Sales Channels
Sold at specialty cosmetics stores and on the Internet in six countries and regions, mainly North America

Brands under Development

THREE

Concept
A skincare and makeup brand featuring naturally derived ingredients extracted from plants

Sales Channels
Directly operated stores, department stores, semi-self-select stores* and the Internet

DECENCIA

Concept
A skincare brand for sensitive skin

Sales Channels
Mail-order business (Internet)

*Multi-brand semi-self-select stores offer access to a huge range of beauty products, including prestige cosmetics, and some advice, if wanted, and are more appealing to young shoppers than the time-consuming, consulting-driven process at department stores.

Financial Strategies

Seeking Sustainable Corporate Activities and Sustainable Business Growth

We will seek to raise capital efficiency by achieving net income growth that exceeds operating income growth while also enhancing return to shareholders through a basic policy targeting a consolidated payout ratio of at least 60%. These are the two sides of higher corporate value.

Message from Director in Charge of Finance

Listed companies have a duty to create capital efficiency at a level that exceeds capital cost and to boost corporate value. More specifically, we must acknowledge ROE as a key performance indicator and implement strategies from the two perspectives shown below to improve ROE.

1. Increase profit attributable to owners of parent
2. Enhance the efficiency of net assets

Growth investment aimed at higher net income, and improved profitability

Higher net income hinges on two factors. One is growth investment, the groundwork for sustainable growth. The other is improved profitability.

The purpose of growth investment is twofold: to create sustainable, stable growth as well as new growth. For the POLA brand, we want to expand new-format stores and accelerate global development, especially in China, while in brands under development, the spotlight will be on three new brands from ACRO, which is managing THREE. Also, the Group's R&D structure was reorganized, effective January 2018, with a view that goes beyond cosmetics in strengthening R&D investment. With regard to M&A strategy, we will strive to put the two overseas brands already acquired on a solid path to growth. Furthermore, as our M&A strategy is a key for future success, the search for attractive M&A opportunities will continue. Our evaluation approach is shifting from brand portfolio reinforcement to the creation of multi-value chains utilizing the management resources and business models of companies brought into the Group to strengthen overall capabilities.

On the profitability front, we are working to improve the cost of sales ratio through such processes as reviewing the value chain. For fiscal 2017, the ratio improved 1.7 percentage points year on year. We will maintain efforts to hold selling, general and administrative expenses below gross profit growth, which should lead to average annual operating income growth of at least 10%. Also, we will achieve net income growth exceeding operating income growth, as improving profitability from overseas operations pushes the effective tax rate down.

Enhanced return to shareholders

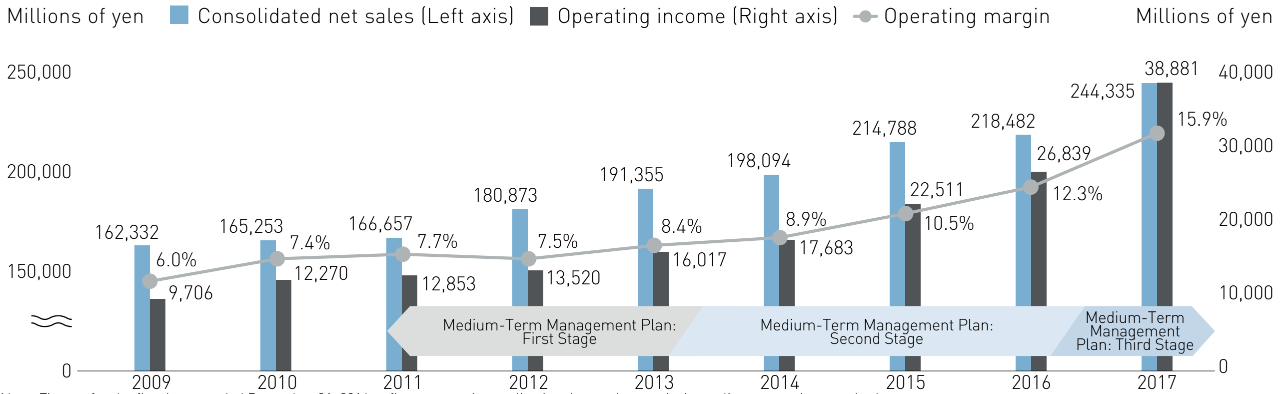
To increase the efficiency of net assets, we will emphasize return to shareholders in line with our dividend policy. Any decisions on return to shareholders must be made on an annual basis, taking into account the level of shareholder equity, but our basic shareholder return policy calls for a consolidated payout ratio of at least 60%. The annual dividend for fiscal 2017 was set at ¥70 per share, up ¥20 from fiscal 2016, after the four-for-one stock split was taken into account. For 2018, we expect to offer an annual dividend of ¥80 per share.

With this policy in mind, we will strive to maximize management resources and boost corporate value over the long term.

Akira Fujii
Director, POLA ORBIS HOLDINGS INC.

Changes in Consolidated Net Sales and Operating Income

Eighth Consecutive Year of Higher Net Sales and Operating Income



Note: Figures for the fiscal year ended December 31, 2016, reflect retroactive application due to changes in Australian accounting standards.

Improve capital efficiency

Set ROE target of 12% by 2020 in medium-term management plan.
As we achieved this target in 2017, we will make 12% a midway point and strive for a global standard to raise corporate value even higher.

EPS Earnings per share

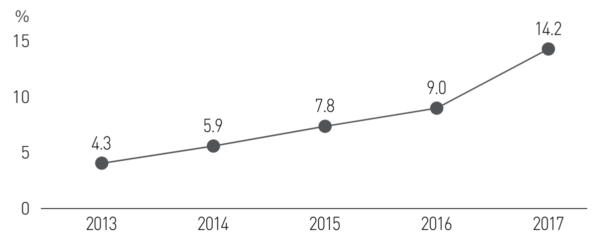
- Operating income: CAGR 10% or higher
- Realize higher net income growth than operating income growth → Lower effective tax rate by reducing loss in overseas business

BPS Book value per share

- Enrich shareholder returns → Consolidated payout ratio of at least 60%, and dividend increase through stable cash dividend distribution
- Growth investments with financial efficiency in mind

ROE reached 14.2% in fiscal 2017, up 5.2 percentage points year on year. We aim to boost capital efficiency by achieving stable profit growth while maintaining growth investments based on return on investment and enriching shareholder returns.

Return on Equity



Note: Figures for the fiscal year ended December 31, 2016, reflect retroactive application due to changes in Australian accounting standards.

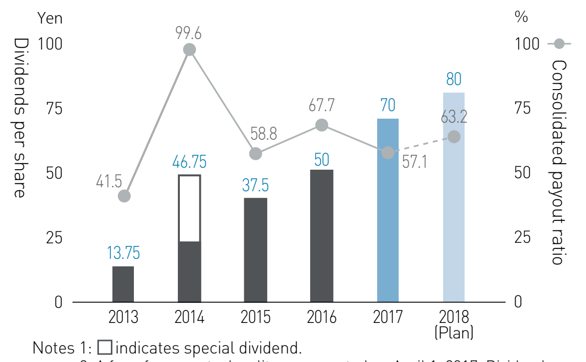
Enrich shareholder returns

Dividend policy: Aim for stable improvement in shareholder returns, underpinned by a consolidated payout ratio exceeding 60%

Dividends per share for Fiscal 2017 (Results)	Dividends per share for Fiscal 2018 (Forecast)
Annual dividend: ¥70	Annual dividend: ¥80
Comprising ¥25 interim and ¥45 year-end dividends Consolidated payout ratio: 57.1%	Comprising ¥35 interim and ¥45 year-end dividends Consolidated payout ratio: 63.2%

From a liquidity perspective, treasury stock buybacks are not undertaken at present.

Annual Dividend and Consolidated Payout Ratio



Notes 1: □ indicates special dividend.
2. A four-for-one stock split was executed on April 1, 2017. Dividends per share before this stock split have been restated as if the stock split had already occurred.

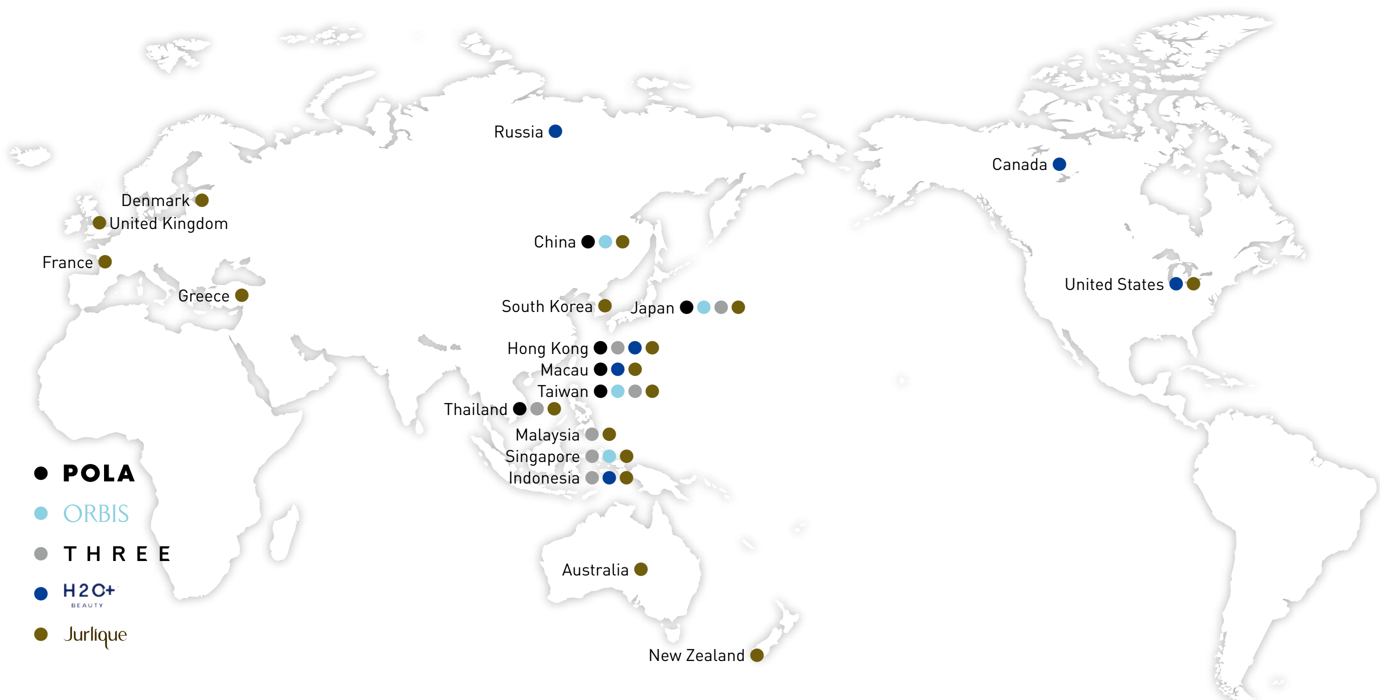
Overseas Expansion

Accentuating the Characteristics of Each Brand and Building Area-Specific Models for Success

Efforts to expand overseas focus on Asia, particularly China, as well as North America, Europe and Oceania. Ultimately, we seek overseas growth commensurate with profits and are working to put overseas operations as a whole in the black by 2020.

We will realize synergies to develop as a corporate group that enriches the lives of women around the world.

Five brands are offered in 19 countries and regions. Various marketing channels are utilized, including duty-free shops, in-flight sales and cross-border e-commerce, to provide distinctive products demonstrating the Group's strengths to customers all over the world.



Jurlique
- Presence in 17 countries and regions
- Main sales channels are department stores, directly operated stores and duty-free shops
- Australian premium natural skincare

H2O+ BEAUTY
- Presence in six countries and regions
- Main sales channels are specialty cosmetics stores, online sales (U.S.A.)
- Skincare brand based on a concept emphasizing the hydrating power of water and innovative formulas

POLA
- Presence in six countries and regions
- Main sales channels are department stores, cross-border e-commerce and duty-free shops
- Opened two concept shops in key market China
- High-prestige skincare

ORBIS
- Presence in four countries and regions
- Main sales channels are mail order and retail stores
- Sales emphasizing skincare and health foods

THREE
- Presence in seven countries and regions
- Focus on skincare and foundation makeup

Jurlique, H2O PLUS restructuring should lead to upturn in 2018

Brought into the POLA ORBIS Group through M&A activities, Jurlique and H2O PLUS have continued to post operating losses. To reverse the situation and turn a profit, the companies have embraced multi-faceted approaches to rebuilding, including management restructuring, brand restaging and reimagined product concepts. These efforts should yield rewards in 2018. We expect overseas operations to show an improvement in sales and turn a profit, as these brands end their losses and complement the favorable overseas sales of flagship brands, notably, POLA and ORBIS.

Build new product lines for Jurlique, highlighting both natural and performance components

Jurlique has been engaged in efforts to restructure the brand since 2015. In 2017, the brand was expanded with the *New Body Care Collection* under a new product line. Seeking to effect a major image change, the company revamped its brand code, logo and packaging, opting for a rose—the symbol of its farm—in the logo and a picture of the farm on the packaging. The company is approaching new product lines with customers' needs in mind and, keeping the spotlight on Jurlique's signature, natural, farm-grown ingredients, it is pursuing development of skincare evoking the high market perception of effectiveness that characterizes POLA products. On the sales front, the company will leverage POLA ORBIS Group synergies to enhance customer relationship management activities.

In addition, Jurlique's new plant in Adelaide, which began operations in March 2018, tapped extensively into production technology from POLA CHEMICAL INDUSTRIES to shrink production time by about one month, compared with that of the former facility. Consequently, the company can offer products with fresher, more fragrant ingredients and thus a higher level of performance to boost customer satisfaction.

POLA's overseas operations in the black for the first time. Unmistakable return to a growth track for overseas brands

Thanks to a rising profile for the POLA brand in Greater China, the brand is charting favorable growth. In 2017, POLA achieved profitability from overseas operations for the first time in its history. Jurlique and H2O PLUS aim to improve profitability and return to a growth track, and both companies will steadily work on brand- and area-oriented strategies and sales channel restructuring to achieve these goals.

Conveying appeal of POLA brand value through integrated message

In December 2017, POLA opened locations in Shanghai and Shenyang under a new store concept that links product sales, consulting and esthetic treatments, enabling customers to enjoy a total POLA value experience.

In China, the market is characterized by heightened sales competition and price wars. Against this backdrop, POLA took a different approach in 2016, switching to consulting-based sales at department store counters, where it is possible to better convey brand value. This approach has attracted a considerable number of customers who share a particular interest in beauty. By raising its profile as a luxury brand, POLA has successfully capitalized on the opportunity to enhance its value in the local market.

Through e-commerce, POLA is connecting with customers who emphasize shopping convenience as well as customers who live outside urban areas. POLA's expansion in China is accelerating on two fronts—face-to-face interaction in stores and online contact. These should underpin a solid business platform by 2020.

POLA seeks to expand its store network, which includes duty-free shops, and set up buying locations that cover all of Asia. In addition, global availability of *Wrinkle Shot Serum* is moving ahead of schedule, with the start of sales in Hong Kong and Taiwan in June 2018 adding momentum to growth.

Store at IAPM shopping mall in Shanghai

Concept Creation/Product Development

Seeking to provide value beyond the framework of cosmetics to enrich the lives of people everywhere

From the pursuit of beautiful skin to opening up a world of senses. The POLA ORBIS Group is moving toward a stage of new value creation, underpinned by accumulated development capabilities.

New-age creation of cosmetics that inspire a sensitivity to beauty that changes people's lives

The POLA ORBIS Group defined a new Group philosophy in 2017. Our mission—to sensitize the world to beauty—and our vision—to maximize the unique character of each brand and become a global corporate group that enriches the lives of people around the world—embody a desire to go beyond the R&D and marketing strengths we have built to date. Our goal is to facilitate experiences and access to a wide assortment of information, culture, art and other original values and thereby stimulate the senses and present people with opportunities powerful enough to make their lives more fulfilling. From this point forward, we will emphasize concept creation and development of products under this new philosophy.

Cosmetics do more than just promote beautiful skin. Features including container design and product fragrance and texture resonate with women emotionally, excite the senses and enhance mood. Cosmetics thus have the power to reimagine lifestyles and perceptions by providing creative moments. Recognizing this potential, the POLA ORBIS Group identified a specific customer segment for each brand and began creating products designed to stimulate the senses of each customer.

【Mission】

Sensitize the world to beauty.

Approach life with boundless curiosity and fill it with heartwarming encounters and new discoveries. Make the world different tomorrow. Inspire a sensitivity to beauty that changes people's lives, making them feel happier and more emotionally fulfilled.

【Vision】

To maximize the unique character of each brand, and become a global corporate group that enriches the lives of people around the world.

The modern woman places importance on interaction with people. A new concept in cosmetics that fosters an awareness of others and generates positive vibes.

POLA debuted *V Resonatic Cream* in October 2017 to kick-start a new brand—*V*—that reflects its desire to deliver new value from cosmetics. The modern woman seeks value that allows her to acquire a renewed sense of well-being, a different approach to life or a fresh perspective and to move forward on the relationships around her[*1]. And a "beautiful person," from a woman's point of view, is someone who is favorably engaged in her surroundings[*2].

Noteworthy features of *V Resonatic Cream* are 1) an exclusive POLA ingredient designed to plump sagging skin and create a contoured appearance that leaves a favorable impression on others; 2) a statement, through the container's kinetic-art design, that exudes the fun and good vibes of a positive attitude; and 3) a texture and fragrance that promote positivity. With every look, with every touch—a cream that delivers positive feelings in space and time.

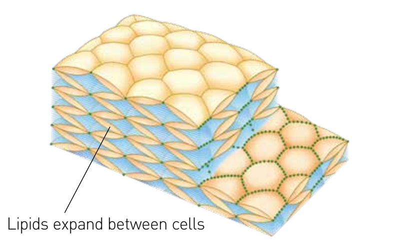
V Resonatic Cream

*1 POLA survey of women in their 50s and 60s (N=10) *2 POLA online survey of women in their 20s-60s (N=3,490)

Serum addresses real concerns of lifestyle, sensitive skin and roughness caused by stress and lack of sleep

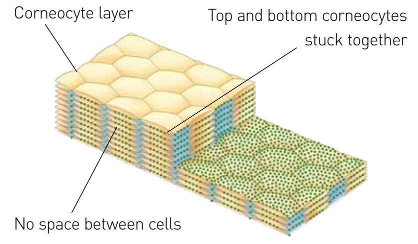
DECENCIA, a brand especially for sensitive skin, celebrated its 10th anniversary with the October 2017 debut of *decency essence*, the most prestigious night serum ever offered under the DECENCIA label. What became apparent in the development of this product was the mechanism underlying the roughening of skin as caused by an insufficient amount of sleep. *decency essence* addresses the skin concerns of the modern woman. It marks the first application of the Basket-weave® Formulation, a POLA CHEMICAL INDUSTRIES exclusive technology reflecting thorough clarification of the process causing roughness and efforts directed toward promoting a healthy stratum corneum typically achieved through an appropriate amount of sleep.

Adequate sleep: Basket-weave® stratum corneum



Lipids fill gaps between corneocyte layers, creating high barrier function within skin structure

Insufficient sleep: Compact stratum corneum



Lipids do not fill gaps between corneocyte layers, lowering barrier function of skin

decency essence

POLA has evolved. Promoting a new brand strategy based on unique values under the "Science. Art. Love." philosophy.

POLA seeks a global position for its namesake brand, establishing POLA as a finely honed, prestige brand of cosmetics. The company initiated a new brand strategy, based on the unique values of its "Science. Art. Love." philosophy, and has already begun sending out a message about the new POLA through various media channels.

WE/, which debuted in January 2017, is a corporate culture magazine that describes POLA's unique values and responds to the needs of the modern woman. This publication is intended to provide readers with opportunities to initiate new behavior and encourages joint efforts with readers.

Shiro-no-bijutsukan (The White Museum of Art), a POLA-sponsored television program that first aired in April 2017, is a portal for expressionists working in Japan and abroad to freely convey their artistic concepts. The program encourages viewers to see things in a different light, motivates and generally promotes a sensitivity so that they will approach things with greater positivity.

Also, fostered by a shared belief in providing opportunities that support women seeking to get a step ahead, POLA collaborated with Mercedes-Benz on events such as participation-style dialogues with invited guests. The events took place at Mercedes-Benz's facility in the Roppongi district of Tokyo, where people can see, touch, test-drive a Mercedes-Benz and purchase branded merchandise. Like nothing ever produced before, these events fostered an atmosphere stimulating the senses with music, ambiance and food, and were well received.

Ginza Tsutaya Books and Futako Tamagawa Tsutaya Electrics showcased POLA Talker's Museum, a hands-on exhibition combining the flower art of Makoto Azuma and the latest technologies. Mr. Azuma has a POLA connection through his involvement in package design for the company's *B.A* series. POLA plans follow-up programs in 2018, with events, product announcements and other content offered in collaboration with Tsutaya.

Through these kinds of activities, POLA defines its unique worldview and raises brand value.

POLA Talker's Museum

R&D/Production System/Quality Control

"Create"—to deliver new dreams of beauty

Announcements of new technologies and new products overturning traditional concepts reflect technology development capabilities that have driven the skincare industry for many years. We will continue to draw on the composite strengths of the Group to spur innovation.

Accumulated R&D capabilities open up new fields in anti-aging skincare

The POLA ORBIS Group launched Japan's first cosmetics product for whitening the skin in 1952. Various innovative products have followed in the years since, creating new dreams of beauty. Such R&D capabilities are highly regarded worldwide, substantiated by numerous awards at IFSCC* congresses.

Behind these successful results is a policy dating back to POLA's earliest days in business to concentrate resources into skincare research. Particular emphasis has been placed on anti-aging and skin-whitening products to fight the biggest skincare concerns of women. Capital is constantly invested into basic research, and in recent years, the scope of research has expanded beyond skincare-oriented themes to include the field of medicine as well.

Our researchers identified the structure of skin thought to trigger facial sagging, facilitating an approach through cosmetics to address the issue. No skincare products had been effective up to that point. In 2017, we announced research results on the impact that skincare brings about not only to the skin but to the user's emotional well-being as well. In an industry first, researchers successfully developed a skincare product that fosters a positive state of mind and encourages product users to be more people-interactive.

* IFSCC (International Federation of Societies of Cosmetic Chemists) is an international academic society that seeks to develop cosmetics technologies globally and promote dialogue among engineers and researchers in the field of cosmetics. POLA CHEMICAL INDUSTRIES has won eight IFSCC awards so far.

"Create Positivity"—deriving something better

POLA CHEMICAL INDUSTRIES found that differences in the texture and appearance of skincare creams influence the level of consciousness that sways the user's routine behavior and attitudes. This discovery was used in developing *V Resonatic Cream*, an innovative product that works on user consciousness. The company will continue its investigative research and strive to develop cosmetics that contribute to better lifestyles and approaches to living, including the realization of skincare matched to plans for the day or a desired personal appearance.

Texture and fragrance promote more positive feeling

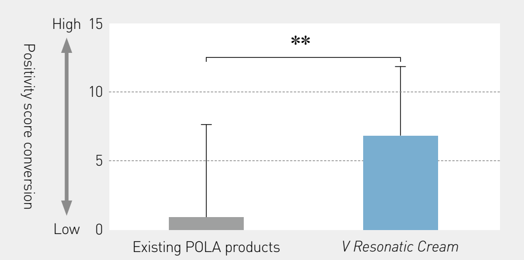
Texture: Texture seems to gently envelop the skin, promoting relaxation deep into the soul

During application		Afterwards
Creamy rich	▶	**Skin is full, soft, glamorously supple Smooth and radiant**

Fragrance: Fresh green tea fragrance embellished by floral notes brimming with relax-and-refresh quality

Top note		Middle to last note
Citrus green for a refreshing change	▶	**White floral conjures up laid-back, relaxing feeling of total contentment**

Changes in positivity before and after applying cream



Emotions scale evaluation questionnaire using Wilcoxon rank-sum test
**:p<0.01 N=21
Surveyed by POLA CHEMICAL INDUSTRIES

Positivity improved with use of *V Resonatic Cream*.

Group research control function consolidated to cultivate new areas for sustainable growth

Seeking to generate new value to fuel growth for long-term development, the Group revamped its R&D structure in January 2018. The research control function was consolidated under the Multiple Intelligence Research Center (MIRC), and a new Frontier Research Center (FRC) was set up at POLA CHEMICAL INDUSTRIES. Each center will cooperate with existing cosmetics development divisions in scientific pursuits and cultivate new areas of research. R&D expenditures will increase 20% to 30% by 2020, compared with the level in 2016, and the Group will take a united approach in R&D activities to promote innovation.

Leveraging supply chain management to maintain high quality

Domestic production activities for the POLA ORBIS Group were integrated at the Fukuroi Plant in September 2014. By focusing on skincare and base makeup, the Group has established a production structure that ensures high-quality products made at the most cost-effective level.

For products in categories other than skincare and base makeup, Group companies work with partners to boost efficiency, facilitate access to the technology of each partner company and promote diverse and timely product development. Quality standards are set for each brand, and checks are performed again and again across the whole supply chain when a supplier is selected, when development starts, during production, delivery and all other processes to prevent possible defects. CSR procurement audits are conducted as well, and efforts are made to comprehensively identify and reduce supplier risk, including issues associated with environmental pollution, human rights and labor conditions.

Efforts to encourage greater safety and effective use of active ingredient NEI-L1

NEI-L1 was approved in 2016 under quasi-drug rules as the first active ingredient in Japan to "improve wrinkles." *Wrinkle Shot Serum*, which contains NEI-L1, has enjoyed hit product status since its debut. POLA CHEMICAL INDUSTRIES continues to explore product safety, and as of December 31, 2017, with more than 900,000 units sold, no serious side effects had been reported.

In parallel with quality assurance activities, POLA has promoted widespread awareness of the anti-wrinkle mechanism inherent in NEI-L1 as well as its effectiveness and safety. By enabling the market to acquire a deeper understanding of product features, the company ensures customers use the product safely, effectively and with peace of mind.

VOICE

Nikkei Woman's Woman of the Year 2018 Grand Prize goes to corporate officer Noriko Suenobu, who led development of *Wrinkle Shot*

"The project got started in 2002, with the aim of making customers smile by improving wrinkles. But the road to success was long: 15 years, with seven spent in R&D and eight more to reach approval. Many women on the team worked really hard, and I am tremendously pleased that our efforts have been recognized."

Ms. Suenobu rallied the team and guided efforts toward the creation of *Wrinkle Shot Serum*.

"We hit major roadblocks a lot, and there were times I thought maybe we had gone as far as we could. But I encouraged my team to persevere, feeling that we couldn't give up. We continued our trial-and-error approach, and our commitment yielded Japan's first 'wrinkle-improving' quasi-drug."

Ms. Suenobu became involved in the establishment of the Multiple Intelligence Research Center in 2018. "I would like to create unique value through cutting-edge research, and deliver smiles and inspiration to as many customers as possible."

Sales/After-Sales Support

Everything starts with customers, so we aim to build stronger customer relationships.

The source of our growth lies in customer contact. We want to project "professionality" in connecting with customers directly by any means, regardless of sales channel or marketing style.

Merging the creative energies of individuals expands the potential of the organization. Seek enhanced brand power through work-style reform.

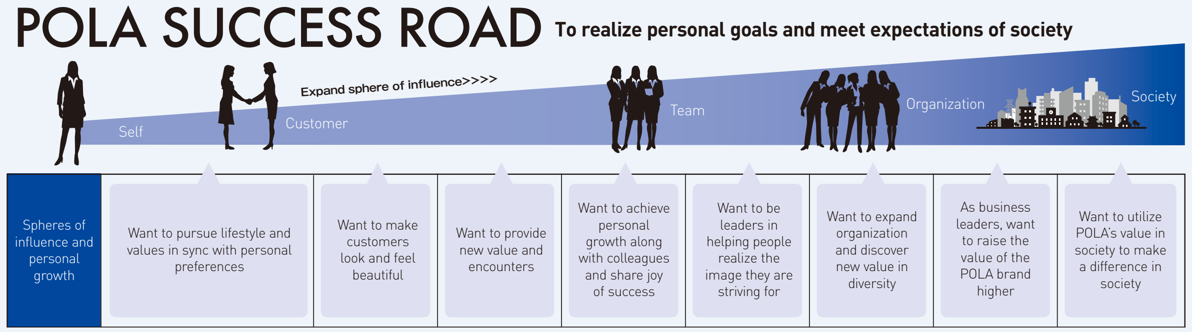
The evolution of the POLA ORBIS Group coincides with women taking a more active role in the working world. POLA LADIES—currently Beauty Directors—supported a sales network that formed the cornerstone of business expansion for the Group. The opportunity to be a POLA LADY presented women with a work style that matched personal lifestyles. The 1990s marked a pivotal change for POLA and its door-to-door style of sales, as the number of double-income households exceeded the number of households where the wife stayed at home. Against this backdrop, POLA gradually shifted toward a shop format to attract customers. Today, POLA's shop network is nationwide, with about 4,200 locations. Shop operations and sales activities are handled by Beauty Directors.

POLA is currently working on a total transformation of the Beauty Director concept. Seeking to achieve a higher quality in customer relations, the company streamlined the number of Beauty Directors from 130,000 to 46,000 in 2016, then implemented intensive training under the new structure. At the same time, the company took steps to strengthen the skills of management personnel, utilizing a shop-owner training program and a leadership training program for women, and also encouraged better compensation and higher positions. About 30 years ago, most of the sales branch managers were men, but today, the majority of sales branch managers—now referred to as Grand Owners—are women.

The new work style for Beauty Directors is intended to motivate individuals to develop their careers. But it also has a whole-is-greater-than-the-sum-of-its-parts effect, creating a stronger organization. In addition, it links to enhanced management capabilities at shops and in the Beauty Director structure and reinforces the training structure. These changes are spurring organizational reform within the Group and energizing management.

For the individual, the organization and society, a growth model for women leaders.

POLA revamped the POLA Success Road that guides human resources development and instruction. Previously, the only indicator of growth was sales. But given the activities and ideals of the modern woman, management realized that it was not totally in sync with today's market, customers and the perceptions of Beauty Directors. POLA will focus not only on skill and experience but also social and human qualities as well as the ability to influence people and society in a positive way. With this in mind, POLA gave the Beauty Director curriculum a major overhaul.



Emphasizing customer satisfaction, listening very carefully to customer comments

The POLA ORBIS Group values customer comments in consultation-oriented sales, of course, because that is a face-to-face approach connecting directly with customers, but this view applies to other sales channels as well. The brand debuted when mail-order shopping was not as common as it is today, and the company placed considerable emphasis on customer satisfaction to ensure that customers could make purchases with total peace of mind. The ratio of mail-order sales to total sales climbs every year, but ORBIS' policy has not changed. Active communication with customers remains a priority. In 2017, the company introduced a chat platform, marking the start of efforts to utilize advanced CRM solutions that had never been tried before in the cosmetics industry.

AI-driven Uru-nyan chats with customers and promotes two-way communication.


Uru-nyan

To support customers in their search for products that best address the concerns they have about their skin, ORBIS launched a chat service that opens lines of communication while making shopping fun. The service, featuring an ORBIS-original kitty character named Uru-nyan, is available on the company's e-commerce site. ORBIS also began artificial intelligence (AI) chats using the talk function in LINE, an instant communications app popular in Japan, and has attracted more than 40,000 users.

ORBIS will continue to develop advanced one-to-one marketing approaches.

DECENCIA—products evolve from the customer comment "I want skin-whitening options for my sensitive skin"

DECENCIA promotes its products through mail-order channels, with an emphasis on e-commerce. But to fulfill its mission to help solve the skin concerns of women with sensitive skin, management feels it is essential for the company to get close to customers and hear their concerns and comments. Toward this end, DECENCIA holds events for employees to meet and talk with customers in person.

Events are opportunities for roundtable discussions and consulting sessions for women with sensitive skin and DECENCIA professionals to talk about what customers really want from cosmetics. The information is then applied to product development and improvements in services and quality. It was a comment from a customer—"I want skin-whitening options for my sensitive skin"—that led to the renewal of *saeru* in 2018 and a breakthrough series of products offering skincare for sensitive skin as well as skin-whitening effects.


DECENCIA *saeru concentrate* advance trial salon
Customers were invited to try products before market launch and provided numerous comments.

VOICE

Society is revitalized as women come to be more beautiful, and work contributes to society

I quit my job when I got married and started with POLA while I was raising three children because I could work and still mark life's events. The job also gave me the opportunity to build a career. I described products to customers in my own words, they bought the products and that translated into income. What a wonderful job, I thought.

Four years later, I was the owner of a POLA THE BEAUTY store and I was training Beauty Directors to become key assistants. When Beauty Directors themselves become shop owners, they grow as individuals, too. Seeing this for myself, I realized that it is my job to develop human resources. Since moving up to Grand Owner in 2013, I see the owners and managers I groomed now training Beauty Directors on their own. It is just like a growing family, with a woman having children and then grandchildren.

The corporate culture at POLA—a genuine warmth extended to customers and a true desire to help people grow—has been passed down for ages. It is our job now to convey this spirit to the next generation. By making customers feel pretty, we are, in fact, increasing the number of women who approach work and family with a more positive, forward-looking outlook. I believe this contributes to a better society. As the number of Beauty Directors I groomed increases, more women contribute and the impact on society grows. There is no greater joy for me than to see this process in action.

Tomoko Tensho
Grand Owner, POLA THE BEAUTY Nakamozu

Growth Strategy by Brand (Flagship Brands)

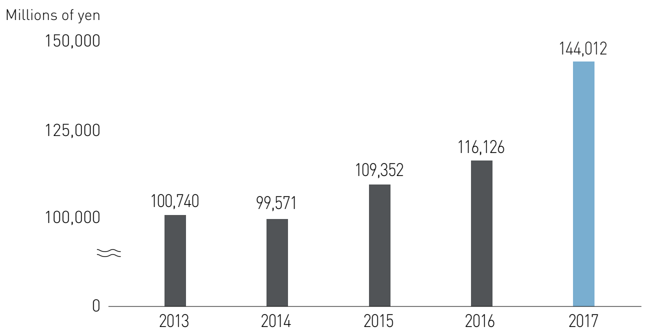
POLA

High-prestige skincare brand specializing in anti-aging and skin-whitening fields

B.A series *WHITE SHOT* series *Wrinkle Shot Serum*

Net Sales

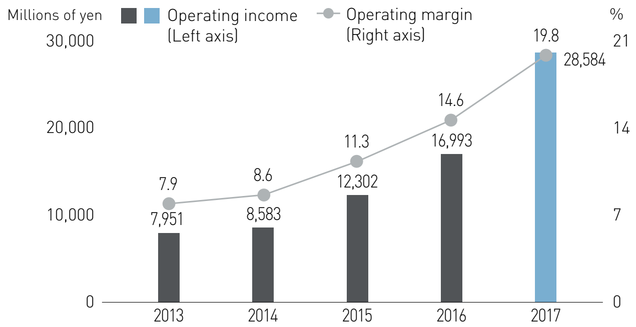
¥144,012 million (Up 24.0%)



Note: Consolidated basis

Operating Income and Operating Margin

¥28,584 million (Up 68.2%)



Note: Consolidated basis

Fiscal 2017 results

To achieve long-term growth, POLA is investing in corporate and human resources designed to deepen brand awareness and reinforce the hiring and training of professional Beauty Directors. On the product front, in January 2017, we launched *Wrinkle Shot Serum*, the first quasi-drug cosmetics product in Japan approved for "improving wrinkles." A product with the capability to improve wrinkles is revolutionary, with the power to change the course of the history of skincare cosmetics. This itself attracted customers, but vigorous efforts to publicize this product in face-to-face consulting sessions as well as promotional activities had the added effect of attracting new customers and also translated into the cross-selling of other products. *Wrinkle Shot Serum* was indeed a major driver of growth for POLA in fiscal 2017.

We also added *White Shot Inner Lock Liquid IX*, a beauty-supporting drink, to the *White Shot* skin-whitening series in May 2017. *V Resonatic Cream*, a tangible result of efforts to create new value in cosmetics, was launched in October 2017. These products brought rave reviews from customers and professionals alike, substantiated by awards for best cosmetics. Inbound sales—that is, demand from visitors to Japan—shifted away from beauty-supporting health foods toward skincare. The trend had a positive impact on POLA, spurring sales to inbound visitors. A parallel benefit was higher recognition of the brand in overseas markets where POLA achieved profitability for the first time.

As a result, POLA recorded a huge year-on-year increase—24.0%—in net sales. Operating income soared 68.2%, as the higher sales starting point buoyed gross profit and contributed to a better cost ratio. The operating margin reached 19.8%, up 5.2 percentage points from a year earlier.

Next-stage growth strategies

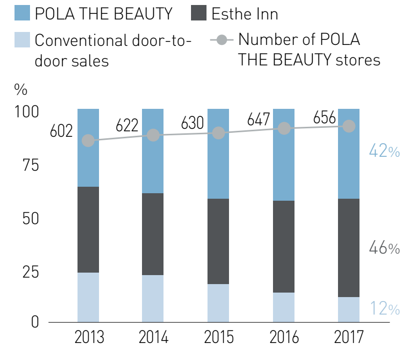
Strategic store development

POLA aims to gain a stronger foothold by capitalizing on an expanding customer base and the wider brand recognition achieved through the incredible market reception of *Wrinkle Shot Serum*. The company also seeks to reinforce its business platform and boost brand value. Toward these ends, we will pursue a global, strategic store development strategy. In Japan, we will expand our Touch & Talk shop network, a new point of customer contact that enables customers to experience the brand. Utilizing excellent-location Touch & Talk shops, we anticipate a great improvement in accessibility for core target customers while we build a satellite structure with nearby POLA THE BEAUTY stores that will entice new customers and lead to an increase in repeat sales as well. Overseas, we will emphasize three channels—department stores, luxury shopping malls and duty-free shops—to expand our store network in Asia, deliver a more exciting brand message throughout Asia, including the home market, and give customers a pleasant, inviting brand experience. By 2020, we should triple our current network to 90 shops. On the Asian map, China is a priority market. We will accelerate store openings there and, along with e-commerce development, invest to turn demand through these channels into drivers of growth.

Corporate culture reform, human resources development

Stores and e-commerce are gateways to customers. We seek to utilize these portals to promote a consistent brand message and enable customers to experience the brand—two keys to higher brand value. To succeed in these efforts, we have to accelerate management reforms and greatly improve market responsiveness and our ability to implement strategies from a global perspective. Therefore, we will carry out large-scale restructuring at the head office and add a new dimension to our corporate culture. On the organizational front, operating departments that had been split vertically according to sales channel will be integrated under a business unit format. In addition, we will consolidate marketing functions previously scattered among operating departments under a new structure that enables business units to concentrate on activities with a specific marketing objective.

Sales Breakdown by Business Format and Number of POLA THE BEAUTY Stores



For stakeholders

POLA is working through a medium-term management plan positioned as the last stage of a journey. Through this plan, we will achieve our 2020 vision of becoming a global brand by providing "superlative hospitality" that generates "surprise and emotion." By 2020, we also intend to achieve a level of value that enables customers to discover hidden beauty in themselves through the total beauty content we offer.

To establish a solid growth platform that ties into our 2020 vision, it is imperative for us to strengthen our corporate image and reinforce brand power. The concept of "Science. Art. Love." will be integral to these efforts, guiding us as we strive to refine our brand image through a sharper, integrated message and multi-faceted communication reforms. We will concentrate management resources into a frontline strategy highlighting *Wrinkle Shot Serum* and the *B.A* series and promote integrated communication techniques across all customer contact points. In addition, we will utilize various vehicles, including the POLA-sponsored television program The *White Museum of Art* and the corporate culture magazine *WE/*, to raise our profile as a company that encourages women to be active in society.

Nowadays, I believe an important standard used by customers in choosing a company goes beyond the value inherent in that company's products and services and extends to the value perceived in the policies and presence of the company that provides such products and services. In an era when people are increasingly hunting for value matched to their own personal preferences, we must quickly adopt new ways of thinking and shift away from an organizational perspective toward a market perspective. POLA is a core brand of the POLA ORBIS Group, and it is therefore incumbent upon us to derive strength from the overall brand, transcending organizational walls and conventional thinking, and realize constant growth and higher brand value.

Yoshikazu Yokote
Representative Director and President
POLA INC.

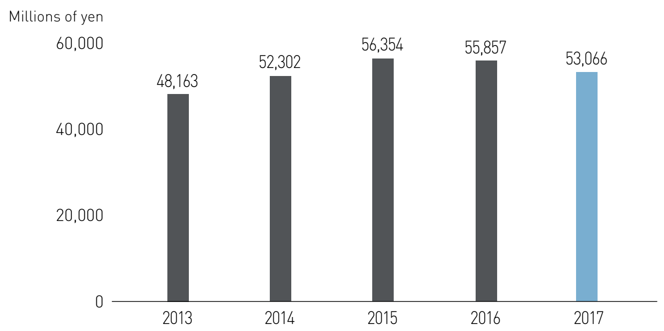
ORBIS

Skincare based on an original
oil-free concept to draw out
the natural strength of skin

ORBIS=U series

Net Sales

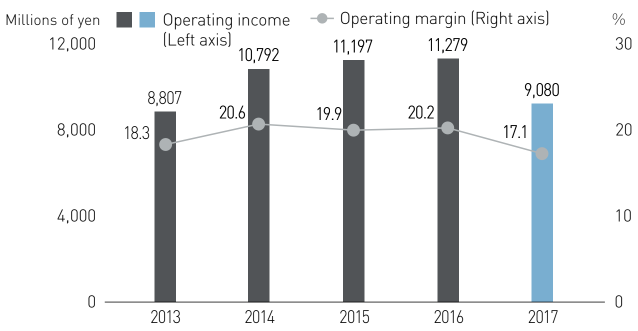
¥53,066 million (Down 5.0%)



Note: Consolidated basis

Operating Income and Operating Margin

¥9,080 million (Down 19.5%)



Note: Consolidated basis

Fiscal 2017 results

As its 30th anniversary approached, ORBIS embarked on a new mission: "Never limited by convention, we are working to create a culture of everyday beauty." The company fine-tuned its corporate identity and pursued brand-oriented changes designed to elicit customer loyalty that transcends age-defined borders. The emphasis was on making the brand easily accessible to customers, not only in performance terms, such as quality and price, but also in the sense of the worldview (emotional value) that infuses the ORBIS brand.

On the product front, *AQUA FORCE*—oil-cut skincare on the market since 2000—underwent a complete renewal in 2017 for the first time in seven years. We endeavored to deepen awareness of the ORBIS skincare concept through enhanced promotional activities using trial sets and campaigns, such as distributing samples, to enable customers to try the skincare and see for themselves what our products do. On the sales front, we turned our store member's card into an app and implemented steps to maximize the shift toward omnichannel marketing so that customers can apply purchase points, which were previously issued separately for online and in-store sales, toward new purchases through either method.

These efforts helped keep the number of customers from falling below last year's level, but the repeat ratio on sales to existing customers dropped and led directly to a decline in skincare sales, which in turn caused a 5.0% year-on-year decrease in net sales. Operating income tumbled 19.5%, reflecting reduced gross profit due to the lower net sales starting point and continued investment to enhance marketing capabilities from a medium- to long-term perspective.

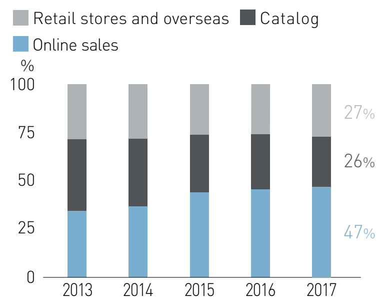
Next-stage growth strategies

Changes to enhance brand presence

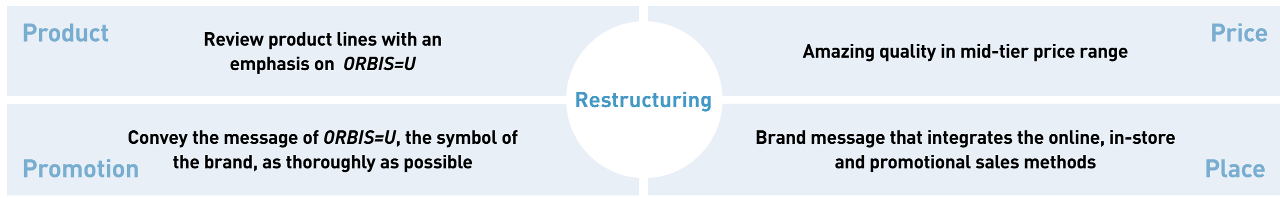
We are aware that prevailing business methods hinging on in-house resources are no longer practical or prudent. We are also aware that a more market-oriented strategy is needed to hone a sharper competitive edge and thereby maintain customer loyalty and return to becoming a high-revenue corporation in a market environment where online cosmetics companies are waging an uphill battle to capitalize on demand. With this in mind, we defined the image we want ORBIS to present. As described in the medium-term management plan, we want ORBIS to be a beauty brand that turns healing into a science and provides a sense of well-being—comfortable for the skin and the soul—every day. By using our unique products to differentiate ourselves from other companies, we will elevate our brand's market presence. This is a key strategy for us. We will strive to communicate our message fully through *ORBIS=U*, which symbolizes our brand concept, and strive to create a more recognizable corporate image. We will release a message of integrated brand value, highlighting the product lineup, e-commerce site design and content that truly resonate with our target customer segment.

On the sales front, we will draw on the power of existing channels while embracing omnichannel advantages that extend beyond mail-order and in-store channels. At the same time, we will take customer communication to new heights with smartphone app technology. In addition, to make solid progress on management strategies and translate strategic thinking into results, we will look beyond existing approaches and transform ourselves into a company that can pinpoint trends and constantly adapt to the times. Going forward, we will continue to emphasize a new corporate culture as a priority strategy.

Sales Breakdown by Sales Channel



Efforts to put ORBIS back on a growth track now in progress



For stakeholders

ORBIS celebrated its 30th anniversary in 2017, but the company has an issue to address—a weak market presence. A look back on our history shows that the ORBIS brand grew as a challenger to—the antithesis of—existing cosmetics brands. Back then, we charted a new course in the industry, offering oil-free cosmetics—a novel concept in those days—and an easy mail-order purchasing structure when cosmetics were sold primarily at specialty shops and department stores. But competing brands emerged, diluting the impact of our brand concept, and the mail-order structure that had differentiated us in the cosmetics crowd was no longer seen as something special. Our brand presence lost its luster.

Against this backdrop, we seek to create a concept with a difference in the market and promote a radical change in the brand from a product perspective to expand recognition of ORBIS as a beauty brand, with an emphasis on skincare, rather than as a mail-order brand. We acknowledge that this change in brand perception must be accompanied by reforms within the company as well, so we greatly reorganized in January 2018. Our structure had been based on sales channels, but we eliminated barriers and restructured according to function. Today, widespread use of smartphones and advances in technology make it meaningless to separate mail-order and in-store sales channels. We are keen to promote a seamless shopping experience built on cross-media and cross-channel access. At the same time, we will direct efforts into fostering a new in-house perspective.

ORBIS is one of the core brands in the Group's product portfolio, and I believe we can establish a more pervasive presence as a brand that women use throughout their lives. We want the value we provide to convey a sense of "healing." To this, we will add carefully produced originality backed by science. Today, we are at a turning point, and we will quickly embrace change to return to growth.

Takuma Kobayashi
Representative Director and President
ORBIS Inc.

Growth Strategy by Brand (Overseas Brands)

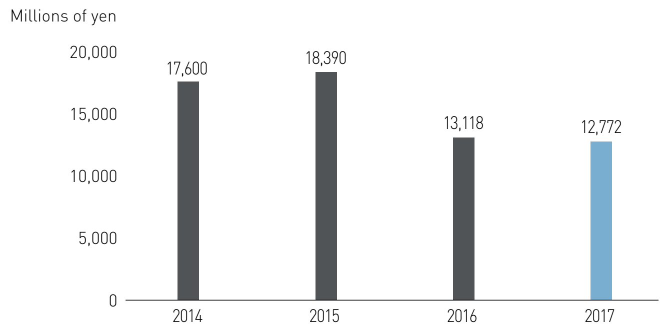
Jurlique

A natural skincare brand utilizing the power of plant ingredients cultivated at a company-owned farm in southern Australia

Series-shared cleanser (scheduled for launch in second half of 2018)

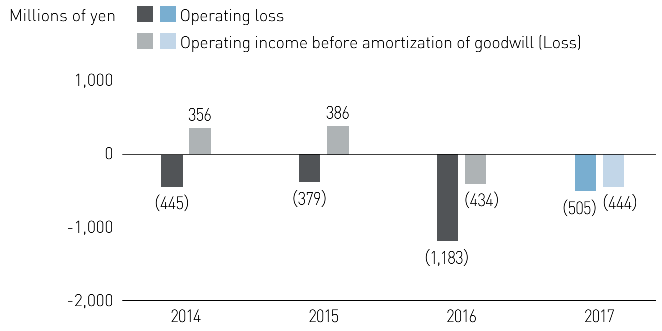
Net Sales

¥12,772 million (down 2.6%)



Operating Loss

¥505 million (¥677 million improvement)



Note: Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment following revisions to Australian accounting standards.

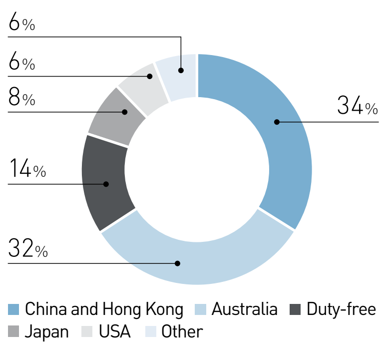
Fiscal 2017 results and next-stage growth strategies

Jurlique has been dealing with challenging conditions since 2016. The company has struggled in the travel retail market and has felt a significant impact from fewer customer visits to stores in Australia. While signs of improvement have emerged in some markets, including China and Hong Kong, sales of the brand overall were down 2.6% year on year. Although operating loss decreased owing to the lack of the impairment loss booked in 2016, operating income before goodwill amortization was down due to lower net sales.

Growth strategies going forward

Jurlique has embarked on brand restaging. The company is seeking to establish a solid brand platform and made headway on various reforms in 2017. Of note, management redefined the corporate DNA—the cornerstone of the brand—and opted for a new brand code and color. It also embraced customer relationship management from two perspectives—global and local. Going forward, Jurlique is set to launch a series of new products, but the keys to growth will be conveying a message that highlights the effectiveness and benefits of these products and the seamless development of Jurlique as a premium brand across all customer gateways. In this, the emphasis will be on Australia, China and the travel retail market to establish a solid presence as a premium natural skincare brand.

Sales by Region (2017)



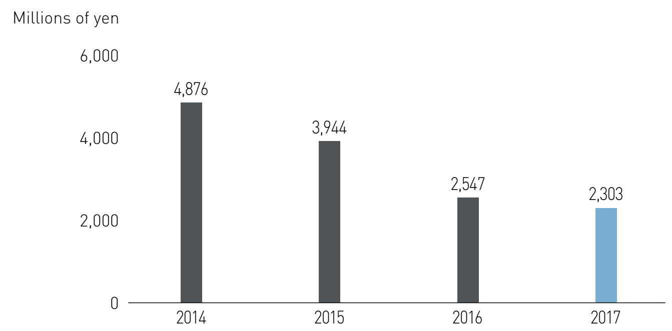
H2O+ BEAUTY

Skincare brand based on a concept emphasizing the hydrating power of water and innovative formulas

OASIS series

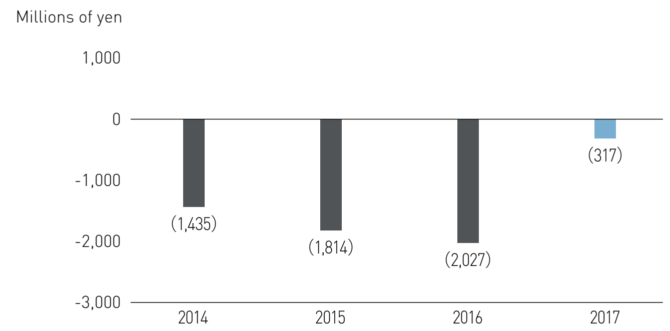
Net Sales

¥2,303 million (down 9.6%)



Operating Loss

¥317 million (¥1,709 million improvement)



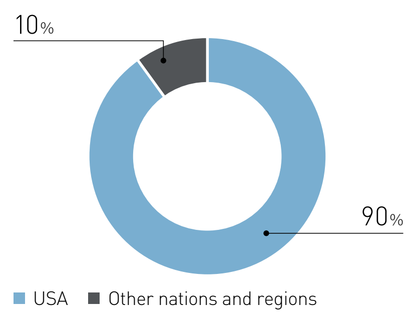
Fiscal 2017 results and next-stage growth strategies

Since brand restaging in June 2016, H2O PLUS has launched a steady stream of new products under a totally revamped brand concept and worked to expand brand presence over existing sales channels. Unfortunately, sales fell 9.6% year on year, mainly due to a drop in shipments to Russia and the consequences of a decision to withdraw from Kohl's, a major U.S. retailer, because of our reduced ability to attract customers at Kohl's. On a positive note, operating losses were not as heavy as in fiscal 2016, reflecting settled expenses associated with market withdrawal and business operating costs paralleling a business retreat from China in 2016.

Growth strategies going forward

H2O PLUS will work to raise brand recognition and promote trial-use products to establish a more extensive presence over existing sales channels. The goals are to enhance brand recognition through better marketing for mainstay products and greater use of samples and to improve the brand experience by spotlighting business in selected markets and concentrating investment in major retailers. The company will carefully pursue market and channel expansion according to the brand concept.

Sales by Region (2017)



Growth Strategy by Brand (Brands under Development)

THREE

A skincare and makeup brand featuring naturally derived ingredients extracted from plants


Balancing series


Epic Mini Dash series

DECENCIA

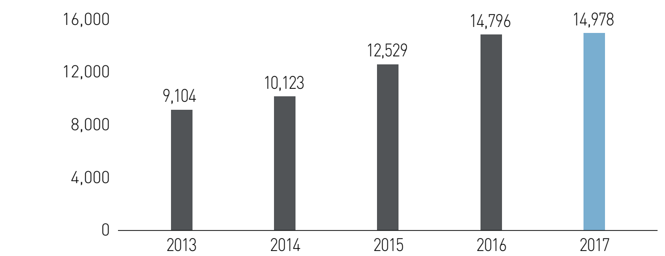
Skincare products for dry, sensitive skin


decency essence


ayanasu series

Net Sales

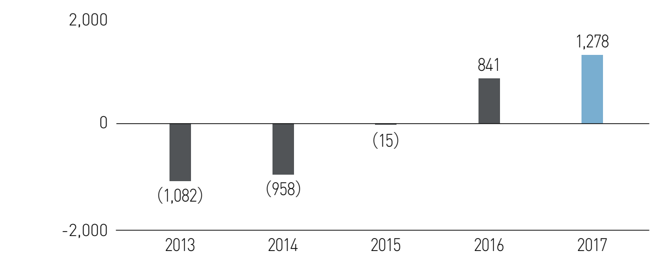
¥14,978 million (Up 1.2%*1)



*1 POLA ORBIS HOLDINGS transferred shares held in pdc and FUTURE LABO to third parties in fiscal 2016. If the effect of this transfer is excluded, the increase is 28.2%.

Operating Income (Loss)

¥1,278 million (Up 51.9%*2)



*2 POLA ORBIS HOLDINGS transferred shares held in pdc and FUTURE LABO to third parties in fiscal 2016. If the effects of this transfer and investment in new brands are excluded, the increase is 56.6%.

TOPICS

Regarding liquidation and dissolution of consolidated subsidiary

POLA ORBIS HOLDINGS is working to improve corporate value through a stronger earnings structure for domestic operations and enhanced capital efficiency. As part of this effort, management implemented a review of the brand portfolio, which is based on a multi-brand strategy, and decided to liquidate and dissolve ORLANE JAPON INC.

The business environment for ORLANE JAPON has been very challenging, causing performance to fall below expectations. Various measures were implemented to turn results around, but in the end, management saw little merit in continuing business.

Fiscal 2017 results

THREE
THREE is enjoying high growth, fueled by the debut of new products under a differentiated brand concept and a wider retail presence at department stores, directly operated stores and semi-self-select stores. The brand is also gaining a higher profile overseas, adding two places—South Korea, in April 2017, and Singapore, in September 2017—to the map. The brand is now available in seven countries and regions. At ACRO, the company behind THREE, net sales jumped 31.2% year on year but operating income fell 8.2%. This reflects investment in new brands planned for a market debut in fiscal 2018. If the investment is excluded, operating income increased.

DECENCIA
DECENCIA focused on its mainstay product *ayanasu* and worked hard to capture new customers, offering the potential for constant orders. The brand moved in an even more favorable direction than anticipated, not only in terms of new customers but also in terms of the repeat ratio, seeing the number of repeat customers rise considerably. On the product front, DECENCIA began sales of the most prestigious serum in the brand's history in October, targeting rough skin caused by lack of sleep, and worked to invigorate the brand. Net sales soared 40.0% year on year, and operating income climbed about ¥300 million.

Next-stage growth strategies

THREE
The focus will be on enriching the selection of holistic care products, especially skincare, while entering new markets and expanding the brand's presence in existing markets. In addition, THREE will strengthen the brand's message through such approaches as opening new-concept stores in the Tokyo Midtown Hibiya that include a restaurant section and creating a lifestyle brand with a global presence.

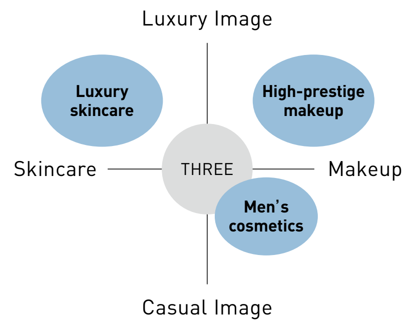
DECENCIA
DECENCIA remains eager to attract new customers who are likely to place orders continuously, encourage more customers to become repeat customers and boost the adherence rate to underpin its status as a high-earning brand specializing in products for sensitive skin. In addition, the company will broaden its approach to catch the interest of not only people with obviously sensitive skin but also people with latent sensitivity. Like the other brands in the Group portfolio, DECENCIA will enhance its brand message and, toward this end, plans to open a flagship shop. The brand's profile is sure to rise.

New brand creation

ACRO, the company behind THREE, will launch three new brands.

- High-quality, high-prestige makeup brand
- Luxury, natural skincare brand
- Total cosmetics brand for men

All three brands are set for launch at department stores in autumn 2018, giving form to ACRO's corporate philosophy to "Create the beauty of an era with a well-honed sense of style." They will also help ACRO build a new component in its customer base and grow as a company that boasts a portfolio of several brands with global appeal originating in Japan. These brands require prior investment, which squeezes income, but ACRO expects to turn a profit again in 2020.



Basic Stance on Corporate Governance

Toward Improvement in the Group's Corporate Value

The POLA ORBIS Group embraced a new mission—Sensitize the world to beauty—along with a five-point Way blueprint to achieve the mission. The underlying idea is that if all employees under the Group umbrella practice the Way, corporate value is bound to improve. Each operating company under the Group umbrella essentially manages itself autonomously and independently, while POLA ORBIS HOLDINGS, as the holding company, retains management control over each operating company and strives to ensure sound management and improved efficiency in Group operations overall.

Typically, transparency is an issue in a family business. At the Company, however, efforts have been made to improve objectivity and transparency, exemplified by the effectiveness evaluation of the Board of Directors by an outside evaluation organization and the identification of issues at meetings involving only outside directors. In conjunction with the mission, the Way and the approach to operations, the Company incorporates compliance into CSR activities, emphasizing compliance as an integral part of business. In addition, the Company established the POLA ORBIS Group Code of Conduct (hereafter, "Code of Conduct"), covering various facets of responsible corporate activity, including legal compliance, environmental protection and shareholder relations. All executives and other employees are asked to submit a written pledge to abide by the Code of Conduct. Effectiveness is confirmed through regular discussion and confirmation of content among executives and employees and through opportunities to promote widespread awareness.

Should the Company be put in a position to consider a transaction with a controlling shareholder, the Board of Directors will, in accordance with the guiding principle set forth in the Code of Conduct, base any decision on careful discussion of issues such as the need for the transaction and fair value so as not to impair the interests of minority shareholders.

Structural Overview (As of March 27, 2018)

Functional Structure	Company with a Board of Corporate Auditors
Number of directors/Term of office	6 directors/2 years
Number of outside directors	2 directors
Number of corporate auditors/Term of office	3 corporate auditors/4 years
Number of outside corporate auditors	2 corporate auditors
Number of outside directors and outside corporate auditors designated as independent officers	4 directors and corporate auditors

Steps in Governance

2006	Shifted to holding company structure
2008	Added outside corporate auditors to structure
2010	Listed on First Section of the Tokyo Stock Exchange
2013	Introduced corporate officer system
2015	Added outside directors to structure
2016	Established Basic Policy on Corporate Governance Initiated Board of Directors' effectiveness evaluation
2017	Formulated new Group philosophy (Mission, Vision, Way) Established Group Code of Conduct
2018	Introduced senior corporate officer system

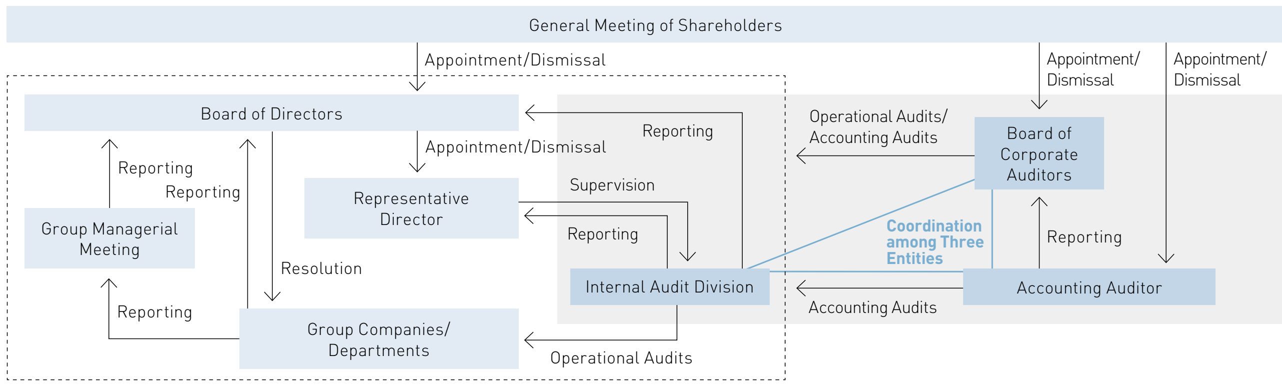
The Company's stance on its response to the Corporate Governance Code

The Company's Board of Directors will revisit corporate governance practices to date and turn application of the Corporate Governance Code into an opportunity for further evolution in the constant pursuit of sustainable improvement in the corporate value of the Group. The Company's Board of Directors formulated "Basic Policy on Corporate Governance," based on five fundamental principles described in the Corporate Governance Code, to address the expectations of stakeholders, including shareholders, and fulfill inherent responsibilities to stakeholders.

Five Fundamental Principles

1. Securing the Rights and Equality of Shareholders	The Company shall respect shareholder rights and develop an environment as well as provide information so that shareholders can exercise their rights appropriately, and endeavor to secure substantive equality of shareholders.
2. Appropriate Cooperation with Stakeholders	The Company shall strive to realize sustainable development of the Group through initiatives where the Group, as a good corporate citizen, works to deepen cooperation and establish trustful relationships with various stakeholders, including shareholders and business partners, and fulfills its corporate responsibilities.
3. Ensuring Appropriate Information Disclosure and Transparency	The Company shall strive to ensure fairness and transparency in decision-making by disclosing financial information and non-financial information of the Group in an appropriate and proactive manner in accordance with the disclosure policy separately established, in addition to carrying out appropriate information disclosure in compliance with relevant laws and regulations.
4. Responsibilities of the Board of Directors, etc.	The Company shall strive to ensure the effectiveness and fairness of the Board of Directors so as to fulfill its administrative and supervisory function over the management of Group companies as a pure holding company in charge of the business administration of multiple subsidiaries.
5. Dialogue with Shareholders	The Company shall make efforts to engage in constructive dialogue with stakeholders and enhance the efficiency thereof by proactively implementing public relations and investor relations activities.

Corporate Governance Structure (As of March 27, 2018)



Overview of Key Corporate Governance Structures (As of December 31, 2017)

	Purpose and Activities	Members	Meeting Schedule
1. Board of Directors	Discusses important matters pertaining to business management, such as formulating medium- to long-term strategies for the Group and the best allocation of resources, and makes decisions on such matters.	Eight directors	At least once a month. In 2017, directors met 25 times, including extraordinary meetings
2. Group Managerial Meeting	Established in 2017 to clarify management and execution functions. Receives reports from all companies on important matters pertaining to the execution of Group operations and discusses the content thereof.	Directors and corporate auditors of the Company as well as presidents of subsidiaries and corporate officers of key companies	Monthly. In 2017, strategy meetings were held 19 times
3. Board of Corporate Auditors	Corporate auditors attend general shareholders' meetings, Board of Directors' meetings, Group Managerial Meetings and other important events; gather reports from directors, employees and accounting auditors; and supervise the execution of duties by directors.	One full-time corporate auditor and two independent, part-time outside corporate auditors, as stipulated under Article 2, Paragraph 16 of Japan's Companies Act	At least once a month. In 2017, corporate auditors met 19 times, including extraordinary meetings
4. Internal Audit Division	Evaluates and verifies management activities (risk management, internal controls, governance) that will contribute to achievement of management targets at the Company and each Group company, and offers advice, recommendations and suggestions for improvement.	13 members, eight of whom are in charge of internal audits	In 2017, there were 13 audits at 16 companies
5. Group CSR Committee	Applies a lateral perspective across the Group to oversee risks associated with corporate activities, primarily from strategic and administrative perspectives, and also tracks the status of compliance practices and important CSR-related issues.	Committee chair (the executive responsible for CSR), committee members (Group executives and outside experts) and a committee secretariat	In 2017, the Group CSR Committee met five times, and the CSR executive office managers met 12 times

Fundamental Activities That Fulfill Our Corporate Responsibilities

Integrated Internal Control System Involves All, from Management Team to Employees

Instilling thorough awareness of Code of Conduct

The POLA ORBIS Group Code of Conduct ("the Code of Conduct") specifies actions for putting the Group philosophy into practice and defines various facets of responsible corporate activity, including legal compliance, environmental protection and shareholder relations. It is distributed to all executives and employees. We also ask all employees to submit a written pledge to the effect that they will abide by the stated Code of Conduct, thereby promoting awareness of and thorough adherence to the Code of Conduct.

Compliance training

To preclude possible violations of compliance, POLA ORBIS HOLDINGS conducts training and education programs regularly for all executives and employees. For people in management positions at Group companies in Japan, the Company distributes *Kaishain no tame no Compliance Nyumon* ("Introduction to Compliance for Company Employees"), published by Dai-ichi Hoki Co., Ltd., and follows up with a test to ensure that the content has been read and understood. In 2017, the Company implemented a CSR e-learning program for all employees, including those at overseas subsidiaries, and held classes on such topics as preventing accounting fraud.

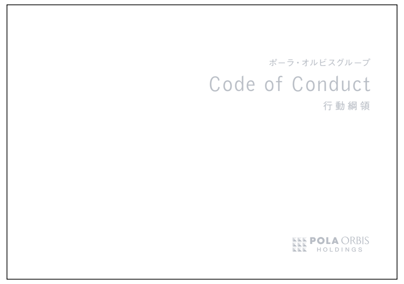
Risk management

The Group CSR Committee, directly under the Board of Directors, applies a lateral perspective cutting across the Group to control risks associated with corporate activities, primarily from strategic and administrative viewpoints. The committee analyzes priority risks that should be addressed on a Groupwide basis and conducts improvement activities to reduce risks. The discussions of the Group CSR Committee are regularly reported at the Group's executive meeting. In 2017, the committee ramped up several themes, including the risk of accounting fraud at overseas subsidiaries, and applied suitable approaches to preclude such risks. In 2018, the committee will continue to focus on overseas offices with compliance training for employees and the establishment of a compliance structure.

Group companies have people responsible for promoting CSR practices and CSR offices that assist the people responsible for promoting CSR. This underpins efforts to build compliance structures at each company. These CSR specialists handle training and education programs, monitor activity status, consider and implement steps to ameliorate problems, and keep the process moving through a Plan-Do-Check-Act (PDCA) cycle.

Monitoring

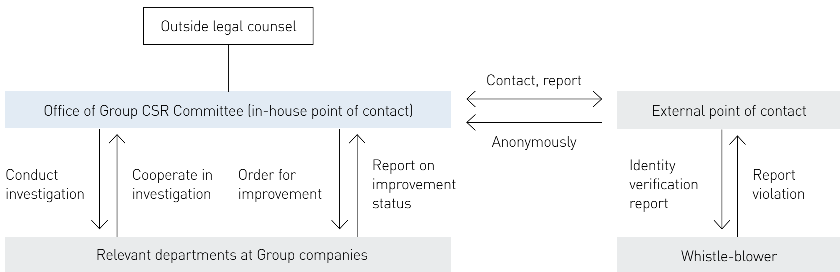
POLA ORBIS HOLDINGS conducts a Groupwide compliance survey every year to make sure no situations exist in any workplace that have the potential to violate compliance standards. In addition, the Company maintains a helpline—a Groupwide internal reporting system—with an external point of contact and makes sure all Group employees, at home and abroad, are aware of the helpline's existence. The status of helpline use is communicated to the Company's corporate auditors on a monthly basis. A breakdown of calls in 2017 reveals that harassment issues accounted for 30%, and concerns about possible violations of laws and rules also accounted for 30%. The remaining 40% of calls pertained to other concerns.



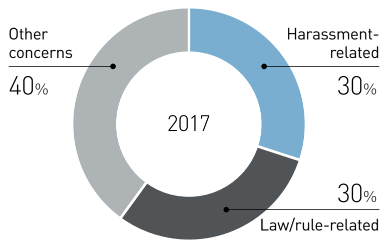
POLA ORBIS Group Code of Conduct

CSR lecture

Structure of Internal Reporting System (Helpline)



Breakdown of Internal Reporting System (Helpline) Calls



Evaluation Results of Board of Directors' Effectiveness

1. Basic policy on evaluation

The significance behind evaluating the effectiveness of the Board of Directors is, we believe, to raise management quality and corporate value even higher by identifying issues at the Board of Directors and appropriately dealing with such issues to solve them.

With this in mind, we have pursued an approach that takes the evaluation process beyond self-evaluation by members of the Board of Directors to include an overall view based on evaluation and analysis of the directors' effectiveness from objective perspectives. The basic policy is for the board itself to apply the results gained through evaluation.

2. Evaluation method and process

Facilitated by outside expert

In accordance with this policy, we turned to third-party organizations with expertise in evaluating a board of directors' effectiveness to conduct a preliminary interview with the chairman of the board, create a questionnaire and gather responses, then hold separate interviews with all directors and corporate auditors based on questionnaire results since fiscal 2017. Introducing into the evaluation process third-party organizations, which have nothing to gain from the Board of Directors, ensures anonymity, elicits frank comments and preserves objectivity in evaluation results.

POLA ORBIS HOLDINGS' original approach

To complement third-party evaluation, we took the original approach of utilizing evaluations by employees who have completed in-house programs, such as the Top Management Development Program. These employees are selected to attend executive meetings as observers or interview members of the Board of Directors.

This approach not only lends an employee perspective to evaluations but also provides a valuable opportunity to develop people with management potential.

Evaluation results from all sources were compiled and passed to the Board of Directors. The Board of Directors then analyzed and verified the content, worked toward a shared understanding of inherent strengths and issues requiring attention, and discussed concrete action plans aimed at addressing such issues.

3. Evaluation components and perspective

❶ Function and role of the Board of Directors
❷ Size and composition of the Board of Directors
❸ Management status of the Board of Directors
❹ Support structures for outside directors
❺ Role of corporate auditors and expectations placed upon them
❻ Relationships with stakeholders

Evaluations are made from the above perspectives.

4. Summary of analysis and evaluation results

The following are evaluation results and the outcome of discussions at the Board of Directors' meeting.

Points rated highly

The following points were viewed as demonstrating the Board of Directors' high level of effectiveness. The board will strive to maintain and enhance these points.

❶ Size of the Board of Directors as well as its composition, namely, ratio of outside directors, is appropriate
❷ Frank and animated discussions at the Board of Directors' meetings
❸ (Board of) corporate auditors contributes to enhanced effectiveness of the Board of Directors
❹ Suitable engagement with capital markets through external disclosure and IR activities related to management strategies, management plans and financial conditions
❺ Information on trends in capital markets as well as comments about the Company, from evaluations and concerns of investors and analysts, are sufficiently shared at the Board of Directors' meetings
❻ Promotion to drive home the management philosophy

Issues recognized as requiring attention

The following points were recognized as having room for improvement. The Board will implement measures to address these issues, monitor and verify progress and, through additional improvements, as necessary, enhance effectiveness.

❶ Deepen discussions about separation of business management and execution
❷ Manage brands more creatively
❸ Boost effectiveness and objectivity in decision-making process for director nominations and compensation
❹ Lay out medium- to long-term succession plan
❺ Establish concrete policy on allocation of medium- to long-term management resources
❻ Formulate human resources development strategy

Matters Related to the Board of Directors

Key activity status of outside directors

Name	Key Activity Status	Attendance Rate
Kazuyoshi Komiya	Mr. Komiya has a wealth of knowledge and experience related to corporate management and draws on this background to gain a bird's-eye view of overall management of the Group from a position independent of in-house directors and management teams. He proactively offers comments to contribute to enhanced corporate value of the Group, including advice and suggestions based on identification of inherent issues and risks.	100% 25 of 25 meetings
Yumiko Kamada	Ms. Kamada has a wealth of knowledge and experience gained in customer service, distribution fields and new business development, and she draws on this background to gain a bird's-eye view of overall management of the Group from a position independent of in-house directors and management teams. She proactively offers comments to contribute to enhanced corporate value of the Group, including advice and suggestions based on identification of inherent issues and risks. * Retired, as of March 27, 2018, upon completion of term of office.	92% 23 of 25 meetings

At the 12th Annual Meeting of Shareholders, on March 27, 2018, Naomi Ushio was appointed to the position of outside director. Ms. Ushio specializes in business administration and human resource management theories. She has broad knowledge and expertise in addressing such issues as utilizing the capabilities of working women and has experience as an outside corporate auditor at listed companies. Note that Ms. Ushio as well as Kazuyoshi Komiya, another outside director, are independent directors as stipulated in the regulations of the Tokyo Stock Exchange, Inc.

Independent outside executives' meeting

POLA ORBIS HOLDINGS' independent outside executives regularly meet on their own. Following is what they said about issues of importance in fiscal 2017.

Comments Made at Independent Outside Executives' Meeting in March 2018

1 Meeting execution

- Meetings becoming more efficient but more progress toward separation of business management and execution still needed.
- Should allocate more time for discussion of long-term management topics over a 20-to-30-year time frame.

2 Overseas operations

- Not for focusing on results, but involve local resources and employ people who can rebuild struggling operations or spend years developing the skills of people who can.
- Directors' understanding of overseas operations still weak, compared with understanding of domestic operations. Why not regularly hold executive meetings at overseas subsidiaries so that management gains a better sense of current overseas operations?

3 Developing skills of next-generation management

- Instruction and training for human resources tapped for management are insufficient.
- All employees are good, hardworking people, but many simply maintain the status quo, not wanting to make waves. People with a maverick quality might join the Company, but they will not remain if the corporate culture is not receptive to different approaches.
- There is no culture of taking responsibility for actions. If people cannot deliver results, they should be demoted. Plus, when people get a second chance to prove themselves, they are more likely to take risks and are sure to become more actively involved.
- POLA ORBIS HOLDINGS has a solid plan for developing its management resources, but what about candidates for management positions at subsidiaries? Think about skills development from a Group perspective.

4 Deciding on compensation

- Must create performance-linked structure before next generation of management is put in place.

Compensation for directors and corporate auditors

Compensation for directors, in accordance with the Company's rules, takes into account such factors as individual position and the level of contribution to business results, and is paid as a fixed basic component and a performance-linked bonus.

In addition, to motivate directors to actively contribute to improved medium- to long-term performance of the Group and to a higher level of corporate value, POLA ORBIS HOLDINGS provides an incentive-oriented, stock-type compensation stock option scheme. The Company provides only fixed compensation to outside directors, who are in positions detached from the execution of business; outside directors are not eligible for a director's bonus or stock options.

Compensation for each director is finalized after discussion by the Board of Directors, which includes several outside directors.

The Board of Directors is kept small, given the scale of Group operations, which expedites decision-making and enables outside directors to actively participate and voice their opinions during the decision-making process. Management believes it is essential that such opinions are reflected in decisions about director nominations and compensation to ensure reasonable and objective judgments. Therefore, POLA ORBIS HOLDINGS has opted not to have any advisory committees with independent outside directors as key members that would be involved in the decision-making process for nominating directors and top management and determining compensation.

The Board of Directors at POLA ORBIS HOLDINGS ensures transparency and fairness by clarifying policy regarding decisions about nominating directors and top management and determining compensation, prudently discussing these topics at Board of Directors' meetings and making decisions, and fulfilling the obligation to explain policy and actions through dialogue with shareholders and investors.

■ Director and Corporate Auditor Compensation Amounts in Fiscal 2017

Category	Number of persons	Compensation amount
Directors (of which, outside directors)	8 (2)	¥204 million (¥16 million)
Corporate auditors (of which, outside corporate auditors)	3 (2)	¥34 million (¥13 million)
Total	11	¥238 million

Notes:
1. Total compensation for directors is limited to ¥500 million per year, in accordance with Article 6, Paragraph 1-9 of a share transfer plan prepared when the Company was established.
2. Total compensation for corporate auditors is limited to ¥100 million per year, in accordance with Article 6, Paragraph 1-9 of a share transfer plan prepared when the Company was established.
3. Compensation amount includes ¥14 million in director bonuses applicable to fiscal 2017 (¥11 million paid to six directors and ¥2 million paid to one corporate auditor) and stock option compensation of ¥28 million provided to six directors in fiscal 2017.
4. No individual received ¥100 million or more in total consolidated compensation in fiscal 2017.

■ Executive Compensation Received by Directors and Corporate Auditors from Subsidiaries during fiscal 2017

Category	Number of persons	Compensation amount
Directors (of which, outside directors)	3 (—)	¥85 million (¥— million)
Corporate auditors (of which, outside corporate auditors)	— (—)	¥— million (¥— million)
Total	3	¥85 million

Note: Amount includes director bonuses of ¥9 million (for three directors) in fiscal 2017.

■ Breakdown of Director Compensation by Type (Fiscal 2017, actual)

Type of compensation		Ratio	
Fixed compensation	Monthly payment		78.4%
Variable compensation	Bonuses	6.4%	21.6%
	Stock options	15.2%	
Total			100%

Note: The breakdown of compensation by type excludes compensation received from subsidiaries.

Management Structure (As of March 27, 2018)

Satoshi Suzuki
Representative Director and President

April 1979	Joined Honda R&D Co., Ltd.
May 1986	Joined POLA Cosmetics, Inc. (currently POLA INC.) General Manager, General Coordination Office, POLA Cosmetics
February 1996	Director, POLA Cosmetics Director, POLA CHEMICAL INDUSTRIES INC.
June 1996	Representative Director and President, POLA CHEMICAL INDUSTRIES
January 2000	Representative Director and President, POLA Cosmetics (currently POLA)
September 2006	Representative Director and President, POLA ORBIS HOLDINGS INC. (current)
December 2006	Director, P.O. REAL ESTATE INC.
April 2010	Representative Director and Chairman, POLA
January 2016	Chairman, POLA (current)

According to his director competency evaluation, Mr. Suzuki exhibits an ability to hammer out creative concepts and strategies from a long-term perspective and, with a particular knack for strategic thinking and a determination to succeed, he will make bold moves, as necessary, after careful consideration and selectively apply management styles appropriate to the situation.

Naoki Kume
Director and Vice President

April 1984	Joined POLA Cosmetics, Inc. (currently POLA INC.)
October 2004	General Manager, Accounting Division, POLA Cosmetics
April 2005	Corporate Officer and General Manager, Group Organization Strategy Division, POLA Cosmetics
January 2007	Director, POLA Cosmetics Corporate Officer, General Manager of Management Planning and Group Organization Strategy, POLA ORBIS HOLDINGS INC.
January 2008	Director, General Manager of Management Planning and Group Organization Strategy, POLA ORBIS HOLDINGS
July 2008	Director, POLA ORBIS HOLDINGS
July 2011	Director, H2O PLUS HOLDINGS, LLC (currently H2O PLUS HOLDINGS INC.)
February 2012	Director, Jurlique International Pty. Ltd.
January 2014	Director and Vice President, POLA ORBIS HOLDINGS
March 2018	Director and Vice President, General Manager of International Business Management, POLA ORBIS HOLDINGS INC. (current)

According to his director competency evaluation, Mr. Kume strikes a good attack and defense balance, utilizing an ability to quickly detect changes in the market and operating environment and isolate possible impact on the Group, and then calmly initiate steps that tie into strategies and measures and easily tackle even highly challenging issues.

Akira Fujii
Director

April 1979	Joined POLA Cosmetics, Inc. (currently POLA INC.)
September 2000	General Manager, Fashion Business, Planning and Sales Division, POLA Cosmetics
January 2004	Representative Director and President, Osaka POLA
April 2005	Corporate Officer, POLA Cosmetics (currently POLA)
January 2007	Director and General Manager, Catalog Business Division, POLA Cosmetics
January 2008	Director and General Manager, Public Relations Division, POLA Cosmetics
March 2008	Director, POLA ORBIS HOLDINGS INC.
July 2008	Director and General Manager, Group PR, POLA ORBIS HOLDINGS Director, POLA
December 2010	Director and General Manager, PR & IR, POLA ORBIS HOLDINGS
January 2011	Director, POLA ORBIS HOLDINGS
January 2015	Director and General Manager, Corporate Communications, POLA ORBIS HOLDINGS (current)

According to his director competency evaluation, Mr. Fujii shows his strengths by enthusiastically voicing suggestions for strategies and measures that the Company should pursue, based on present and forward-looking points viewed over a medium- to long-term and broad-ranging perspective.

Yoshikazu Yokote
Director

April 1990	Joined POLA Cosmetics, Inc. (currently POLA INC.)
August 2006	Representative Director and President, FUTURE LABO INC.
July 2011	Chairman, Managing Director, POLA CHINA BEAUTY CO. LTD. (POLA Shenyang)
January 2015	Corporate Officer, General Manager, Product Planning Division, POLA
January 2016	Representative Director and President, POLA (current)
March 2016	Director, POLA ORBIS HOLDINGS INC. (current)

According to his director competency evaluation, Mr. Yokote's forte is conceptual thinking, where he builds a theory from experience and observable facts and paints a picture of the ideal situation. He is able to hammer out a concept, rally those around him to get on board and move forward to realization.

Note: Director competency assessment undertaken with assistance from the Korn Ferry Hay Group

Reference: POLA ORBIS Group Executive Competency Model

In working toward sustainable growth of the Group, POLA ORBIS HOLDINGS prepared a competency model that spells out 13 performance characteristics required of executives and personnel with management responsibilities.

Of note, POLA ORBIS HOLDINGS puts a priority on 6, Concern for Diversity, and 7, *Bi-i-shiki*, and encourages directors and Group executives to demonstrate leadership that draws from individual personality and strength.

1 Business Context Awareness	Ability to understand the position of the organization in the market and properly recognize the current status of competitors/partners and their implications for own organization.
2 Hypothetical Thinking	Ability to search for varied information and conflicting perspectives and verify one's thinking from broader viewpoint.
3 Long-term Vision	Ability to have a long-term vision and define the desired future image, direction and vision.
4 Impact & Influence	Ability to have others to consider one's request and gain agreement by the effective use of "logical persuasion" and/or "the influence of the organizational power."
5 Leverages an extensive external network	Ability to maintain and nurture a broad external network based on trust that can be called upon to assist.
6 Concern for Diversity	Ability to realize demographic diversity (such as ethnicity, gender, class, career, value, etc.) in order to support the organization's goals by creating a climate in which all employees can do their best work.
7 *Bi-i-shiki* (≈Esthetic Sense)	Ability to have impact on one's surroundings as a personal/unique leader by exhibiting one's attractive personality.
8 Empowering with accountability	Ability to delegate authority and enable others to act with purpose by holding them accountable.
9 Developing Successors	Ability to encourage the long-term development of subordinates and foster successor as an executive.
10 Culture Transformation	Ability to model, instill and cultivate culture in order to effectively use organizational culture for the business goals.
11 Passion for Results	Ability to take risks when needed and maintain passion for greater success.
12 Decisiveness	Ability to believe in one's own capability to rise to a challenge and expresses opinions even to senior members.
13 Integrity	Ability to take business as well as personal actions that reflect high ethical standards (such as company regulation, company ethics, social responsibility) and ensure others to do the same as well.

Kazuyoshi Komiya
Outside Director

April 1981	Joined The Bank of Tokyo, Ltd. (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
November 1991	Resigned from The Bank of Tokyo, Ltd.
December 1991	Joined Okamoto Associates, Inc.
March 1994	Resigned from Okamoto Associates, Inc.
April 1994	Joined Nippon Fukushi Service K.K. (currently SAINT-CARE HOLDING CORPORATION)
January 1996	Resigned from Nippon Fukushi Service K.K. Representative Director, President, Komiya Consultants, Inc.
June 1997	Outside Corporate Auditor, Sankei Giken Kogyo Co., Ltd. (current)
June 2002	Outside Director, WAO CORPORATION (current)
March 2003	Outside Director, CAS Capital, Inc. (current)
March 2005	Outside Corporate Auditor, Sankei Giken Holdings Co., Ltd. (current)
June 2011	Outside Corporate Auditor, APOLLO MEDICAL HOLDINGS Co., Ltd. (current)
May 2012	Outside Director, Kindware Corporation (current)
October 2014	Visiting professor, Nagoya University (current)
March 2015	Outside Director, POLA ORBIS HOLDINGS INC. (current)
April 2015	Representative Director, President, Head Office, Komiya Consultants, Inc. (current)
April 2017	Representative Director, Chairman, Komiya Consultants, Inc. (current)

Naomi Ushio
Outside Director

April 1983	Joined Fuji Television Network, Inc.
February 1989	Resigned from Fuji Television Network, Inc.
April 1998	Senior Assistant Professor, Meiji University Educational Foundation
April 2003	Associate Professor ("Jokyoju"), Meiji University Educational Foundation
April 2007	Associate Professor ("Junkyoju"), Meiji University Educational Foundation
April 2009	Professor, School of Information and Communication, Meiji University Educational Foundation (current)
August 2009	Expert Member, Liaison Conference for the Promotion of Gender Equality, Cabinet Office
June 2011	Outside Audit & Supervisory Board Member, Seven Bank, Ltd. (current)
June 2014	Outside Corporate Auditor, JX Holdings, Inc. (currently JXTG Holdings, Inc.) (current)
April 2016	Vice President, Meiji University Educational Foundation (current)
March 2018	Outside Director, POLA ORBIS HOLDINGS INC. (current)

Akio Sato
Outside Corporate Auditor

April 1997	Registered as an attorney at law (Daini Tokyo Bar Association)
March 2003	Opened Sato Sogo Law Office
March 2008	Outside Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)
December 2008	Outside Director, GMO Payment Gateway, Inc. (current)
April 2012	Part-time Lecturer, Keio Business School (current)
June 2015	Outside Director, Kirayaka Bank, Ltd. (current)
June 2016	Outside Director, Aozora Trust Bank, Ltd. (current)
December 2016	Outside Corporate Auditor, SnSnap Inc. (current)
July 2017	Outside Director, U-NEXT Co., Ltd. (currently USEN-NEXT HOLDINGS Co., Ltd.) (current)

Hisao Iwabuchi
Corporate Auditor

April 1976	Joined POLA CHEMICAL INDUSTRIES INC.
February 1998	General Manager, Product Planning, Door-to-Door Sales and Planning Division, POLA Cosmetics, Inc. (currently POLA INC.)
January 2002	Corporate Officer and General Manager, Research Planning Division, POLA CHEMICAL INDUSTRIES
March 2004	Director and General Manager, Research Planning Division, POLA CHEMICAL INDUSTRIES
January 2007	Director and Vice President, POLA CHEMICAL INDUSTRIES
January 2013	Corporate Auditor, POLA CHEMICAL INDUSTRIES In charge of public relations at POLA INC.
March 2014	Corporate Auditor, POLA CHEMICAL INDUSTRIES
March 2015	Corporate Auditor, POLA ORBIS HOLDINGS INC.(current)

Kazuya Kugimaru
Senior Corporate Officer (Part-time)

Takuma Kobayashi
Senior Corporate Officer (Part-time)

Motohiko Nakamura
Outside Corporate Auditor

October 1990	Joined Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)
August 1994	Registered as a certified public accountant
July 2003	Resigned from Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)
August 2003	Opened Certified Public Accountant Nakamura Office
October 2003	Registered as a tax accountant
July 2007	Partner, Mai Tax Accountant Corporation (current)
October 2008	Outside Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)
March 2011	Outside Corporate Auditor, KAYAC Inc.
July 2013	Chief Executive, JICPA (current)
April 2014	Associate Professor, Graduate School of Accounting & Finance, MBA Program, Chiba University of Commerce
May 2015	Independent Committee Member, Nitori Holdings Co., Ltd.
June 2015	Outside Corporate Auditor, Jorte Inc. (current)
April 2016	Professor, Graduate School of Accounting & Finance, MBA Program, Chiba University of Commerce (current)

Noriko Fukuyama*
Corporate Officer

Ken Horikawa
Corporate Officer

Koji Ogawa
Corporate Officer

*Last name used within the Group is Suenobu.

Directors and Corporate Auditors of Group Companies

POLA INC.


Yoshikazu Yokote
Representative Director and President


Kazuhiro Nishikata
Director and Corporate Officer


Miki Takenaga*1
Director and Corporate Officer

*1 Last name used within the Group is Oikawa.


Seiichi Takaya
Director and Corporate Officer


Yoshifumi Abe
Corporate Auditor


Mamoru Eda
Corporate Auditor


Makoto Yuizono
Corporate Officer


Tomoko Kamiya
Corporate Officer


Hiroshi Ishikawa
Corporate Officer


Hideki Komoto
Corporate Officer


Toshiaki Miyazaki
Corporate Officer


Hiroe Mori*2
Corporate Officer

*2 Last name used within the Group is Yamaguchi.

ORBIS Inc.


Takuma Kobayashi
Representative Director and President


Motoyuki Fukushima
Director and Corporate Officer

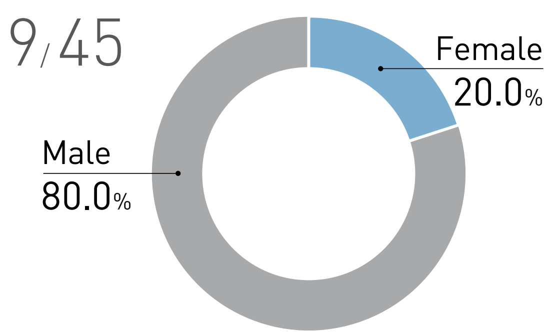

Koji Ogawa
Director (Part-time)


Nobuhisa Komiya
Corporate Auditor


Masaki Motoki
Corporate Officer


Masaki Okawa
Corporate Officer

Female Ratio of POLA ORBIS Group Executives



POLA CHEMICAL INDUSTRIES, INC.


Kazuya Kugimaru
Representative Director and President


Takayuki Katagiri
Director and Corporate Officer


Tadahito Seto
Director and Corporate Officer


Noriko Fukuyama*
Director and Corporate Officer

*Last name used within the Group is Suenobu.


Satoru Okajima
Corporate Auditor


Mamoru Eda
Corporate Auditor (Part-time)


Hiroki Tsuruoka
Corporate Officer

Jurlique International Pty. Ltd.


Toru Yamamoto
Chairman & CEO

H2O PLUS HOLDINGS, INC.


Junko Gomi
Director & Chief Executive Officer and President (CEO)

ACRO Inc.


Akira Gogo
Representative Director and President

DECENCIA INC.


Yoshiko Yamashita
Representative Director and President

P.O. REAL ESTATE INC.


Takako Konishi
Representative Director and President

POLA PHARMA INC.


Norihiro Araki
Representative Director and President

Actual practice of executive training

Revamped organizational coaching program
In 2013, POLA ORBIS HOLDINGS introduced a coaching program for executives at Group companies. In 2018, the program was revamped to emphasize organizational change. The updated program is intended to cultivate an atmosphere in which executives do not shy away from change but meet it straight on. To reach this environment, activities are designed to strengthen two executive competencies—the ability to create a culture transformation and the ability to impact and influence people in a positive way. Under the program, each executive participant is assigned a coach, who follows his/her target in work situations, such as during meetings and in the office. The coach takes an objective perspective, observing behavioral traits and looking for clues to enhance the target's ability to empower people and energize the organization. In 2017, three people completed the program: one director at ORBIS, one corporate officer at POLA and one corporate officer at POLA ORBIS HOLDINGS. We will continue to provide executives who are responsible for corporate and personnel growth with opportunities to develop practical competencies because it is their underlying capabilities that allow the POLA ORBIS Group to constantly evolve in today's changing world and benefit from the individuality of each and every employee.

Human Resources

Human Resources Development that Heightens Sensitivity and Esthetic Sense to Realize Group Vision for 2029

The POLA ORBIS Group aims to realize a future ideal—maximizing the unique character of each brand, and becoming a global corporate group that enriches the lives of people around the world. To let the qualities of each brand shine, it is vital that the individuals involved in brand creation acquire a sharper ability to see and feel things and allow their own personalities to shine as well. From a Group perspective, human resources must be cultivated in a way that respects the sensitivity and esthetic sense of each and every employee and take these attributes to a higher level.

Markets at home and abroad are poised for a drastic transformation. In this environment, POLA ORBIS HOLDINGS must encourage a deeper awareness of the new philosophy among employees throughout the Group and cultivate the next-generation leaders who embody this philosophy and demonstrate personal feelings and sensitivity, to develop distinctive brands that promote further growth. In 2017, several initiatives were launched, including discussions between Group employees and the POLA ORBIS HOLDINGS president, the introduction of the free-agent system and new business development through an in-house venture program.

President explains details of the corporate philosophy

President visits Jurlique head office. Dialogue opportunity resonates with multinational employee audience

In November 2017, the president of POLA ORBIS HOLDINGS visited the Jurlique head office in Sydney, Australia, for a direct dialogue opportunity with about 60 employees. The objective was to promote a deeper understanding of the Group philosophy. The president explained the thinking behind the new philosophy, highlighted the concept of person-centered management and offered POLA's *B.A* as an example of efforts that inspire new perceptions. The presentation was followed by numerous questions from Jurlique employees. A look at employee composition at Jurlique shows more than 10 countries. Many points of agreement unfolded in this interactive exchange between the president and the Jurlique employees, all of whom have a different set of values and their own individuality.

Q&A following presentation by the president

Group's free-agent system promotes corporate atmosphere consistent with personal ambitions

The POLA ORBIS Group's free-agent system, in effect since July 2017, enables employees who satisfy certain criteria to apply for a transfer to another company within the Group or to a different division if they so choose. It is, essentially, an internal transfer system under which human resources successfully passing the selection process take on new jobs and responsibilities. This system is part of management's efforts to create an environment where all employees can chart their own career paths, encouraging employees to grow and embrace challenges as people doing business and people working for personal goals. Ultimately, it motivates everyone to embrace personal ambitions rather than exist for corporate objectives alone, nurturing independent thinkers and doers whose capabilities support the Group overall.

VOICE

Start of an in-house venture program that gives shape to the idea of responding to challenges and changing circumstances with flexibility

Koji Ogawa
Corporate Officer in charge of Management Planning, IT and HR

In November 2016, POLA ORBIS HOLDINGS began requesting ideas for an in-house venture program. Over some two months, the program attracted more than 50 suggestions from employees at home and abroad. Documents were reviewed, business plans were presented and steps were taken toward the selection of viable projects. In January 2018, the green light was given for two new businesses to start.

The goal of this program is twofold: to create and nurture brands and new businesses that will become the drivers of new growth and fuel progress toward our future vision; and to cultivate a corporate culture that constantly creates new business.

I'd like the Group to think outside the box and evolve into a corporate group that generates even higher added value than now. One point in the Way, which guides us as our Group philosophy, is "Respond to challenges and changing circumstances with flexibility." When people view change from a flexible perspective, they realize it is within their ability to achieve. A willingness to take on challenges is not something to be assessed or compared with others. What is important is for all members to realize that they have the ability to try.

I was impressed by the variety of suggestions that went beyond the typical borders of a cosmetics company's venture business while still reflecting the traditions and concepts that characterize the Company. The times change—that is inevitable. I encourage employees to think big, without fear, and think differently. Together we'll discover new possibilities.

New business generated through in-house venture program

❶ Corporate venture capital business aimed at women entrepreneurs

In this business, the POLA ORBIS Group, which has always encouraged women to play an active role in society, will strive to empower women who will become role models for the next generation. We will support and invest in women entrepreneurs with an emphasis on seed and early-stage funding. This business will also provide support and learning opportunities through programs like tie-ups and seminars with non-Group companies that inspire women to pursue entrepreneurial activities.

❷ Business coordination that bridges traditional arts and companies

The POLA ORBIS Group values inner beauty and believes that no matter how beautiful a person may be, such beauty is hollow without beauty on the inside. With that in mind, the Group supports culture and the arts, which nurture inner beauty, and strives to send this message near and far. The new business will create opportunities to revitalize traditional arts and, to contribute to further development of traditional arts, will coordinate contracts between companies, especially proposals on plans for utilizing traditional artwork as corporate promotion goods.

Example 1

Employee cafeteria redesigned, atmosphere enhanced by work of up-and-coming artist

In August 2017, POLA redesigned the employees' cafeteria at the headquarters, seeking to cultivate a corporate climate reflecting a shared sense of creation. The concept is "Food. Time. Space." Food promotes health, provides eating enjoyment and gives employees the power to do their jobs. The time aspect reflects flexibility in work schedules and approaches to work through extended service hours. And space is an arrangement of tables that people find relaxing. The thought behind the new design was to turn a place where employees naturally congregate into a place for the fusion of knowledge and the creation of value. Comments from employees have been very positive, including "Comfortable," "Wide range of uses other than eating, such as meeting colleagues." Going forward, POLA intends to make improvements, including a revised menu.

In December, artwork was installed in the cafeteria. The work is an original piece by up-and-coming artist Masaki Ogihara, who went with the bold idea of drawing directly on the wall. From POLA's perspective, mealtime and meetings in this art-defined space should lead to ideas from employees that a typical cafeteria environment would not inspire. This unique POLA approach turns the corporate message of "Science. Art. Love." into a corporate philosophy.

Cafeteria wall featuring the artist's drawing

Workshops Using Art to Discover Different Points of View, Perceptions —Human Resources Development Drawing On Art

Within the Group, all employees must possess *bi-i-shiki* (esthetic sense). In other words, it is a required competency. To us, *bi-i-shiki* is more than just a honed awareness of beauty. We define it as the ability to demonstrate personal values and beliefs as well as qualities unique to the individual. Diverse perspectives and feelings and the freedom to express thoughts and emotions inevitably lead to better on-the-job results. We incorporated workshops utilizing visual thinking strategies into human resources development as a tangible way to enhance *bi-i-shiki*. In 2017, we added a painting program to the training agenda for new employees.

The workshops are opportunities for participants to engage in art appreciation and paint something of their own, highlighting personal values and perceptions that are then shared with others. The process helps everyone become more receptive to different perspectives. The experience defines personal values and generates new awareness. The program for new employees is especially useful in promoting a deeper understanding of the Group's philosophy.

In addition to the above-mentioned program, the Group has other unique human resources development programs.

Example 2

Painting program for new employees

Held in April 2017

A painting and art appreciation workshop for new employees of Group companies was introduced in 2017 on the theme "Knowing, Feeling." The workshop provided an opportunity to heighten sensitivity of the importance we place on the Group philosophy.

Flow of Workshop

❶ View and then interpret

Interactive art appreciation, with all participants looking at an artist's painting and then articulating their feelings. Participants are encouraged to comment, based just on what they see and feel, considering what the artist has painted and how the scene is portrayed.

❷ Creative work

All participants paint a picture on the same theme, giving their work a title to represent what the painting means to them on a personal level. Then, as a group, participants comment on the paintings from an art-appreciation perspective.

❸ Group work

Verbalize feelings that arise during viewing, interpreting and creating art. Questions to consider: What stimulated your sensitivity? Was there a moment that moved you? Does anything point to the Group vision? Use discussion format to share perspectives among participants.

Reflections from participants (excerpts)

- "Through the program, I saw a side of my colleagues that I didn't know before, and I realized that talking things out with others is really important."
- "When I looked at the painting objectively on my own, I discovered something new."
- "The process of analyzing and being analyzed by others through the medium of paintings was an extremely refreshing and a rather fun way to deepen communication."

Creating an Environment Where Each and Every Employee Can Demonstrate Individuality

We strive to create a work environment where all employees enthusiastically share their opinions with each other as attractive individuals with a high esthetic sense. This kind of environment enables employees to work with peace of mind and translates into maximum performance by all employees.

Initiatives underpinning respect for human rights

In its corporate philosophy, the POLA ORBIS Group identifies its mission as to "Sensitize the World to Beauty," a mission that incorporates the idea of respecting individual sensitivities and values and inspiring a sensitivity to beauty that changes people's lives, making them feel happier and more emotionally fulfilled.

The Group is endeavoring to fulfill its responsibility for protecting and advancing respect for human rights, which are indefeasible fundamental rights that belong to every single one of us.

The Group will avoid infringing on human rights in its business activities and will also take appropriate action to rectify any negative impacts on human rights that do occur in the course of its business activities. We will also encourage our business partners to take appropriate actions to address any negative impacts on human rights that they might cause. The Group will implement initiatives to protect and advance respect for human rights, with emphasis on the empowerment of women and the creation of value in each region.

The Group will establish a framework for human rights due diligence, identify any potential negative impacts on human rights in its activities and seek to minimize such impacts or prevent them from occurring.

The POLA ORBIS Group will disclose on its website the progress and results of its initiatives to protect and advance respect for human rights.

Health management

In February 2018, POLA ORBIS HOLDINGS was included in the White 500 under the 2018 Certified Health and Productivity Management Organization Recognition Program, in the large enterprise category. This program, initiated by the Ministry of Economy, Trade and Industry, recognizes outstanding companies in the area of health and productivity management.

Firmly believing that the well-being of all employees, in both their mind and body, is a source from which new value springs, management will strive to reinforce the health management ethos across the POLA ORBIS Group.

POLA ORBIS Group Health Management Declaration

Health within the POLA ORBIS Group is intricately connected to a history dating back to POLA's earliest days, reflecting enduring efforts to form a close connection to our customers and to think about products and services from the customer's perspective, and health is essentially a starting point for sensitizing the world to beauty and constantly creating new value for the future.

It is possible for each and every employee to lead a full and colorful life, showing thoughtful consideration of others while still keeping a be-true-to-yourself attitude, because of good health.

The Group's philosophy and the health of employees are so tightly intertwined that POLA ORBIS HOLDINGS has made the physical and emotional health of employees throughout the POLA ORBIS Group a management priority. Going forward, the Company will strive to create an environment that supports good health for employees as well as their families.

Stakeholder Communication

POLA ORBIS HOLDINGS actively engages external stakeholders in wide-ranging dialogue to verify that corporate activities are in tune with the expectations and demands placed by society upon the Company and, by extension, the POLA ORBIS Group, and to identify products and services that might better meet society's wants and needs. The opinions and suggestions raised through such dialogue opportunities are considered by management for possible application within the Group and reflected in management practices as concrete improvement measures.

Customers

Input from customers is used to enhance business activities and services. A structure is in place to ensure that comments are immediately shared with management and improvements are swiftly implemented.

- **Call centers**
- **Customer satisfaction surveys**
- **Customer roundtable discussions and group interviews**
- **Various surveys based on sales data**
- **Brand image surveys**

Business Partners (Suppliers)

We consider suppliers of cosmetics ingredients and packaging materials key partners and meet directly with major suppliers at least once a year but generally more often. We hold information meetings to promote understanding of procurement policies applied within the POLA ORBIS Group and to ensure that suppliers support these policies.

- **Procurement policy information meetings**
- **CSR procurement guidelines**

Business Partners (Beauty Directors)

For Beauty Directors, who deal directly with customers, we maintain close communication on a daily basis to ensure they support our philosophy and that they convey corporate value. Of note, we emphasize learning and provide level-specific instruction and training.

- **Recruiting activity and basic education**
- **Product workshops**
- **Shop-owner training workshops**
- **National awards ceremony**
- **Group leaders' business meetings**
- **Interviews with Beauty Directors**

Employees

We seek to create an environment in which employees can demonstrate their individuality, based on the idea that companies grow and develop when diversity-driven human resources are able to show unique individuality. In 2017, we made our Health Management Declaration.

- **Employee satisfaction surveys**
- **Employee forums**
- **Safety and health committee**
- **Health management**
- **Free-agent system/venture program**
- **Information-sharing through intranet**
- **CSR Awards commendation program**

Society, NGOs/NPOs

We are keen to achieve a mutually prosperous coexistence with society by meeting society's expectations. We also engage in activities that contribute to a better society. In addition, we respond with all due sincerity to questions from non-governmental organizations and non-profit organizations.

- **Culture/art activities**
- **School visits**
- **Internships**
- **Factory tours**
- **Environmental education**
- **Local cleanup initiatives**
- **NGO/NPO dialogues**
- **Joint projects with local industry**

Shareholders and Investors

We respond to the requests of shareholders and investors with a robust communication approach. We have received the Best IR Award two times. We organized a factory tour for shareholders based on comments received at the general meeting of shareholders.

- **General meeting of shareholders**
- **Issue integrated reports**
- **Issue shareholder notices**
- **Small meetings**
- **IR meetings for investors**
- **Shareholder events**

Examples of improvements prompted by comments from stakeholders

"Somewhat out of reach financially" (POLA)
Changed price of *Wrinkle Shot Serum*, effective January 2018. ¥15,000 → ¥13,500 (before tax)
"Coordinate your customer strategies for online and physical stores" (ORBIS)
In October 2017, the loyalty points program for online purchases and the one for in-store purchases were integrated.
"I'd like to go on a factory tour" (at general meeting of shareholders)
A factory tour for shareholders took place in November 2017.

In February 2017, POLA ORBIS HOLDINGS formulated a new philosophy to guide the POLA ORBIS Group. Taking a long-term view toward fulfilling this philosophy, the Company has encouraged companies under the Group umbrella to embrace organizational change. At the companies behind flagship brands POLA and ORBIS, opportunities for dialogue were arranged with management and knowledgeable guests, promoting deep discussion of the Group's philosophy and organizational change.

Example 1

POLA

Held November 14, 2017, in the Innovation Room at POLA headquarters

[Opinions and suggestions from stakeholders]

POLA participants: Yoshikazu Yokote (Representative Director and President), Miki Oikawa (Director), Seiichi Takaya (Corporate Officer) and one other

Mami Taniguchi
DBA (Doctor of Business Administration), Professor of International Business, Waseda University Graduate School of Commerce

POLA transitioned from working in pursuit of quantity to working in pursuit of quality. The company should have taken that opportunity to change its management style, too, from "managing" to "transformational leadership." Perhaps management-level employees at headquarters struggled with that shift. Given the times, management needs to finesse its business creativity, looking at how to create a new business model in this continuously changing external environment and how to get followers engaged in the process.

Shu Yamaguchi Senior Client Partner, Korn Ferry Hay Group Co., Ltd.

Just diving into something is no good. First, you have to formulate a hypothesis, then give it a shot. Verify results, and if the theory seems sound, expand. If it doesn't work, disengage. Go through the process quickly. Theory and validation must go hand in hand. Experience and study are effective in boosting the accuracy of hypothesis-making capabilities. What is important is to think for yourself. If you formulate a hypothesis and prove that the idea works, you'll want to push further with it. That's what makes work interesting.

Example 2

ORBIS

Held October 24, 2017, in the large conference hall at ORBIS headquarters

[Opinions and suggestions from stakeholders]

ORBIS participants: Yoshifumi Abe (Representative Director and President), Motoyuki Fukushima (Director), Takuma Kobayashi (Director)

Kahoko Tsunezawa CEO, KIDSLINE, Inc.

The ORBIS mission is "Never limited by convention, we are working to create a culture of everyday beauty." I wonder, though, honestly, how many employees relate to that idea. Has it persuaded them to change their behavior at all? I would suggest implementing a program like a business-plan contest that would provide employees with constant motivation to embrace change.

Keiichi Ushijima Principal, Ernst & Young ShinNihon LLC

The world in 10 years' time will not look like the world we see today. As such, we need to see management approaches that are able to adapt to a rapidly changing business context, rather than hold on to current norms. A corporate culture that welcomes fresh ideas and an environment that allows staff to speak freely to superiors are essential for a company to effect organizational change. I would add that top management must hold fast to a clear vision—seek the answer to the question "what value do we aim to provide?"—then act, based on what should be done now to reach that future goal.

Note: The titles of the participants reflect positions as of the date the dialogue took place.

Working with the Community

We seek to establish roots at the community level and promote business activities that grow with the community. Throughout the country, we emphasize joint initiatives utilizing the distinctiveness of the POLA ORBIS Group.

Partnership agreement with Akita Prefecture underpins efforts in community-corporation CSV*

The population decline and the graying of society have progressed the most in Akita. Looking to apply POLA vitality to energize the area, POLA signed a comprehensive partnership agreement with Akita Prefecture in November 2017. With the POLA Akita Center anchoring the project, POLA pursued talks with the prefecture for six months to decide specific activities aimed at job support, giving form to the concept of *Bi-no-kuni Akita* and improving life for citizens in the prefecture. Some activities began even before the agreement was signed, including cosponsorship of the Akita no Sake PR Event, makeup coaching for Miss Akitakomachi and the Nenrinpic Hand Treatment Booth. The scope of activities expanded, polishing the POLA brand image and raising brand profile, and kindled pride and passion among some 400 shop owners, managers and Beauty Directors at 41 shops in Akita. Numerous activities are planned for 2018 as well. Through these activities, POLA will help to energize the prefecture and extend the edges of the new value creation that connects the company to the area.

*CSV: Creating Shared Value

"3-9 Project" contributes to traditional arts and local industry

In 2009, the company launched the "3-9 Project," seeking to offer society access to quintessential *monozukuri* (manufacturing from a product creation perspective)—a proud Japanese tradition—and help energize local industry. To date, POLA has contributed to local industry and facilitated innovative *monozukuri* through such projects as a *B.A The Cream* container made by the *Edo kiriko*—cut glass—method and ladies' accessories produced using a traditional, hammered copperware technique perfected in Niigata. In 2017, the Company decided to start a suggestion project, based on applications submitted under an in-house venture that utilized traditional art objects as novelties at events and in campaigns for other companies' customers. Activities spread from inside the company to outside, boldly pursuing new business opportunities that link the corporation and the area.

Traditional art workshops promote sensitivity in children and foster community

In the Tokyo metropolitan area, where the trend is toward nuclear families, the connection between people and the community is weakening. Especially, child rearing in families isolated in condominiums is becoming a significant concern. Against this backdrop, Brote Okurayama, rental condominiums operated by P.O. REAL ESTATE INC., has been certified by Yokohama as a children-friendly condominium complex. Since the building was completed, the company has organized workshops several times a year to create a community atmosphere for residents. In 2017, the company held a workshop focusing on art distinctive to the Group, with the children learning about the *Edo kiriko* method from professional glassmakers and creating their own decorative glass on grinding machines. The workshop drew many positive comments from participants, including "Valuable experience using a real grinding machine" and "Wonderful opportunity for the children to get close to traditional art." Other activities included an art appreciation tour at the POLA Museum of Art and a *daruma*-making session. P.O. REAL ESTATE seeks to utilize art workshops to promote sensitivity in children and foster the community while improving the added value of its properties.

POLA alumnae receive Women's Participation Promotion Award from Tokyo recognizing their contribution to the good health and long life of society

The Platinum Beauty School, a nonprofit organization, undertakes volunteer activities, including makeup application for seniors, mainly in the Minato-ku district of Tokyo. In 2014, POLA alumnae Fumiko Ito and two colleagues from her POLA years set up this organization as a way to utilize beauty-related experience and insights accumulated over 35 years to benefit seniors—the platinum generation—whom she hopes will enjoy a retirement life that is as shiny as platinum. Members of the organization, who share Ms. Ito's ideals, number about 50 at present and include some men. The 2017 Tokyo Women's Participation Promotion Award (regional category) recognized efforts to contribute to a society of health and longevity through lively opportunities for the platinum generation and the high regard accorded to activities that involve men as well as women.

Signed comprehensive partnership agreement with Akita Prefecture


Hammered copperware accessories


Edo kiriko art workshop at Brote Okurayama

Presentation ceremony for Tokyo Women's Participation Promotion Award

Dialogue with Shareholders

In its approach to investor relations (IR), POLA ORBIS HOLDINGS emphasizes not only performance updates, which guide short-term investment decisions, but also access to information that encourages long-term, stable investment. For this purpose, the Company seeks to deepen understanding of such facets as Group history, long-term vision, the medium-term management plan, management policy and key strategies aimed at future growth.

For institutional investors at home and abroad, every six months top management provides a progress report on the medium-term management plan—a road map divided into three stages that the Company will follow to reach its long-term vision for 2020—and looks ahead to achieving stated targets.

In setting management targets, POLA ORBIS HOLDINGS actively reflects comments shared by institutional investors during IR briefings. For example, capital policy underlying the return-on-equity target, the policy on return to shareholders and the appointment of outside directors to the Board of Directors are just some of many suggestions offered during conversations with shareholders. The Company will continue to respond proactively to requests for information, mainly through small meetings between the president and analysts and through brand-focused briefings.

Meanwhile, in IR activities for individual investors, POLA ORBIS HOLDINGS more actively conducts IR seminars after stock splits. The Company puts particular effort into seminars for women and strives to promote a deeper understanding of the Group's activities by utilizing its connection to POLA and other brands in its product portfolio to incorporate beauty content into the seminars. This approach has translated into a higher female shareholder ratio since the stock listing in 2010.

POLA ORBIS HOLDINGS also places importance on communication aimed at creating "a shareholder fan base"—that is, shareholders who are devoted to the Company and the Group's brand portfolio so much that they become long-term shareholders—and offers special shareholder perks to heighten the appeal of sustained investment. One perk that has been very well received by shareholders is a program allowing them to exchange points, based on the number of shares owned and the number of years they have been held, for selected products in the Group's brand portfolio. The Company also conducted a tour for shareholders at POLA CHEMICAL INDUSTRIES' Fukuroi Factory, in response to shareholder input. The success of this trial run has led to plans for regular facility tours, as such events are excellent ways to deepen shareholders' understanding of the Group's operations. The second tour will take place at POLA CHEMICAL INDUSTRIES' Yokohama R&D Center.

For exercising voting rights at general shareholders' meetings, POLA ORBIS HOLDINGS proactively prepares a convocation notice with graphs and diagrams to disclose in an easy-to-understand format information that should help shareholders form accurate judgments. Also, to provide sufficient time for agenda items to be considered, the Company posts the convocation notice on its website three to four weeks before the general shareholders' meeting and in advance of the mailed-out version. Note that POLA ORBIS HOLDINGS uses the voting rights exercise platform operated by ICJ, Inc., and posts on its website the English-language version of the convocation notice as well as reference materials for the general shareholders' meeting.

At the 12th Annual Meeting of Shareholders, on March 27, 2018, a question-and-answer session covered such topics as investment in new brands, sustainability strategies, promotion strategies and thoughts on the brand portfolio. This was a valuable opportunity to communicate with shareholders, and the information obtained will be applied to future management activities.

Fiscal 2017 activity results

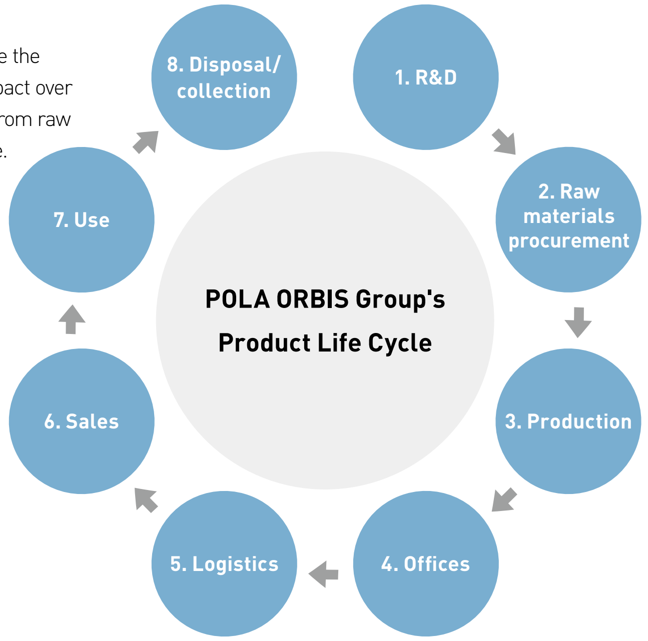
Number of briefings with domestic and international investors	More than 650 companies (in total) during the year	
Overseas IR	Nine trips (Europe, North America, Asia) with participation from representative directors and director responsible for IR	
Financial results briefings/teleconferences	Four times (two financial results briefings, two teleconferences)	
Female shareholder ratio	48.8% (36.6% in 2010)	
Information meetings for individual investors	About 30 times a year Organized first facility tour for shareholders (at POLA CHEMICAL INDUSTRIES' Fukuroi Factory)	
Awards	● Fiscal 2017	Best IR Award (Sponsor: Japan Investor Relations Association), second time, following 2015 award
	● Fiscal 2017	Nikkei Annual Report Awards: Award for Excellence for third consecutive year (sponsor: Cross-Media Advertising & Business Bureau at Nikkei Inc.)
	● Fiscal 2017	Selected for MSCI Japan Empowering Women Index (WIN)
	● Fiscal 2018	Sixth consecutive year at No. 1 in the "beauty and health shareholder perks that make women happy" category of a survey ranking the popularity of shareholder incentives as selected by readers (*Shitte Tokusuru Kabunushi Yutai* 2018 Edition ("Useful Information on Shareholder Perks"), published by Nomura Investor Relations Co., Ltd.)

Environmental Initiatives

The POLA ORBIS Group does business while being conscious of the global environment, in accordance with environmental principles. Efforts are made to reduce the environmental impact throughout product life cycles. In addition, each company sets targets for environmental activities, with an emphasis on saving energy, reducing waste and limiting water consumption to promote environmental protection.

Product life cycle

We strive to reduce the environmental impact over the supply chain, from raw materials to waste.



1 R&D
The policy is to conduct product development that limits the environmental impact during the entire life cycle of products, from procurement to disposal and recycling.

2 Raw materials procurement
The policy is to procure raw materials while keeping in mind resource depletion.
● Palm oil
Consideration is given to the procurement of palm oil with due attention to environmental issues, human rights and any negative impact. Jurlique, a natural skincare brand, is a member of the Roundtable on Sustainable Palm Oil and has switched to sustainable alternatives for 40% of its raw materials, including palm oil.
● Organic certification
THREE has obtained the Ecocert label for hand cream, bath serum and soap from Ecocert, one of the world's largest natural and organic cosmetics standards bodies. The brand met rigorous screening criteria, including raw materials-related compliance status, manufacturing processes checks and traceability checks.

3 Production
● Production at ISO 14001-certified factory
POLA CHEMICAL INDUSTRIES' Fukuroi Factory, which manufactures most of the products offered by POLA ORBIS Group companies, has had ISO 14001 certification since 2000. This facility adheres to measures aimed at reducing the environmental impact and communicates with the community on environment-related issues. To date, no environmental violation has ever occurred at the Fukuroi Factory.

4 Offices
We have cultivated an office atmosphere in which employees identify ways to reduce the environmental impact and put such ideas into practice. These include paperless meetings and a "Think about CSR month," as well as steps to conserve resources and reduce electricity use.

5 Logistics
● ORBIS reduces redeliveries
ORBIS, with mail-order sales making up a high percentage of net sales, uses *mail-bin*—similar to home-delivery service but the package is left in a mailbox and does not require a seal (or signature) of receipt—to deliver some products to decrease redeliveries, which are a growing social concern. This approach reduced redelivery to a degree equal to 20,000 packages, lowering the environmental impact.

6 Sales
●Fewer paper bags
ORBIS introduced the ECO Point System for customers who do not need paper bags. This cuts the amount of paper used by the company as well as the amount of forest resources that would otherwise be used to make paper bags.
● Reduced impact through greater use of website
ORBIS encouraged a switch to web-based ordering, reducing paper consumption and the CO_2 emissions released in producing paper. Also, the company uses FSC-certified paper, made with wood pulp from well-managed forests.

7 Use
● Encourage long-term use of products with refill option
Since 1995, POLA has been selling refills even for high-prestige products priced above ¥20,000, with an emphasis on both design and the environment.
● Gauging how much water is consumed when customers use products
The use of POLA products (morning face wash, evening cleansing and face wash) requires about 12 liters of water per day. Our goal will be to understand the environmental impact over the entire product life cycle and reduce the amount of water consumed.

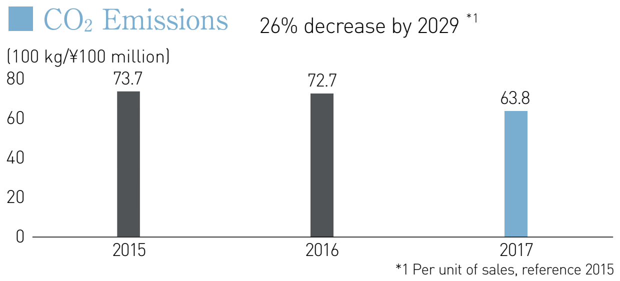
8 Disposal/collection
● Eco standards for containers and packaging
Containers for products in the Group's portfolio are designed to facilitate recycling or reuse, based on eco standards for containers and packaging, and efforts are directed toward environmentally friendly methods of disposal.
● Container collection
Jurlique collects used containers. Customers who return their containers to a company concept store receive a 10% discount toward new purchases. This program reflects the company's efforts to include customers in efforts to be environmentally conscious.

Responding to climate change

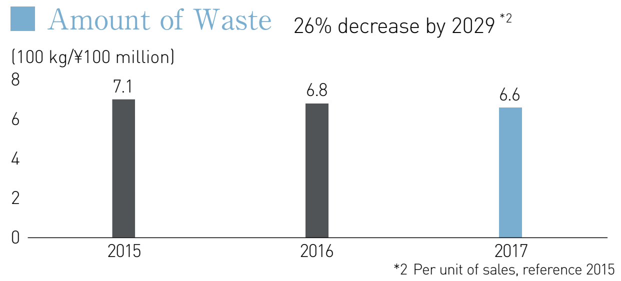
The use of fossil fuels is rising due to population increases and a growing preference to live in big cities. The greenhouse gasses released through the use of fossil fuels are thought to be major causes of climate change. Most ingredients that go into cosmetics under brands in the POLA ORBIS Group portfolio are derived from plants, and thus efforts to address climate change are important from the perspective of ensuring a continuous supply of products as well.

Using the Paris Agreement reduction targets as a guide, POLA ORBIS HOLDINGS set a CO_2 reduction target of 26% for the Group to achieve by 2029 (reference point, 2015; unit of sales; Scope 1, 2).

In regard to the environmental impact associated with the supply chain, business partners are screened and interviewed using CSR procurement guidelines. In other activities, including logistics, efforts are made to pinpoint CO_2 emissions and gradually expand the scope of management.



*1 Per unit of sales, reference 2015

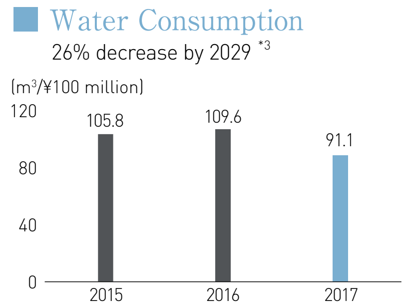


*2 Per unit of sales, reference 2015

Addressing risk to water

Water covers three-quarters of the earth but freshwater, which provides people with the water they need every day to live, accounts for just 3% of this amount. Moreover, freshwater is not evenly distributed around the world. Water is used in large quantities as an ingredient in the cosmetics of the POLA ORBIS Group and is thus considered a precious resource. POLA ORBIS HOLDINGS is guiding the Group toward a 26% reduction in water consumption by 2029 (reference point, 2015; unit of sales; Scope 1, 2), through various approaches, including higher productivity. Efforts will be directed toward expanding the monitoring of water consumption.

Efforts to protect the oceans
Microplastic beads are used in such cosmetics as face scrubs, but given their impact on the environment, the Group no longer uses them in any new products. For existing products, switching to alternative ingredients will be completed in 2018.



*3 Per unit of sales, reference 2015

Forest and biodiversity initiatives

The health of forests is closely connected to climate change and water risk, and the POLA ORBIS Group takes a proactive approach to forest protection activities. In January 2011, ORBIS teamed up with the Organization for Industrial, Spiritual and Cultural Advancement-International (OISCA, Japan) for a council to promote the renewal of local mountain forests around Koshu, Yamanashi Prefecture, and signed an agreement to maintain forests. About 100 hectares of forested land owned by the city of Koshu were named Koshu City ORBIS Forest, and in April 2012, ORBIS employees began working to redevelop local forests, planting a total of 4,160 trees, as of 2017.

Policy on animal welfare
The POLA ORBIS Group's policy*4 is to refrain from animal testing and to establish alternative methods to ensure the safety of cosmetics, including quasi-drug products. This policy also covers providers of outsourced manufacturing services.

*4 Except in the event safety to the public is called into question or in the event a certain country or government requires animal testing to prove safety or effectiveness.

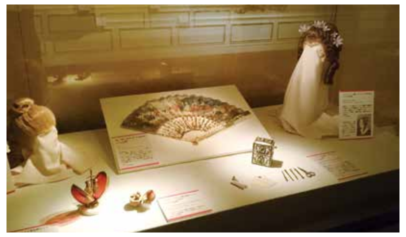
Support for Culture and Art

As a corporate group providing "beauty," the POLA ORBIS Group supports culture and art as a bridge to inner beauty, from the perspective that it is only with inner beauty and a spiritual richness that true beauty can be realized. The Group strives to deliver this message throughout Japan and around the world. Support is wide-ranging, from traditional Japanese culture to works that should be protected as world heritage and further to financial assistance for young artists who will represent Japan in the art world. These efforts contribute to a rich and peaceful society and improved cultural wealth.

Activities of the POLA Research Institute of Beauty & Culture

Since its establishment in 1976, the POLA Research Institute of Beauty & Culture has pursued studies across a wide spectrum of themes with a connection to cosmetics, including the history of cosmetics, prevailing customs, perceptions of beauty, makeup techniques, makeup instruments and awareness of cosmetics, from ancient to modern times, with an emphasis on Japan and Europe. Efforts revolve around the catchphrase "Cosmetics, women, and perceptions of beauty." Results obtained from research are made widely available to promote greater appreciation of the culture of cosmetics. In 2017, the institute assisted on a display in the exhibition "History of costume from the late 17th century to early 20th century in France" at the Yamazaki Mazak Museum of Art, in Nagoya, Aichi Prefecture. The display featured cosmetics tools, fans, examples of hairstyles, fashion plates—that is, pictures of new or current fashion in clothes—and other items of early modern Europe from the institute's collection.

The institute is constantly conducting studies, including research into the perspectives and lifestyles of contemporary women. In 2017, four reports were posted on the institute's website, including one on the correlation between social networking sites and how women gather information about cosmetics. The institute is also actively engaged in lectures and instruction opportunities at universities that utilize insights gleaned from research.



Display of cosmetics tools, fans and examples of hairstyles from the 18th century to the 20th century

Activities at the POLA Museum Annex

The POLA Museum Annex, an art gallery operated by POLA ORBIS HOLDINGS, holds exhibitions that enable visitors to get close to art and refine their esthetic sense and perceptiveness. Such events also support and disseminate art for the future. In 2017, the annex delivered a message about the new philosophy that guides the POLA ORBIS Group with an event that conveyed the idea of stimulating people's perceptions and creating a presence that inspires people to embark on a new life journey.

"The Forest That Leads To You," a dynamic installation by Mika Aoki, was on display from January 20 to February 26, 2017. The artist used light and glasswork in the motif of a botanical life cycle to express the unseen connections that characterize life on earth. Beforehand, Ms. Aoki was invited to tour the POLA CHEMICAL INDUSTRIES' Yokohama Research Laboratories, an experience that inspired new work and led to this collaborative effort with the POLA ORBIS Group. "The Forest That Leads To You" drew many female viewers to the annex.

From July 21 to September 3, 2017, the annex was transformed for "Point-Rhythm World: Monet's microcosm," an installation exhibition by Sebastian Masuda, a visual artist and proponent of fashion-and-art fusion, notably, *kawaii* (cute) culture. Mr. Masuda drew on *Water Lily Pond* by Claude Monet—one of the paintings in the POLA Museum of Art's collection—to create a unique pointillism-inspired display that spread across the entire exhibition space. Mr. Masuda is very popular with young women, and more than 30% of the visitors to this event were, in fact, women in their 20s. The event was also successful in attracting customers with whom the Group does not usually have much contact.

Another event at the POLA Museum Annex was "Ke no Bi," which ran from November 17 to December 24, 2017, in celebration of ORBIS' 30th anniversary. Under the direction of graphic designer Taku Sato, this exhibition presented beauty found in the ordinary—from the everyday routine that people tend to take for granted—and spotlighted ORBIS' mission and message to its many customers with a highly discerning interest in art.

"Ke no Bi" exhibition celebrating ORBIS' 30th anniversary

Support for the POLA Art Foundation

The POLA Museum of Art, which is operated by the POLA Art Foundation, held "Picasso and Chagall: Imaginary Dialogues" to celebrate its 15th anniversary in 2017. The exhibit, which lined the walls of one room with paintings by the two 20th-century masters according to theme, sparked widespread discussion and drew record-breaking crowds. The most striking aspect of the event was that it provided an unprecedented opportunity to compare Picasso and Chagall and the obviously different styles and evaluation axes that characterized each man's work. It drew rave reviews at home and abroad, including this comment: "Though these artists lived in the same era, they saw each other as rivals, and the exhibit brings out their very different personalities with great depth and clarity."

The foundation also assists young artists, including those focusing on the fine arts, as well as curators of fine art. In 2017, funds went to 39 projects, covering such activities as overseas study trips taken by young artists and research conducted by curators. This brought the aggregate number of projects that have received financial assistance from the foundation to 851.

"Picasso and Chagall: Imaginary Dialogues"

Supporting the POLA Foundation for the Promotion of Traditional Japanese Culture

The POLA Foundation for the Promotion of Traditional Japanese Culture oversees four programs—an awards program, an assistance program, an archive-creation program and a program for promoting, collecting and preserving examples of the traditional arts—designed to keep traditional Japanese culture alive.

The POLA Award for Traditional Japanese Culture recognizes individuals and organizations seeking to pass on and promote traditional Japanese culture. In 2017, two people received excellence awards: Masahiro Maeda (Kanagawa Prefecture), for producing porcelain known for its many colors, and Aoidayu Takemoto (Tokyo), for passing on narration as a *kabuki takemoto*. In addition, one encouragement award and five regional awards were presented, bringing the year's total to eight.

In the achieve-creation program, efforts emphasize documentaries that communicate aspects of intangible cultural heritage to the next generation. This includes outstanding traditional techniques honed by living national treasures, folk performing arts and work kept alive at the local level. A collection of 49 documentaries is available to interested parties, such as universities, which underpins another approach by which the foundation contributes to society. In 2017, a documentary work spotlighted Kazumi Murose and the heart and soul that goes into the gold lacquering technique of *maki-e* art, a traditional Japanese lacquerware. Murose is designated a "preserver of important intangible cultural property for his *maki-e* art" (or living national treasure) in Japan.

Kazumi Murose, a living national treasure (image from documentary film)

Five-Year Summary of Selected Financial Data

Years ended December 31	2013	2014	2015	2016*4	2017	2017
	Millions of yen (Except per share data)					Thousands of U.S. dollars*1 (Except per share data)
Operating Results						
Net sales*2	¥191,355	¥198,094	¥214,788	¥218,482	¥244,335	$2,162,262
Beauty Care	178,306	184,475	200,570	202,446	227,133	2,010,029
POLA	100,740	99,571	109,352	116,126	144,012	1,274,451
ORBIS	48,163	52,302	56,354	55,857	53,066	469,615
Overseas Brands	20,298	22,476	22,334	15,665	15,075	133,413
Brands under Development	9,104	10,123	12,529	14,796	14,978	132,550
Real Estate	3,035	3,179	2,951	3,043	2,694	23,844
Others	10,013	10,440	11,266	12,992	14,507	128,389
Operating income	16,017	17,683	22,511	26,839	38,881	344,081
Beauty Care	14,780	16,535	21,290	25,904	38,121	337,355
POLA	7,951	8,583	12,302	16,993	28,584	252,963
ORBIS	8,807	10,792	11,197	11,279	9,080	80,360
Overseas Brands	(895)	(1,881)	(2,194)	(3,210)	(823)	(7,285)
Brands under Development	(1,082)	(958)	(15)	841	1,278	11,316
Real Estate	1,258	1,227	1,265	1,395	1,082	9,581
Others	410	472	293	(133)	(314)	(2,780)
Operating margin (%)	8.4	8.9	10.5	12.3	15.9	
Profit attributable to owners of parent	7,318	10,382	14,095	16,328	27,137	240,158
Financial Position						
Net assets	173,887	180,793	180,635	183,282	198,845	1,759,696
Total assets	218,005	224,536	235,734	228,845	252,567	2,235,109
Cash Flows						
Cash flows from operating activities	13,500	16,643	28,379	23,561	35,333	312,689
Cash flows from investing activities	(2,452)	(8,391)	(7,331)	16,379	(22,065)	(195,266)
Cash flows from financing activities	(2,815)	(3,661)	(13,896)	(10,030)	(12,945)	(114,559)
Cash and cash equivalents at end of year	34,137	39,111	45,843	75,458	75,944	672,078
Depreciation and amortization	6,704	6,948	6,528	6,787	6,551	57,982
Capital expenditure	8,670	8,257	12,074	8,127	8,885	78,635
Financial Indicators						
Equity ratio (%)	79.5	80.4	76.5	79.9	78.6	
Return on equity (%)	4.3	5.9	7.8	9.0	14.2	
Return on assets (%)	8.4	8.6	9.7	11.7	16.3	
Price-earnings ratio (times)	28.4	25.9	31.5	32.7	32.2	
Per Share Data*3						
Net income per share (¥/$)	33.09	46.95	63.73	73.83	122.70	1.09
Net assets per share (¥/$)	783.45	816.03	815.00	826.65	897.26	7.94
Cash dividends per share (¥/$)	55	187	150	200	70	0.62

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1=¥113.00 as of December 31, 2017.
*2 Net sales do not include consumption taxes.
*3 On April 1, 2017, the Company executed a four-for-one stock split.
Net income per share and net assets per share have been calculated as if this stock split had occurred at the beginning of fiscal 2013.
*4 The Group's consolidated subsidiary has changed its accounting policy, recognizing deferred tax liabilities on intangible assets with an indefinite useful life that have been acquired as part of a business combination. Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment.

Management's Discussion and Analysis

Summary of business results

In fiscal 2017, ended December 31, 2017, the domestic cosmetics market shifted in a positive direction, as inbound spending by visitors to Japan, which had shown signs of slowing since the second half of the previous fiscal year, began to increase again. If the effect from inbound demand is excluded, the size of the market was probably unchanged from the year before. In the overseas cosmetics market, demand was brisk in China and other parts of Asia, maintaining a gradual expansion trend.

Against this market backdrop, the POLA ORBIS Group traveled along the course laid out in the four-year medium-term management plan launched in fiscal 2017, focusing on measures to drive earnings even higher in Japan, bring overseas operations into the black and create new brands for next-generation growth. As a result, POLA ORBIS HOLDINGS posted another year of higher sales and income, on a consolidated basis.

Analysis of operating results: Comparison of fiscal 2017 and fiscal 2016

Net sales
Net sales edged up 11.8% over the fiscal 2016 level, to ¥244,335 million, reflecting strong performance by POLA, THREE and DECENCIA.

Cost of sales, and selling, general and administrative expenses
Cost of sales rose 1.7% year on year, to ¥41,632 million, paralleling higher net sales. The cost of sales ratio—cost of sales as a percentage of net sales—improved 1.7 percentage points, to 17.0%.

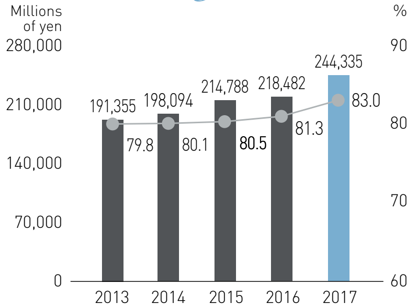
Selling, general and administrative expenses increased 8.7% from a year earlier, to ¥163,822 million, reflecting higher net sales of POLA-brand products. The ratio of selling, general and administrative expenses to net sales improved 1.9 percentage points, to 67.0%, as cost-cutting measures led to enhanced operating efficiency on a Groupwide basis.

Operating income
Operating income climbed 44.9% year on year, to ¥38,881 million, owing to higher gross profit that paralleled the increase in net sales and also owing to more efficient use of expenses. The operating margin rose 3.6 percentage points, to 15.9%.

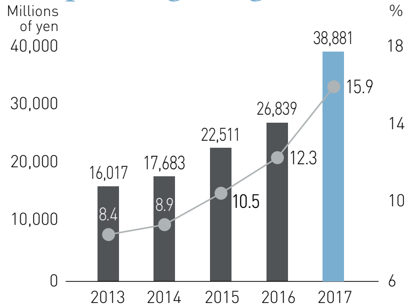
Income before income taxes
Income before income taxes skyrocketed 62.7%, to ¥38,430 million. This was largely due to higher ordinary income, along with proceeds of ¥624 million from the sale of rental property under extraordinary income and ¥413 million in loss on business liquidation of ORLANE JAPON INC. under extraordinary loss.

Profit attributable to owners of parent
Given the reasons listed above, profit attributable to owners of parent jumped 66.2% year on year, to ¥27,137 million. Net income per share expanded to ¥122.70, from ¥73.83, in fiscal 2016. Return on equity climbed to 14.2%, up from 9.0%, a year ago.

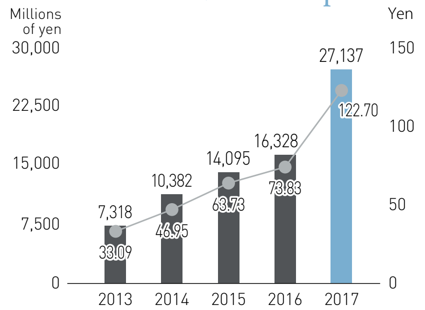
Net Sales and Gross Margin



Operating Income and Operating Margin



Profit Attributable to Owners of Parent and Net Income per Share



Notes: 1. Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment following revisions to Australian accounting standards.
2. On April 1, 2017, the Company executed a four-for-one stock split. Net income per share has been calculated as if this stock split had occurred at the beginning of fiscal 2013.

Business segment performance

Beauty Care

The Beauty Care business covers flagship brands POLA and ORBIS, overseas brands Jurlique and H2O PLUS and brands under development (THREE and DECENCIA).

At POLA, the objective remained long-term stable growth, with investment directed toward achieving deeper brand penetration and hiring and training professional Beauty Directors. In the domestic market, the company debuted *Wrinkle Shot Serum* in January 2017 and laid claim to producing Japan's first cosmetics product with an active ingredient approved as a quasi-drug capable of "improving wrinkles." Wrinkles are a concern of many women, and the appealing features of this wrinkle-improving innovation, along with robust efforts to provide information through face-to-face counseling and promotions, prompted an increase in new customers and created a cross-selling effect on other skincare products. The company also marked favorable inbound sales activity, underpinned by expanding demand for cosmetics from visitors to Japan. Overseas, POLA acquired a higher profile in Greater China, fueling sales growth overall. As a result, the brand delivered higher sales year on year.

At ORBIS, the goal was to achieve further growth and earnings improvement through brand evolution, and the company worked to strengthen the brand's message, capture customer attention through social media and raise the repeat purchase ratio. In the domestic market, ORBIS executed a total renewal of *AQUA FORCE*, a core product, in January 2017, and took steps to reinforce communication with customers using social networking sites. However, the number of customers decreased, as a consequence of tighter control of advertising and promotional expenses in fiscal 2016, and sales in fiscal 2017 were down over those of the previous year. Overseas, the growth trend was sustained in China and Singapore. In the end, however, fiscal 2017 sales fell below the level posted in fiscal 2016.

For overseas brands, the emphasis was on business growth in Australia and the United States, the home markets, respectively, of Jurlique and H2O PLUS. Jurlique struggled in the travel retail market and was negatively impacted by fewer customer visits to stores in Australia, leading to a year-on-year decrease in sales. H2O PLUS also showed a year-on-year drop in sales, reflecting a one-time shipment swingback after the switch to brand-restaged products in June, 2016 and a decline in shipments to Russia. On a positive note, however, operating income improved over that of fiscal 2016, thanks to the elimination of one-time costs paralleling a business withdrawal from China in 2016.

Brands under development delivered a year-on-year improvement in sales, driven by favorable demand for THREE and DECENCIA.

All told, Beauty Care sales—sales to external customers—grew 12.2%, to ¥227,133 million, in fiscal 2017, and operating income jumped 47.2%, to ¥38,121 million.

Real Estate

In the Real Estate business, the primary objectives are to at least maintain but ideally raise rent and shrink vacancy rates by creating attractive office environments, with a focus on office buildings in urban areas. This operating segment also promotes rental residential properties under a business model targeting families with young children. In fiscal 2017, sales fell year on year despite a review of tenant conditions, based on market prices and conditions surrounding other companies, as well as efforts to boost the value of buildings. The drop was due to the sale of the POLA Ebisu Building in 2016.

As a result, segment sales—sales to external customers—decreased 11.5%, to ¥2,694 million, and operating income tumbled 22.4%, to ¥1,082 million.

Others

The Others segment covers the pharmaceuticals and building maintenance businesses.

The pharmaceuticals business draws on results accumulated by Group companies in research related to cosmetics and quasi-drugs to develop, manufacture and sell new drugs, and also to make pharmaceuticals for other companies on an outsourcing basis. In fiscal 2017, sales were up over those of the previous fiscal year, thanks to continued efforts to channel resources into dermatology—a strategic field of pursuit—along with sales of *Duac® Gel*, a combination agent for the treatment of acne vulgaris, and *LUCONAC® Solution 5%*, a topical agent launched in 2016 for onychomycosis (fungal infection of the toenails or fingernails), as well as *Heparinoid Foam Spray 0.3% [PP]*.

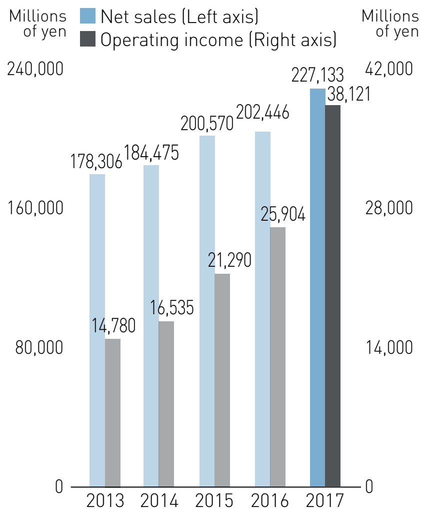
The building maintenance business handles the management and operation of buildings, primarily for Group companies. In fiscal 2017, steady marketing efforts led to favorable orders, pushing sales above the level recorded in fiscal 2016. However, operating income fell, as heightened competition to attract new employees eroded cost efficiency.

Overall, the Others segment generated sales—sales to external customers—of ¥14,507 million, up 11.7%, but posted an operating loss of ¥314 million, sinking ¥180 million deeper into the red from fiscal 2016.

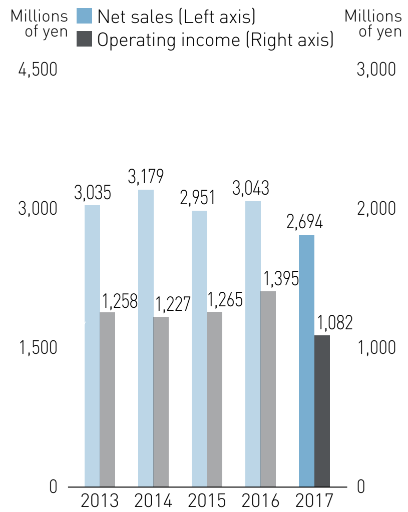
Key Financial Indicators

	2015	2016	2017
Cost of sales ratio	19.5%	18.7%	17.0%
Gross margin ratio	80.5%	81.3%	83.0%
SG&A ratio	70.1%	69.0%	67.0%
Personnel expenses	14.3%	13.2%	12.2%
Sales commissions	22.7%	21.3%	22.0%
Sales-related expenses	20.1%	21.1%	20.7%
Administrative and other expenses	13.0%	13.3%	12.2%
Operating margin	10.5%	12.3%	15.9%
Net income margin	6.6%	7.5%	11.1%

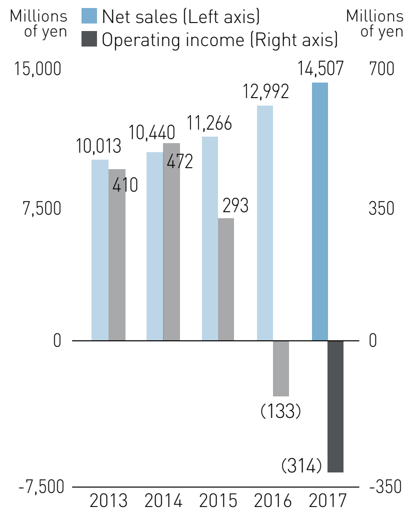
Beauty Care



Real Estate



Others



Analysis of financial position

Assets, liabilities and net assets

Assets

As of December 31, 2017, total assets stood at ¥252,567 million, rising 10.4% from a year earlier. This change reflects increases, namely, ¥3,450 million in notes and accounts receivable – trade, ¥1,237 million in merchandise and finished goods, ¥5,399 million in short-term investments in securities for the management of surplus funds and ¥8,896 million in investment in securities.

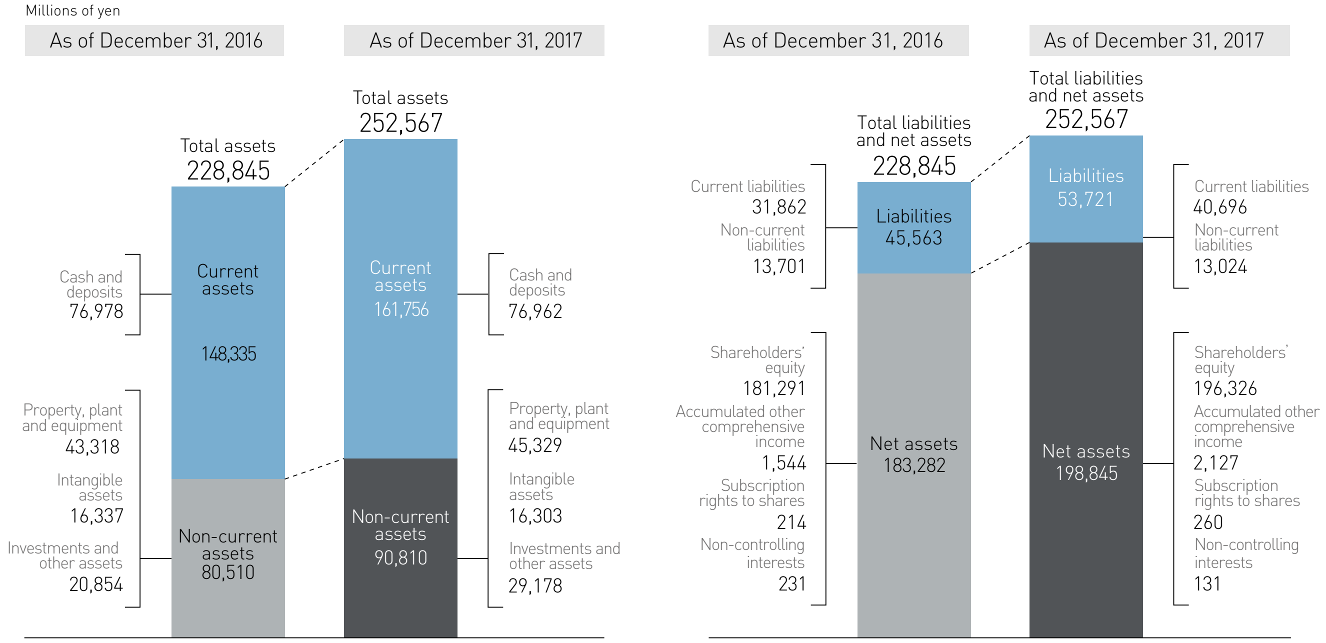
Liabilities

Total liabilities amounted to ¥53,721 million, as of December 31, 2017, up 17.9% from a year earlier. The primary factors leading to this change were increases of ¥1,675 million in notes and accounts payable – trade, ¥4,257 million in accounts payable – other and ¥2,188 million in income taxes payable.

Net assets

Total net assets climbed 8.5%, to ¥198,845 million, as of December 31, 2017. The key components of this change were ¥27,137 million in profit attributable to owners of parent and an increase of ¥583 million in foreign currency translation adjustments due to exchange rate movements, which more than offset a decrease of ¥11,611 million in dividends from retained earnings.

Overview of Consolidated Balance Sheets



Cash flows

The balance of cash and cash equivalents as of December 31, 2017, was ¥75,944 million, up ¥486 million from the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities in fiscal 2017 amounted to ¥35,333 million, jumping 50.0% from the previous fiscal year. Primary inflow factors contributing to this change were ¥38,430 million in profit before income taxes, ¥6,551 million in depreciation and amortization, and an increase of ¥3,912 million in other liabilities, primarily due to an increase in accounts payable – other. Major outflow factors were an increase of ¥3,373 million in notes and accounts receivable – trade and ¥9,943 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities amounted to ¥22,065 million, a turnaround from the ¥16,379 million provided by investing activities in fiscal 2016. The main factors contributing to the year-on-year change were an increase in net cash resulting from ¥17,500 million in proceeds from sales and redemption of short-term investments in securities and a decrease in net cash resulting from outflows of ¥10,900 million due to purchase of short-term investments in securities and ¥21,912 million due to purchase of investments in securities for management of surplus funds in line with investment plans, ¥5,727 million due to purchase of property, plant and equipment, and ¥1,787 million due to purchase of intangible assets.

Cash flows from financing activities

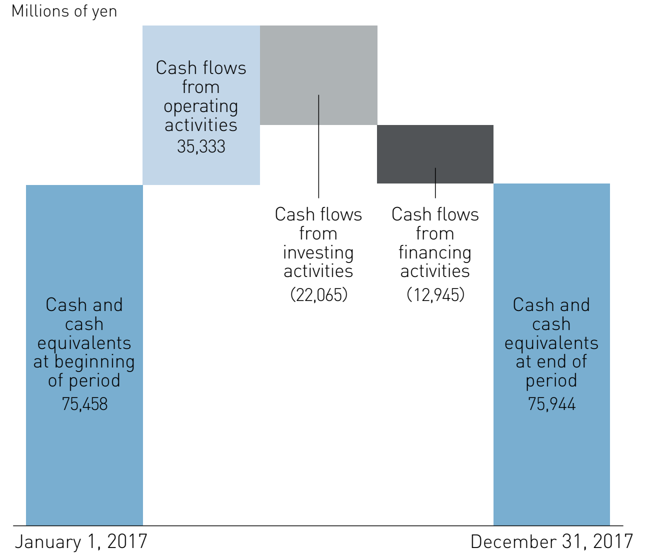
Net cash used in financing activities reached ¥12,945 million, jumping 29.1% from a year ago. The main components of this change were the application of ¥11,608 million in cash dividends paid and ¥610 million in payments from changes in ownership interests in subsidiaries that do not result in change in the scope of consolidation.

Sources of funds and policy on fund liquidity

Working capital and investment capital for Group operations are sourced from internal funds and bank loans. Of funds raised from external sources, interest-bearing debt rose ¥155 million from the amount at December 31, 2016, to ¥3,745 million at December 31, 2017. This reflects an increase in lease obligations. Note that POLA ORBIS HOLDINGS strives to enhance capital efficiency on a Groupwide basis through a cash management system that centralizes subsidiaries' cash operations under Company oversight.

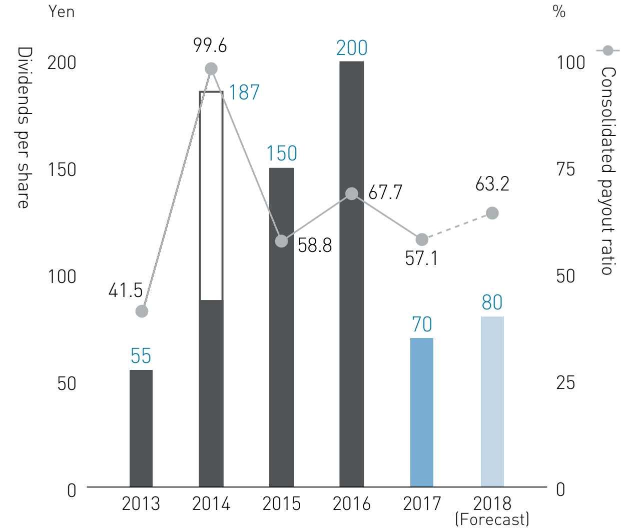
The Company adheres to fund management regulations and standards to ensure appropriate application of operating funds and surplus funds, respectively. The balance of cash and deposits stood at ¥76,962 million as of December 31, 2017, down ¥15 million from a year earlier.

Overview of Consolidated Statement of Cash Flows



Note: The effect of exchange rate change on cash and cash equivalents is omitted. Any discrepancies due to this omission have been adjusted accordingly.

Annual Dividend and Consolidated Payout Ratio



Notes 1: ☐ indicates special dividend.
2: POLA ORBIS HOLDINGS executed a 4-for-1 share split, effective April 1, 2017. Dividends prior to 2016 are based on the number of shares before the split.
3: Figures for the fiscal year ended December 31, 2016, reflect retroactive application due to changes in Australian accounting standards.

Basic policy on profit distribution

Management recognizes the return of profit to shareholders as one of its top priorities and strives to enrich shareholder returns through stable profit growth. The basic policy on profit distribution continues to be to provide stable and continuous cash dividends, based on a consolidated payout ratio of at least 60%.

The Company distributes retained earnings twice a year, through an interim dividend and a year-end dividend. Article 454, Paragraph 5 of Japan's Companies Act and the Company's own Articles of Incorporation stipulate that the year-end dividend is to be approved at the general meeting of shareholders, while the interim dividend is to be set by the Board of Directors.

The Company paid a dividend of ¥70.00 per share for fiscal 2017, comprising an interim dividend of ¥25.00, and a year-end dividend of ¥45.00. The Company will invest internal reserves to reinforce the operating structure and fuel future business pursuits.

Business risks

Risks affecting business activities and other aspects of the POLA ORBIS Group that are considered crucial to the investment decisions of investors are described below. Unless otherwise noted, forward-looking statements in this description of business risks are assumptions and judgments made by management of the Group as of December 31, 2017.

① Damage to brand value
The Group has multiple brands, most notably POLA and ORBIS. Through conscientious business management and the supply of products and services designed to elicit customers' trust, each Group company responsible for a particular brand strives to maintain and enhance the respective brand's image. However, the operating results and financial position of the Group could be adversely affected if negative opinions and rumors about the Group's products and services were to spread, which could lead to loss of trust and impaired brand value.

② Competition within the Group
The Group adheres to a multi-brand, multi-channel sales strategy wherein new and existing brands are promoted according to target customer segment (demographic base), price bracket and sales channel, thereby minimizing direct competition between brands under the Group umbrella. However, competition within the Group may arise in the course of promoting Group strategies to maximize the value of existing brands and accelerate the process of multi-brand development, and such competition could adversely impact the operating results and financial position of the Group.

③ Securing sales partners (shop owners/ managers and Beauty Directors)
POLA INC., the core company of the Group's Beauty Care segment, develops business through door-to-door sales based on consignment sales agreements. Securing sales partners under consignment sales agreements is an important activity for business expansion and something POLA constantly works on. However, if regulations under the Act on Specified Commercial Transactions are tightened or the labor environment changes and securing human resources becomes more difficult, the number of Beauty Director applicants may drop, creating the potential for a shortage of sales partners. Should this occur, the operating results and financial position of the Group could be adversely affected.

④ Strategic investment activities
The Company oversees the execution of strategic investments within the Group to expand operations abroad, particularly in the Asia-Pacific region, as well as M&A activities and new businesses. Information necessary for making decisions on strategic investment activities is collected and examined. However, the operating results and financial position of the Group could be adversely affected if results initially expected are not achieved due to unexpected situations, such as unforeseen changes in the operating environment.

Furthermore, operating assets and assets such as goodwill accompanying M&A activity may end up as impairment losses on the books, if anticipated cash flow fails to appear due to poor performances or a drop in market value.

⑤ Cosmetics market environment
The domestic cosmetics market has reached maturity. Against this backdrop, competition has intensified, fueled largely by the reorganization of corporate groups through M&As, the entry of new competitors into the market from different industries and the rising influence of distributors and retailers through alliances and integration. Consequently, the operating results and financial position of the Group could be adversely affected in the event that the Group cannot appropriately respond to unforeseen changes in the competitive environment.

⑥ Research & development
R&D is one source of the Group's competitive strength, and the Company intends to maintain investment in this area.

In the cosmetics segment, activities are undertaken in accordance with an annual plan to ensure efficient and effective R&D, but if the development of a new product is a long-term effort, the results may not be seen until years later. Also, in some cases, when anticipated results cannot be achieved, the development period may need to be extended or additional investment may be required, and in the end, a product still might not reach commercialization. Furthermore, even if a product does reach this stage, it may not necessarily find favor with customers because of uncertainties precipitated by any number of factors.

In the pharmaceuticals segment, marketing a new drug requires considerable investment in R&D, so effective application of funds for new drug R&D is the goal, achieved through such approaches as joint development with other companies. However, sudden changes in the business environment, a delay in new drug development, a new management direction at the partner company in joint development activities and other risks that are difficult to predict could arise.

If the initially anticipated results of R&D cannot be achieved as such, the operating results and financial position of the Group could be adversely affected.

⑦ Manufacturing and quality assurance
Efforts are made to continuously secure at appropriate prices the volume of raw materials required to manufacture products by using diversified sources of supply and by maintaining good relationships with suppliers, under the supervision of divisions within the Group responsible for procuring raw materials. However, if an unexpected situation arose due to circumstances not of the Group's doing, the procurement of the necessary raw materials could be disrupted.

In addition, the Group's cosmetics are manufactured at two locations, in Japan at POLA CHEMICAL INDUSTRIES INC.'s Fukuroi Plant, in Shizuoka Prefecture, and in Australia at Jurlique's Mount Barker Factory, in South Australia. Its pharmaceutical products are made at two locations in Japan, at KAYAKU CO., LTD.'s Saitama Factory and Tokorozawa Factory, both in Saitama Prefecture. Steps are taken to ensure quality control practices and maintain quality. But if issues with product quality, however remote, were to arise, the operating results and financial position of the Group could be adversely affected.

⑧ Overseas business activities
The Group's main sales points are in Japan, but Group companies have expanded into the Asia-Pacific region, where demand is expected to continue to grow, and further development will be pursued in overseas markets.

Business activities in these overseas markets inherently carry the risk of social upheaval caused by economic instability, political unrest, labour problems, the outbreak of war, terrorist attacks and the spread of infectious diseases. The manifestation of such risks could adversely affect the operating results and financial position of the Group.

⑨ Currency exchange
Paralleling an increase in import/export transactions due to the Group's expansion overseas, foreign currency-denominated settlements as well as loans extended to overseas subsidiaries carry the risk of exchange rate fluctuation from a monetary materiality perspective. Additionally, since the local currency-denominated amounts reported by foreign consolidated subsidiaries are converted into yen when consolidated financial statements are prepared, changes in associated exchange rates may influence the operating results and financial position of the Group.

⑩ Limit of protection for intellectual property rights
Steps have been taken to protect the intellectual property rights of companies under the Group umbrella, but third parties could infringe upon such rights through means beyond what might be anticipated. Consequently, the business activities of the Group could be adversely affected by the misappropriation of technologies and the creation of counterfeit goods, and also, third-party intellectual property rights could be infringed upon by a member, or members, of the Group, albeit unknowingly.

⑪ Information security
All members of the Group carefully manage the handling of confidential information, including personal information and R&D information, through the implementation of internal audits, the use of an information security system, the establishment of an internal code of conduct and educational initiatives by the section in charge of CSR and various committees. However, if such information were leaked for any reason, the Company could face litigation and the reputation of the Company or the Group as a whole could be tarnished. This in turn could adversely affect the businesses of the Group.

⑫ Material litigation
Although no lawsuits with the potential to seriously impact the Group were filed in fiscal 2017, the operating results and financial position of the Group could be adversely affected in the event that material lawsuits are brought against a member, or members, of the Group in the future with judgments handed down that are disadvantageous to the Group.

⑬ Disasters
The Group's production base for cosmetics is the Fukuroi Factory, operated by POLA CHEMICAL INDUSTRIES. Therefore, product supply could be interrupted for a long period in the event of a large-scale earthquake in the Tokai region or some other major disaster.

Similarly, pharmaceuticals products are produced at the Saitama Factory and Tokorozawa Factory of KAYAKU. Since the factories are close to each other, product supply could be interrupted for a long period in the event of a large-scale earthquake in the Kanto region.

Furthermore, unprecedented large-scale earthquakes as well as other natural disasters or accidents could occur in areas other than these two locations and interrupt the procurement of raw materials and components and the supply and sale of products, which could have an adverse effect on the operating results of the Group.

⑭ Spread of infectious diseases
Given that face-to-face contact between customers and business partners is characteristic of daily business activities within the Group, the spread of infectious diseases with significant social impact would necessitate voluntary suspension of service and sales activities and the closure of sales offices. In such a scenario, the operating results and financial position of the Group could be adversely affected not only in Japan but also overseas.

Fiscal 2018 forecast

The medium-term management plan that runs from 2017 to 2020 is the last stage of the Group's journey toward its long-term vision for 2020. To reach this destination, the Company has highlighted three strategies in the medium-term management plan to strengthen the Group's capabilities—improve profitability in Japan, promote a solid shift toward overall profitability from overseas operations and build a brand structure for next-generation growth.

For fiscal 2018, POLA ORBIS HOLDINGS anticipates consolidated net sales of ¥253,000 million, up 3.5% year on year; operating income of ¥41,500 million, up 6.7%; ordinary income of ¥41,500 million, up 5.7%; and profit attributable to owners of parent of ¥28,000 million, up 3.2%.

Significant accounting policies and assumptions

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan (Japanese GAAP). The preparation of consolidated financial statements requires management to select and apply certain accounting policies and make assumptions that affect reported amounts and disclosure of assets and liabilities as well as earnings and expenses. These assumptions are based on reasonable conclusions that take into account historical performance and other factors.

However, actual results could differ from stated expectations as they are subject to inherent uncertainties.

■ Fiscal 2018 Forecast

		YoY Change	
Millions of yen	FY2018 Full Year	Amount	Percentage
Net sales	253,000	8,664	3.5
Beauty Care	235,800	8,666	3.8
Real Estate	2,600	(94)	(3.5)
Others	14,600	92	0.6
Operating income	41,500	2,618	6.7
Beauty Care	40,700	2,578	6.8
Real Estate	900	(182)	(16.9)
Others	300	614	—
Reconciliations	(400)	(391)	—
Profit attributable to owners of parent	28,000	862	3.2

Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Assets			
Current assets			
Cash and deposits (Notes 4 and 17)	¥ 76,962	¥ 76,978	$ 681,082
Notes and accounts receivable – trade (Note 17)	29,435	25,985	260,495
Short-term investments in securities (Notes 4, 17 and 18)	23,899	18,500	211,502
Merchandise and finished goods	13,740	12,503	121,597
Work in process	1,150	1,090	10,182
Raw materials and supplies	4,505	3,977	39,867
Deferred tax assets (Note 14)	4,385	4,033	38,808
Other	7,721	5,351	68,332
Allowance for doubtful accounts	(44)	(83)	(394)
Total current assets	161,756	148,335	1,431,473
Property, plant and equipment (Note 12)			
Buildings and structures	55,284	52,439	489,241
Machinery, equipment and vehicles	11,000	10,536	97,352
Land	13,069	13,116	115,662
Leased assets	7,245	6,758	64,116
Construction in progress	2,007	1,926	17,761
Other	16,954	16,362	150,038
Total property, plant and equipment	105,561	101,139	934,170
Accumulated depreciation	(60,232)	(57,820)	(533,028)
Net property, plant and equipment	45,329	43,318	401,142
Intangible assets			
Goodwill, net (Note 20)	883	905	7,822
Right of trademark	9,026	8,642	79,878
Other intangible assets, net	6,393	6,789	56,577
Net intangible assets	16,303	16,337	144,277
Investments and other assets			
Investments in securities (Notes 17 and 18)	21,943	13,046	194,189
Long-term loans receivable	55	59	490
Deferred tax assets (Note 14)	3,123	3,076	27,642
Other	4,139	4,758	36,636
Allowance for doubtful accounts	(83)	(86)	(741)
Total investments and other assets	29,178	20,854	258,217
Total non-current assets	90,810	80,510	803,635
Total assets	¥ 252,567	¥ 228,845	$ 2,235,109

See notes to consolidated financial statements.

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 17)	¥ 6,369	¥ 4,694	$ 56,368
Short-term loans payable (Notes 6 and 17)	1,600	600	14,159
Lease obligations (Note 6)	738	627	6,537
Accounts payable – other (Note 17)	17,803	13,546	157,554
Income taxes payable	4,223	2,034	37,372
Provision for bonuses	1,589	1,639	14,062
Provision for directors' bonuses	43	31	384
Provision for sales returns	27	37	244
Provision for point program	3,678	3,541	32,553
Provision for loss on business liquidation	150	—	1,335
Other	4,472	5,108	39,579
Total current liabilities	40,696	31,862	360,148
Non-current liabilities			
Long-term loans payable (Notes 6 and 17)	—	1,000	—
Lease obligations (Note 6)	1,406	1,362	12,451
Net defined benefit liability (Note 7)	4,378	4,207	38,747
Provision for environmental measures	53	53	474
Deferred tax liabilities (Note 14)	2,972	2,904	26,303
Other	4,213	4,173	37,290
Total non-current liabilities	13,024	13,701	115,265
Total liabilities	53,721	45,563	475,413
Net assets (Note 8)			
Shareholders' equity			
Common stock Authorized: 800,000,000 shares Issued: 229,136,156 shares at December 31, 2017 and 229,136,156 shares at December 31, 2016	10,000	10,000	88,496
Capital surplus	90,240	90,731	798,591
Retained earnings	98,273	82,747	869,680
Treasury stock, at cost (7,957,837 shares at December 31, 2017 and 7,958,040 shares at December 31, 2016)	(2,188)	(2,187)	(19,365)
Total shareholders' equity	196,326	181,291	1,737,401
Accumulated other comprehensive income (Note 13)			
Unrealized gain (loss) on available-for-sale securities	8	12	78
Foreign currency translation adjustments	2,929	2,346	25,926
Remeasurements of defined benefit plans	(810)	(813)	(7,176)
Total accumulated other comprehensive income	2,127	1,544	18,828
Subscription rights to shares (Notes 8 and 23)	260	214	2,306
Non-controlling interests	131	231	1,162
Total net assets	198,845	183,282	1,759,696
Total liabilities and net assets	¥252,567	¥228,845	$2,235,109

See notes to consolidated financial statements.

Consolidated Statements of Income

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Net sales (Note 20)	¥244,335	¥218,482	$2,162,262
Cost of sales (Notes 9, 10 and 20)	41,632	40,940	368,428
Gross profit	202,703	177,542	1,793,834
Selling, general and administrative expenses (Notes 9, 11 and 20)	163,822	150,702	1,449,753
Operating income	38,881	26,839	344,081
Other income (expenses) (Note 12)			
Interest and dividend income	230	246	2,037
Interest expenses	(69)	(63)	(619)
Foreign exchange gain (loss)	31	(65)	281
Gain on sales of non-current assets	624	10,182	5,528
Reversal of foreign currency translation adjustments	5	7	48
Loss on disposal of non-current assets	(239)	(245)	(2,123)
Impairment loss	(404)	(14,957)	(3,580)
Loss on business liquidation	(413)	—	(3,657)
Loss on litigation	(365)	—	(3,236)
Other, net	150	1,681	1,331
	(450)	(3,212)	(3,990)
Income before income taxes	38,430	23,626	340,091
Income taxes (Note 14)			
Current	11,756	7,534	104,039
Deferred	(475)	(255)	(4,204)
	11,281	7,279	99,835
Net income	27,148	16,347	240,256
Profit attributable to non-controlling interests	11	19	98
Profit attributable to owners of parent	¥ 27,137	¥ 16, 328	$ 240,158

Per share information (Note 21)	Yen		U.S. dollars (Note 3)
Basic net income per common share	¥ 122.70	¥ 73.83	$ 1.09
Diluted net income per common share	¥ 122.54	¥ 73.74	$ 1.08
Weighted average common shares outstanding (thousands of shares)	221,177	221,156	221,177
Cash dividends declared per common share	¥ 70.00	¥ 50.00	$ 0.62

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Net income	¥27,148	¥16,347	$240,256
Other comprehensive income (Note 13)			
Unrealized loss on available-for-sale securities	(3)	(500)	(29)
Foreign currency translation adjustments	592	(2,126)	5,241
Remeasurements of defined benefit plans	2	(271)	23
Share of other comprehensive income of associates accounted for using the equity method	—	(7)	—
Total other comprehensive income (Note 13)	591	(2,904)	5,235
Comprehensive income	¥27,740	¥13,442	$245,491
Comprehensive income attributable to:			
Owners of parent	27,720	13,453	245,315
Non-controlling interests	¥ 19	¥ (10)	$ 176

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

	Common shares (Thousands) (Note 8)	Millions of yen							
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 13)	Subscription rights to shares (Notes 8 and 23)	Non-controlling interests	Total net assets
Balance at January 1, 2016	229,136	¥10,000	¥90,722	¥77,381	¥(2,194)	¥4,329	¥183	¥ 214	¥180,635
Cumulative effect of changes in accounting policies				(1,562)		90			(1,472)
Restated balance	229,136	10,000	90,722	75,818	(2,194)	4,419	183	214	179,163
Dividends from retained earnings				(9,398)					(9,398)
Profit attributable to owners of parent				16,328					16,328
Purchase of treasury stock									—
Disposal of treasury stock			8		7				15
Purchase of shares of consolidated subsidiaries									—
Change in unrealized gain (loss) on available-for-sale securities						(500)			(500)
Foreign currency translation adjustments						(2,103)			(2,103)
Remeasurements of defined benefit plans						(271)			(271)
Subscription rights to shares							31		31
Non-controlling interests								17	17
Balance at January 1, 2017	229,136	10,000	90,731	82,747	(2,187)	1,544	214	231	183,282
Dividends from retained earnings				(11,611)					(11,611)
Profit attributable to owners of parent				27,137					27,137
Purchase of treasury stock					(0)				(0)
Disposal of treasury stock			0		0				0
Purchase of shares of consolidated subsidiaries			(490)						(490)
Change in unrealized gain (loss) on available-for-sale securities						(3)			(3)
Foreign currency translation adjustments						583			583
Remeasurements of defined benefit plans						2			2
Subscription rights to shares							45		45
Non-controlling interests								(100)	(100)
Balance at December 31, 2017	229,136	¥10,000	¥90,240	¥98,273	¥(2,188)	¥2,127	¥260	¥ 131	¥198,845

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 13)	Subscription rights to shares (Notes 8 and 23)	Non-controlling interests	Total net assets
Balance at January 1, 2017	$88,496	$802,934	$732,282	$(19,360)	$13,671	$1,901	$2,048	$1,621,971
Dividends from retained earnings			(102,760)					(102,760)
Profit attributable to owners of parent			240,158					240,158
Purchase of treasury stock				(7)				(7)
Disposal of treasury stock		1		1				2
Purchase of shares of consolidated subsidiaries		(4,344)						(4,344)
Change in unrealized gain (loss) on available-for-sale securities					(29)			(29)
Foreign currency translation adjustments					5,162			5,162
Remeasurements of defined benefit plans					23			23
Subscription rights to shares						405		405
Non-controlling interests							(886)	(886)
Balance at December 31, 2017	$88,496	$798,591	$869,680	$(19,365)	$18,828	$2,306	$1,162	$1,759,696

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Cash flows from operating activities			
Income before income taxes	¥38,430	¥23,626	$340,091
Adjustments to reconcile income before income taxes to net cash flows from operating activities:			
Depreciation and amortization	6,551	6,787	57,982
Impairment loss	404	14,957	3,580
Amortization of goodwill	61	749	542
Increase (decrease) in provision for point program	135	95	1,203
Increase (decrease) in other provisions	(88)	(66)	(783)
Increase (decrease) in net defined benefit liability	177	(35)	1,568
Interest and dividend income	(230)	(260)	(2,037)
Interest expenses	69	63	619
Foreign exchange loss (gain)	(413)	(25)	(3,663)
Reversal of foreign currency translation adjustments	(5)	(7)	(48)
Loss (gain) on sales of non-current assets	(599)	(10,174)	(5,308)
Loss on disposal of non-current assets	239	245	2,123
Gain on sales of investment securities	—	(527)	—
Gain on sales of shares of subsidiaries	—	(988)	—
Loss on business liquidation	413	—	3,657
Loss on litigation	365	—	3,236
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	(3,373)	180	(29,854)
Decrease (increase) in inventories	(1,865)	1,118	(16,509)
Increase (decrease) in notes and accounts payable – trade	1,700	(362)	15,047
Increase (decrease) in consumption taxes payable	(1,024)	495	(9,070)
Increase (decrease) in other assets	529	949	4,686
Increase (decrease) in other liabilities	3,912	(2,446)	34,621
Other	80	262	716
Subtotal	45,470	34,634	402,396
Interest and dividends received	245	240	2,170
Interest paid	(73)	(58)	(650)
Income taxes paid	(9,943)	(11,139)	(87,992)
Payment for loss on litigation	(365)	—	(3,236)
Other	0	(115)	0
Net cash provided by operating activities	¥35,333	¥23,561	$312,689

See notes to consolidated financial statements.

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2017	2016	2017
Cash flows from investing activities			
Payments into time deposits	¥ (558)	¥ (1,585)	$ (4,939)
Proceeds from withdrawal of time deposits	1,085	1,560	9,607
Purchase of short-term investments in securities	(10,900)	—	(96,460)
Proceeds from sales and redemption of short-term investments in securities	17,500	16,700	154,867
Purchase of property, plant and equipment	(5,727)	(4,464)	(50,686)
Proceeds from sales of property, plant and equipment	703	20,491	6,227
Purchase of intangible assets	(1,787)	(6,743)	(15,821)
Payments for disposal of non-current assets	(105)	(141)	(938)
Purchase of investments in securities	(21,912)	(11,000)	(193,913)
Proceeds from sales of investment securities	—	669	—
Proceeds from sales of shares of subsidiaries	—	1,146	—
Purchase of long-term prepaid expenses	(191)	(149)	(1,697)
Payments for lease and guarantee deposits	(351)	(248)	(3,109)
Proceeds from collection of lease and guarantee deposits	153	121	1,355
Other	27	23	242
Net cash provided by (used in) investing activities	(22,065)	16,379	(195,266)
Cash flows from financing activities			
Repayments of lease obligations	(725)	(632)	(6,417)
Cash dividends paid	(11,608)	(9,398)	(102,730)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(610)	—	(5,406)
Other	(0)	0	(7)
Net cash used in financing activities	(12,945)	(10,030)	(114,559)
Effect of exchange rate changes on cash and cash equivalents	163	(296)	1,443
Net increase (decrease) in cash and cash equivalents	486	29,614	4,307
Cash and cash equivalents at beginning of year (Note 4)	75,458	45,843	667,771
Cash and cash equivalents at end of year (Note 4)	¥75,944	¥ 75,458	$672,078

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Note 1 Summary of Significant Accounting Policies

1.1. Basis of presentation

The accompanying consolidated financial statements of POLA ORBIS HOLDINGS INC. (the "Company") and its consolidated subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

Certain amounts in the consolidated financial statements of the previous year have been reclassified to conform to the current year's presentations for comparative purposes. For the convenience of readers outside Japan, certain presentations in the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau in Japan have been reclassified and rearranged.

1.2. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All companies included in the scope of consolidation have a fiscal year ending December 31.

Under the control or influence concept, those companies in which the Company, directly or indirectly, can exercise control over their operations are consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for using the equity method. All significant inter-company balances, transactions and material unrealized profit included in assets resulting from the inter-company transactions have been eliminated in consolidation.

At December 31, 2017 and 2016, there were 37 subsidiaries included in the scope of consolidation. During fiscal 2017, JQE MACAU LIMITED was established, and therefore it was newly included in the scope of consolidation. The liquidation procedures for POLA LLC were completed, and as a result, it was excluded from the scope of consolidation. There were no affiliated companies accounted for using the equity method at December 31, 2017 and 2016.

1.3. Unification of accounting policies applied to foreign subsidiaries

In accordance with Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" (issued and amended by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006, February 19, 2010 and March 26, 2015, respectively), the Company and its consolidated subsidiaries use uniformed accounting policies and procedures for like transactions and other events in similar circumstances in preparing consolidated financial statements. Financial statements of foreign consolidated subsidiaries prepared in accordance with either IFRS or accounting principles generally accepted in the United States ("U.S. GAAP") are accepted except for certain items, which are adjusted to comply with Japanese GAAP. The adjustments include the following:

1. Amortization of goodwill
2. Scheduled amortization of unrecognized actuarial gains or losses of pensions directly recorded in shareholders' equity
3. Expensing capitalized development cost of R&D
4. Cancellation of the fair value model accounting for property, plant and equipment, and investment properties and incorporation of the cost model accounting

1.4. Business combinations

The purchase method of accounting is used to account for acquired businesses. Assets and liabilities of consolidated subsidiaries are evaluated using the full fair value method at the acquisition date. The difference between the cost of purchased businesses and the fair value of their net assets is recorded as goodwill or negative goodwill (i.e., bargain purchase) after the purchased businesses' identifiable assets and liabilities are measured at their fair value at the acquisition date. Goodwill is amortized using the straight-line method over 20 years. Negative goodwill is recognized in profit or loss in the period in which the business combination took place.

1.5. Scope of cash and cash equivalents on consolidated statements of cash flows

Cash and cash equivalents consist of

cash on hand, cash in banks that can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased that can easily be converted to cash and are subject to little risk of changes in value.

1.6. Inventories

Inventories held for sale in the ordinary course of business are stated at cost. The cost of merchandise, finished goods, work in process and raw materials is determined on the monthly moving average method, and the cost of supplies is determined on the last purchase price method.

The carrying amount of inventories on the balance sheets is written down to net realizable value if it is lower than the carrying amount.

1.7. Investments in securities

Securities are classified into held-to-maturity or available-for-sale securities depending on management's intent. Held-to-maturity securities are recorded at amortized cost using the straight-line method.

Marketable securities classified as available-for-sale securities are recorded at fair value. Unrealized holding gains or losses on available-for-sale securities are reported as a component of net assets. Cost of securities sold is determined using the moving average method.

Non-marketable securities classified as available-for-sale securities are recorded at cost, which is determined using the moving average method. Investments in limited partnerships (investments defined as securities under Article 2.2 of the Financial Instruments and Exchange Law of Japan) are recorded at net equity based on the most recently available financial statements to the reporting date specified in the partnership agreement.

1.8. Derivatives

Derivatives are recorded at fair value.

1.9. Property, plant and equipment, excluding leased assets

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated using the declining balance method, except for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016, for which depreciation is calculated using the straight-line method. Depreciation of property, plant and equipment of the foreign consolidated subsidiaries is calculated using the straight-line method based on the local accounting standards of each country.

The primary useful lives are as follows:

Buildings and structures	10—50 years
Machinery, equipment and vehicles	7—15 years

Property, plant and equipment with acquisition cost greater than ¥100,000 and less than ¥200,000 are depreciated by the straight-line method over three years.

1.10. Intangible assets, excluding leased assets

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over its estimated useful life of five years.

1.11. Leases

Finance leases that do not transfer ownership are capitalized and depreciated using the straight-line method over the lease term with zero residual value. However, finance leases entered into on or prior to December 31, 2008 are not capitalized but accounted for using a method similar to that for operating lease transactions, and corresponding information is provided in the notes to the accompanying consolidated financial statements.

Lease transactions other than finance lease transactions are accounted for as operating leases and the related payments are charged to income as incurred.

1.12. Impairment on non-current assets

The Group reviews non-current assets for impairment whenever events or changes in circumstances based on external or internal sources of information indicate that the carrying amount may not be recoverable. When such events or changes in circumstances occur, a recoverability test is required to be performed. An individual asset or asset group is impaired if the carrying amount exceeds the amount to be recovered through use or sale of such asset or asset group.

1.13. Retirement benefits

a. Periodic allocation method for the estimated retirement benefit
The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount to periods up until the end of fiscal 2017 based on the benefit formula basis.

b. Amortization of past service cost and actuarial loss (gain)
Past service cost is amortized on a straight-line basis over a certain period (10 years), within the average remaining service period of employees.
Actuarial loss (gain) is amortized from the following year of occurrence on a straight-line basis over a certain period (10—14 years), within the average remaining service period of the employees.

1.14. Allowance for doubtful accounts

The Company and its domestic consolidated subsidiaries record allowance for doubtful accounts based on the historical loss ratio for general receivables, and based on an individual assessment of uncollectible amounts for certain receivables. Foreign consolidated subsidiaries mainly estimate unrecoverable amounts on an individual basis.

1.15. Provisions

Provisions for bonuses and directors' bonuses
Provisions for bonuses and directors' bonuses are stated at the estimated amounts of the bonuses to be paid to directors and employees, in accordance with their services provided during the fiscal year.

Provision for sales returns
Provisions are set up to cover future losses arising from sales returns based on past return ratios.

Provision for point program
Provisions are set up to cover future discounts and commemorative gifts under point program plans based on estimated future outflows.

Provision for loss on business liquidation
Provisions are set up to cover estimated future losses accompanying the termination of business.

Provision for environmental measures
Provisions are set up to cover the estimated charges for disposal of waste (polychlorinated biphenyl (PCB)).

1.16. Research and development costs

The costs for research and development are charged to income as incurred.

1.17. Income taxes

Income taxes are accounted for using the asset and liability approach. Deferred tax assets and liabilities are recognized in the accompanying consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

1.18. Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average common shares outstanding during the period. The number of shares used in the computations was 221,177 thousand shares for fiscal 2017 (221,156 thousand shares for fiscal 2016). Diluted net income per share is computed for fiscal 2017 and fiscal 2016 due to the dilutive effect of subscription rights to shares arising from stock options.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after year-end.

The Company conducted a stock split effective on April 1, 2017. Common stock of the Company held by shareholders has been split at a ratio of four shares for one share. As a result, for comparative purposes, net income per share and diluted net income per share for fiscal 2016 and net assets per share at December 31, 2016 were calculated assuming that the stock split was conducted at the beginning of fiscal 2016.

1.19. Foreign currency translation

Receivables and payables of domestic consolidated subsidiaries denominated in foreign currencies are translated into yen at year-end exchange rates, and differences arising from the translation are included in the accompanying consolidated statements of income.

All assets and liabilities of foreign consolidated subsidiaries are translated into yen at year-end exchange rates, while revenue and expenses are translated at the average exchange rate for the year. Adjustments to translate those accounts into yen are presented as foreign currency translation adjustments and non-controlling interests in net assets of the accompanying consolidated balance sheets.

1.20. Amortization method and period of goodwill

Goodwill is amortized using the straight-line method over 20 years.

1.21. Other important items related to the preparation of the consolidated financial statements

1.21.1. Accounting method for consumption tax and local consumption tax

The tax-exclusion accounting method is applied for consumption tax and local consumption tax.

1.21.2. Application of consolidated tax system

The consolidated tax system is applied.

Note 2 Changes in Accounting Policies

2.1. Change in accounting policy

Application of Expected Manner of Recovery of Intangible Assets with Indefinite Useful Lives-Agenda Paper 3

As a consequence of an IFRS Interpretation Committee (IFRIC) agenda decision issued in November 2016, the Group's consolidated subsidiary in Australia has amended its accounting policy to recognize a deferred tax liability on indefinite life intangibles acquired as part of a business combination.

The amendment resulted in a retrospective application. The consolidated financial statements for the previous year have been restated reflecting the retrospective application. As a result, at December 31, 2016, deferred tax liabilities and foreign currency translation adjustments increased by ¥2,581 million and ¥100 million, respectively, and retained earnings decreased by ¥2,682 million compared with those prior to retrospective application on the consolidated balance sheet.

In addition, decreases of ¥69 million in operating income and ordinary income, and ¥1,119 million in income before income taxes, net income and profit attributable to owners of parent, respectively, have been reflected in the consolidated statement of income for fiscal 2016. As the cumulative effect has been reflected in net assets as of the beginning of fiscal 2016, after the retrospective application, retained earnings decreased by ¥1,562 million and foreign currency translation adjustments increased by ¥90 million on the consolidated statement of changes in net assets as of the beginning of fiscal 2016.

The impact on segment information and information per share is noted under Note 20 Segment Information and Note 21 Per Share Information, respectively.

2.2. Additional information

Application of Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, issued on March 28, 2016)

This implementation guidance has been effective for the Group from the beginning of fiscal 2017.

Note 3 U.S. Dollar Amounts

The accompanying consolidated financial statements are presented in yen, and solely for the convenience of readers outside Japan, certain amounts have been translated into U.S. dollars at the rate of U.S. $1= ¥113.0, the approximate rate of exchange prevailing at December 31, 2017. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such a rate.

Note 4 Cash Flow Information

4.1. Cash and cash equivalents consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2017	2016	2017
Cash and deposits	¥76,962	¥76,978	$681,082
Short-term investments in securities	23,899	18,500	211,502
Less:			
Time deposits with maturities exceeding three months	(1,017)	(1,520)	(9,005)
Stocks and bonds with maturities exceeding three months	(23,899)	(18,500)	(211,502)
Cash and cash equivalents	¥75,944	¥75,458	$672,078

4.2. Assets and liabilities of companies excluded from consolidation following their share transfers

There were no consolidated companies excluded from the scope of the consolidation due to sales of their shares in fiscal 2017. In fiscal 2016, the Company transferred its shares in pdc INC., FUTURE LABO INC. and C2O Plus Asia Limited to certain third parties. As a result, these three companies including their three subsidiaries were excluded from the scope of consolidation. Details on the assets and liabilities of those companies at the transfer dates, and considerations received for shares and gain on sales of shares are as follows:

Year ended December 31, 2016	Millions of yen
Current assets	¥2,423
Non-current assets	201
Current liabilities	(1,190)
Non-current liabilities	(152)
Foreign currency translation adjustments	(58)
Gain on sales of shares of subsidiaries	1,176
Selling price of shares of subsidiaries	2,400
Subsequent expenses related to sales of shares	(187)
Cash and cash equivalents	(1,066)
Proceeds from sales of shares of subsidiaries	¥1,146

4.3. Significant non-cash transactions

	Millions of yen		Thousands of U.S. dollars
December 31	2017	2016	2017
Assets and liabilities related to finance leases	¥883	¥1,105	$7,819
Asset retirement obligations	¥ 79	¥ 120	$ 706

Note 5 Contingent Liabilities

Contingent liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2017	2016	2017
Guarantees of loans			
Employees' mortgages	¥28	¥69	$249
Total	¥28	¥69	$249

Note 6 Short-term and Long-term Debt

Short-term and long-term debt consists of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2017	2016	2017
Short-term loans payable	¥ 600	¥ 600	$ 5,310
Long-term loans payable - current portion	1,000	—	8,850
Lease obligations - current portion	738	627	6,537
Long-term loans payable	—	1,000	—
Lease obligations - long term	1,406	1,362	12,451
Other interest-bearing facilities	—	—	—
Total debt	¥3,745	¥3,589	$33,145

The weighted average interest rates of loans payable and lease obligations are as follows:

December 31	2017	Maturity
Short-term loans payable	0.22%	—
Long-term loans payable - current portion	0.69%	—
Lease obligations - current portion	2.27%	—
Long-term loans payable	—	—
Lease obligations - long term	2.45%	2019 to 2023
Other interest-bearing facilities	—	—

At December 31, 2017, the annual maturities of loans payable and lease obligations excluding those within one year for the subsequent five years are as follows:

	Loans payable		Lease obligations	
Years ending December 31	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2019	—	—	¥623	$5,520
2020	—	—	460	4,073
2021	—	—	238	2,108
2022	—	—	¥ 72	$ 639

The details of asset retirement obligations are omitted and not included in the above table, because the balances at the beginning and at the end of fiscal 2017 are less than 1% of the total liabilities and net assets at the beginning and at the end of fiscal 2017, respectively.

Note 7 Retirement Benefits

The Company and its domestic consolidated subsidiaries have defined benefit plans including a cash balance plan, lump sum retirement payment plan to cover the majority of their employees (including corporate officers). Certain domestic consolidated subsidiaries have joined multi-employer type defined contribution plans.

For the employees (including corporate officers) of certain foreign consolidated subsidiaries, defined contribution pension plans and lump sum retirement payment plans are provided.

Certain subsidiaries may make an additional lump sum retirement payment, which is expensed as incurred.

Certain subsidiaries use the simplified accounting method for the calculation of retirement benefit obligations.

7.1. Defined benefit plans (including plans applying the simplified method)

7.1.1. Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
Years ended and at December 31	2017	2016	2017
Balance at the beginning of the year	¥10,646	¥10,365	$94,217
Service cost	730	691	6,465
Interest cost	34	54	303
Actuarial loss (gain)	47	444	419
Benefits paid	(732)	(761)	(6,486)
Other	1	(148)	9
Balance at the end of the year	¥10,726	¥10,646	$94,926

7.1.2. Movement in pension assets

	Millions of yen		Thousands of U.S. dollars
Years ended and at December 31	2017	2016	2017
Balance at the beginning of the year	¥6,438	¥6,339	$56,982
Expected return on pension assets	96	95	855
Actuarial gain (loss)	(65)	5	(582)
Contribution paid by the employer	328	426	2,908
Benefits paid	(450)	(427)	(3,983)
Balance at the end of the year	¥6,348	¥6,438	$56,179

7.1.3. Reconciliation of retirement benefit obligations and pension assets to net defined benefit liability recognized in the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
December 31	2017	2016	2017
Funded retirement benefit obligations	¥9,829	¥9,773	$86,984
Pension assets	(6,348)	(6,438)	(56,179)
	3,480	3,334	30,805
Unfunded retirement benefit obligations	897	873	7,942
Total net liability for retirement benefits in the consolidated balance sheets	4,378	4,207	38,747
Net defined benefit liability	4,378	4,207	38,747
Total net liability for retirement benefits in the consolidated balance sheets	¥4,378	¥4,207	$38,747

7.1.4. Retirement benefit costs

Years ended December 31	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Service cost	¥730	¥691	$6,465
Interest cost	34	54	303
Expected return on pension assets	(96)	(95)	(855)
Amortization of net actuarial loss (gain)	135	88	1,197
Amortization of past service cost	(14)	(14)	(130)
Other	37	6	333
Total retirement benefit costs	¥826	¥731	$7,313

(1) The expenses calculated under the simplified accounting method were included in "Service cost."

(2) ¥28 million (U.S. $254 thousand) in fiscal 2017 and ¥15 million in fiscal 2016, which exceeded the provisions for additional lump sum retirement payment and lump sum retirement payment, were recorded under "Other."

7.1.5. Remeasurements of defined benefit plans

The details of remeasurements of defined benefit plans (before tax effect) in other comprehensive income for the years are as follows:

Years ended December 31	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Actuarial loss (gain)	¥22	¥(350)	$196
Past service cost	(14)	(14)	(130)
Total	¥ 7	¥(365)	$ 66

7.1.6. Accumulated remeasurements of defined benefit plans

The details of remeasurements of defined benefit plans (before tax effect) in accumulated other comprehensive income are as follows:

December 31	Millions of yen 2017	Millions of yen 2016	Thousands of U.S. dollars 2017
Unrecognized actuarial loss	¥1,181	¥1,204	$10,460
Unrecognized past service cost	(62)	(76)	(549)
Total	¥1,119	¥1,127	$ 9,911

7.1.7. Items related to pension assets

7.1.7.1. Pension assets comprise

Years ended December 31	2017	2016
Life insurance general accounts	100%	100%

7.1.7.2. Long-term expected rate of return

The long-term expected rate of return is determined by considering current and anticipated allocations and the portfolio of pension assets.

7.1.8. Items related to actuarial assumptions

The principal actuarial assumptions are as follows (represented as weighted average):

Years ended December 31	2017	2016
Discount rate	0.6%	0.6%
Long-term expected rate of return	1.5%	1.5%

The expected rate of salary increase is calculated by using the salary increase index by age as of December 31, 2017.

7.2. Defined contribution pension plans

Foreign consolidated subsidiaries' required contributions to defined contribution pension plans were ¥31 million (U.S. $281 thousand) in fiscal 2017 (¥51 million in fiscal 2016).

Note 8 Net Assets

Information regarding changes in net assets is summarized as follows:

8.1. Shares issued and outstanding / Treasury stock

Shares	Common stock: Shares issued	Common stock: Treasury stock
Balance at January 1, 2016	57,284,039	1,996,110
Increase	—	—
Decrease	—	6,600
Balance at January 1, 2017	57,284,039	1,989,510
Increase (note)	171,852,117	5,968,807
Decrease (note)	—	480
Balance at December 31, 2017	229,136,156	7,957,837

Note: Shares issued

Increase due to stock split:	171,852,117

Treasury stock

Increase due to stock split:	5,968,530
Increase due to purchase of shares less than one unit:	277
Decrease due to the exercise of stock option rights:	480

8.2. Subscription rights to shares

Year ended December 31, 2017

Name of company	Details of subscription rights to shares	Type of shares issued	Number of shares issued: At beginning of year	Increase	Decrease	At end of year	Balance at December 31, 2017: Millions of yen	Thousands of U.S. dollars
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥260	$2,306
	Total		—	—	—	—	¥260	$2,306

Year ended December 31, 2016

Name of company	Details of subscription rights to shares	Type of shares issued	Number of shares issued: At beginning of year	Increase	Decrease	At end of year	Balance at December 31, 2016: Millions of yen
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥214
	Total		—	—	—	—	¥214

8.3. Dividends

8.3.1. Dividends paid in fiscal 2017

Year ended December 31, 2017

Resolution	Type of shares	Millions of yen: Total dividends	Thousands of U.S. dollars: Total dividends	Yen: Dividends per share	U.S. dollars: Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 29, 2017	Common stock	¥6,082	$53,827	¥110.00	$0.97	December 31, 2016	March 30, 2017
Board of Directors' Meeting on July 31, 2017	Common stock	¥5,529	$48,933	¥25.00	$0.22	June 30, 2017	September 8, 2017

8.3.2. Dividends paid in fiscal 2016

Year ended December 31, 2016

Resolution	Type of shares	Millions of yen: Total dividends	Yen: Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 30, 2016	Common stock	¥4,423	¥80.00	December 31, 2015	March 31, 2016
Board of Directors' Meeting on August 1, 2016	Common stock	¥4,975	¥90.00	June 30, 2016	September 9, 2016

8.3.3. Dividends with the record date in fiscal 2017 and the effective date in fiscal 2018

Year ended December 31, 2017

Resolution	Type of shares	Source of dividends	Millions of yen: Total dividends	Thousands of U.S. dollars: Total dividends	Yen: Dividends per share	U.S. dollars: Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 27, 2018	Common stock	Retained earnings	¥9,953	$88,080	¥45.00	$0.40	December 31, 2017	March 28, 2018

8.3.4. Dividends with the record date in fiscal 2016 and the effective date in fiscal 2017

Year ended December 31, 2016

Resolution	Type of shares	Source of dividends	Millions of yen: Total dividends	Yen: Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 29, 2017	Common stock	Retained earnings	¥6,082	¥110.00	December 31, 2016	March 30, 2017

Note 9 Research and Development Costs

Research and development costs of ¥5,322 million (U.S. $47,097 thousand) and ¥3,732 million were expensed for fiscal 2017 and 2016, respectively, as incurred, and included in selling, general and administrative expenses and cost of sales.

Note 10 Cost of Sales

Provision for sales returns included in cost of sales consists of the following:

Years ended December 31	Millions of yen: 2017	2016	Thousands of U.S. dollars: 2017
Reversal of provision for sales returns	¥37	¥37	$334
Provision for sales returns	¥27	¥48	$243

Note 11 Selling, General and Administrative Expenses

Selling, general and administrative expenses mainly consist of the following:

Years ended December 31	Millions of yen: 2017	2016	Thousands of U.S. dollars: 2017
Sales commission	¥ 53,851	¥ 46,618	$ 476,566
Promotion expenses	26,595	26,369	235,358
Advertising expenses	12,792	8,794	113,209
Packing and transportation expenses	4,857	4,984	42,986
Salaries, allowances and bonuses	22,395	21,687	198,194
Welfare expenses	4,060	3,754	35,934
Retirement benefit expenses	786	726	6,959
Provision for bonuses	1,375	1,547	12,170
Provision for point program	3,595	3,401	31,817
Depreciation and amortization	4,717	5,021	41,749
Amortization of goodwill	61	749	542
Other	28,732	27,046	254,270
Total	¥ 163,822	¥ 150,702	$1,449,753

Note 12 Other Income (Expenses)

12.1. Gain on sales of non-current assets mainly consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2017	2016	2017
Land	¥ 622	¥ 2,945	$5,513
Others	1	7,237	16
Total	¥624	¥10,182	$5,528

12.2. Loss on disposal of non-current assets mainly consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2017	2016	2017
Buildings and structures	¥127	¥ 99	$1,124
Machinery, equipment and vehicles	21	16	192
Removal and demolition	52	34	462
Others	39	94	346
Total	¥239	¥245	$2,123

12.3. Impairment loss consists of the following:

Year ended December 31, 2017			Millions of yen	Thousands of U.S. dollars
Location	Function	Type	2017	2017
Japan	Stores	Buildings and structures Property, plant and equipment (Other)	¥118	$1,047
Singapore	Stores	Buildings and structures Property, plant and equipment (Other)	3	32
Japan	Non-current assets for operation	Property, plant and equipment (Other)	68	605
Australia	Non-current assets held for sale	Buildings and structures	66	585
Japan	Office and laboratory for pharmaceuticals business	Buildings and structures Property, plant and equipment (Other)	148	1,311
Total			¥404	$3,580

(1) Background of recognizing impairment loss

Stores, office and laboratory of the pharmaceuticals business represented those asset groups and assets held for sale for which operating losses were continuously recorded and the total expected future cash flows fell below their carrying amounts. The Group wrote down the carrying amount of each asset group and assets held for sale to its recoverable amount, and the difference was recognized as an impairment loss under other income and expenses.

As for non-current assets for operation, there is no plan to use those assets for operating the business in the future, the Group wrote down the carrying amounts to the recoverable amounts, and the difference was recognized as an impairment loss under other income and expenses.

(2) Grouping method of assets

Stores, offices and laboratory of the pharmaceuticals business are operated and managed by business divisions that regularly record their income and expenses, and the assets are grouped by store, office and laboratory of the pharmaceuticals business.

Non-current assets for operation are grouped by business for which the income and expenses are recorded and managed regularly.

Non-current assets held for sale are grouped by individual assets.

(3) Calculation methods of recoverable amount

The recoverable amount for stores, office and laboratory of the pharmaceuticals business was measured by value-in-use based on future cash flows.

Non-current assets held for sale were measured by fair value less costs to sell based on expected salable amount.

Year ended December 31, 2016			Millions of yen
Location	Function	Type	2016
Japan	Stores and offices	Buildings and structures Property, plant and equipment (Other)	¥ 85
Japan	Artwork and paintings	Property, plant and equipment (Other)	9
Australia	Business assets	Goodwill	10,436
Japan	Marketing rights of ethical pharmaceuticals	Intangible assets (Other)	4,425
Total			¥14,957

Note: As noted in Note 2 "2.1 Change in accounting policy," the Group's consolidated subsidiary has amended its accounting policy to recognize a deferred tax liability on indefinite life intangibles acquired as part of a business combination. As a result, impairment loss on goodwill for fiscal 2016 was restated reflecting the retrospective application.

(1) Background of recognizing impairment loss

Stores and offices represented those asset groups for which operating losses were continuously recorded and expected future cash flows fell below the carrying amounts. The Group wrote down the carrying amount of each asset group to its recoverable amount, and the difference was recognized as an impairment loss under other income and expenses.

The Group wrote down the carrying amount of artwork and paintings to their recoverable amount. The difference was recognized as an impairment loss under other income and expenses.

Regarding goodwill, the Group carried out an impairment test on goodwill in accordance with IFRS. Following Jurlique's results in recent years, which were behind its original business plan, the corresponding goodwill was written down to its recoverable amount. The amount was recognized as an impairment loss under other income and expenses after excluding the accumulated amount of amortization already recognized under Japanese GAAP.

As for intangible assets (other), following results in recent years, which were less than expectations when the marketing rights were acquired, and the estimated future cash flows of marketing rights being less than the carrying amount, the Group wrote down the carrying amount of the assets to the recoverable amounts, and the difference was recognized as an impairment loss under other income and expenses.

(2) Grouping method of assets

Individual stores and offices are operated and managed by business divisions that regularly record their income and expenses, and these stores are classified into groups on either an individual store or business office basis.

Artwork and paintings were classified into groups on an individual piece basis.

Goodwill was grouped by company unit, and intangible assets (other) were grouped on an individual basis.

(3) Calculation methods of recoverable amount

The recoverable amount for artwork and paintings was measured based on the appraisal value, and other assets were measured by value-in-use based on future cash flows.

The discount rate for goodwill was in a range of between 9.53% and 10.78%. The value in use of other assets was assessed at zero because future cash flows cannot be expected.

12.4. Loss on business liquidation:

There was no loss on business liquidation incurred in fiscal 2016. Loss on business liquidation in fiscal 2017 was the cost related to the liquidation and dissolution of Orlane Japon Inc., which was resolved on October 20, 2017 by the Board of Directors.

Note 13 Information on Consolidated Statements of Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	¥ 14	¥ (204)	$ 131
Reclassification adjustment	(19)	(534)	(172)
Amount before tax effect	(4)	(738)	(41)
Tax effect	1	238	13
Unrealized gain (loss) on available-for-sale securities, net of tax	(3)	(500)	(29)
Foreign currency translation adjustments			
Amount arising during the year	549	(2,124)	4,866
Reclassification adjustment	(5)	—	(48)
Amount before tax effect	544	(2,124)	4,819
Tax effect	47	(1)	422
Foreign currency translation adjustments	592	(2,126)	5,241
Remeasurements of defined benefit plans			
Amount arising during the year	(113)	(439)	(1,001)
Reclassification adjustment	120	73	1,067
Amount before tax effect	7	(365)	66
Tax effect	(4)	94	(43)
Remeasurements of defined benefit plans	2	(271)	23
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	—	—	—
Reclassification adjustment	—	(7)	—
Share of other comprehensive income of associates accounted for using the equity method	—	(7)	—
Total other comprehensive income	¥591	¥(2,904)	$5,235

Note 14 Income Taxes

14.1. Deferred tax assets and liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2017	2016	2017
Deferred tax assets:			
Provision for bonuses	¥ 442	¥ 452	$ 3,917
Net defined benefit liabilities	1,307	1,264	11,568
Loss on valuation of inventories	455	547	4,027
Impairment loss	2,981	3,797	26,382
Provision for point program	1,137	1,096	10,063
Unrealized inter-company profit	1,486	1,139	13,159
Tax loss carry-forwards	8,577	10,123	75,908
Tax loss carry-forwards on liquidation of subsidiary	117	259	1,039
Enterprise tax payable	363	374	3,219
Asset retirement obligations	757	750	6,701
Other	1,133	1,060	10,030
Less valuation allowance	(10,530)	(12,939)	(93,192)
Total deferred tax assets	8,228	7,925	72,820
Deferred tax liabilities:			
Unrealized gain (loss) on available-for-sale securities	(3)	(5)	(35)
Restoration cost for asset retirement obligations	(239)	(255)	(2,118)
Right of trademark and other intangible assets	(3,174)	(3,324)	(28,089)
Other	(274)	(135)	(2,429)
Total deferred tax liabilities	(3,691)	(3,720)	(32,672)
Deferred tax assets, net	¥ 4,536	¥ 4,205	$ 40,148

Note: As noted in Note 2 "2.1 Change in accounting policy," the Group's consolidated subsidiary has amended its accounting policy to recognize a deferred tax liability on indefinite life intangibles acquired as part of a business combination from fiscal 2017. Deferred tax liabilities at the end of the previous year have been restated reflecting the retrospective application.

14.2. The reconciliations between the statutory tax rate and the effective tax rate are as follows:

Years ended December 31	2017	2016
Statutory income tax rate	30.9%	33.1%
Expenditure not allowable for income tax purposes (Entertainment expense, etc.)	0.3	0.5
Per capita inhabitants' tax	0.2	0.3
Increase (decrease) in valuation allowance	(0.3)	(18.7)
Amortization of goodwill	0.0	1.0
Impairment loss	—	14.6
Consolidation adjustment associated with gain on sales of shares of subsidiaries	—	(0.8)
Book value adjustment of investments	—	1.8
Tax credits for research and development costs	(1.7)	(1.0)
Income taxes for prior periods	0.0	0.2
Reduction in deferred tax assets at reporting date due to revision of tax law	—	0.8
Other	0.0	(0.9)
Effective income tax rate	29.4%	30.8%

Note 15 Leases

(As a lessee)

15.1. Finance leases that do not transfer ownership

The finance leases entered into on or after January 1, 2009 are capitalized. They primarily consist of interior furniture and fixtures for retail stores included in buildings and structures or other property, plant and equipment, and are depreciated using the straight-line method over the lease term with zero residual value. Interest expense is calculated as the difference between the aggregate lease payments and the acquisition cost of leased assets, allocated over the lease term using the effective interest method.

At December 31, 2017, there was no information applicable for finance leases entered into on or prior to December 31, 2008 to be disclosed.

15.2. Operating lease transactions

Future lease payments under non-cancelable operating lease arrangements are as follows:

	Millions of yen		Thousands of U.S. dollars
December 31	2017	2016	2017
Due within 1 year	¥ 5	¥3	$ 49
Due after 1 year	13	1	117
Total	¥18	¥4	$166

Note 16 Investment and Rental Property

16.1. Overview

The Group owns office buildings and residential properties for lease in Tokyo and other areas. Net rental income was ¥1,341 million (U.S. $11,868 thousand) in fiscal 2017, (¥1,549 million in fiscal 2016). (Rental income is recorded under sales and other income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and other expenses.)

16.2. Fair value of investment properties

The carrying amount on the consolidated balance sheets, net changes, the fair value of these properties and the method used for calculating the fair value of investment and rental properties are as follows:

		Millions of yen		Thousands of U.S. dollars
		2017	2016	2017
Carrying amount				
	At beginning of year	¥17,752	¥24,431	$ 157,103
	Movement during the year	(837)	(6,679)	(7,409)
	At end of year	16,915	17,752	149,694
Fair value at end of year		¥47,486	¥46,461	$420,232

(1). The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.

(2). Components of change

Increase:

In fiscal 2017: Refurbishment of office buildings for lease: ¥189 million (U.S. $1,674 thousand)

In fiscal 2016: Refurbishment of office buildings for lease: ¥200 million

Decrease:

In fiscal 2017: Depreciation on office buildings, residential properties and other properties for lease: ¥523 million (U.S. $4,634 thousand)

Sale of land for lease and idle property: ¥84 million (U.S. $745 thousand)

In fiscal 2016: Depreciation on office buildings, residential properties and other properties for lease: ¥535 million

Sale of office building for lease: ¥5,566 million

Sale of idle property: ¥730 million

(3). Method for calculating fair values

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

Note 17 Financial Instruments

17.1. Overview of financial instruments

17.1.1. Policies on financial instruments

The Group only utilizes low risk, short-term financial instruments for cash management, and it raises funds through borrowings from banks and by issuing corporate bonds in the capital market. Derivative transactions are executed and managed to hedge the risks arising from foreign currency-denominated trade receivables. In accordance with the Group's policy, derivatives are not used for speculative purposes.

17.1.2. Description of financial instruments, risks and risk management policy

Trade receivables such as notes and accounts are exposed to customers' credit risk. In order to manage such risk, the Group manages payment dates and outstanding balances by individual customer and reviews customers' credit status on a regular basis in accordance with credit management policy.

Investments in securities consist of financial instruments with low risk such as held-to-maturity debt securities, but some of them are exposed to the risk of fluctuations in market price. The Group reviews the prices on a quarterly basis in order to manage such risk.

Notes and accounts payable – trade and accounts payable – other are due within one year.

The interest-bearing liabilities mainly include loans payable and lease obligations. Loans payable are mainly funding for operating transactions, and lease obligations are mainly funding for capital investments. Despite loans payable with floating interest rates being exposed to the risk of interest rate fluctuations, all of them are due within one year.

Furthermore, trade payables and interest-bearing liabilities are exposed to liquidity risk, but the Group manages such risk by, for example, preparing the cash management schedule on a monthly basis.

The Group uses foreign exchange forward contract to hedge the risk of exchange rate fluctuations of foreign currency-denominated trade receivable. The derivative transactions are executed and managed in accordance with internal policies that define transaction limits. To reduce credit risk, the Group limits the transactions with highly creditworthy financial institutions.

17.1.3. Supplementary information on fair value of financial instruments

Fair value of financial instruments is based on the quoted price in an active market. A reasonable valuation technique is used if a quoted price is not available. The values may change under different assumptions as such calculation incorporates variable factors.

17.2. Fair value of financial instruments

The carrying amount, fair value of financial instruments and the difference between them consist of the following. This does not include the financial instruments for which fair values are not readily available. (Refer to "(2). Financial instruments for which fair values are not readily available" for details.)

	Millions of yen		
	2017		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 76,962	¥ 76,962	—
(ii) Notes and accounts receivable – trade (*1)	29,391	29,391	—
(iii) Investments in securities:			
Held-to-maturity securities	45,808	45,673	¥(134)
Available-for-sale securities	—	—	—
Total assets	152,162	152,027	(134)
Liabilities			
(i) Notes and accounts payable – trade	6,369	6,369	—
(ii) Short-term loans payable	1,600	1,600	—
(iii) Accounts payable – other	17,803	17,803	—
(iv) Long-term loans payable	—	—	—
Total liabilities	25,773	25,773	—
Derivatives (*2)	¥ 10	¥ 10	—

	Millions of yen		
	2016		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 76,978	¥ 76,978	—
(ii) Notes and accounts receivable – trade (*1)	25,901	25,901	—
(iii) Investments in securities:			
Held-to-maturity securities	30,499	30,351	¥(148)
Available-for-sale securities	1,000	1,000	—
Total assets	134,379	134,231	(148)
Liabilities			
(i) Notes and accounts payable – trade	4,694	4,694	—
(ii) Short-term loans payable	600	600	—
(iii) Accounts payable – other	13,546	13,546	—
(iv) Long-term loans payable	1,000	1,005	5
Total liabilities	¥ 19,840	¥ 19,845	¥ 5
Derivatives	—	—	—

	Thousands of U.S. dollars		
	2017		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	$ 681,082	$ 681,082	—
(ii) Notes and accounts receivable – trade (*1)	260,102	260,102	—
(iii) Investments in securities:			
Held-to-maturity securities	405,385	404,195	$(1,190)
Available-for-sale securities	—	—	—
Total assets	1,346,569	1,345,379	(1,190)
Liabilities			
(i) Notes and accounts payable – trade	56,368	56,368	—
(ii) Short-term loans payable	14,159	14,159	—
(iii) Accounts payable – other	157,554	157,554	—
(iv) Long-term loans payable	—	—	—
Total liabilities	228,081	228,081	—
Derivatives (*2)	$ 97	$ 97	—

(*1) Notes and accounts receivable - trade are presented net of allowance for doubtful accounts.
(*2) Receivables and payables arising from derivative transactions are presented as a net amount. Amounts in parentheses represent net payables.

(1). Calculation method of fair value of financial instruments and information about securities

Assets

(i) Cash and deposits and (ii) Notes and accounts receivable – trade

Carrying value is used for fair value as they are short term in nature; the fair value approximates the carrying value.

(iii) Investments in securities

The fair value of debt securities is determined on the quoted prices provided by financial institutions. For short-term investments in securities, their fair values approximate carrying value.

For the notes related to securities for holding purpose, please refer to Note 18 "Investments in Securities."

Liabilities

(i) Notes and accounts payable – trade, (ii) Short-term loans payable and (iii) Accounts payable – other

Carrying value is used for fair value as they are short term in nature; the fair value approximates the carrying value.

(iv) Long-term loans payable

The fair value of long-term loans payable is calculated by discounting the total amount of principal and interest, using the interest rate assumed in the case of an equivalent new loan.

Derivatives

The fair value of derivatives is based on the price provided by counterparty financial institutions.

(2). Financial instruments for which fair values are not readily available consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
December 31	Carrying amount		Carrying amount
Unlisted stock	¥ 0	¥ 0	$ 0
Capital contribution to investment in a limited partnership	34	47	306
Total	¥34	¥47	$306

These financial instruments are not included in "(iii) Investments in securities" as their fair values are unavailable and future cash flows are not determinable.

(3). Redemption schedules of monetary receivables and investments in securities with maturities are as follows:

	Millions of yen			
	2017			
December 31	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥ 76,962	—	—	—
Notes and accounts receivable – trade	29,391	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	300	—	—
Held-to-maturity debt securities (other)	23,899	¥21,608	—	—
Available-for-sale securities with maturities (other)	—	34	—	—
Total	¥130,253	¥21,943	—	—

	Millions of yen			
	2016			
December 31	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥ 76,978	—	—	—
Notes and accounts receivable – trade	25,901	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	17,500	¥12,999	—	—
Available-for-sale securities with maturities (other)	1,000	47	—	—
Total	¥121,379	¥13,046	—	—

	Thousands of U.S. dollars			
	2017			
December 31	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	$ 681,082	—	—	—
Notes and accounts receivable – trade	260,102	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	$ 2,655	—	—
Held-to-maturity debt securities (other)	211,502	191,228	—	—
Available-for-sale securities with maturities (other)	—	306	—	—
Total	$1,152,687	$194,189	—	—

(4). Repayment schedules of short-term loans payable and long-term loans payable are as follows:

	Millions of yen					
	2017					
December 31	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term loans payable	¥1,600	—	—	—	—	—
Long-term loans payable	—	—	—	—	—	—
Total	¥1,600	—	—	—	—	—

	Millions of yen					
	2016					
December 31	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term loans payable	¥600	—	—	—	—	—
Long-term loans payable	—	¥1,000	—	—	—	—
Total	¥600	¥1,000	—	—	—	—

	Thousands of U.S. dollars					
	2017					
December 31	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term loans payable	$14,159	—	—	—	—	—
Long-term loans payable	—	—	—	—	—	—
Total	$14,159	—	—	—	—	—

Note 18 Investments in Securities

18.1. Marketable securities classified as held-to-maturity securities consist of the following:

	Millions of yen					
	2017			2016		
December 31	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	¥ 300	¥ 301	¥ 1	—	—	—
Other	13,993	14,020	26	¥14,499	¥14,550	¥ 51
Subtotal	14,293	14,321	28	14,499	14,550	51
Securities with carrying amount exceeding fair value						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	31,514	31,352	(162)	16,000	15,800	(199)
Subtotal	31,514	31,352	(162)	16,000	15,800	(199)
Total	¥45,808	¥45,673	¥(134)	¥30,499	¥30,351	¥(148)

	Thousands of U.S. dollars		
	2017		
December 31	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount			
Government and municipal bonds	—	—	—
Corporate bonds	$ 2,655	$ 2,665	$ 10
Other	123,838	124,077	238
Subtotal	126,493	126,741	248
Securities with carrying amount exceeding fair value			
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Other	278,892	277,453	(1,438)
Subtotal	278,892	277,453	(1,438)
Total	$405,385	$404,195	$(1,190)

18.2. Marketable securities classified as available-for-sale securities consist of the following:

	Millions of yen					
	2017			2016		
December 31	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost						
Stock	—	—	—	—	—	—
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	—	—	—	—	—	—
Securities with acquisition cost exceeding carrying amount						
Stock	—	—	—	—	—	—
Bonds	—	—	—	—	—	—
Other	—	—	—	¥1,000	¥1,000	—
Subtotal	—	—	—	1,000	1,000	—
Total	—	—	—	¥1,000	¥1,000	—

Unlisted stock of ¥0 million (U.S. $0 thousand) at December 31, 2017 (¥0 million at December 31, 2016) and capital contribution to investment in a limited partnership of ¥34 million (U.S. $306 thousand) at December 31, 2017 (¥47 million at December 31, 2016) were carried in the accompanying consolidated balance sheets. They are not included in "available-for-sale securities" in the above table as a quoted price is unavailable and their fair value is not readily determinable. Refer to "17.2. (2). Financial instruments for which fair values are not readily available" in Note 17 "Financial Instruments."

18.3. Available-for-sale securities sold during fiscal 2017 and 2016 consist of the following:

There were no available-for-sale securities sold in fiscal 2017. Proceeds from sales of investment securities were ¥669 million and gain on sales of investment securities was ¥532 million in fiscal 2016.

Note 19 Derivatives

19.1. Currency related derivative transactions for which hedge accounting was not applied.

		Millions of yen				Thousands of U.S. dollars			
		2017							
Classification	Derivative transactions	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain (loss)	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transaction	Foreign exchange forward contracts:								
	Buying								
	Australian dollar	¥872	¥100	¥10	¥10	$7,721	$886	$97	$97
Total		¥872	¥100	¥10	¥10	$7,721	$886	$97	$97

Note: (1) Fair value was calculated based on the price provided by the counterparty financial institution.
(2) There were no derivative transactions in fiscal 2016.

Note 20 Segment Information

20.1. 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 and related products. It promotes a multi-brand strategy of holding a range of brands and winning market share 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, various businesses are 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 markets 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*** and ***ORLANE***. The Real Estate business is engaged in the leasing of office buildings and residential properties.

20.2. Calculation method for net sales, income (loss), assets, liabilities and other items by reportable segment

The accounting policies and measures for the Group's reportable business segments are generally the same as described in Note 1 "Summary of Significant Accounting Policies." Segment income is based on operating income. The amounts of inter-segment unrealized profit and transfer are calculated based on prevailing market prices.

As noted in Note 2 "2.1. Change in accounting policy," the Group's consolidated subsidiary has amended its accounting policy to recognize a deferred tax liability on indefinite life intangibles acquired as part of a business combination. The amendment resulted in a retrospective application. The segment information for the previous year has been restated reflecting the retrospective application. As a result, segment income decreased by ¥69 million, and amortization of goodwill increased by ¥69 million for fiscal 2016.

20.3. Information about net sales and income (loss) by reportable segment

	Millions of yen						
	2017						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	¥227,133	¥2,694	¥229,827	¥14,507	¥244,335	—	¥244,335
Inter-segment sales or transfers	64	515	579	3,108	3,688	¥(3,688)	—
Total	227,197	3,209	230,407	17,616	248,023	(3,688)	244,335
Segment income	38,121	1,082	39,203	(314)	38,889	(8)	38,881
Segment assets	200,602	23,821	224,423	16,310	240,734	11,832	252,567
Other items							
Depreciation and amortization	5,546	563	6,109	368	6,477	74	6,551
Amortization of goodwill	61	—	61	—	61	—	61
Increase in property, plant and equipment and intangible assets	¥ 7,883	¥ 420	¥ 8,303	¥ 497	¥ 8,801	¥ 84	¥ 8,885

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥(8) million (U.S. $(75) thousand) includes intersegment transaction eliminations of ¥3,270 million (U.S. $28,940 thousand) and corporate expenses of ¥(3,278) million (U.S. $(29,015) thousand), 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 ¥11,832 million (U.S. $104,715 thousand) includes corporate assets of ¥117,291 million (U.S. $1,037,974 thousand), not allocated to each segment, and intersegment eliminations of ¥(105,458) million (U.S. $(933,259) thousand). 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.

	Millions of yen						
	2016						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	¥202,446	¥3,043	¥205,489	¥12,992	¥218,482	—	¥218,482
Inter-segment sales or transfers	63	596	659	2,823	3,482	¥(3,482)	—
Total	202,509	3,639	206,149	15,815	221,964	(3,482)	216,482
Segment income	25,904	1,395	27,300	(133)	27,166	(326)	26,839
Segment assets	182,267	32,580	214,848	15,281	230,129	(1,283)	228,845
Other items							
Depreciation and amortization	5,249	572	5,821	876	6,698	88	6,787
Amortization of goodwill	749	—	749	—	749	—	749
Increase in property, plant and equipment and intangible assets	¥ 6,991	¥ 221	¥ 7,213	¥ 894	¥ 8,107	¥ 19	¥ 8,127

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥(326) million includes intersegment transaction eliminations of ¥2,521 million and corporate expenses of ¥(2,848) 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 ¥(1,283) million includes corporate assets of ¥98,742 million, not allocated to each segment, and intersegment eliminations of ¥(100,025) million. 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.

	Thousands of U.S. dollars						
	2017						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	$2,010,029	$ 23,844	$2,033,873	$128,389	$2,162,262	—	$2,162,262
Inter-segment sales or transfers	569	4,562	5,131	27,509	32,640	$(32,640)	—
Total	2,010,598	28,406	2,039,004	155,898	2,194,902	(32,640)	2,162,262
Segment income	337,355	9,581	346,936	(2,780)	344,156	(75)	344,081
Segment assets	1,775,241	210,812	1,986,053	144,341	2,130,394	104,715	2,235,109
Other items							
Depreciation and amortization	49,081	4,985	54,066	3,258	57,324	658	57,982
Amortization of goodwill	542	—	542	—	542	—	542
Increase in property, plant and equipment and intangible assets	$ 69,769	$ 3,717	$ 73,486	$ 4,402	$ 77,889	$ 747	$ 78,635

20.4. Related information

20.4.1. Sales information by product and service

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2017	2016	2017
Sales to external customers			
Cosmetics	¥216,090	¥190,364	$1,912,309
Fashion	11,042	12,082	97,719
Others	17,202	16,035	152,233
Total	¥244,335	¥218,482	$2,162,262

20.4.2. Information by geographical area

a. Sales

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2017	2016	2017
Japan	¥223,717	¥199,509	$1,979,798
Overseas	20,618	18,972	182,463
Total	¥244,335	¥218,482	$2,162,262

Note: Sales are classified by country or region based on the locations of customers.

b. Property, plant and equipment

At December 31, 2017, property, plant and equipment amounted to ¥45,329 million (U.S. $401,142 thousand) at the Group level, of which ¥40,665 million (U.S. $359,874 thousand) was attributable to businesses in Japan and ¥4,663 million (U.S. $41,268 thousand) was related to overseas businesses. Information by geographical area at December 31, 2016 is omitted, as property, plant and equipment of the domestic segment account for more than 90% of the total property, plant and equipment of all segments.

20.4.3. Information by customer

Information by customer is omitted, as there are no external customers for which sales account for more than 10% of net sales presented in consolidated statements of income for fiscal 2017 and 2016.

20.5. Information about impairment loss on non-current assets by reportable segment

	Millions of yen					
	2017					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥256	—	¥256	¥153	¥(5)	¥404

	Millions of yen					
	2016					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥10,522	—	¥10,522	¥4,425	¥9	¥14,957

	Thousands of U.S. dollars					
	2017					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	$2,269	—	$2,269	$1,363	$(52)	$3,580

Notes: The amounts in "Others" and "Reconciliation" were impairment losses associated with office and laboratory for the pharmaceuticals business for fiscal 2017.
The amount in "Others" was impairment loss associated with marketing rights of ethical pharmaceuticals, while the amount in "Reconciliation" was impairment loss associated with artworks and paintings for fiscal 2016.

20.6. Information about amortization and balance of goodwill by reportable segment

	Millions of yen					
	2017					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥ 61	—	¥ 61	—	—	¥ 61
Goodwill	¥883	—	¥883	—	—	¥883

	Millions of yen					
	2016					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥749	—	¥749	—	—	¥749
Goodwill	¥905	—	¥905	—	—	¥905

	Thousands of U.S. dollars					
	2017					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	$ 542	—	$ 542	—	—	$ 542
Goodwill	$7,822	—	$7,822	—	—	$7,822

No gains arising from negative goodwill were recognized in fiscal 2017 and 2016.

Note 21 Per Share Information

For fiscal 2017 and 2016, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average common shares outstanding. Diluted net income per share is computed for fiscal 2017 and 2016 due to the dilutive effect of subscription rights to shares arising from stock options.

Net assets per share are computed based on the net assets excluding subscription rights to shares and non-controlling interests, and common shares outstanding at year-end.

The Company conducted a stock split effective on April 1, 2017. Common stock of the Company held by shareholders has been split at a ratio of four shares for one share. As a result, for comparative purposes, net income per share and diluted net income per share for fiscal 2016 and net assets per share at December 31, 2016 were calculated assuming that the stock split was conducted at the beginning of fiscal 2016.

As noted in Note 2 "2.1. Change in accounting policy," the Group's consolidated subsidiary has amended its accounting policy to recognize a deferred tax liability on indefinite life intangibles acquired as part of a business combination. The amendment resulted in a retrospective application. Assuming that the stock split was conducted at the beginning of fiscal 2016, net assets per share decreased by ¥11.67 (U.S. $0.10) and basic net income per share and diluted net income per share decreased by ¥5.06 (U.S. $0.05) compared with those prior to retrospective application.

21.1. Net income per share and assumptions used for calculations are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2017	2016	2017
Numerator:			
Profit attributable to owners of parent	¥27,137	¥16,328	$240,158
Amount not attributable to shareholders of common stock	—	—	—
Profit attributable to owners of parent associated with common stock	¥27,137	¥16,328	$240,158
Denominator:			
Weighted average number of common stock outstanding (shares)	221,177,961	221,156,248	221,177,961
	Yen		U.S. dollars
Basic net income per share	¥122.70	¥ 73.83	$ 1.09
	Millions of yen		Thousands of U.S. dollars
Adjustment for Numerator:			
Adjustment of profit attributable to owners of parent	—	—	—
Adjustment for Denominator:			
Increase in the number of common stock (shares)	291,511	287,696	291,511
(Of which, subscription rights to shares)	(291,511)	(287,696)	(291,511)
	Yen		U.S. dollars
Diluted net income per share	¥122.54	¥ 73.74	$ 1.08

21.2. Net assets per share and assumptions used for calculations are as follows:

	Millions of yen		Thousands of U.S. dollars
At December 31	2017	2016	2017
Numerator:			
Total net assets	¥198,845	¥183,282	$1,759,696
Amount deducted from total net assets	391	446	3,467
(Of which, subscription rights to shares)	(260)	(214)	(2,306)
(Of which, non-controlling interests)	(131)	(231)	(1,162)
Net assets attributable to common stock	¥198,453	¥182,836	$1,756,229
Denominator:			
Common shares outstanding used in the calculation of net assets per share (shares)	221,178,319	221,178,116	221,178,319
	Yen		U.S. dollars
Net assets per share	¥ 897.26	¥ 826.65	$ 7.94

Note 22 Related Party Transactions

There was no applicable information on related party transactions involving the Company or significant affiliates in fiscal 2017 to be disclosed.

In fiscal 2016, the Company sold holdings of artworks to a major shareholder, POLA Art Foundation, which directly owns 35.6% of voting rights of the Company and has interlocking directors with the Company. The POLA Art Foundation is located in Shinagawa-ku, Tokyo, and its main business is operating an art gallery and supporting art development. During fiscal 2016, the sales of artworks totaled ¥7,727 million excluding consumption tax, on which gains of ¥3,496 million were recognized. The sale prices were decided based on appraisal prices provided by several independent companies specializing in artwork and paintings.

Note 23 Stock Options

23.1. Stock option-related expenses

Share-based compensation expenses of ¥45 million (U.S. $407 thousand) arising from stock options were included in selling, general and administrative expenses in fiscal 2017 (¥47 million in fiscal 2016).

23.2. Details of the stock options

23.2.1. Information on the stock options

	Subscription rights to shares issued in fiscal 2017	Subscription rights to shares issued in fiscal 2016	Subscription rights to shares issued in fiscal 2015
Date of approval	April 3, 2017	March 31, 2016	March 27, 2015
Grantees	6 directors of the Company and 7 directors of subsidiaries	6 directors of the Company and 5 directors of subsidiaries	6 directors of the Company and 7 directors of subsidiaries
Type and number of shares granted	Common stock: 23,920 shares	Common stock: 25,000 shares	Common stock: 38,560 shares
Grant date	April 18, 2017	April 15, 2016	April 13, 2015
Preconditions to exercising rights	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries
Service period required	Not specified	Not specified	Not specified
Exercisable period	April 19, 2017 — April 18, 2047	April 16, 2016 — April 15, 2046	April 14, 2015 — April 13, 2045

	Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
Date of approval	March 28, 2014	March 29, 2013	March 30, 2012
Grantees	7 directors of the Company and 7 directors of subsidiaries	7 directors of the Company and 6 directors of subsidiaries	7 directors of the Company and 7 directors of subsidiaries
Type and number of shares granted	Common stock: 62,680 shares	Common stock: 78,800 shares	Common stock: 118,800 shares
Grant date	April 14, 2014	April 15, 2013	April 16, 2012
Preconditions to exercising rights	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries
Service period required	Not specified	Not specified	Not specified
Exercisable period	April 15, 2014 — April 14, 2044	April 16, 2013 — April 15, 2043	April 17, 2012 — April 16, 2042

Note: The Company split its common shares at a ratio of four shares for one share. Shares granted were recalculated based on the shares' post stock split.

23.2.2. Information on and changes to the stock options

The numbers of existing stock options, translated into shares at the end of years, are presented below.

a. Number of stock options

	Subscription rights to shares issued in fiscal 2017	Subscription rights to shares issued in fiscal 2016	Subscription rights to shares issued in fiscal 2015
Date of approval	April 3, 2017	March 31, 2016	March 27, 2015
Non-vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	—	25,000	29,880
Granted	23,920	—	—
Forfeited	—	—	—
Vested	—	—	—
Outstanding at end of year	23,920	25,000	29,880
Vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	—	—	6,040
Vested	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding at end of year	—	—	6,040

	Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
Date of approval	March 28, 2014	March 29, 2013	March 30, 2012
Non-vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	40,640	49,080	62,360
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Outstanding at end of year	40,640	49,080	62,360
Vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	15,120	20,280	28,640
Vested	—	—	—
Exercised	—	—	480
Forfeited	—	—	—
Outstanding at end of year	15,120	20,280	28,160

Note: The Company split its common shares at a ratio of four shares for one share. The number of stock options was recalculated based on the shares' post stock split.

b. Price information

	Subscription rights to shares issued in fiscal 2017		Subscription rights to shares issued in fiscal 2016	Subscription rights to shares issued in fiscal 2015
Date of approval	April 3, 2017		March 31, 2016	March 27, 2015
	Yen	U.S. dollars	Yen	Yen
Exercise price	¥ 1	$ 0.01	¥ 1	¥ 1
Average stock price at the time of exercise	—	—	—	—
Fair value of stock options on the grant date	¥1,909	$16.89	¥1,831	¥1,462

	Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
Date of approval	March 28, 2014	March 29, 2013	March 30, 2012
	Yen	Yen	Yen
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price at the time of exercise	—	—	4,055
Fair value of stock options on the grant date	¥750	¥641	¥ 458

Note: The Company split its common shares at a ratio of four shares for one share. Price information was recalculated based on the shares' post stock split.

23.3. Method used for estimating the fair value of stock options

The Company uses the Black-Scholes model for estimating the fair value of stock options.
Main basic assumptions used in the estimation are as follows:

	Subscription rights to shares issued in fiscal 2017
Volatility (*1)	30.857%
Estimated remaining period (*2)	15 years
Estimated dividend (*3)	¥50.00 per share
Risk-free rate (*4)	0.274%

(*1) Volatility is calculated using weekly stock prices during the period (6.36 years) from the listing date to the calculation reference date.
(*2) As making a reasonable estimation is difficult due to insufficient data available, the estimated remaining period is measured based on the assumption that the subscription rights to shares would be exercised in the middle of the exercisable period.
(*3) The amount of the estimated dividend is based on the actual dividends in fiscal 2016.
(*4) The risk-free rate is calculated based on the yield of Japanese government bonds corresponding to the estimated remaining period.

23.4. Method used for estimating the exercise of stock options

As it is difficult to make a reasonable estimation for future forfeited shares, the Company adopted the method of reflecting the actual number of forfeited shares only.

Note 24 Significant Subsequent Events

There was no applicable information on significant subsequent events in fiscal 2017 to be disclosed.

Independent Auditor's Report

Building a better working world

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Independent Auditor's Report

The Board of Directors
Pola Orbis Holdings Inc.

We have audited the accompanying consolidated financial statements of Pola Orbis Holdings Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pola Orbis Holdings Inc. and its consolidated subsidiaries as at December 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

March 23, 2018
Tokyo, Japan

A member firm of Ernst & Young Global Limited

History

1929	Shinobu Suzuki founds the business in Shizuoka Prefecture.
1940	POLA CHEMICAL INDUSTRIES INC. is established (incorporated).
1946	POLA Cosmetics, Inc. is established (incorporated).
1954	The Shizuoka Factory is completed.
1961	The Yokohama Factory is completed. Fuji Printing, Ltd. is established.
1964	The Yokohama R&D Center is completed.
1971	POLA Real Estate Inc. is established and the real estate business is launched.
1976	The POLA Research Institute of Beauty & Culture is established.
1977	The Fukuroi Factory is completed.
1979	The POLA Foundation for the Promotion of Traditional Japanese Culture is established.
1983	POLA CHEMICAL becomes a major investor in KAYAKU CO., LTD. and enters the pharmaceuticals business.
1984	ORBIS Inc. is established and the mail-order sales business is launched.
1986	POLA GTS Inc. (currently P.O. TECHNO SERVICE INC.) is established and the building maintenance business is launched. POLA CHEMICAL wins an award at the 14th IFSCC (International Federation of Societies of Cosmetic Chemists) Congress held in Barcelona, Spain.
1987	ORBIS starts full-fledged business activities (in the Tokyo metropolitan area).
1988	ORBIS first publishes its nationwide catalog.
1992	POLA Daily Cosme Inc. (currently pdc INC.) is established and retail sales of cosmetics business are launched.
1994	POLA CHEMICAL wins the highest award at the 18th IFSCC Congress held in Venice, Italy.
1996	POLA CHEMICAL wins an award at the 19th IFSCC Congress held in Sydney, Australia. The POLA Art Foundation is established.
1997	ORBIS receives ISO 9001 certification. The Shizuoka and Fukuroi factories receive ISO 9002 certification.
1998	POLA wins the highest award at the 20th IFSCC Congress held in Cannes, France. The Shizuoka and Fukuroi factories receive ISO 9001 certification.
1999	ORBIS The Net (online store) opens.
2000	POLA's corporate message, "Consulting First," is delivered. The first retail store "ORBIS THE SHOP" at Marui department store, in Ikebukuro, Tokyo opens. The Shizuoka and Fukuroi factories receive ISO 14001 certification.
2002	A new business announcement by POLA conveys its aim to "Thoroughly commit to customer first," "Focus and deepen the impact of its businesses," and "Reform its corporate culture and management." The POLA Museum of Art opens at Sengokuhara in Hakone, and the POLA Museum Annex opens in Ginza.
2004	The Fukuroi Factory receives the Prime Minister's Award, recognizing it as an Outstanding Green Plant.
2005	POLA THE BEAUTY premium esthetic salons are launched. ORBIS acquires the Privacy Mark, certifying the proper handling of personal information.
2006	POLA ORBIS HOLDINGS INC. is established and the Group transitions to a pure holding company system. P.O. REAL ESTATE INC. is established and carries on the real estate business. The Group becomes a major investor in the FUTURE LABO group, and the TV mail-order business is launched.
2007	POLA Cosmetics, Inc. is renamed POLA INC. The pharmaceutical company POLA PHARMA INC. is established. ORLANE JAPON INC. is established through a joint venture with Orlane S.A. of France. decencia INC. is established.
2008	ACRO INC. is established. POLA CHEMICAL wins the highest award (best oral presentation in basic research category) at the 25th IFSCC Congress held in Barcelona, Spain.
2010	POLA ORBIS HOLDINGS INC. is listed on the Tokyo Stock Exchange, First Section.
2011	The Group acquires H2O PLUS HOLDINGS INC. P.O. MEDIA SERVICE INC. (formerly Fuji Printing, Ltd.) is sold to an outside party.
2012	The Group acquires Jurlique International Pty. Ltd. POLA CHEMICAL wins the Poster Award at the 27th IFSCC Congress held in Johannesburg, South Africa.
2014	The Shizuoka Factory and the Fukuroi Factory are integrated. POLA CHEMICAL wins the highest award (best oral presentation in basic research category) at the 28th IFSCC Congress held in Paris, France.
2015	POLA ORBIS HOLDINGS welcomes outside director. POLA CHEMICAL wins the highest award (best oral presentation category) at the 23rd IFSCC Congress.
2016	POLA redefines its unique values under a new brand strategy—"Science. Art. Love." pdc INC. and FUTURE LABO INC. are transferred.
2017	POLA debuts *Wrinkle Shot Serum*, the first cosmetics product in Japan with an active ingredient approved as a quasi-drug capable of "improving wrinkles."

Corporate Information (As of December 31, 2017)

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	4,139 (for the Group) 132 (for the Company) Full-time employees (Excluding those on loan to other companies, including those on loan from other companies)
Fiscal year-end	December 31
General meeting of shareholders	March
Business description	Business management of the entire Group
Head office	2-2-3 Nishigotanda, Shinagawa-ku, Tokyo 141-0031, Japan (Business activities conducted at 1-7-7 Ginza, Chuo-ku, Tokyo)
Stock listing	Tokyo Stock Exchange, First Section
TSE code	4927
Share register	1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation

Major Group Companies

Beauty Care business
- POLA INC.
- ORBIS Inc.
- POLA CHEMICAL INDUSTRIES INC.
- Jurlique International Pty. Ltd.
- H2O PLUS HOLDINGS INC.
- DECENCIA INC.
- ACRO INC.

Real Estate business
- P.O. REAL ESTATE INC.

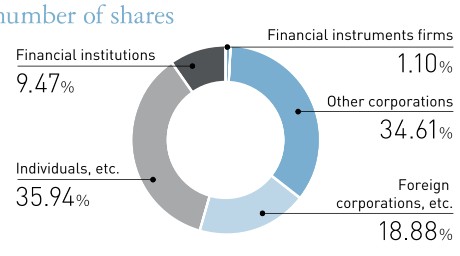
Other businesses
- POLA PHARMA INC.
- KAYAKU CO., LTD.
- P.O. TECHNO SERVICE INC.

Stock Information (As of December 31, 2017)

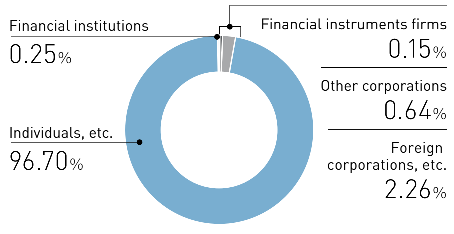
Total number of authorized shares	800,000,000 shares
Total number of issued shares	229,136,156 shares
Number of shareholders	24,739

Composition of Shareholders

By number of shares



By number of shareholders



Principal Shareholders

Shareholders	Number of shares held (Thousands)	Percentage of share-holding (%)
The POLA Art Foundation	78,616	35.5
Satoshi Suzuki	50,674	22.9
Japan Trustee Services Bank, Ltd. (Trust Account)	6,483	2.9
Naoko Nakamura	4,770	2.2
The Master Trust Bank of Japan, Ltd. (Trust Account)	4,634	2.1
Hiromi Suzuki	3,113	1.4
STATE STREET BANK AND TRUST COMPANY	2,417	1.1
POLA ORBIS Group Employees' Stockholding	2,201	1.0
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,825	0.8
JP MORGAN CHASE BANK 385632	1,809	0.8

Notes: 1. The number of shares is rounded down to the nearest thousand shares.
2. In addition to the above, the Company holds 7,957 thousand shares of treasury stock.
3. The percentage of shareholding is calculated by deducting shares of treasury stock.

POLA ORBIS HOLDINGS

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