

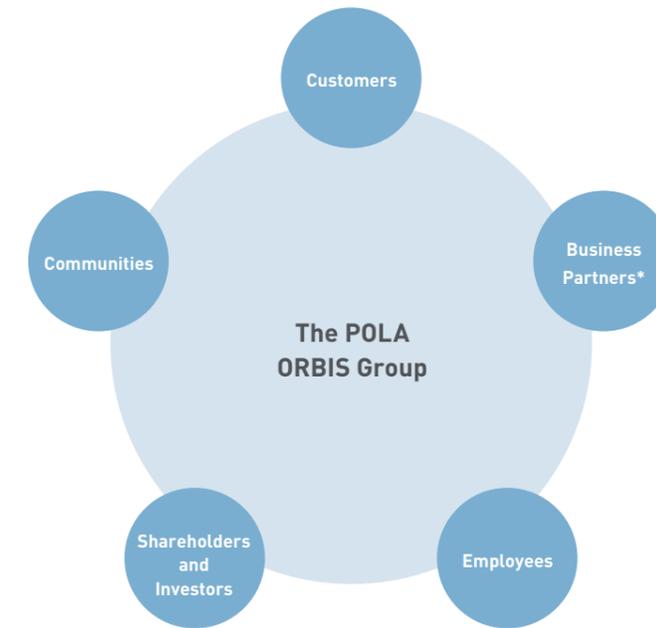
Corporate Report 2016



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

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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 2016—the 12 months from January 1, 2016 to December 31, 2016—but some fiscal 2017 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, 2017.



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.

Redefining Group philosophy

The POLA ORBIS Group traces its beginnings to a cream that the founder of POLA formulated for just one person—his beloved wife. In pre-World War II Japan, the use of cosmetics was not at all as common as it is today, and the founder went door-to-door explaining how to use the cream that he had formulated to soothe the dry, rough hands of his wife. This direct-sales approach was the starting point of a business model that brought POLA and, by extension, members of the whole POLA ORBIS Group, as close to their respective customer bases as each company can possibly get.

Today, the POLA ORBIS Group boasts a portfolio of richly distinctive cosmetics brands, hinging on the flagship brands of POLA and ORBIS. As a corporate group, we seek to expand business in Japan and around the world, especially Asia, with a diverse assortment of product lines offered in different price ranges through various marketing channels. Ten years have passed since POLA ORBIS HOLDINGS was established in 2006. The market environment has, of course, changed considerably during this time, but so has the Group. In taking our next step, we realized we needed to cultivate a more pervasive sense of unity as a corporate group by clarifying the social *raison d'être* unique to the POLA ORBIS Group, the ideal image that the Group aspires to, its strengths and the value it provides. We then considered the kinds of thoughts and actions required of each and every person under the Group umbrella to facilitate efforts to provide change and value to all our stakeholders. This led us to redefine the Group philosophy.

Under the new Group philosophy, 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 cosmetics and services in our portfolio. Our goal is to facilitate different 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. The process begins with us and a clear expression of commitment to fine-tune our own perceptions of beauty and individuality and constantly polish our badge of distinction to a brighter shine.

Looking back on 2016

To realize our long-term vision for 2020, which is to become a highly profitable global company in the field of beauty and health, we have gradually been working our way through three stages of business strategies. Business results were commendable in 2016, the final year of the medium-term management plan running from 2014 through 2016, the second stage of our journey. On a consolidated basis, net sales edged up 1.7% year on year, to ¥218.4 billion, and operating income climbed 19.5% year on year, to ¥26.9 billion. ROE, an indicator adopted in 2014, hit 9.5%, exceeding our original target of 8%, through steady profit growth and an expanded return to shareholders.

The medium-term management plan that guided our efforts from 2014 through 2016 provided momentum toward achieving our long-term vision for 2020. The operating environment during this time was characterized by sluggish purchasing interest among consumers, which paralleled the implementation and lingering impact of the April 2014 consumption tax increase, and flat domestic demand if the boost from inbound travelers is excluded. Against this challenging backdrop, our strategies successfully resulted in an improved earnings structure for domestic operations and, as the second stage of our journey ended, higher sales and income for the seventh straight year.

In domestic operations, growth was again driven by POLA, our flagship brand, and by THREE and DECENCIA, two of our brands under development. POLA's anti-aging and skin-whitening products attracted favorable attention in the market, with demand fueled by positive trends in purchasing by inbound visitors as well as a lot of best cosmetics awards for *B.A.*, a mainstay series that was totally revamped in August 2015. Consequently, the company posted steady growth in sales, underpinned by solid results at existing stores, particularly POLA THE BEAUTY, and at department stores. Also of note, POLA contributed significantly to operating income, pushing the consolidated operating margin to 14.6% in 2016 and much closer to the global level.

In 2016, POLA redefined its unique values under a new brand strategy—"Science. Art. Love."—and worked to strengthen its sales commission structure and training program to promote the development of its professional Beauty Directors. As a result, POLA was able to streamline the number of Beauty Directors by about two-thirds, without adversely affecting sales.

ORBIS, seeking to be a lifelong brand, debuted *ORBIS=U WHITE* in March 2016 as a new core product in this evolving series. The company utilized social networking sites to capture the attention of new customers and emphasized one-to-one marketing to attract more repeat customers, which translated into a higher operating margin. In addition, ORBIS retained a high level of customer loyalty, substantiated by four consecutive years as No. 1 in the mail-order category of the Japanese Customer Satisfaction Index (JCSI) survey, Japan's largest survey of customer sentiment.

In brands under development, THREE and DECENCIA were the key drivers of growth, propelling brands under development into the black. However, a priority in this segment was to concentrate management resources into the Group strengths of products in the mid- to high-price range and marketing channels with a direct link to customers, thereby boosting return on investment. With this in mind, *pdc* and *FUTURE LABO* were transferred, and steps were taken to review the brand portfolio in line with the new medium-term management plan.



In overseas operations, Jurlique and H2O PLUS took steps to expand business in their respective markets of origin, Australia and the United States. Jurlique's efforts were rewarded with higher sales in its home market, while the company struggled overseas, reflecting sluggish growth in China's cosmetics market as well as the negative impact of fewer travelers to Hong Kong. In drafts of next-stage strategies, targets were revised, and Jurlique posted impairment loss as extraordinary loss. But the company will actively roll out measures to return to a growth trajectory, including changes to its business model for China and a review of its product development structure.

H2O PLUS focused on brand-restaging to jump-start growth. The company set its sights on millennials—in the 25-35 age bracket—and launched new products under a totally revamped brand concept, with a fresh design and new product formulation. Going forward, the company will strive to expand the number of retailers handling its products and conduct marketing activities geared to millennial demand. These efforts should spur a quick improvement in earnings.

New Medium-Term Management Plan from 2017

We recently announced a new medium-term management plan that runs for four years, from 2017 through 2020. This plan represents the last stage of strategies targeting our long-term vision for 2020.

Stable growth of flagship brands will drive Group earnings higher

In January 2017, POLA debuted *POLA Wrinkle Shot Serum*, the first cosmetics product in Japan approved under quasi-drug rules for which efficacy claims of improving the appearance of wrinkles can be stated. Going forward, the company will continue efforts to develop highly distinctive follow-up products in the anti-aging and skin-whitening fields. In addition, the company will concentrate on Beauty Director training, seek to elevate consulting and service quality, and build a foundation that supports stable growth to 2020 and beyond.

ORBIS will celebrate the 30th anniversary of its namesake brand in 2017. The company will utilize the January total renewal of *AQUA FORCE*, a core product line under the ORBIS label, and a series of product introductions, including items available for a limited time, to raise spending per customer and increase points of contact with customers.

Solid shift toward overall profitability from overseas operations

Overseas operations—that is, overseas brands in our portfolio—were a focus of attention under the previous medium-term management plan, and our priority from now on is for the companies responsible for these brands to turn a profit. Jurlique aims to get back into the black soon by launching new products and rebuilding its supply chain, starting in the second half of 2017. At H2O PLUS, resources will be concentrated in North America, and the company will pursue marketing activities designed to succeed at brand-restaging. Meanwhile, at POLA and ORBIS, China is a key market for developing a higher profile abroad. POLA will follow a high-prestige channel, while ORBIS will take an e-commerce route to reach customers.



POLA Wrinkle Shot Serum

Expanding brands under development, adding new brands

THREE will continue to expand its retail presence, with an emphasis on department stores and semi-self-select stores*, aiming for CAGR of at least 10%. DECENCIA is planning new store development that will enhance brand recognition and reinforce brand power, which should sustain continued growth at a high level.

To complement the existing brand portfolio, we will proactively invest in creating new brands with future growth potential. The idea is to establish several distinctive brands generating sales in the range of ¥5 billion to ¥10 billion.

Improve capital efficiency, enhance return to shareholders

We will work even more resourcefully than we did during the previous medium-term management plan to improve capital efficiency and enhance return to shareholders. We are aiming for ROE of 12% by 2020 and will upwardly revise our basic policy on the consolidated payout ratio, pushing the ratio to 60% or higher from the previous ratio of at least 50%, effective from 2017.

*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.

Outlook for 2017 (Plan announced at the beginning of 2017)

We expect fiscal 2017 to be the eighth consecutive year of higher sales and higher income, on a consolidated basis, with net sales of ¥227 billion, up 3.9% year on year, and operating income of ¥31 billion, up 15.2%.

To provide an environment more conducive to investment by individuals and also raise stock liquidity and ensure stability in our stock price, we have decided to execute a four-for-one stock split. The annual dividend for 2017 is therefore likely to increase by ¥5, to ¥55 per share, after the stock split.

Toward the 100th anniversary

Given the change in Group philosophy, the Board of Directors is considering a new long-term vision appropriate to 2029, a milestone year in which we will celebrate the 100th anniversary of POLA, the original source of the Group. The new long-term vision will clarify aspects of our *raison d'être* from society's perspective.

POLA and, by extension, the POLA ORBIS Group, began from door-to-door sales. This marketing approach not only allows existing customers to buy directly from the manufacturer but also enables the manufacturer to attract the attention of potential customers through the unique personality and charm of each sales representative. In effect, we are a corporate group specializing in people-centered value creation. The evolution of artificial intelligence (AI) has the potential to make the majority of jobs obsolete, with technology essentially replacing humans in many of today's jobs. However, jobs that value people—that require a human touch or perspective—are sure to remain because AI lacks those qualities. At first glance, AI presents tremendous



advantages from a business perspective because business is an economic activity that requires the logical and precise calculations that AI can deliver. But I am sure that the human factor is still a vital component of the economy, society and business, too.

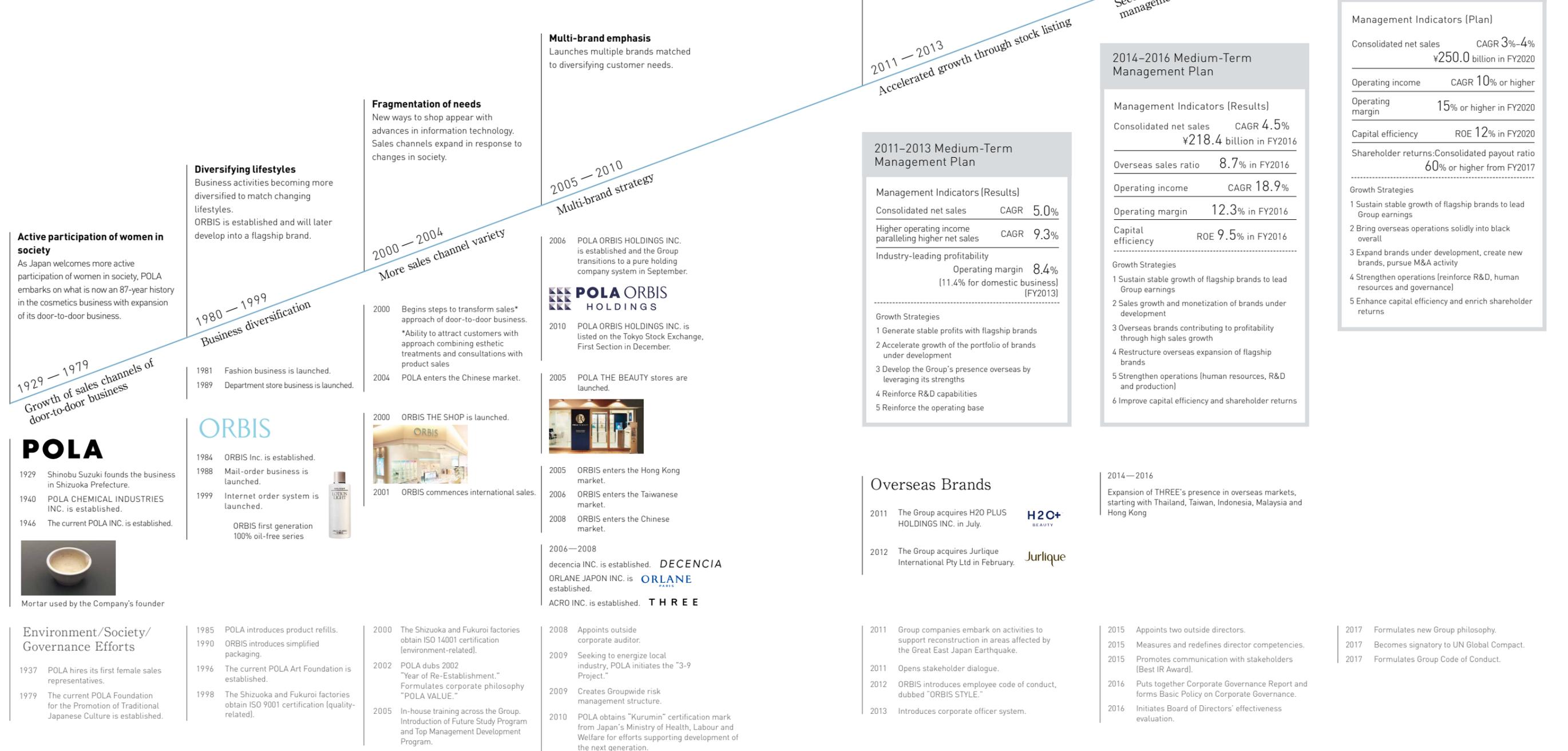
Over the past few years, consumer behavior and personal ideology have changed quite a bit. In a world characterized by such noticeable transformations, we ourselves must also change to remain significant, that is, to continue making meaningful contributions to society, over the long term. "You have to move if you want to stay put." At first, this may seem confusing, but essentially, constant transformation—the effort to evolve, to move forward—is what ensures permanence.

I believe in the potential of people. If there are 4,000 employees, there will be 4,000 perspectives and 4,000 possibilities. Ever since I assumed my role as president and CEO, I have never stopped thinking about how I can help employees passionately demonstrate their personality and sensitivity in understanding trends, products and customers. This idea is embodied in the recently announced Group philosophy. It reflects my own determination to embrace extremely difficult aspects of corporate management, and sets the tone for the Group as a whole to brace for challenges and be confident of success. 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.



Active participation of women in society
As Japan welcomes more active participation of women in society, POLA embarks on what is now an 87-year history in the cosmetics business with expansion of its door-to-door business.

1929 — 1979
Growth of sales channels of 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

Environment/Society/Governance Efforts

- 1937 POLA hires its first female sales representatives.
- 1979 The current POLA Foundation for the Promotion of Traditional Japanese Culture is established.

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

1980 — 1999
Business diversification

ORBIS

- 1981 Fashion business is launched.
- 1989 Department store business is launched.
- 1984 ORBIS Inc. is established.
- 1988 Mail-order business is launched.
- 1999 Internet order system is launched.
- ORBIS first generation 100% oil-free series



- 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).

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

2000 — 2004
More sales channel variety

- 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.

- 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.

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

2005 — 2010
Multi-brand strategy

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.
- 2005 ORBIS enters the Hong Kong market.
- 2006 ORBIS enters the Taiwanese market.
- 2008 ORBIS enters the Chinese market.

2006—2008 decencia INC. is established. **DECENCIA**

ORLANE JAPON INC. is established. **ORLANE**

ACRO INC. is established. **THREE**

- 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 — 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**

- 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.

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%
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—2016
Expansion of THREE's presence in overseas markets, starting with Thailand, Taiwan, Indonesia, Malaysia and Hong Kong

- 2015 Appoints two outside directors.
- 2015 Measures and redefines director competencies.
- 2015 Promotes communication with stakeholders (Best IR Award).
- 2016 Puts together Corporate Governance Report and forms Basic Policy on Corporate Governance.
- 2016 Initiates Board of Directors' effectiveness evaluation.

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

2017 — 2020
Seeking to be a highly profitable global company

2017-2020 Medium-Term Management Plan

Management Indicators (Plan)

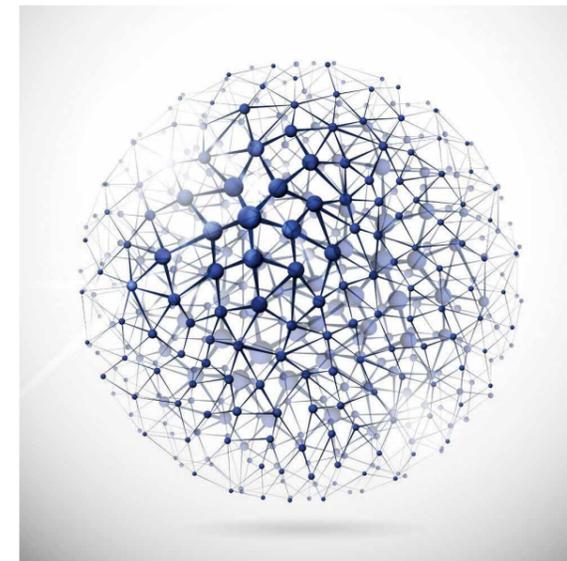
Consolidated net sales	CAGR	3%-4%
		¥250.0 billion in FY2020
Operating income	CAGR	10% or higher
Operating margin		15% or higher in FY2020
Capital efficiency	ROE	12% in FY2020
Shareholder returns: Consolidated payout ratio		60% or higher from FY2017

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 Formulates new Group philosophy.
- 2017 Becomes signatory to UN Global Compact.
- 2017 Formulates Group Code of Conduct.

Strengths of the POLA ORBIS Group



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.

In addition, 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.

Responsiveness to Change, Customers, and Value Creation

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 preference 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 42,000 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. ORBIS ranked No.1 in the own-brand mail-order category in 2016.

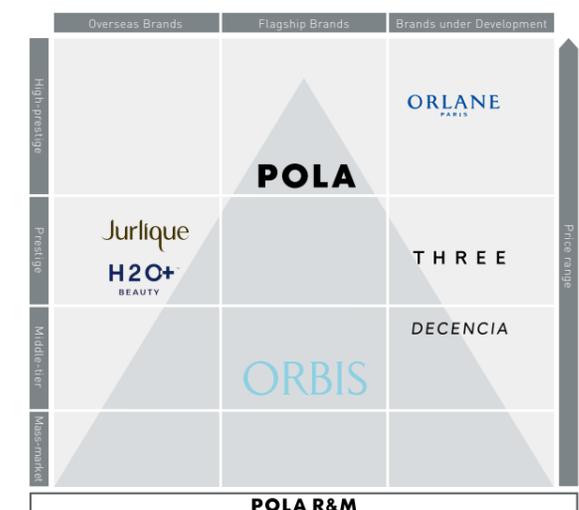
These direct-selling channels enable each company to manage information on nearly all respective customers in-house. With this information, the companies have built a database of more than 16 million entries on the condition of Japanese women's skin and collected other useful information, such as customers' 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.

Derived from Direct Ties with through Multi-Value Chains

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.

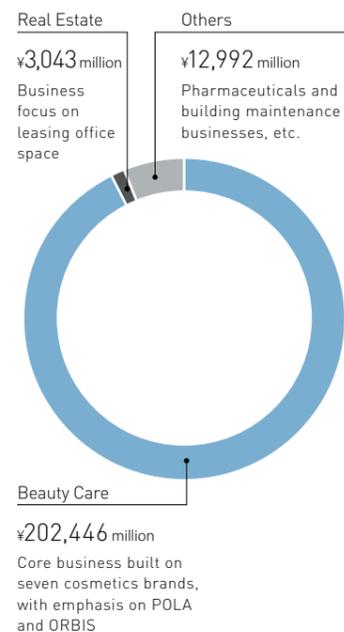
Women's lifestyles and value perceptions change with the times. To better address trends whenever they appear, POLA ORBIS HOLDINGS maintains a portfolio of seven cosmetics brands, each with its own concepts, sales channels and price range. In this way, each brand is distinct, using independent management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



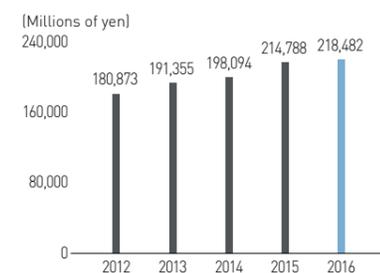
Business Structure and Brand Portfolio

Business Structure

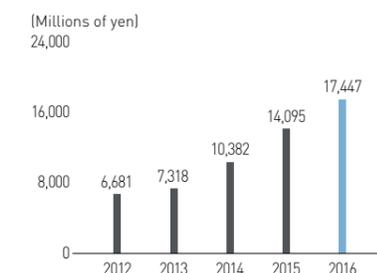
Net Sales Breakdown by Business Segment



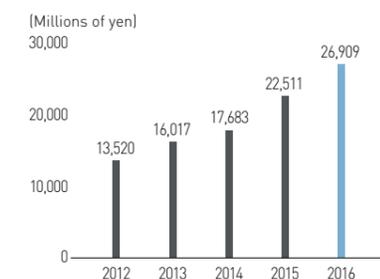
Net Sales



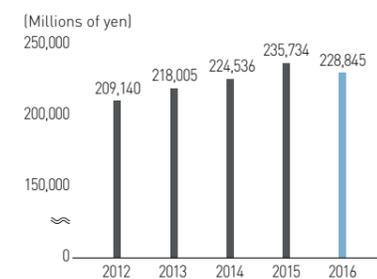
Net Income Attributable to Owners of Parent



Operating Income

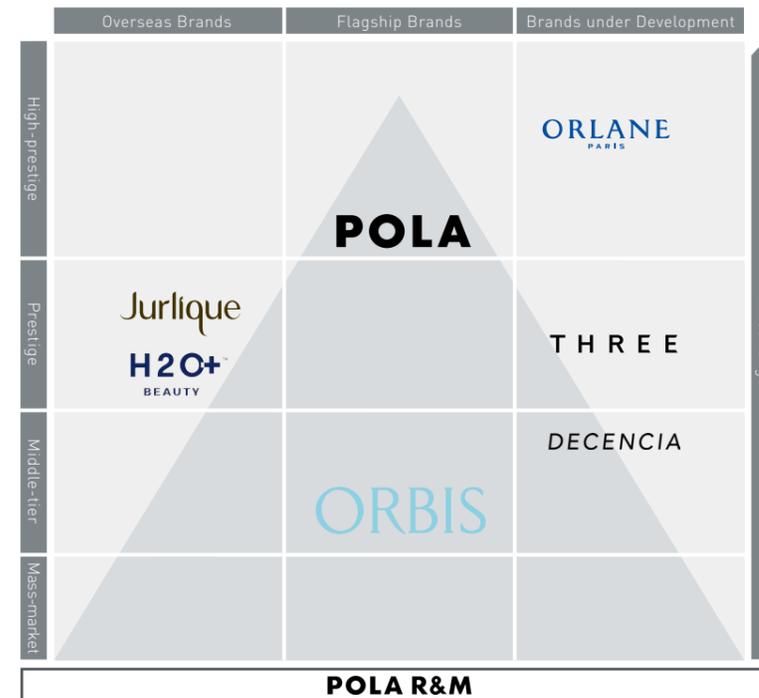


Total Assets



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 seven 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, and department stores

ORBIS



Concept
An original-concept 100% oil-free skincare brand

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

Overseas Brands

Jurlique



Concept
An organic skincare brand featuring ingredients made from herbs grown on the company's own farm in Australia

Sales Channels
Sold at department stores and shopping malls in 20 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 shopping malls and specialty cosmetics stores in 20 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 and semi-self-select stores

DECENCIA



Concept
A skincare brand for dry, sensitive skin

Sales Channels
Mail-order business (Internet)

ORLANE PARIS



Concept
A well-established high-prestige brand of skincare cosmetics from France with anti-aging properties

Sales Channels
Department stores and specialty cosmetics stores

Special Feature: New Medium-Term Management Plan

Looking Back on the Previous Medium-Term Management Plan

Under the medium-term management plan that ran from 2014 to 2016, the Group pushed ahead on measures to further strengthen the domestic earnings structure and accelerate overseas expansion, and to improve corporate value through enhanced capital efficiency.

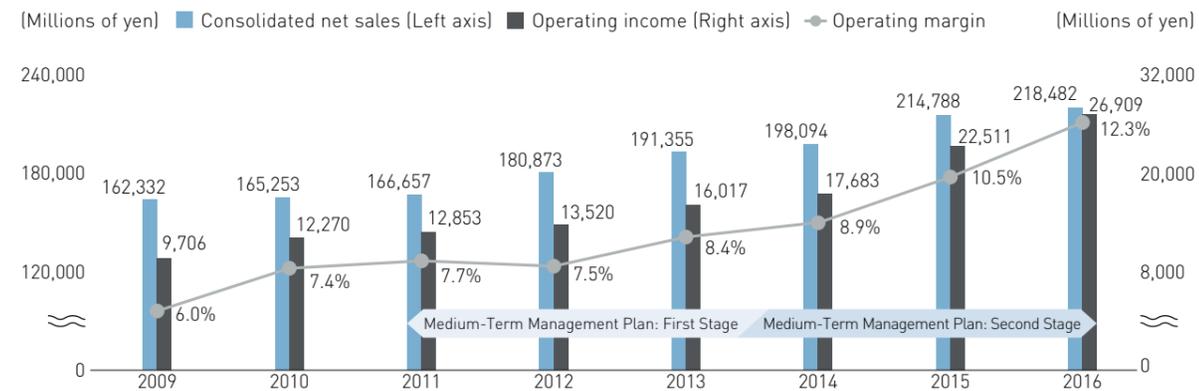
Summary of 2014–2016 Medium-Term Management Plan

Core domestic brands—POLA, ORBIS and brands under development—showed improvement in revenue structure, but overseas brands struggled in terms of growth and profitability, indicating issues management had to address in the next medium-term management plan.

Management Indicators				
	Targets for FY2014–FY2016		Results as of FY2016	Evaluation
Consolidated net sales	CAGR	3–4%	CAGR 4.5%	Exceeded
Overseas sales ratio		15% in FY2016	8.7%	Behind
Operating income	CAGR	15% or higher	CAGR 18.9%	Exceeded
Operating margin		11% in FY2016	12.3%	Exceeded
ROE		9% in FY2016	9.5%	On track
Consolidated payout ratio		50% or higher from FY2014	63.4%	On track

Changes in Consolidated Net Sales and Operating Income

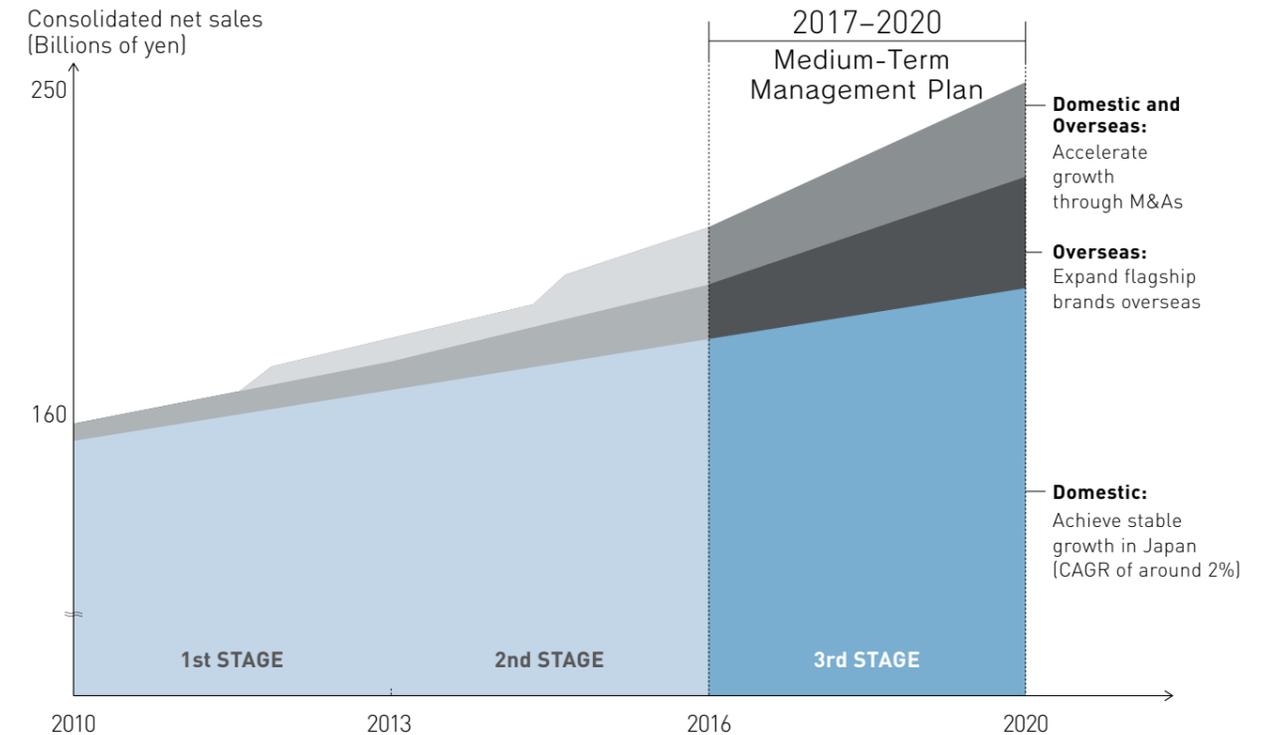
Seventh Consecutive Year of Higher Net Sales and Operating Income



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

FY2013 Results	
Net sales	¥191.3 billion
Overseas sales ratio	12.2%
Operating margin	8.4%

2nd STAGE

Further strengthen domestic earnings structure and accelerate overseas expansion

FY2016 Results	
Net sales	¥218.4 billion
Overseas sales ratio	8.7%
Operating margin	12.3%

3rd STAGE

Become a “highly profitable global company”

Goals for FY2020	
Net sales	¥250.0 billion or higher
Overseas sales ratio	20% or higher
Operating margin	13%-15%

Outline of 2017–2020 Medium-Term Management Plan

Under this medium-term management plan, POLA ORBIS HOLDINGS will guide the Group toward the achievement of three basic objectives: improve profitability in Japan, promote a solid shift toward overall profitability from overseas operations and build a brand structure for next-generation growth.

Recognizing Opportunities	Knowing Risks	Understanding Issues	Allocating Resources
<ul style="list-style-type: none"> Expand domestic market for prestige skincare Strong growth in China and ASEAN region and inbound demand 	<ul style="list-style-type: none"> Respond to changes in market environment (including inbound demand) Heightened governance responsibilities A quick return to profitability for operations in the red 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Utilize stable revenue status of flagship brands to underpin investment in overseas brands and brands under development Create new brands and pursue M&A activity Earmark funds for research into areas of anti-aging and skin-whitening skincare

Growth Strategies

Improve profitability in Japan, promote a solid shift toward overall profitability from overseas operations and build a brand structure for next-generation growth	
<p>Strategy 1</p> <p>Sustain stable growth of flagship brands to lead Group earnings</p>	<p>POLA Reinforce business platform for long-term stable growth</p> <p>ORBIS Reacquire growth trajectory, fueled by higher spending per customer</p>
<p>Strategy 2</p> <p>Bring overseas operations solidly into the black overall</p>	<p>Jurlique Return to growth underpinned by profitability</p> <p>H2O+ BEAUTY</p> <p>POLA Build model of success focusing on key countries and boost profits through better capital efficiency</p> <p>ORBIS</p>
<p>Strategy 3</p> <p>Expand brands under development, create new brands, pursue M&A activity</p>	<ul style="list-style-type: none"> Achieve CAGR improvement of 10% increase in sales and 20% increase in operating income overall for brands under development (targets do not include pdc or FUTURE LABO) Start creating new brands
<p>Strategy 4</p> <p>Strengthen operations [reinforce R&D, human resources and governance]</p>	<ul style="list-style-type: none"> Develop new ingredients for aging-care and skin-whitening products Constantly develop capabilities of human resources with management potential and promote in-house recruitment to fill job openings Establish the Group's own system to evaluate effectiveness of Board of Directors, and pursue sustainable ESG practices
<p>Strategy 5</p> <p>Enhance capital efficiency and enrich shareholder returns</p>	<ul style="list-style-type: none"> Boost capital efficiency (ROE) Achieve stable dividends based on a consolidated payout ratio of 60% or higher

Management Indicators for 2020

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

To 2020 and Beyond

We are considering a new long-term vision appropriate for 2029, which will mark the 100th anniversary of core company POLA. We have embarked on discussions aimed at ensuring sustainable corporate activity and continued business growth.

Pursuit of Sustainability

Human resources development that encourages heightened responsiveness and lets individual personality shine

Efforts to become more responsive to customers, markets and trends and to accentuate individuality, on an organizational basis, are vital if the POLA ORBIS Group is to put its new philosophy into practice and constantly implement strategies to a successful end. This requires appropriate training for human resources and the right kind of work environment. We have embarked on activities under the following themes to achieve our goals.

Human resources development

- Programs, including a free-agent system, in-house recruitment system, in-house entrepreneurship and art workshop, to encourage employees to embrace challenges
- Work style and work environment
- Create a work environment that allows diverse individual objectives, ideas and capabilities to flourish
- Establish a Group health management structure

Coexistence with global and social environments

Seeking to contribute in a way that is environmentally conscious while also advantageous to the Group and thereby lay the cornerstone for sustainable growth, management is considering measures to invigorate communities and industries through business activities and to ensure the Group position as an active member of a recycling-oriented society.

Invigorate communities and industries through business activities

- Participate in events to revitalize and develop local communities through job creation, support for working women and other initiatives
- Support arts and other cultural activities
- Activities that form the foundation of global business
- Signatory to United Nations' Global Compact addressing human rights, labour standards, the environment and anti-corruption
- Sustainable procurement and response to biodiversity issues
- Reduce CO₂ emissions, use of water and amount of waste

Advancing M&A Strategy

—Brand portfolio reinforcement to multi-value chain creation—

M&As are an indispensable component of continuous growth for the POLA ORBIS Group in the external environment characterized by increasing uncertainty. The key to future growth is definitely a fine-tuned ability to utilize inherent corporate strengths to the fullest.

To achieve this, we will turn to M&As to integrate external components to complement the Group's intrinsic strengths and enhance the value chain by interweaving different qualities into a more colorful Group tapestry.

Specifically, to enrich Group capabilities, we will integrate the management resources and business models of companies brought into the Group through M&A into both upstream and downstream in the value chains. The upstream value chain will cover areas such as research, product development and brands, while the downstream value chain will deal with areas such as customer relationship management and branding. We will shift our M&A style from brand portfolio reinforcement to multi-value chain creation.

Also, seeking to achieve this new style, we redefined our policy for M&A activity, using an insightful evaluation of past M&A efforts, and prepared templates to raise implementation capabilities.

	Brand portfolio reinforcement style M&A	Multi-value chain creation style M&A
Primary objectives	Enrich brand portfolio Boost ratio of overseas sales	Further enhance our strength in the value chains, which are a source of the Group's value creation
Acquisition targets	Cosmetics brands, especially skincare lines	All types of companies and organizations with potential to reinforce value chains
Anticipated results	Mainly positive effects of acquired companies on consolidated results	Positive effects on consolidated results Enhanced overall value of the Group through synergistic effects
Evaluation frame of reference	Quality of non-consolidated financial status Compatibility with business domain	While taking the points on the left into account, place greater emphasis on the potential enhanced value through group synergy

Overseas Expansion

Seek to Boost Net Sales through Higher Contributions from Distinctive Overseas Brands

We actively promote domestic flagship brands POLA and ORBIS as well as brands under development, notably THREE, as overseas brands from Japan. We are also keen to enrich the lives of women around the world through the distinctive Jurlique and H2O PLUS brands. As the POLA ORBIS Group, we believe that the intersection of diverse characteristics brings about new value, and we will consider M&A activity from this perspective.

<h3>Jurlique</h3> <ul style="list-style-type: none"> ● Presence in 20 countries, mainly in department stores ● Presence mainly in Australia, China and Hong Kong, as well as at duty-free shops ● Founded in Adelaide, Australia ● Pioneer brand of organic skincare featuring ingredients made from plants grown on the company's own farm 	<h3>H2O+ BEAUTY</h3> <ul style="list-style-type: none"> ● Presence in 10 countries ● Presence expanding in the United States, Russia, Hong Kong and Malaysia ● Headquartered in San Francisco, California, in the United States ● Skincare brand based on a concept emphasizing the hydrating power of water and innovative formulas 	<h3>POLA</h3> <ul style="list-style-type: none"> ● Presence in nine countries ● Key markets are China (department stores) and Thailand (door-to-door business) ● Sales emphasizing B.A series as well as limited overseas product releases 	<h3>ORBIS</h3> <ul style="list-style-type: none"> ● Presence in five countries ● Full-scale entry into China's mail-order market; opened stores strategically located in Singapore in advance of anticipated ASEAN expansion ● Sales emphasizing skincare and health foods 	<h3>THREE</h3> <ul style="list-style-type: none"> ● Presence in seven countries ● Sales in Thailand, Taiwan, Indonesia, Malaysia, Hong Kong and South Korea (from April 2017) ● Focus on skincare and foundation makeup
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In overseas operations, we have emphasized Asia, tapping China as a priority market while working to raise the profiles of five core brands in neighboring countries, particularly Thailand, Hong Kong and Singapore. Unfortunately, the business environment has presented challenges, namely, sluggish growth in China's department store sector, a spread of demand from urban to rural areas and changing consumer trends. Against this backdrop, results fell below target.

THREE debuted in Malaysia in April 2016 and became available in Hong Kong in September 2016. Hong Kong, the fifth region on THREE's expansion list, represents steady growth of the brand on the world stage. We aim to achieve goals for other brands as well, by promoting brand

strategies that draw on respective concepts and by revamping business models.

In 2016, greater utilization of human resources on a global basis was in the spotlight, underpinned by the start of an overseas assignment recruitment program. This program is directed toward employees at domestic offices who are keen to embrace the challenge of working overseas and wish to broaden their career horizons. Employees demonstrating potential and motivation were sent to Jurlique, H2O PLUS and other overseas offices.

The recruitment and training of people who can work anywhere in the world have also become issues that require active attention. Our efforts are being directed not only at language learning but also practical approaches, such as job rotation, including

overseas assignments.

On a different front, we recognized that H2O PLUS and Jurlique, acquired in 2011 and 2012, respectively, were lacking in certain aspects of due diligence and post-merger integration. We are currently making changes to associated processes and have created a template to visualize the transition from pinpointing possible synergies to turning them into reality. Specifically, we will look beyond legal and financial aspects and extend our evaluation criteria to include corporate culture, human resources composition, R&D capabilities and new product development processes. We will consider M&As that elicit synergies on a reciprocal basis and help build the POLA ORBIS Group into a collection of companies that delivers innovation.

Innovative products from H2O PLUS

H2O PLUS came under the POLA ORBIS Group umbrella in 2011 as a maker of cosmetics based on marine science and featuring sea-derived ingredients. The company recently completed a shift away from the old business model that covered all aspects of operations, from product planning, development and manufacturing to sales, opting instead to close its manufacturing site at the Chicago headquarters and outsource production. The company relocated its corporate headquarters from Chicago to San Francisco, implemented a new

organizational structure and embraced a new business model that emphasizes product planning, marketing and sales. Under a new CEO appointed in February 2015, H2O PLUS reimagined the brand concept, and in 2016, products were launched with a new logo—H2O PLUS BEAUTY. The new concept builds on the philosophy of a skincare brand leveraging the hydrating power of water and innovative formulas. Targeting millennials, who are sensitive to trends and have grown up in an environment that has always been Internet-

connected, H2O PLUS aims to provide cosmetics that bring smiles and foster confidence in the women who use them. The company unveiled cosmetics in original colors and fragrances using refreshingly different formulas, and was rewarded with a 2016 Best of Beauty award by *Allure*, a U.S. beauty magazine. The company seeks to build a wide base of contact through social media-driven promotions geared to customers in the target age group. Going forward, H2O PLUS will continue to give precedence to business activities that make the women who use its products smile.



New series unveiled in 2016



H2O PLUS BEAUTY Milk Body Butter captured a Best of Beauty award from the U.S. magazine *Allure* in the "Best Rich Body Lotion" category.

Jurlique draws on group synergies to boost value provided to customers

Jurlique is a pioneer brand of organic skincare that originated in Adelaide, Australia, in 1985. Emphasizing production techniques using organic ingredients grown on its own farm, the company seeks to nurture beautiful skin by fusing the power of nature with the power of science.

In 2016, a new CEO was appointed at Jurlique. This appointment, along with other changes, including the promotion of two members of senior management to director status, underpins a management structure with a higher degree of transparency that has expeditiously enhanced contact with the POLA ORBIS HOLDINGS headquarters and companies under the POLA ORBIS Group umbrella. Progress has also been noted in communication across a broad range of corporate activities, including raw material procurement, R&D, improved customer relationship management and business administration.

In March 2016, Jurlique appointed a chief branding officer, and reassessed the DNA—the inherent qualities of the brand—as well as the underlying philosophy

and identity; then, with this as a basis, assembled a cross-Group task force comprising members from six Group companies, including POLA and ORBIS, to reset the value provided to customers and execute a radical restructuring of product categories.

From the second half of the year, staff from POLA CHEMICAL INDUSTRIES INC. with a solid background in research and technology were sent to Jurlique to provide on-site expertise. Staff conducted open workshops, attended by all employees involved in product planning and development and designed to encourage

product development highlighting the Jurlique brand concept as fully as possible. Participants learned about POLA CHEMICAL INDUSTRIES' basic research capabilities and formulation technology and acquired practical knowledge related to the packaging used for cosmetics.

Through this approach, Jurlique will complement existing strengths with POLA CHEMICAL INDUSTRIES' proven strengths to create products with a high degree of originality from fiscal 2017. Going forward, the company will strive to enhance the brand's appeal even more and make a bigger contribution to Group profits.



Workshop scene



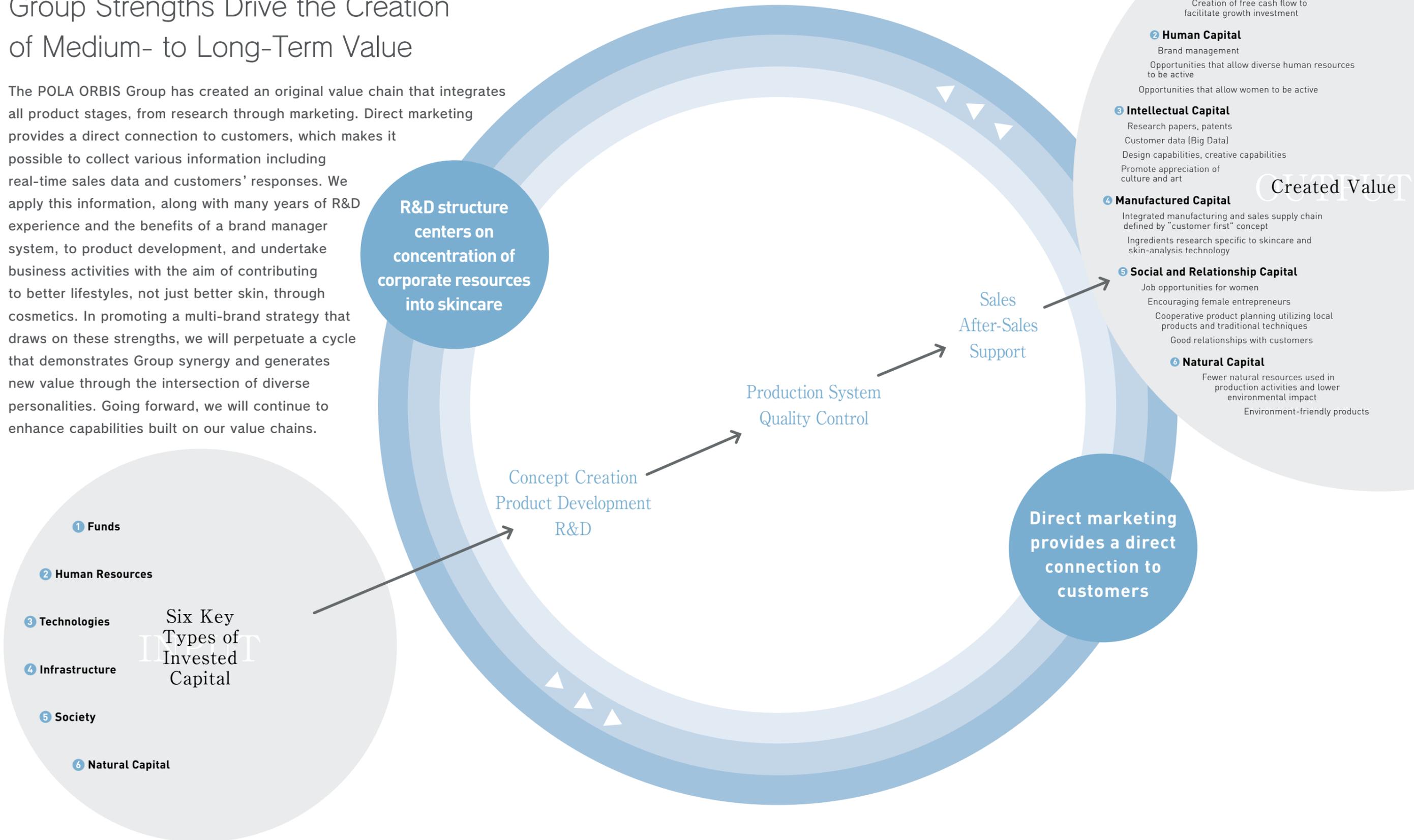
R&D setting at Jurlique

Original Value Chain

Group Strengths Drive the Creation of Medium- to Long-Term Value

The POLA ORBIS Group has created an original value chain that integrates all product stages, from research through marketing. Direct marketing provides a direct connection to customers, which makes it possible to collect various information including real-time sales data and customers' responses. We apply this information, along with many years of R&D experience and the benefits of a brand manager system, to product development, and undertake business activities with the aim of contributing to better lifestyles, not just better skin, through cosmetics. In promoting a multi-brand strategy that draws on these strengths, we will perpetuate a cycle that demonstrates Group synergy and generates new value through the intersection of diverse personalities. Going forward, we will continue to enhance capabilities built on our value chains.

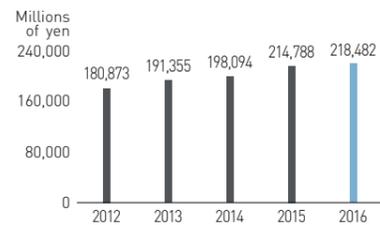
Multi-value chain synergistic effects of strategy exploiting strong our brands upon each other



Financial and Non-Financial Highlights

Financial Capital

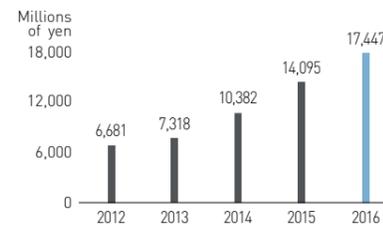
Net sales



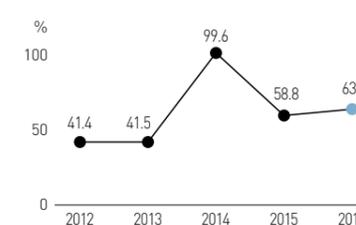
Operating income/ Operating margin



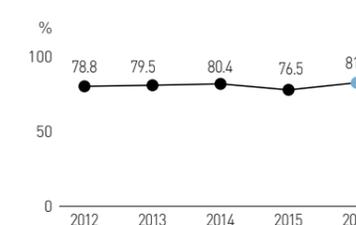
Net income attributable to owners of parent



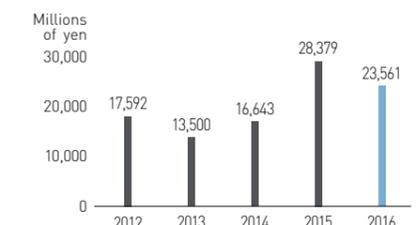
Payout ratio



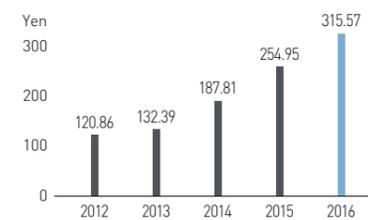
Equity ratio



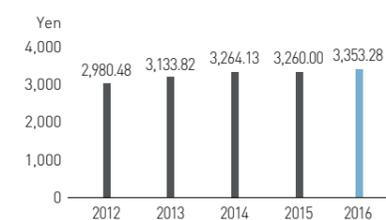
Cash flows from operating activities



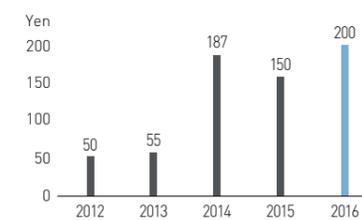
Net income per share



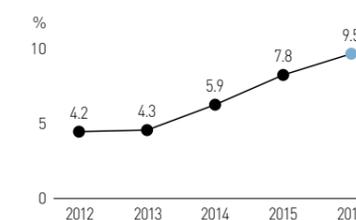
Net assets per share



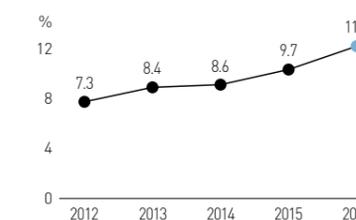
Cash dividends per share



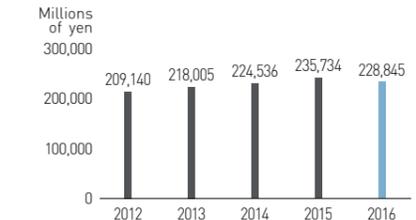
Return on equity



Return on assets



Total assets



Non-Financial Capital

Human Capital

Within the POLA ORBIS Group, each company strives to provide a setting and office environment in which its human resources can demonstrate individuality.

Group company employee competencies, reformulated in line with the new Group philosophy, have been integrated into the evaluation system. In addition, practical content was included in training programs that run horizontally across the Group, namely, the Future Study Program aimed at young employees and the Top Management Development Program for employees in management positions. POLA has a brand manager system, and current brand managers have gone through the Top Management Development Program. Some who have completed this program have also gone on to positions as directors at Group companies.

Ratio of women in management positions in the Group (as of December 31, 2016)

44.2%

Number of directors who have completed the Top Management Development Program/Total number of directors at Group companies

17/59

*As of January 2017. Excludes outside directors, outside corporate auditors and part-time directors.

Intellectual Capital

POLA CHEMICAL INDUSTRIES pursues research into various fields, including medical treatment, always seeking to create value that the industry has yet to see. Researchers enthusiastically present the results of their efforts at scientific conferences, garnering high praise at home and abroad.

In 2016, POLA received permission to sell Japan's first quasi-drug product in a new skincare field targeting wrinkles. The company is also meticulous about the packaging design of containers, and this emphasis earned honors for three POLA products in the Red Dot Award: Communication Design category in 2016.

The POLA Museum Annex and POLA Research Institute of Beauty & Culture work to promote an appreciation of culture and fine arts.

Number of papers presented at scientific conferences in 2016 by POLA CHEMICAL INDUSTRIES

39

Number of patents disclosed in 2016 by POLA CHEMICAL INDUSTRIES

51

Manufactured Capital

POLA CHEMICAL INDUSTRIES' Fukuroi Factory works day in and day out to provide safe, worry-free cosmetics under a production system focusing on skincare and base makeup. Many issues that employees hear about at the factory floor level are voiced at the end-of-the-workday assembly and shared for discussion at the monthly quality promotion committee meeting, which members of management attend. Efforts are made to increase the ability to preempt problems by envisioning risks at the development stage before moving into production.

At the POLA Skin Analysis Center, researchers pursue cellular-level analysis of customer skin data forwarded daily from shops throughout Japan and pinpoint the causes of skin trouble as well as required care for each customer. POLA CHEMICAL INDUSTRIES manufactures a wide variety of products in small quantities, an approach made possible through an integrated manufacturing and sales supply chain that always puts the customer first.

Number of skin analyses performed (cumulative, as of December 31, 2016)

Approx. **16.8** million

Social and Relationship Capital

Among POLA's Beauty Directors are what the company calls Grand Owners (GO)—women in top-level frontline positions who have put together several shops that together bring in more than ¥100 million in annual sales. POLA wants to have a network of 220 Grand Owners by 2020. The company also runs the "3-9 Project," an initiative to showcase Japan's proud history of *monozukuri* (manufacturing from a product creation perspective) and energize local industry through corporate activities. The project has been going strong for seven years. The project's name plays on the Japanese reading of "3-9"—*san kyu*—which sounds like "thank you." Meanwhile, ORBIS is deepening one-to-one communication through its website. The company utilizes this online approach to distribute information to each customer and attract new customers.

Number of POLA Grand Owners (GO) (as of December 31, 2016)

185

ORBIS' friends on LINE (as of December 31, 2016)

25.47 million

Natural Capital

Concrete targets for environmental activities have been set, and the Group CSR Committee monitors their status. Beginning in 2017, we are working toward, by 2029, a 26% reduction in CO₂ emissions—on a per unit of sales basis—with 2015 as the year of reference. At POLA CHEMICAL INDUSTRIES, environmental activities are monitored in four categories—resource conservation, resource recycling, risk management, and communication and education—based on ISO 14001. Each brand in our portfolio offers eco-friendly products, exemplified by the availability of refills and the use of simplified packaging.

CO₂ emissions in 2016 (per unit of sales basis)

98.6% (year on year)

Total waste produced in 2016 (per unit of sales basis)

95.7% (year on year)

Concept Creation/Product Development

Product Groups Targeting Different Market Segments

POLA and ORBIS are the POLA ORBIS Group's core brands, but the cosmetics portfolio comprises seven brands in total to match diversifying customers' value perceptions. Concepts are designed specifically for each brand, based on price range and sales channels, to convey optimum value to the target market.



Realizing enduring happiness for society and everyone who desires beauty and health

POLA

Products featuring cutting-edge technology excite the five senses

With expertise in the fields of anti-aging and skin-whitening, POLA offers high-prestige products using cutting-edge technology through a customer-consulting approach.

In 2016, POLA launched *B.A SERUM REVUP*, a beauty essence in the high-prestige *B.A* series, which underwent a renewal in 2015 designed to turn it into a "lifelong brand," always evolving from a customer perspective. The cornerstone of *B.A SERUM REVUP* is the Speedy Bio-Active Theory, which focuses on the self-purification cycle—of hyaluronic acid, which causes fluctuations in hydration and firmness of the skin. At POLA, cosmetics are designed to excite the five senses, with thought given to packaging as well as product fragrance and texture. The design of *B.A SERUM REVUP* is distinctive, a tangible reflection of this concept that evokes a youthful, radiant appearance.

In January 2017, POLA debuted *POLA Wrinkle Shot Serum*, the first cosmetics product in Japan to be approved as a quasi-drug for safely and effectively improving the appearance of wrinkles. The company received many inquiries, even before sales

commenced, and the product continues to attract favorable interest. Kicking off new products in the *B.A* lineup in 2016, *POLA Wrinkle Shot Serum* represents a level of anti-aging skincare that only POLA can deliver.

Enriching the lives of women

All domestic stores under the POLA sign offer facial treatment services. A particularly noteworthy aspect of these services is the POLA-original massage technique, based on analysis and studies of skin-related data as well as practical knowledge, including an understanding of anatomy. The cosmetics and masks used during facial treatments contain POLA-original beauty ingredients. When women come in for a session, they enjoy a short reprieve from their busy schedules, but if they come regularly, POLA's Beauty Directors are also able to check the condition of their skin. In addition, POLA's esthetic services epitomize the results and comfort that only a cosmetics company like POLA can deliver. In 2016, POLA launched *Ka-O (=Facial) Treatment*, which targets

the cheeks. Using a machine that delivers rhythmical taps of gentle pressure on the skin and an original massage technique, this treatment leaves cheeks looking youthful.

Considering the skin of women in their 40s and 50s, POLA also began sales of *ALLU*. The series helps women stay vibrant and content in their lives no matter how old they are.



POLA Ka-O (=Facial) Treatment



ALLU series



B.A SERUM REVUP

Growth of *Rechercher*, the ORBIS brand that takes on new challenges



Experimental brand taking a world view approach to customers approaches ¥1 billion in annual sales

In 2011, ORBIS launched *Rechercher* as a test, an experimental brand marketed to customers under a world view concept that skirted the usual adjectives applied to ORBIS products, such as "oil-free" and "fragrance-free." Then in October 2015, the company significantly revamped the brand, creating new *Rechercher*, to attract demand from working women in their 30s and 40s who are highly sensitive to trends.

The most noteworthy feature of *Rechercher* is that it contains energy-based materials evoking the power of nature, such as moisturizing ingredients extracted from baobab, which grows in Africa. ORBIS also takes a clearly different approach to marketing this brand, compared with its other brands, opting to exclude the products from its mail-order catalog and

showcase the products in offprint leaflets instead. Advertising, in a departure from the standard mail-order practice of emphasizing product specifications and appealing features, cuts down the volume of text, uses attractive visuals to highlight key points and lets the brand concept and a view of the world that customers can identify with serve as the motivation to make a purchase. Through these strategies, sales closed in on the ¥1 billion mark in fiscal 2015 and continued to trend favorably in fiscal 2016.

New value creation derived from diverse perspectives

The *Rechercher* Project Team comprises 13 people from different in-house divisions and departments, including administrative divisions dealing with customer response and distribution and human resources, as well as product development divisions.

The noteworthy quality of this team is its integrated approach, covering everything from product planning to the creation of communication tools. In an environment akin to a brand manager system, the team actively invested time and effort in 2016 on new products with a high degree of originality. The team benefits from diverse perspectives transcending divisional boundaries, age groups and levels of experience, and new plans and value creation derived from the flexible thought processes that characterize discussions among team members have the potential to invigorate ORBIS, the main brand, as well.



Rechercher series

Staggered launch of seasonal collection *SAKURAISM* follows the path of blossoming cherry trees

THREE

Seasons are very important in Japanese culture, each creating its own special and fleeting moments to enjoy. In spring 2016, THREE began sales of *SAKURAISM*, a seasonal collection of skincare and makeup on a cherry blossom theme. (*Sakura* is Japanese for cherry blossom.)

SAKURAISM features skincare made with ingredients under a local production/local consumption principle upheld by THREE and makeup that evokes a sense of spring, or rather, the emotional response that manifests itself only in spring. The company put a fresh

spin on marketing activities for *SAKURAISM*, matching the start of sales to the blossoming of cherry trees. Sales kicked off in the Kyushu area, in the south, with product availability gradually extending north as blossoms opened in different areas. This innovative approach to promotion was talk-of-the-town news in the industry and the domestic market overall. With each successive launch date, products sold out immediately, leading to a huge improvement in brand value.

The skincare focuses on the holistic power of cherry blossoms and contains a blend of

safe and effective essential oils, including the fragrant component of cherry blossoms. The makeup, as only THREE can design, reflects moments associated with cherry blossom season as well as the various reactions that the sight of cherry blossoms produces.



SAKURAISM 2016 Season Collection

Creating new value and new demand through brand restaging

DECENCIA

DECENCIA, a brand especially for sensitive skin, grew out of an idea by a researcher under an in-house venture program. This researcher wanted to put a smile back on the face of his little sister, who suffered from atopic dermatitis. Seeking to strengthen the brand and promote wider demand, the company pursued restaging in 2016. Moving beyond the original targeting method, the company decided on two key target groups—a sensitive skin segment and a premium value segment.

On its website and through social media channels, DECENCIA streams a concept movie featuring women who the new target segments can identify with and admire. Actual DECENCIA customers appear in this film, which shows four women on career paths that they have decided on their own to travel.

The new corporate message is "Sensitive skin can be beautiful limitlessly." DECENCIA will strive to create new value and new

demand to elicit brand loyalty not only from the existing segment of women with sensitive skin but also from a new segment of women with a premium value perspective.



DECENCIA concept movie

R&D/Production System/Quality Control

Quasi-drug that “improves wrinkles.”¹

POLA CHEMICAL INDUSTRIES charted new territory in the industry with a medicated cosmetics product.

On sale: Japan's first quasi-drug that improves wrinkles¹

In January 2017, POLA debuted *POLA Wrinkle Shot Serum*, the first cosmetics product in Japan approved by the Ministry of Health, Labour and Welfare under quasi-drug rules for which efficacy claims of improving wrinkles can be stated.

Improvement of wrinkles by a quasi-drug had not been thought possible. What made POLA's product a success was the research expertise of POLA CHEMICAL INDUSTRIES. *POLA Wrinkle Shot Serum* reflects basic research in physiology and physicochemistry, aimed at boosting the value of luxury cosmetics, and various approaches in active ingredient development and formulation technique, aimed at creating a lasting cosmetics layer that locks in the finish and texture of a cosmetics product while protecting the skin from ultraviolet rays.

POLA CHEMICAL INDUSTRIES embarked on this research in 2002, a road that took 15 years and an investment of ¥1.5 billion to travel.

The biggest challenge for POLA CHEMICAL INDUSTRIES was to obtain approval in the new field of “wrinkle improvement”—that is, a reduction in the appearance of wrinkles—in addition to the benefits of conventional quasi-drug products, such as skin-whitening and repair of rough skin. Because there were no precedents to follow, the company had to start from scratch.

Three hurdles to clear for approval

Three big hurdles confronted the researchers. The first was to find an ingredient effective in improving wrinkles. There existed a variety of mechanisms that might cause wrinkles. In investigating and thoroughly studying all of these mechanisms, POLA CHEMICAL INDUSTRIES' researchers identified an undiscovered mechanism whereby neutrophils, a type of leukocyte that migrates to a site of inflammation, such as a cut, erroneously accumulate in a wrinkle site of the skin, as if it were a cut, and secrete elastase, which breaks down the extracellular matrix and eventually leads to the formation of wrinkles.

The team took a broad approach, exploring pharmaceuticals and other substances with the potential to effectively inhibit elastase activity. After the strenuous examination of wrinkle-improvement effectiveness, safety, etc., of some 5,400 substances, the search culminated in the successful development of the active ingredient NEI-L1², an amino acid derivative.

Notes: 1. Test to evaluate effectiveness, as stipulated by the Japanese Cosmetics 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%.
2. Neutrophil Elastase Inhibitor License 1
(Active ingredient: Sodium [(trifluoro-isopropyl-oxopropyl) aminocarbonyl] pyrrolidiny] carbonyl]-methylpropyl) aminocarbonyl] benzoylamino] acetate)

Hurdles cleared by integrating research, production and sales

The second hurdle was a formulation challenge—the active ingredient NEI-L1 was highly effective but hydrophilic, and difficult to keep stable in the formulation. Visits to research organizations all over Japan provided no clue to the necessary stabilization technology. What redirected the path to development, just as comments to abandon the effort began to circulate even in-house, was a break from the fixed idea that the active ingredient had to be used in a solubilized form.

Rather than dissolve the active ingredient in water, it was kneaded into the base as powder, thus achieving stability. This novel idea drew on experience that POLA CHEMICAL INDUSTRIES had gained by developing makeup products.

The third hurdle was a review by the authorities that extended the project another seven years. In 2009, a safety report and other materials were submitted to the Ministry of Health, Labour and Welfare in Japan. The authorities had never before received an application for a product related to wrinkles and responded with many questions. Each question was addressed logically and sincerely, with dozens of back-and-forth comments, and finally, in 2016, the application was accepted. Official approval to claim that the product improves wrinkles was the culmination of a process that took POLA CHEMICAL INDUSTRIES 15 years to complete—the achievement of a long-held dream.

With approval came the obligation of a post-marketing scrutiny, but POLA's direct-selling system facilitated successful implementation of this step.

A team player in constant innovation mode

POLA CHEMICAL INDUSTRIES, which actively participates in academic conferences by presenting research papers, has six times won top awards at the International Federation of Societies of Cosmetic Chemists (IFSCC) Congress, including interim conferences. The company vigorously pursues opportunities to collaborate with companies and organizations

in other industries to tackle joint research. Autophagy was a topic of interest in 2016, and the company presented research on the autophagy cycle[®] of skin investigated in 2012. In the background of advanced research, there exists a clear intention for POLA CHEMICAL INDUSTRIES to strive to distance itself from old technology, accumulated over the past 10 to 20 years, and constantly pursue innovation.

The recent approval of *POLA Wrinkle Shot Serum* as a quasi-drug product by the Ministry of Health, Labour and Welfare explains that medicated cosmetics work on the dermis. It is also a testament to the tremendous contribution that POLA CHEMICAL INDUSTRIES has made to women and to the cosmetics industry overall. The company will continue to pursue things that are new, with its researchers always in innovation mode.

History of Innovative Products

1952	Skin-whitening	POLA
Japan first	<i>Peculiar Cold Cream</i> , the first product in Japan to use the term “skin-whitening”	
1982	Hyaluronic acid	POLA
World first	<i>Perbona</i> , the world's first cosmetics product to contain hyaluronic acid	
1987	Oil-free	ORBIS
Industry first	ORBIS, the first 100% oil-free skincare brand in the cosmetics industry	
2009	Anti-glycation	POLA
New concept	New anti-aging series <i>B.A</i> targeting glycation	
2017	Wrinkle improvement	POLA
Industry first	<i>POLA Wrinkle Shot Serum</i> , a quasi-drug that effectively improves wrinkles	



Certificate of authorization to make and market a quasi-drug



Copies of question-and-answer documents provided to Ministry of Health, Labour and Welfare

Approved!!
First in Japan!

Sales/After-Sales Support

Connecting Emotionally with Customers Through Professional Responses

The operations of POLA—and, by extension, the POLA ORBIS Group—began from door-to-door sales of cosmetics. Face-to-face contact with customers has always been a vital component of business at POLA, and this approach permeates the Group as a whole. Each company under the Group umbrella listens carefully to customers not only to provide cosmetics and services under respective brand labels that address individual skin concerns but also to pinpoint latent needs and thereby deliver an experience that goes beyond customers' expectations.



Major decisions improve quality of Beauty Director structure

Since its earliest days, POLA has presented women with the chance to be active in business. But the external environment has changed over the years, and to ensure long-term corporate growth against a backdrop of increasingly discerning customer preferences, management at POLA decided to shift direction and turn its Beauty Directors—once known as POLA LADIES—into beauty professionals. It is these Beauty Directors who are closest to customers and thus facilitate that key face-to-face contact.

In 2016, POLA revised its commission system and began to concentrate management resources more heavily into Beauty Directors with a high level of professionalism and growth potential. This new emphasis dramatically transformed the structure of the frontline network, in terms of quality, by weeding out Beauty Directors who only plodded along and generated low customer sales, and inevitably streamlined the number of Beauty Directors to about 42,000, as of December 31, 2016, from 130,000 as of December 31, 2015.

The training of Beauty Directors also underwent a transformation. For example, POLA used to focus on the acquisition of skills at its seminars for Beauty Directors tapped to become shop owners. In 2016, however, the company embraced a different approach, introducing the World Café-style¹ dialogue and promoting a curriculum designed to

elicit intrinsic motivation. This included in-depth discussion on the theme "What makes Beauty Directors do the job they do?" Beauty Directors who participated in the seminar came away very satisfied with the experience and remained enthusiastic and motivated even after returning to their regular activities.

POLA fine-tuned its recruitment target as well, seeking to draw interest from working women in their 20s and 30s, and ran several recruitment forums under headquarters' lead to achieve this goal. To attract participants to the forums, the company created a promotional video with the tagline "This country is a developing country as far as women are concerned," which struck a chord with many women. Owing in part to growing interest in POLA due to this tagline, forums held in Tokyo, Osaka, Nagoya and Fukuoka attracted about 840 participants.

POLA

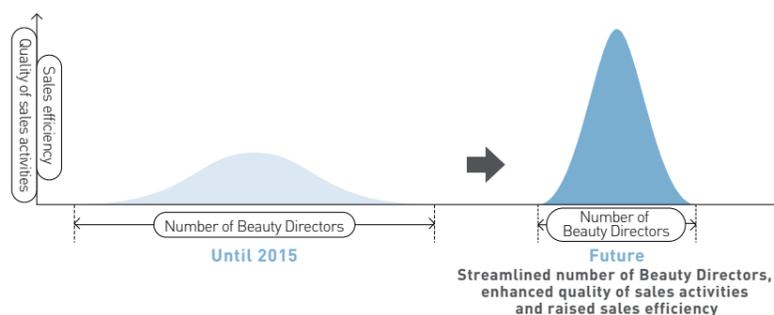


Seminar for Beauty Directors tapped to become shop owners



Recruitment forum

Change in Beauty Director Structure



At these forums, POLA not only described its business pursuits to potential Beauty Directors but also included presentations that women thinking of a career change might find useful. The forums received an overall satisfaction rate² above 90%.

POLA was able to reach its Beauty Director recruitment target and convey an

important message—that the company believes women should always remember they have the potential to play an active role in society. Going forward, POLA will continue to put efforts into regional recruitment forums, attract women eager for a career and turn them into professional Beauty Directors.

Notes: 1. A new approach to dialogue in which all participants share their opinions in a cozy cosmopolitan café atmosphere that encourages everyone to speak out. This approach enjoys a high rate of participant satisfaction.
2. Questionnaire filled out by 789 people.

Passionate about customer satisfaction

ORBIS

Value of customers' responses

Since its establishment, ORBIS has always put a priority on customer comments. This approach reflects a thoroughgoing emphasis on customer satisfaction, which enables customers to make purchases with total peace of mind. When the company began business, the mail-order sales route was not at all as prevalent as it is today, and building customer satisfaction was essential to the brand's future.

ORBIS emphasized services such as free shipping even on orders of just one item and returns within 30 days of purchase even if a product had been opened. The company also introduced toll-free ordering, which was rare at the time. Such efforts were made to forge good relationships with customers. Even today, with online ordering representing more than 60% of the company's mail-order sales, ORBIS still lends a corporate ear to customers and draws on their comments to make its services better from the customer's perspective.

High approval rating from outside organizations

Evidence of the success of its customer-

oriented approach is ORBIS' No. 1 ranking by Service Productivity & Innovation for Growth (SPRING) in the own-brand mail-order category in SPRING's 2016 Japanese Customer Satisfaction Index. ORBIS had previously held the top spot on this index for four straight years, from 2011 through 2014. Another indication of ORBIS' well-directed efforts is its No.1 ranking overall in a customer support survey conducted by Tribeck Brand Strategies, Inc. that targeted 119 companies in 17 sectors. In 2016, ORBIS extended its top ranking in this survey to four years. Such high outside evaluation is a true testament to ORBIS' passion to please customers.

Cultivating one-to-one communication on an even deeper level

ORBIS takes advantage of the unique characteristics of social media to actively provide information to customers and keep communication channels open.

The ratio of orders placed via smartphone is high, more than 60% of the orders ORBIS receives online. Given this situation, the company took steps to capture the interest of new customers through LINE, a messaging

app hugely popular with smartphone users in Japan. Spurred by the growing popularity of Uru-nyan, an ORBIS-original LINE character launched at the end of March 2015, the number of registered friends on LINE ranked No. 5*, as of December 2016. This kind of LINE-driven support has certainly helped ORBIS build promising points of contact with new customers.

ORBIS is also working to reinforce its one-to-one connection with customers. In June 2016, the company added access to LINE Business Connect, which facilitates distribution of targeted information like point balance updates and birthday greetings to users. The response from Business Connect users has been huge, and ORBIS expects this to translate into higher spending per customer.

*According to FBrank Co., Ltd. (<http://line.main.jp/>)



Uru-nyan

Placing value on direct dialogue with customers

DECENCIA

DECENCIA promotes its products through mail-order channels, mainly e-commerce. Consequently, there is little, if any, direct contact with customers, which makes it somewhat difficult for the company to hear customers' real-time comments. However, customer comments are indispensable for the company to fulfill its mission to ameliorate the concerns of women with sensitive skin. Since its earliest days, DECENCIA has therefore prioritized customer comments and made efforts to reinforce the bonds of trust that are the most intrinsic element of its marketing strategy.

Communication is key and always will be.

DECENCIA resourcefully creates opportunities for customers and employees to interact and exchange opinions. This effort makes customers comfortable with the brand, facilitates an understanding of what women with sensitive skin really want from cosmetics and provides feedback that the company can apply to develop products and enhance the quality of services. In 2016, DECENCIA held four customer events, including roundtable discussions, and in 2017, the company is considering the addition of regional events to its schedule.

Also of note, at the end of every year, employees send handwritten Christmas cards to customers as an expression of gratitude. Going forward, DECENCIA will continue to make communication with customers a priority while striving to provide products and services straight from the heart.



Customer event held in POLA Museum Annex

Growth Strategy by Brand (Flagship Brands)

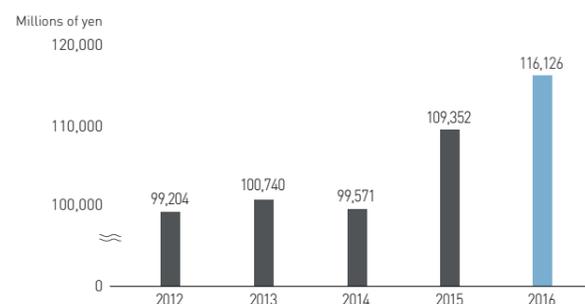
POLA

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



■ Net Sales

¥ 116,126 million (Up 6.2%)



Note: Consolidated basis

■ Operating Income and Operating Margin

¥ 16,993 million (Up 38.1%)



Note: Consolidated basis

Fiscal 2016 results

In 2016, POLA took a Companywide approach with activities aimed at boosting brand value, in line with a new brand strategy. On the sales front, we modified the commission system to develop a cadre of professional Beauty Directors better able to provide high-quality products and services to customers using excellent service techniques. We also invested in training and shifted toward a headquarters structure that emphasizes a closer

connection to the frontline. On the product front, we added special skincare products *B.A Protector* and *B.A Serum REVUP* to the *B.A* series and skin-whitening cream *White Shot RX* to the *White Shot* series. Our reputation among customers and industry experts was polished to a brighter shine through best cosmetics awards and other honors. Inbound demand was characterized by favorable interest in beauty-supporting health foods and dietary

supplements, especially *White Shot INNER LOCK IX*, as well as skincare. As a result, annual purchasing per customer rose about 6% year on year, driving sales up 6.2% over fiscal 2015.

Operating income jumped 38.1% year on year, as the higher net sales and an improvement in the cost of sales ratio fueled gross profit. The operating margin reached 14.6%, up 3.3 percentage points from a year ago.

Next-stage growth strategies

Boosting brand value

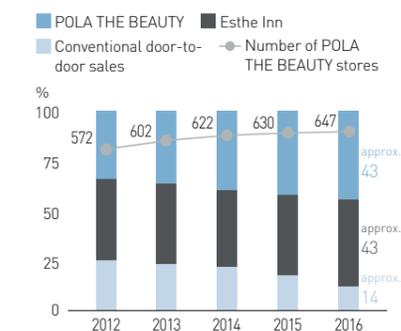
At POLA, we will continue to emphasize training, including recruiting processes, for our professional Beauty Directors and encourage them to polish their consulting skill, which is our strength. We will support Beauty Directors in maintaining and further improving service quality to provide their customers with top-quality services and thereby consistently increase the number of repeat customers. In addition, we will broaden the discretionary powers of brand managers, extending their authority all the way to planning and development, promotions and sales campaigns, and we will hammer out a clear policy on marketing that infuses each product with brand color. Moreover, we will continue to run internal branding activities that involve all employees.

Total beauty suggestions

We will turn the value provided by our products and services along with customer relationships into a cycle of positive creation that amazes and inspires customers. We will direct efforts into the development of highly distinctive next-generation products in the anti-aging and skin-whitening fields to follow on the success of *POLA Wrinkle Shot Serum*, which debuted in January 2017. By raising not only product performance features but also the emotional value gained through the use of POLA products and services, we will reinforce our ability to present total beauty options that further deepen understanding and appreciation of the brand. As a complement, we will promote the evolution of POLA THE BEAUTY, our

distinct offerings where customers can experience the brand.

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



For stakeholders

At POLA, we are working toward sustained growth and have embarked on a new medium-term management plan that hinges on our new corporate message of "Science. Art. Love." that will take us to 2020.

I believe the key to success is, as a prelude to any strategic course of action, to ask ourselves what kind of customers we want to attract and how we have to evolve to capture those customers. Given changes to the social landscape, we have defined POLA customers as women with a strong social conscience and deep cultural values who seek personal growth, and we want POLA to be a brand that these kinds of women choose. Toward this end,

management considered POLA's future ideal from a long-term perspective, setting up Special One—create relationships that raise each other up through "surprise and emotion" by crossing tradition and innovation. We are committed to enriching our connection to customers in terms of personal growth, social awareness and cultural pursuits by providing them surprise and emotion. In addition to realizing this long-term vision, we made "become a global brand by providing 'superlative hospitality' that generates 'surprise and emotion'" a medium-term goal to reach by 2020. Providing surprise and emotion is an essential facet in attracting customer loyalty. To

foster surprise, we need innovation. To foster emotion, we need good sense—perspective—and we will boost the value of the products and services we provide under the POLA label with the medium-term management plan action slogan Sense & Innovation. As the core brand of the POLA ORBIS HOLDINGS' portfolio, POLA will strive to realize sustainable, stable growth.



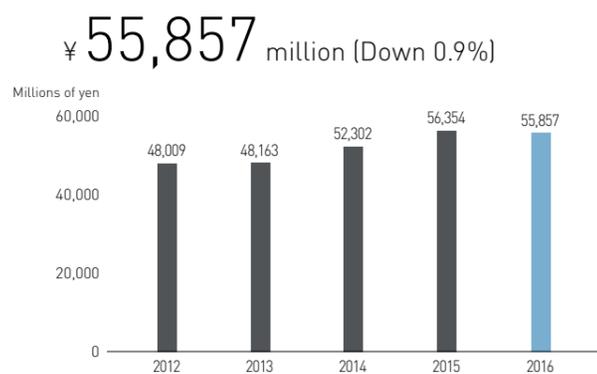
Yoshikazu Yokote
Representative Director and President
POLA INC.

ORBIS

Change is beautiful.
Skincare based on an original
oil-free concept



Net Sales



Note: Consolidated basis

Operating Income and Operating Margin



Note: Consolidated basis

Fiscal 2016 results

ORBIS posted a slight year-on-year decrease—0.9%—in net sales. This reflects a drop in the number of new customers that was not offset by an improvement in purchasing per customer achieved through the debut of new products and a cross-selling strategy. However, the customer retention rate moved generally in line with

expectations, and we saw that one-to-one marketing was delivering good results through an uptrend in the number of loyal customers. On the product front, our goal was to reinvigorate the lineup with a focus on skincare, highlighted by the addition of *ORBIS=U WHITE*, a skin-whitening product, to the top-of-the-line *ORBIS=U* series

and a new *Cleansing Liquid*, a mainstay product.

Despite a drop in gross profit paralleling the year-on-year dip in net sales, operating income edged up 0.7%, thanks to tighter control of expenses, such as those for advertising. The operating margin edged up 0.3 percentage point, to 20.2%.

Next-stage growth strategies

Complete renewal of mainstay *AQUA FORCE* series

The ORBIS brand has its roots in the *AQUA FORCE* series, which remains a mainstay skincare series. The primary customer base for this series is women in their late 20s to early 30s. We delved deeply into the outlook and lifestyle of women, particularly those in their 20s, and applied the results to product concepts and planning and development. We will accelerate efforts to attract new customers in this age group, which will become the brand's core customer segment five and 10 years from now, and use evolving demand to fuel a new stage of growth.

Going omnichannel

ORBIS' main sales channels are mail-order sales through the Internet and catalogs and store-based sales through directly operated locations. To date, we have pursued business development and higher efficiency matched to the characteristics of each sales channel. But going forward, we will strive to reinforce our ability to make suggestions to customers and enhance purchasing convenience to create a brand presence as One ORBIS, connecting with their lives and resonating in their hearts.

Sales Breakdown by Sales Channel



30th anniversary

ORBIS, established in May 1987, will celebrate its 30th anniversary in 2017. To mark this occasion, we will put into action various plans that express our appreciation to customers. In January, we launched a 30th anniversary site—#ORBIS—intended to increase connections with customers. We initiated a new kind of communication through social media, namely Instagram and Twitter, including a campaign for customers to post photos. We are also thinking about introducing 30th

anniversary limited-edition products.

ORBIS seeks to make every day a happy day for women who want to be themselves. For this reason, we will continue to offer various approaches that make the daily routine more fun and fulfilling.



For stakeholders

At ORBIS, we will push brand-restructuring even further than we have to date and make the brand a stand-out success. To achieve this, we must define more clearly than ever before the value that the ORBIS brand can deliver. Therefore, we have embraced a new mission—never limited by convention, we are working to create a culture of everyday beauty—and we

redefined the value we provide as making tomorrow more beautiful for everyone. We will implement strategies based on the "Simple, Essential, Discoverable" core component of our brand.

By promoting an omnichannel presence as only ORBIS can, drawing on inherent corporate strengths and presenting ORBIS as a lifestyle brand well suited to each

customer, we will ensure that the brand is in constant demand.



Yoshifumi Abe
Representative Director and President
ORBIS Inc.

Growth Strategy by Brand (Overseas Brands)

Jurlique

An organic brand featuring ingredients made from herbs grown on the company's own farm in Australia



Nutri-Define series

H2O+™ BEAUTY

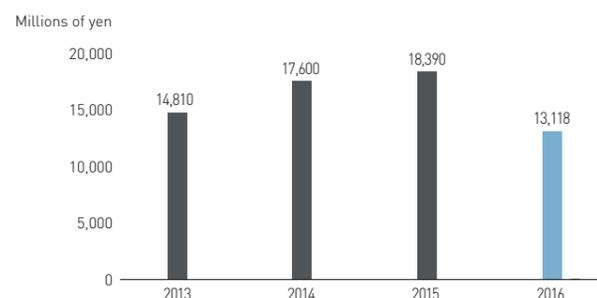
Skincare brand based on a concept emphasizing the hydrating power of water and innovative formulas



New series launched in 2016

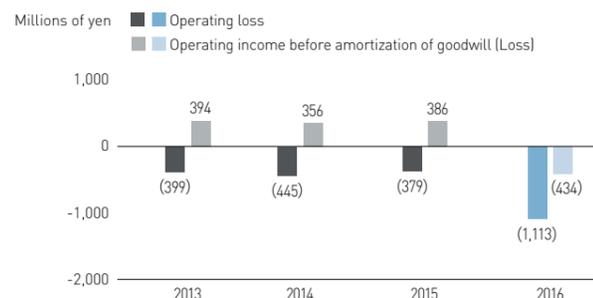
Net Sales

¥ 13,118 million (Down 28.7%)



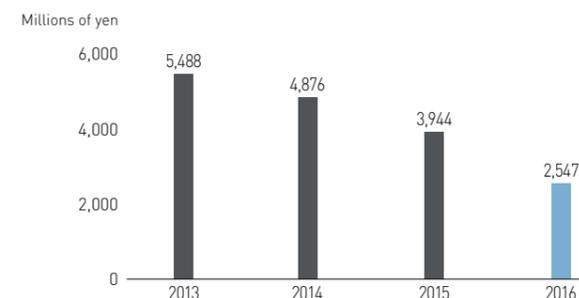
Operating Loss

¥ 1,113 million (¥733 million deterioration)



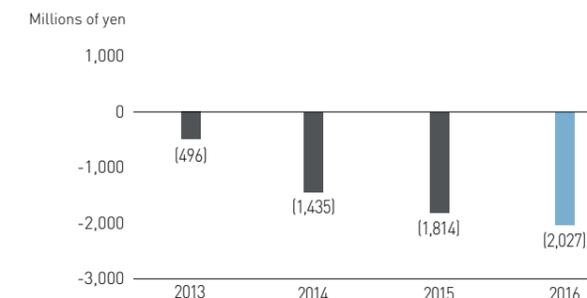
Net Sales

¥ 2,547 million (Down 35.4%)



Operating Loss

¥ 2,027 million (¥212 million deterioration)



Fiscal 2016 results and next-stage growth strategies

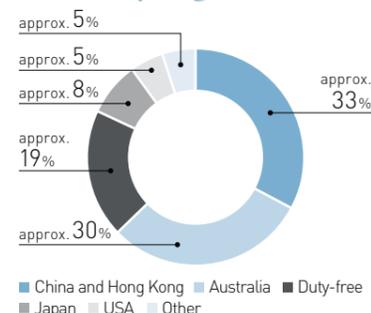
With regard to sales channels, Jurlique adopted a new business model that emphasizes agency sales in an effort to boost administrative efficiency in China. As a result, the basis for recording sales changed, leading to a drop in net sales. But on a retail basis, sales were at a year-on-year par. The potential for sales in Hong Kong and duty-free stores was limited by a decrease in tourist numbers. Meanwhile, in Australia, sales increased. But overall, sales and income declined, with sales tumbling 28.7% year on year and the operating loss deepening.

Growth strategies going forward

Seeking profitability, Jurlique will direct concerted efforts into building a stronger business base, with a focus on branding, a change in the product planning and development structure, and a restructured supply chain. The company will strive to stabilize existing business and raise brand profile, while also reinforcing revenue structure by strengthening ties to customers who share Jurlique's unique perspective—its corporate DNA—and concepts that

implement the customer relationship management (CRM) strategy.

Sales by Region (2016)



Fiscal 2016 results and next-stage growth strategies

A year has passed since H2O PLUS embarked on a determined process of brand-restaging, started in 2015. The company opted to outsource production, distribution and warehousing, and debuted products based on a new concept hinging on brand renewal. Products began appearing in stores, mainly in North America, from September, drawing a positive reception in all corners. Also, the company completed its withdrawal from China. Coinciding with this market pullout, the company streamlined sales channels in North America and

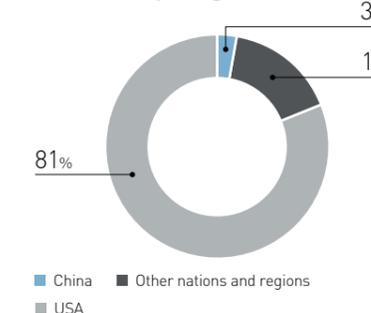
concentrated efforts into handling face care products. As a result, sales fell 35.4% year on year, and the operating loss worsened.

Growth strategies going forward

The process of brand-restaging will wrap up in 2017 and efforts will be directed toward building a sturdy structure primed for jump-starting growth. The company will selectively expand its market presence and carve out sales channels in line with the brand concept. On the product front, the company will promote restaged products

and constantly bring to market innovative products. The efforts will lead to a higher brand profile.

Sales by Region (2016)



Growth Strategy by Brand (Brands under Development)

THREE

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



DECENCIA

Skincare products for dry, sensitive skin

ORLANE
PARIS

A well-established high-prestige brand of skincare cosmetics from France with anti-aging properties



TOPICS

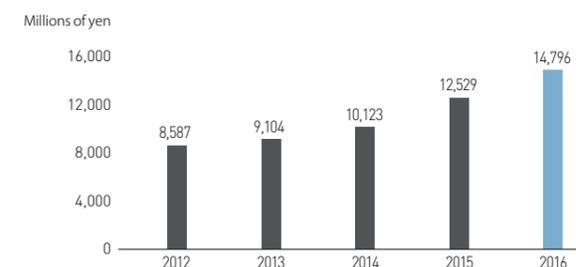
Sale of shares in consolidated subsidiaries

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, the Company executed a review of its brand portfolio, based on its multi-brand strategy.

Seeking to raise investment efficiency but also to concentrate management resources into products in the mid- to high-priced range—a Group strength—and sales channels that link directly with customers, POLA ORBIS HOLDINGS sold all shares associated with the FUTURE LABO brand and all shares associated with the pdc brand in November and December 2016, respectively.

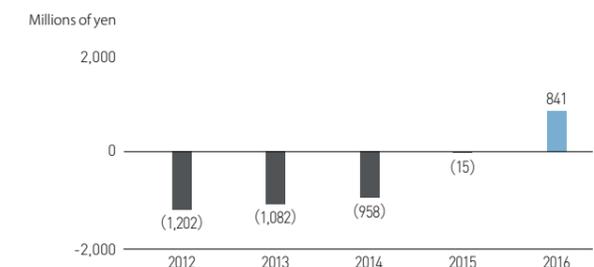
Net Sales

¥ 14,796 million (Up 18.1%)



Operating Income (Loss)

¥ 841 million (¥856 million improvement)



Fiscal 2016 results

THREE

THREE expanded its presence with makeup product hits and achieved high growth at department stores, directly operated stores and semi-self-select stores. In July, the company opened its own e-commerce site. The company's overseas profile is also rising, buoyed by entry into Malaysia in April and Hong Kong in September to complement existing sales activities in Thailand, Taiwan

and Indonesia. Sales soared 48% year on year, and profit increased about ¥600 million, marking THREE's first profitable year on a non-consolidated basis.

DECENCIA

DECENCIA seeks to realize further growth, and toward this end embarked on brand-restaging to elicit wider awareness of brand value among customers looking for cosmetics

that are not only ideal for the sensitive skin market but also for the market that wants safe and worry-free ingredients in products. In November, the company refreshed its brand statement, taking the idea that "Sensitive skin can be beautiful limitlessly," and revamped *ayanasu*, a core anti-aging skincare line. Sales skyrocketed, up more than 50% year on year, and profit hovered near ¥200 million. The operating margin also improved.

Next-stage growth strategies

THREE

Going forward, THREE will continue to expand sales locations in Japan, especially department stores and directly operated stores. In addition, the company will strengthen branding activities through a larger selection of holistic products, including skincare, and attract a larger customer base through distinctive new products that convey the brand's worldview perspective, then aggressively develop an overseas presence and leverage the brand globally.

DECENCIA

The new *ayanasu* line focuses on a stress-induced mechanism that causes rough skin. Using this as a springboard, DECENCIA will expand the potential of sensitive-skin cosmetics to attract new customers and thereby enlarge its scope of business. Toward this end, the company will develop its store network to raise brand recognition and galvanize brand power.

New brand creation

POLA ORBIS HOLDINGS is resourcefully investing in creating new brands, which are the buds of future growth. A full-scale new start to business, including the creation of new brands from existing brands and an in-house venture program, will occur in or after 2018, with the objective being to create several distinctive brands.

Capital Efficiency and Shareholder Returns

Emphasizing Both Higher Capital Efficiency and Stable Returns to Shareholders

We will steadily improve corporate value by achieving growth in net income that exceeds growth in operating income and by enhancing shareholder returns through a basic policy centering on a consolidated payout ratio of at least 60%.

Improve capital efficiency

We will raise ROE and enhance corporate value, working toward an ROE of 12% by 2020.

EPS Earnings per share

Operating income: CAGR 10% or higher

Realize higher net income
growth than operating income → Lower effective tax rate by
reducing loss in overseas
business

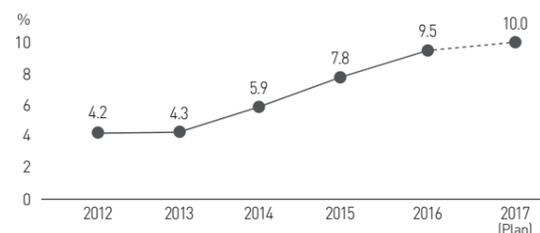
BPS Book value per share

Enrich shareholder returns

Growth investments with financial efficiency in mind
Higher returns from net assets → Revise upwardly policy on consolidated payout
ratio, from more than 50% to more than 60%

ROE reached 9.5% in fiscal 2016, up 1.7 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



Enrich shareholder returns

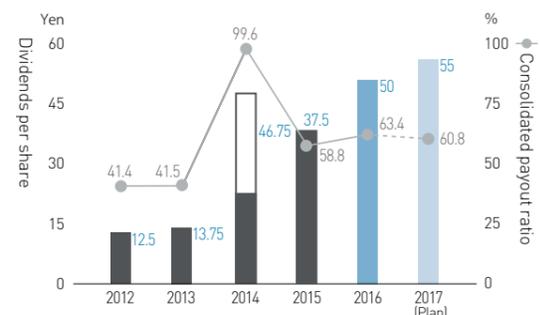
Dividend policy: Aim for stable improvement in shareholder returns, underpinned by a consolidated payout ratio exceeding 60%

Before split	After split
Dividends per Share for Fiscal 2016 (Results)	Dividends per Share for Fiscal 2017 (Forecast)
Annual dividend: ¥200	Annual dividend: ¥55
Comprising ¥90 interim and ¥110 year-end dividends Consolidated payout ratio: 63.4%	Comprising ¥25 interim and ¥30 year-end dividends Consolidated payout ratio: 60.8%

On April 1, 2017, POLA ORBIS HOLDINGS executed a stock split (4:1). A comparison of dividends before and after the split showed ¥50 and ¥55, respectively, for a ¥5 increase per share.

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

Annual Dividend and Consolidated Payout Ratio



Notes 1: □ indicates special dividend.
2: Dividends per share before the stock split have been restated based on the number of shares after the stock split.

Enhance Corporate Value by Improving Capital Efficiency



Naoki Kume
Director and Vice President
POLA ORBIS HOLDINGS INC.

Listed companies are required to generate a level of capital efficiency that exceeds capital costs and work toward enhanced corporate value. Under the previous medium-term management plan, which began in 2014, POLA ORBIS HOLDINGS initially set itself the specific target of ROE of 8% but revised this target before the plan ended and achieved ROE of 9.5% in 2016. The next goal is ROE of 12% by 2020. A higher ROE requires success on the following two points.

First, we have to boost net income, the numerator in the ROE equation, by expanding cosmetics sales, our core business. Then, we have to enhance the efficiency of net assets, the denominator. Growth in net income is dependent upon our success in improving operating income.

As a result, we have been working not only to boost net sales but also to improve the cost of sales ratio, mainly through a review of the value chain. In fiscal 2016, the cost of sales ratio improved about 0.7 percentage

point. By being determined to keep selling, general and administrative expenses below net sales growth, we will realize a compound annual growth rate of 10% or higher for operating profit. In conjunction with this, we will see net income growth exceed operating income growth, primarily because of better profitability conditions at overseas operations, which will lead to a lower effective tax rate.

Second, to enhance the efficiency of net assets, we strive to return profits to shareholders based on our dividend policy. Taking into consideration the status of shareholders' equity, we upwardly revised our basic policy on returns to shareholders, adopting a payout ratio of 60% or higher from the previous 50% or higher, on a consolidated basis. In line with this policy, the ordinary annual dividend for fiscal 2016 was ¥200 per share, up ¥50 per share from fiscal 2015. We anticipate an annual dividend of ¥55 per share in fiscal 2017 (after the stock split).

Selected FY2017 Targets

Consolidated net sales
¥227,000 million
(Up 3.9% yoy)

Operating income
¥31,000 million
(Up 15.2% yoy)

Net income attributable to owners of parent
¥20,000 million
(Up 14.6% yoy)

ROE
10.0%
(Up 0.5ppt yoy)

Consolidated payout ratio
60.8%

Basic Stance on Corporate Governance

Toward Improvement in the Overall Corporate Value of the Group

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.

In conjunction with the mission, the Way and the approach to operations,

POLA ORBIS HOLDINGS incorporates compliance into CSR activities, emphasizing compliance as an integral part of business. As a corporate group, we strive to be a good corporate citizen, deepening ties with various stakeholders, including shareholders and business associates, fulfilling our corporate responsibility and, by building trustworthy connections, ensuring long-term development of the Group. In addition, POLA ORBIS HOLDINGS 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

Functional Structure	Company with a Board of Corporate Auditors
Number of directors/Term of office	8 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	Welcomed two outside directors
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

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

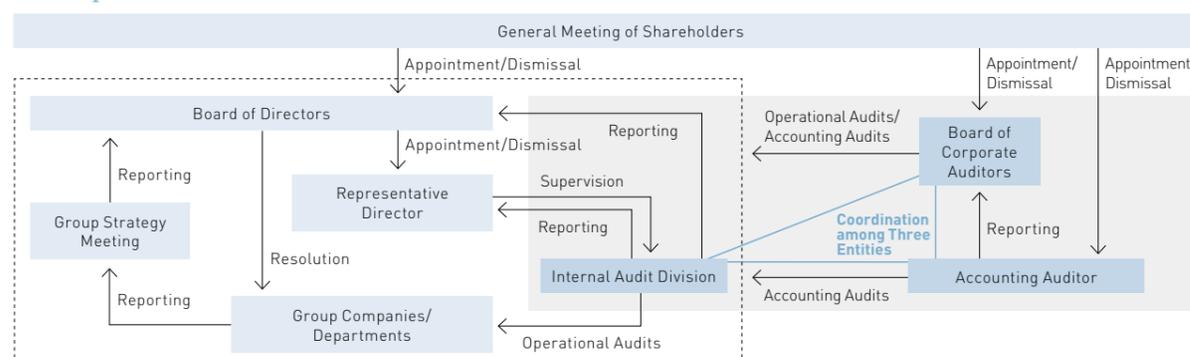
the constant pursuit of sustainable improvement in the corporate value of the Group. The Company's Board of Directors formulated "Basic Policy on Corporate Governance," based on five

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



Overview of Key Corporate Governance Structures

	Purpose and Activities	Members	Meeting Schedule
1. Board of Directors	Supervises subsidiaries, makes decisions for the Group regarding important matters, and makes resolutions and reports regarding key management issues	Eight directors	At least once a month. In 2016, directors met 25 times, including extraordinary meetings
2. Group Strategy Meeting	Receives reports from the Company and its subsidiaries about important matters and discusses the content to identify steps to promote profitability and support development of the Group as a whole	Mainly directors and all corporate auditors of the Company as well as selected subsidiary presidents and directors	Monthly. In 2016, strategy meetings were held 21 times
3. Board of Corporate Auditors	Corporate auditors attend general shareholders' meetings, Board of Directors' meetings, Group Strategy 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 2016, corporate auditors met 14 times, including extraordinary meetings
4. Internal Audit Division	Evaluate and verify management activities (risk management, internal controls, governance) that will contribute to achievement of management targets at the Company and each Group company, and offer advice, recommendations, and suggestions for improvement	12 members, eight of whom are in charge of internal audits	In 2016, there were 13 audits at 12 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 2016, the Group CSR Committee met five times, and the CSR executive office managers met 12 times

Matters Related to the Board of Directors

Evaluating Board of Directors' Effectiveness

POLA ORBIS HOLDINGS evaluated the effectiveness of the Board of Directors, in line with basic policy on corporate governance. A summary of the results follows.

1. Evaluation methods

The following methods are used to execute a multi-faceted evaluation.

- i. Self-evaluation
All in-house members of the Board of Directors complete a questionnaire-based self-evaluation.
- ii. Evaluations by outside directors
Meetings of only the four independent outside directors to discuss and evaluate the effectiveness of the Board of Directors.

- iii. Evaluations by employees
POLA ORBIS HOLDINGS seeks to integrate a multi-angled perspective into employee training and evaluations and invigorate communication between the management team and employees, and takes an original approach to evaluation through which people who have gone through in-house programs, such as the Top Management Development Program, are selected to sit in on executive meetings as observers or interview members of the Board of Directors.

All results gleaned from these evaluation methods are compiled by a secretariat and passed on to the Board of Directors. The Board then analyzes and verifies the content, and pursues discussion of concrete action plans aimed at improving inherent function and effectiveness.

4. Future activities based on evaluation results

Going forward, we will promote management practices that push efficiency to even higher levels through the prompt implementation of the following activities, supervision and verification of inherent processes, and revisions when and where necessary.

1) Run meetings more efficiently

- Further narrow down business management themes and business execution themes by establishing a new business execution meeting
- Introduce targets and put verification into practice

2. Evaluation components and perspective

General evaluation (five points): Based on POLA ORBIS HOLDINGS' basic policy on corporate governance

- i. Make judgments from a long-term perspective, release information and implement decisions
- ii. Make decisions from a stakeholder (society, customers, suppliers, employees, shareholders, etc.) perspective, release information and implement decisions
- iii. State contributions to strategic development and management direction
- iv. Establish an environment conducive to smooth execution of operations and audit status thereof
- v. Contribute to Board of Directors' solidarity and diversity

Individual evaluation (three points): Items proposed at January 2016 meeting of independent outside directors

- i. Run meetings more efficiently
- ii. Train and recruit inside and outside the Group for next generation of management
- iii. Identify issues and risks at overseas operations, establish an environment to draft and implement countermeasures, and supervise progress

3. Summary of analysis and evaluation results

The outcome of discussions related to evaluation results confirmed that the structure and application of the governance system, which effectively plays a role parallel to that of the Board of Directors, is working appropriately. The following three themes were recognized as having room for improvement.

1) Run meetings more efficiently

- Screen agenda to be covered by Board of Directors and allocate time to each agenda topic
- Ensure sufficient time for focused discussion on important themes

2) Overseas operations

- Establish structure to improve approaches applied to overseas operations
- Attract global human resources and design program to develop skills

3) Create plan for next generation of management, train human resources

- Finalize plan for next generation of management
- Build greater diversity among human resources

* Other shared items

- Accelerate activities (implement systems, create new schemes/structures) to underpin improvements
- We also confirmed that the Board of Directors plays a role in contributing to awareness of the new Group philosophy and the process of personal internalization.

2) Develop skills of future candidates for management positions

- Formulate a plan for next generation of management, including training, and have Board of Directors supervise progress

3) Overseas operations

Short- to medium-term actions

- i. Reinforce efforts to attract global human resources in Japan
- ii. Establish program to train global human resources
- iii. Increase number of staff sent from Japan to overseas offices

Medium- to long-term actions

- iv. Establish local hiring and training program

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.	80% 20 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.	80% 20 of 25 meetings

Outside Executives' meeting—agenda items

The POLA ORBIS Group looks to the four independent outside directors, who gather at special meetings where only they discuss and evaluate the effectiveness of the Board of Directors. The Company, and by extension, the Group, promotes highly efficient management practices by giving these outside directors the responsibility of supervising and verifying efforts by the Board of Directors to deal with issues of importance.

<p>Meeting Date</p> <p>Monday, January 30, 2017</p> <p>Participants</p> <p>Outside Directors Kazuyoshi Komiya Yumiko Kamada</p> <p>Outside Corporate Auditors Akio Sato Motohiko Nakamura</p>	
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Evaluation of Actions Addressing Issues on the Agenda

<p>1 Run meetings more efficiently</p> <ul style="list-style-type: none"> ● Management has the right attitude but has not yet reduced the amount of materials to go over or shortened meeting times. ● Specific indicators and a timeline for improvement have not been set. ● Topics for discussion have not been sufficiently streamlined. ● Detailed discussions often drag on, limiting time to consider important topics. ● Efforts toward improvement are not speedy enough. 	<p>2 Train and recruit inside and outside the Group for next generation of management</p> <ul style="list-style-type: none"> ● There is an awareness of the issue, but no progress on a definitive plan for the next generation of management nor any highly effective personnel development strategy. ● Employee uniformity is extremely high; diversity is needed. Not many people with a different perspective. ● Weak Companywide effort to attract and keep global human resources. ● Weak structure to train and develop global human resources. ● Weak efforts made to hire foreign staff in Japan. 	<p>3 Identify issues and risks at overseas operations, establish an environment to draft and implement countermeasures, and supervise progress</p> <ul style="list-style-type: none"> ● Everyone recognizes that this issue is important and urgent, but the information presented is not particularly timely or accurate, and issues and risks do not seem to be properly identified. Extremely slow responses. ● Involvement in overseas operations is better than it was, but Groupwide awareness—overall involvement—is still weak. ● Weak system or organizational structure to better control overseas operations, including sending members of management from Japan.
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Management Structure (As of December 31, 2016)



Satoshi Suzuki
Representative Director and President

April 1979
May 1986
February 1996
June 1996
January 2000
September 2006
December 2006
April 2010
January 2016

Joined Honda R&D Co., Ltd.
Joined POLA Cosmetics, Inc. (currently POLA INC.)
General Manager, General Coordination Office, POLA Cosmetics
Director, POLA Cosmetics
Director, POLA CHEMICAL INDUSTRIES INC.
Representative Director and President, POLA CHEMICAL INDUSTRIES INC.
Representative Director and President, POLA Cosmetics (currently POLA)
Representative Director and President, POLA ORBIS HOLDINGS INC. (current)
Director, P.O. REAL ESTATE INC.
Representative Director and Chairman, POLA
Chairman, POLA (current)



Naoki Kume
Director and Vice President

April 1984
October 2004
April 2005
January 2007
January 2008
July 2008
July 2011
February 2012
January 2014
April 2016

Joined POLA Cosmetics, Inc. (currently POLA INC.)
General Manager, Accounting Division, POLA Cosmetics
Corporate Officer and General Manager, Group Organization Strategy Division, POLA Cosmetics
Director, POLA Cosmetics
Corporate Officer, General Manager of Management Planning and Group Organization Strategy, POLA ORBIS HOLDINGS INC.
Director, General Manager of Management Planning and Group Organization Strategy, POLA ORBIS HOLDINGS
Director, POLA ORBIS HOLDINGS
Director, H2O PLUS HOLDINGS, LLC (currently H2O PLUS HOLDINGS INC.)
Director, Jurlique International Pty Ltd
Director and Vice President, POLA ORBIS HOLDINGS
Director and Vice President, POLA ORBIS HOLDINGS
Global Headquarters Executive General Manager (current)
Director, POLA (current)
Director, ORBIS Inc. (current)



Akira Fujii
Director

April 1979
September 2000
January 2004
April 2005
January 2007
January 2008
March 2008
July 2008
December 2010
January 2011
January 2015

Joined POLA Cosmetics, Inc. (currently POLA INC.)
General Manager, Fashion Business, Planning and Sales Division, POLA Cosmetics
Representative Director and President, Osaka POLA
Corporate Officer, POLA Cosmetics (currently POLA)
Director and General Manager, Catalog Business Division, POLA Cosmetics
Director and General Manager, Public Relations Division, POLA Cosmetics
Director, POLA ORBIS HOLDINGS INC.
Director and General Manager, Group PR, POLA ORBIS HOLDINGS
Director, POLA (current)
Director and General Manager, PR & IR, POLA ORBIS HOLDINGS
Director, POLA ORBIS HOLDINGS
Director and General Manager, Corporate Communications, POLA ORBIS HOLDINGS (current)



Yoshikazu Yokote
Director

April 1990
October 2003
August 2006
July 2011
January 2015
January 2016
March 2016

Joined POLA Cosmetics, Inc. (currently POLA INC.)
Manager, General Coordination Office, POLA Cosmetics
Representative Director and President, FUTURE LABO INC.
Chairman, Managing Director, POLA CHINA BEAUTY CO. LTD. (POLA Shenyang) (current)
Corporate Officer, General Manager, Product Planning Division, POLA
Representative Director and President, POLA (current)
Director, POLA ORBIS HOLDINGS INC. (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.

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.

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.

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.



Takao Miura
Director

April 1984
March 1994
January 2002
March 2005
December 2006
January 2007
January 2008

Joined POLA Cosmetics, Inc. (currently POLA INC.)
General Manager, Secretarial Office, POLA Cosmetics
Corporate Officer and General Manager, Corporate Legal Affairs, POLA Cosmetics
Director, POLA Cosmetics
Representative Director and President, P.O. REAL ESTATE INC.
Corporate Officer and General Manager, Legal Affairs, POLA ORBIS HOLDINGS INC.
Director and General Manager, Legal Affairs, POLA ORBIS HOLDINGS

January 2009 Director and Vice President, POLA ORBIS HOLDINGS
January 2013 Director, POLA ORBIS HOLDINGS
Director and Senior Executive Vice President, POLA CHEMICAL INDUSTRIES INC.
January 2015 Director, POLA ORBIS HOLDINGS
Representative Director and President, POLA CHEMICAL INDUSTRIES INC. (current)



Yoshifumi Abe
Director

April 1980
February 1998
January 2005
January 2007
July 2008
January 2012
September 2014
December 2014
March 2015

Joined POLA Cosmetics, Inc. (currently POLA INC.)
Representative Director and President, POLA Kita-Kyushu Sales Co., Ltd.
Chief of CRM and Customer Call Center, POLA Cosmetics, Inc. (currently POLA INC.)
General Manager, Management Planning Division, POLA INC.
General Manager, Management Planning Division, POLA ORBIS HOLDINGS INC.
Director and Vice President, ORBIS Inc.
Director and Senior Executive Vice President, ORBIS Inc.
Representative Director and President, ORBIS Inc. (current)
Director, POLA ORBIS HOLDINGS (current)

According to his director competency evaluation, Mr. Miura demonstrates a unique leadership style in that even when faced with particularly challenging situations, he has the ability to take the right steps, on an individual and organizational level, and set the stage for cultivating a good corporate culture.

According to his director competency evaluation, Mr. Abe's strong point is that he does not confine himself to existing concepts or mainstream interpretations. Rather, he is always keen to incorporate new perspectives into his own, which translates into a high degree of adaptability to changing conditions and market influences.



Kazuyoshi Komiya
Outside Director

April 1981
November 1991
December 1991
March 1994
April 1994
January 1996
June 1997
June 2002
March 2003
March 2005
June 2011
May 2012
October 2014
March 2015
April 2015

Joined The Bank of Tokyo, Ltd. (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
Resigned from The Bank of Tokyo, Ltd.
Joined Okamoto Associates, Inc.
Resigned from Okamoto Associates, Inc.
Joined Nippon Fukushi Service K.K. (currently SAINT-CARE HOLDING CORPORATION)
Resigned from Nippon Fukushi Service K.K.
Representative Director, President, Komiya Consultants, Inc. (current)
Outside Corporate Auditor, Sankei Giken Kogyo Co., Ltd. (current)
Outside Director, WAO CORPORATION (current)
Outside Director, CAS Capital, Inc. (current)
Outside Corporate Auditor, Sankei Giken Holdings Co., Ltd. (current)
Outside Corporate Auditor, APOLLO MEDICAL HOLDINGS Co., Ltd. (current)
Outside Director, Kindware Corporation (current)
Visiting professor, Nagoya University (current)
Outside Director, POLA ORBIS HOLDINGS INC. (current)
Representative Director, President, Head Office, Komiya Consultants, Inc. (current)



Yumiko Kamada
Outside Director

April 1989
June 2005
November 2008
May 2013
January 2015
February 2015
March 2015
June 2015

Joined East Japan Railway Company
Representative Director, President, JR East Station Retailing Co., Ltd.
Director General, Life-style Business Development Headquarters, East Japan Railway Company
Deputy Manager, Frontier Service Development Laboratory, Research & Development Center of JR East Group, East Japan Railway Company
Resigned from East Japan Railway Company
Senior Executive Officer, CALBEE, Inc. (current)
Part-time Director, LUMINE CO., LTD. (current)
Outside Director, POLA ORBIS HOLDINGS INC. (current)
Outside Director, THE MICHINOKU BANK, LTD. (current)

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 <i>Bi-i-shiki</i> (=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.



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 (current)
March 2015 Corporate Auditor, 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)
January 2012 Outside Director, GMO CLICK Holdings, Inc.
April 2012 Part-time Lecturer, Keio Business School (current)
October 2014 Outside Director, Tokyo TY Financial Group, Inc. (current)
June 2015 Outside Director, Kirayaka Bank, Ltd. (current)
June 2016 Outside Corporate Auditor, COSMONET CO., LTD. (current)
Outside Director, Aozora Trust Bank, Ltd. (current)
December 2016 Outside Corporate Auditor, SnSnap Inc. (current)



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. (current)
July 2013 Chief Executive, JICPA (current)
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)

Actual practice of director training

Amid changes in society and the Group's operating environment, POLA ORBIS HOLDINGS defined 13 required behavior characteristics—executive competencies—that will consistently fulfill the corporate and social responsibilities of the Company and, by extension, the Group. Directors undergo regular assessment of their demonstration of these 13 points by an

external organization, in accordance with the Group's director system. In 2016, the external organization conducted interview-style assessments and multi-faceted examinations of 14 directors. Furthermore, four members of senior management—two directors and two corporate officers—were involved in a six-month coaching program last year that utilized assessment

results. Through daily observation of executives selected for this program by external coaches, the Company will be able to remedy leadership issues in need of improvement. Painting a future picture of business from a long-term perspective, the Company can provide opportunities to develop behavior befitting business leaders who will drive the organization forward.

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 2016

Category	Number of persons	Compensation amount
Directors (of which, outside directors)	9 (2)	¥218 million (¥16 million)
Corporate auditors (of which, outside corporate auditors)	3 (2)	¥35 million (¥13 million)
Total	12	¥253 million

Notes:
1. The data above includes one director who retired on March 30, 2016.
2. 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.
3. 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.
4. Compensation amount includes ¥26 million in director bonuses applicable to the fiscal year under review (¥23 million paid to six directors and ¥3 million paid to one corporate auditor) and stock option compensation of ¥32 million provided to seven directors in the fiscal year under review.
5. No individual received ¥100 million or more in total consolidated compensation in the fiscal year under review.

Executive Compensation Received by Directors and Corporate Auditors from Subsidiaries during the Fiscal Year under Review

Category	Number of persons	Compensation amount
Directors (of which, outside directors)	5 (—)	¥88 million (¥— million)
Corporate auditors (of which, outside corporate auditors)	— (—)	¥— million (¥— million)
Total	5	¥88 million

Notes:
1. The data above includes one director who retired on March 30, 2016.
2. Amount includes director bonuses of ¥15 million (for four directors) in the fiscal year under review.

Breakdown of Director Compensation by Type (Fiscal 2016, actual)

Type of compensation	Ratio
Fixed compensation	72.6%
Variable compensation	Bonuses 11.5%
	Stock options 15.9%
Total	100%

Notes:
1. The data above applies to seven directors, including one who retired on March 30, 2016, but does not include outside directors.
2. The breakdown of compensation by type excludes compensation received from subsidiaries.

Human Resources

Through Human Resources Development that Heightens Sensitivity and Esthetic Sense, Let the Personality of Each and Every Employee Shine

The new philosophy for the POLA ORBIS Group takes its cue from a future ideal that the Group seeks to achieve by 2029—maximizing the unique character of each brand, and becoming a global corporate group that enriches the lives of people around the world. Improving the qualities of each brand requires the individuals involved in brand creation to hone a sharper ability to see things from their own personal points of view and to reveal their personalities. Toward this end, the Group seeks to develop human resources in a way that respects the feelings and sensibilities of each and every employee and polishes inherent qualities to a brighter shine.

Efforts to encourage Group employees to embrace new patterns of behavior, in line with a new philosophy

In 2017, POLA ORBIS HOLDINGS defined a new philosophy to guide the Group, clarifying shared values and requiring conduct under the “Way.” The first point of this five-point Way blueprint is “Be gracious to others, and express your individuality with flair.” As applied to the Group, “flair” implies a sense of beauty

and hinges on personal perspectives and sensitivity, and the ability to influence others in a positive way. It is therefore vital that all employees under the POLA ORBIS Group umbrella cultivate a presence that kindles inspiration in others through the individual personality and charm of each human being. To help employees develop

the ability to inspire others, we run a training program—an art workshop—designed to stimulate the senses and elicit an emotional response to beauty, from an art appreciation perspective. We also emphasize specific measures, such as competency evaluation, to ensure a certain standard of conduct throughout the Group.

POLA ORBIS Group’s New Philosophy

Mission

Mission/Raison d’être/
Purpose

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

Corporate image ideal

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

Way

Sense of values/
Action guidelines

- ▶ Be gracious to others, and express your individuality with flair.
- ▶ Cultivate your aesthetic sense and personal tastes.
- ▶ Respond to challenges and changing circumstances with flexibility.
- ▶ Show care for the environment in all that you do.
- ▶ Think independently and work cooperatively to grow as individuals and as a group.

Art Workshop—a Place to Discover Different Points of View, Perceptions Program to develop the next generation of management

A pattern of behavior viewed as extremely important within the POLA ORBIS Group—and highlighted in our new philosophy—is a *bi-i-shiki**. Within the Group, all employees, including directors, must possess a *bi-i-shiki*. It is, in fact, a required competency. The art workshop was launched in 2015 as part of a program to hone this sense, namely, the ability to recognize and articulate personal viewpoints and feelings through art appreciation. In 2016, as a follow-up to the 2015 start of the program for directors, we held workshops for participants in the Future Study Program

and the Top Management Development Program, which cultivate the skills of the next generation of management.

The art workshop is an opportunity for participants to engage in art appreciation with items in the POLA Museum of Art’s collection, talk about the intuitive impact of a painting and personal interpretation of the scene portrayed, then share points of view and perceptions. Paintings are like mirrors, reflecting the personal experience and mental imagery of whoever gazes upon them. The visual component of the workshop enables participants to enhance intuition and fine-tune their

ability to verbalize inner thoughts and impressions. The appreciation aspect of the workshop explores the way others perceive things, allowing participants to recognize that points of view vary from person to person and to be receptive to diverse value judgments.

The art workshop is an approach to behavior development unique to the POLA ORBIS Group. Going forward, we will continue to provide this opportunity to cultivate the skills of the next generation of management and enable as many employees as possible to participate.

POLA Museum of Art: Art Workshop Report (in September 2016)

Under beautiful autumn skies, six participants in the Future Study Program for young employees and four participants in the Top Management Development Program for managers gathered for interactive training. The 10 people represented a wide age group, from people in their 20s to those in their 40s.

The workshop was primarily an interactive art appreciation session, with all participants looking at the same paintings and articulating their own views on those paintings.

The first painting was *The Pink Skiff* (1890) by Claude Monet. Absolutely no background about the painting, which features two women in a boat, was provided—not who they are nor the context of the situation depicted—and participants were asked to comment, based simply on what they saw and felt.

“The women are sisters.” “Someone’s

daughter and her nanny.” “Rivals, maybe?” Of the 10 participants, no two saw the women the same way.

The second painting was *Without Support* (1923) by Wassily Kandinsky. The common thread in interpretation was again that each person saw something different, exemplified by such comments as “It reminds me of a music score for instruments,” “Looks sort of futuristic” and “Shows light and darkness in our world.” The diversity of comments and the perceptiveness of participants provided excellent mental stimulation.



For the last activity, each participant chose a favorite painting and presented it to the others. Once again, participants were exposed to impressions shaped by personality and values different from their own. This brought the workshop to a

close.

■ Reflections from Participants (excerpts)

“As we delved deep into several paintings, I realized how my values shape an impression of something.”

“This was a great opportunity for me to see how perspectives differed among the participants. Acknowledging diversity in points of view now comes second nature to me.”

“This was an effective approach to deepen mutual understanding among us, as we are of different ages and at different stages of our careers and have different sets of values.”

**Bi-i-shiki* (= Esthetic sense): The ability to respect and express one’s own perspective and sensibility without depending on others.



Developing competency-driven patterns of behavior Groupwide

Rebuilding competencies of Group employees

To realize the Group's new philosophy, POLA ORBIS HOLDINGS established a new structure—the POLA ORBIS Group Employee Competency Model—targeting general positions within the Group to encourage each and every employee to adopt new behavior patterns matched to the changing environment. This model is based on the POLA ORBIS Group Executive Competency Model, completed in 2015, but features revised performance characteristics for candidate leaders and executives. In 2017, we will initiate an evaluation system at all Group companies. In addition, we will run programs like

competency evaluation seminars and the 360° Survey, which takes into account comments from the person being evaluated as well as those of supervisors, junior

staff and colleagues with whom he or she works, for the executive class throughout the Group and strive for transparency at all places of operation.

The Rebuilt POLA ORBIS Group Employee Competency Model

Four Guidelines	Competencies
Face Changes and Challenge	Creating a Vision
	Adaptability
	Business Context Awareness
Think Deeply and Broadly	Conceptual Thinking
	Analytical Thinking
Cultivate Individuality and Influence	Bi-i-shiki
	Impact and Influence
Enhance Organizational Dynamism	Building a Culture of Development
	Valuing Diversity

Note: Competency model designed in cooperation with the Korn Ferry Hay Group

Future Study Program Draws On Young Perspectives and Tackles Group Reform

Efforts began in 2005, initially by POLA, to enrich the content of in-house programs that today cut horizontally across the Group to develop the skills of the next generation of management. The Future Study Program, geared toward young employees, focuses on training materials with practical content, that is, issues that each participant pinpoints for improvement at his or her own company and the Group.

The Future Study Program brings together about a dozen young employees invited from Group companies to master management basics and acquire a new awareness and patterns of behavior to better demonstrate leadership qualities. The program was revamped in 2016, with the addition of action learning to pinpoint management issues potentially present within the Group and work out solutions in innovative ways.

For this activity, participants were divided into teams comprising members from different companies, and over nine months, they had to discover latent issues currently faced by certain companies within the Group and give directors concrete strategies to solve the issues. In 2016, proposals were made to each company, including POLA and ORBIS, to improve corporate culture, rebrand and launch new brands. Employees who participated in this activity felt it enabled them to develop their capabilities fully.

POLA ORBIS HOLDINGS continuously offers another cross-Group training opportunity—the Top Management Development Program for individuals at the middle-management level.

Responses from participants in the 2016 Future Study Program

Q: What skills did you develop?

A. My current assignment only goes so far in the process of brand formation, but the Future Study Program allowed me to gain a multi-faceted perspective extending to issues, strengths and other factors related to the brand overall. Being able to identify the nature of a problem has changed the quality of the content in the proposals I make on a daily basis.



Chie Ando
Product Planning
Division
ORBIS Inc.

Q: What kind of career do you hope to pursue?

A. I don't want to confine my efforts to the company I work at now but rather be a leader who poses questions cutting across the respective divisions and the Group, someone who plays a guiding role in problem solving and constantly delivers excellent results for the development of the Group.



Takuya Kurihara
Production
Technology
Development
Division
POLA CHEMICAL
INDUSTRIES, INC.

Thoughts on Sustainability

Coinciding with the restatement of the Group philosophy in February 2017, POLA ORBIS HOLDINGS decided on a sustainability statement to underpin continuing efforts Groupwide to strengthen relationships with various stakeholder groups. Supported by stakeholders, the Company and the corporate group it leads will strive to contribute to the sustainability of society through business activities.

POLA ORBIS Group 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.

Sustainability of Business Activities Hinges on Three Themes

The POLA ORBIS Group pursues business activities with an emphasis on three themes.



p.26,27



p.56



p.60,61

Signed the UN Global Compact

POLA ORBIS HOLDINGS, on behalf of the whole 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.



Network Japan
WE SUPPORT

The Ten Principles of the UN Global Compact

Human Rights	Principle 1:	Businesses should support and respect the protection of internationally proclaimed human rights; and
	Principle 2:	make sure that they are not complicit in human rights abuses.
	Principle 3:	Businesses should uphold freedom of association and the effective recognition of the right to collective bargaining;
Labour	Principle 4:	the elimination of all forms of forced and compulsory labour;
	Principle 5:	the effective abolition of child labour; and
Environment	Principle 6:	the elimination of discrimination in respect to employment and occupation.
	Principle 7:	Businesses should support a precautionary approach to environmental challenges;
	Principle 8:	undertake initiatives to promote greater environmental responsibility; and
	Principle 9:	encourage the development and diffusion of environmentally friendly technologies.
Anti-Corruption	Principle 10:	Businesses should work against corruption in all its forms, including extortion and bribery.

Initiatives implemented within the POLA ORBIS Group are described below.

Human Rights

It is policy within the POLA ORBIS Group to respect the individual sensibility under the corporate umbrella, in accordance with the Group philosophy. Therefore, we believe that the respect of human rights means not only the protection of individuals' rights but also the utilization of their sensibilities. We understand the meaning of international standards of human rights in business activities and make every effort not to assist such infringement indirectly.

In addition, we promote in-house awareness of harassment issues through lectures and e-learning opportunities.

Labour

The POLA ORBIS Group cooperates with labour unions and workplace representatives, and management respects the working rights of employees. In addition, along with our suppliers, we strive to uphold

appropriate and fair business practices. POLA CHEMICAL INDUSTRIES, which handles production for Group companies, holds briefings on purchasing policy and requests its suppliers to be socially responsible.

Environment

The POLA ORBIS Group treats the invaluable blessings of nature with care to ensure a vibrantly rich global environment for future generations.

p.58,59

Anti-Corruption

As part of its efforts to promote fair and open competition, the POLA ORBIS Group prohibits bribery. Using guidelines related to gifts and entertainment, as set by the Company for the Group, each Group company establishes detailed regulations pursuant to actual operations and, in their respective relationships with suppliers, observes all pertinent laws and social norms and maintains fairness in associated business transactions.

Fundamental Activities that Fulfill Our Corporate Responsibilities

Structure Supported by All—from Management to Employees—to Boost Effectiveness of CSR Activities

Drawing Up a Standard of Conduct

In February 2017, POLA ORBIS HOLDINGS formulated two standards of behavior to underpin the Group's Code of Conduct: *I.* to sensitize the world to beauty, which will put the new Group philosophy into practice; and *II.* to promote growth as individuals and as a group through adherence to laws and internal rules that will ensure strict efforts from a personal perspective to behave appropriately, in line with internationally accepted social ethics, as a member of a global organization.

Instilling thorough awareness of Code of Conduct

POLA ORBIS HOLDINGS ensures that the POLA ORBIS Group Code of Conduct is distributed to all executives and employees. We hold lectures on the Group's Code of Conduct for all executives and employees of Group companies, and we also ask everyone 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 our Groupwide Code of Conduct.

CSR promotion structure

The Group CSR Committee regularly monitors activities based on the Group's sustainability statement and tracks overall promotion of CSR within the Group, including compliance. Information on sustainability is uploaded to the POLA ORBIS HOLDINGS website and also distributed through in-house intranets to ensure widespread awareness among employees and to raise the effectiveness of initiatives.

Compliance promotion efforts hinge on people responsible for promoting CSR practices at each company under the Group umbrella with support from CSR offices that assist the people responsible for promoting CSR as well as individuals with responsibility

for CSR activities in the workplace. 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.

Risk management

POLA ORBIS HOLDINGS analyzes priority risks requiring a Groupwide response and undertakes activities to mitigate risks.

Specifically, through discussions with division managers and corporate auditors, the Group CSR Committee pinpoints and prioritizes risks, considering how much they might impact business and how often they might appear. With this in mind, for 2017, the Group Strategy Meeting considered the issues and tapped as priorities overseas business strategy and IT infrastructure development.

Risk management plans for each Group company are determined at each company by the respective Executive Meeting, then approved by the Group CSR Committee and disclosed to the Group Strategy Meeting. Steps are taken to minimize risk at each company, and the Group CSR Committee regularly monitors status. If risk suddenly materializes during the fiscal year, the Group Strategy Meeting will be informed in a timely

manner, as events and conditions unfold, and corrective measures will be implemented.

Implementing monitoring practices and establishing a helpline

POLA ORBIS HOLDINGS undertakes an annual compliance survey encompassing the Group to ascertain if the Code of Conduct is being upheld and if issues identified the previous year have been rectified and objectively evaluates the results.

The Company also runs a helpline and maintains a structure that enables executives and employees to voice concerns or ask questions should an issue with the potential to violate compliance standards emerge in the workplace. This structure allows the Company to identify internal risks directly, minimizing risks overall and preventing infractions.

In 2016, the helpline received nine reports. Most related to problems in communication between bosses and staff. To address this situation, POLA ORBIS HOLDINGS implemented management training for people in managerial positions and encouraged each Group company to formulate action plans reflecting issues extrapolated from the results of the compliance survey to resolve problems.

Compliance training

To preclude possible violations of compliance, POLA ORBIS HOLDINGS conducts training and education programs every year for all executives and employees.

Through June and July 2016, the Company held lectures on the topic of creating a workplace with a positive atmosphere and preventing workplace harassment by management. The lectures, as CSR presentations, were aimed at people on major career paths at Group companies

in Japan. One participant revealed that the lecture prompted a renewed awareness of the importance of communicating with staff—people skills—commenting, "I am reminded of steps I can take to improve my actions in the workplace, beginning tomorrow."

Also, for all domestic executives and employees, the Company ran a program of CSR-themed e-learning opportunities in August and September. The content delved deeply into topics that have a huge impact

on companies, such as improper accounting and insider trading. Overseas, studies were based on the CSR e-learning program, with an emphasis on a theme shared globally—issues with the potential to turn into risk.



Group CSR lecture

Other activities

Setting up Groupwide BCPs and training

Drawing on lessons learned from the Great East Japan Earthquake of March 2011, POLA ORBIS HOLDINGS encourages Group companies to prepare business continuity plans (BCPs) and to run drills every year to verify the effectiveness of initial responses.

In 2016, POLA ORBIS HOLDINGS called on each domestic company to conduct earthquake drills and formulate responses during normal times to adequately prepare for possible disasters and other emergencies in the future. Efforts were directed toward initial responses, such as confirming the safety of employees, verifying that operations pre-determined for a priority return to business do indeed resume and identifying insufficiencies and issues requiring attention.

Along with this plan, the Company promoted BCP at the Group's primary supply chains—POLA CHEMICAL INDUSTRIES, POLA and ORBIS—and took steps, including starting to quakeproof POLA CHEMICAL INDUSTRIES' Fukuroi Plant, to be completed in 2018—and made efforts to pinpoint items for priority responses at POLA and ORBIS in an emergency.

Businesses with locations overseas began preparing BCP in 2015, and in 2016, these businesses executed initial

response drills, including confirmation of employee safety, and ran tabletop exercises assuming a terrorist attack or other emergency.

Legal compliance

We strive to promote widespread understanding of key laws and regulations connected to the business activities of Group companies that are common to all companies and employees. We naturally strive to elicit a deeper appreciation of legal compliance and toward this end conduct training and awareness-building programs through such approaches as e-learning and theme-based seminars.

Each company concentrates on laws and regulations that correspond to the characteristics of its business activities. POLA, with its emphasis on direct selling, focuses on monitoring activities, such as those by headquarters to detect possible problems in the quantity or method of sales to the elderly or to minors, and seminars on the Act on Specified Commercial Transactions, to improve the quality of sales techniques. At ORBIS, whose primary sales channel is mail-order business, the company looks to the expertise of external consultants to facilitate in-house awareness programs that ensure appropriate expressions in advertising materials.

Managing personal information

The main sales method used by members of the Group is direct selling, so particular care must be given to safeguard personal information.

Special attention is given to regular verification of information management practices and associated training, including the establishment and knowledge of policies, such as the privacy policy and information security policy, setting up measures for preventing leaks of system-based information and providing training on information-handling for employees.

An inventory of personal information is performed twice a year—in May and November—by an employee assigned to address information security at each Group company. These checks include a close review of personal information in possession, confirmation of management status and audits of providers contracted to handle personal information.

Management of My Number information, the collection of which began in 2016 with the rollout of an integrated social security and tax number system in Japan, necessitated a change in rules, corporate sharing of specialized management methods and regular monitoring to ensure very strict management of personal information.

Utilizing Stakeholder Dialogues* in Corporate Management

At POLA ORBIS HOLDINGS, we actively promote dialogue with external stakeholders to confirm that our corporate activities are in line with the expectations and requirements that society places upon the POLA ORBIS Group and to identify the products and services that society wants from our group of companies.

* Stakeholder dialogues: These are opportunities to talk with stakeholders—people whose corporate interests are grounded in different perspectives—and confirm positions that match the corporate stance and understand those that do not and the associated background factors, and then find common ground wherever possible. From a corporate standpoint, such common ground provides a basis for actions that reflect stakeholders' opinions in the business activities of Group companies and promotes development of the Group as well as society.

POLA

- 11th stakeholders' dialogue, held on July 5, 2016
- Six POLA customers gathered for an interactive dialogue with executives, including the president. Most of the discussion revolved around POLA's appeal as a brand and issues that require further attention.

Comments from Stakeholders



POLA Issue 1 Communication

- I'd like to know about store events as soon as possible.
- The closing days of the shop I go to don't follow a regular schedule, so there have been times when I would have liked to make an appointment for an esthetic treatment but couldn't.
- How about creating a showroom in a place that draws crowds of young people and promoting products not only in the high-price range but also the low-price range?
- Why not put POLA products in the changing facilities for joggers who run around the Imperial Palace?

POLA Issue 2 Skin Checks (skin analysis)

- POLA has emphasized BA so much that younger women, in particular, may hesitate to go for a skin check. Skin analysis doesn't cost the customer anything, so that fact should be highlighted a bit more.
- APEX skin analysis is completely different from similar services offered by other companies. The feedback is more in-depth, with frequent follow-up. It might be a good idea to highlight these points more, as well.
- POLA should be more aggressive in introducing skin analysis at large stores, such as POLA THE BEAUTY.

POLA Issue 3 Containers

- Containers should remain usable when products are updated.
- Offer refills for more products.

POLA Issue 4 Other

- I'd like to see more items in the makeup category.
- I'd like to see travel kits become standard items in the lineup.
- It would be great if products distributed in the past as gift items—not for sale—could be sold at a later date.
- I've been going to a POLA store for nearly 10 years. I think it's time for some interior and exterior maintenance.

→ POLA's Response

Talking directly with loyal customers and getting candid comments was tremendously valuable. We received many compliments, such as "The Beauty Director assigned to me is just terrific" and "I can't do without POLA cosmetics," which reaffirmed our belief that the corporate value we seek to convey has been eloquently delivered to customers through wonderful partners—our Beauty Directors.

These comments were made only because customers think well of POLA, and so we take them firmly to heart. With regard to the lack of a schedule for a shop's closings, which one customer touched on, we will remedy the situation and enhance customer convenience by setting up an esthetics appointment system on our website. We will also collaborate with other companies and reinforce measures to raise the POLA profile among women in the target group. We hope these efforts will find favor with customers.

Past Efforts

Stakeholder comments

Recently, recruiting human resources with excellent capabilities has become more difficult. One big reason is that the appeal of working as a Beauty Director and the system of Beauty Directors' work are not readily understood by the average person. I think POLA needs to take a radical approach to recruiting, including getting better support from headquarters.

What actions did POLA take?

We changed the content of training for Beauty Directors and pursued other strategies to raise the quality of our services. We also made capable women in their 20s and 30s the focus of our recruitment drive and ran recruiting forums, with headquarters' support, to highlight the appeal of working as a Beauty Director. We will continue these approaches, taking forums to the suburbs as well, to attract women in the target age range and develop their skills.

Representing POLA: Yoshikazu Yokote (Representative Director and President); Miki Takenaga (Director in charge of Direct Sales); Akira Gogo (Director in charge of Marketing); Tomoko Kamiya (Corporate Officer in charge of Direct Sales Planning)

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

ORBIS

- 12th stakeholders' dialogue, held on September 14, 2016
- Since 2012, ORBIS has been working on brand-restructuring to achieve a higher degree of sustainable growth and corporate social responsibility. In the fourth year of this effort, we asked experts what kind of brand communication was needed to realize a great leap forward.

Comments from Stakeholders

Takashi Okutani

Corporate Officer and Manager, General Marketing Division/Chief Omni-channel Officer, Oisix Inc.

ORBIS is expanding both online sales and its presence in physical stores. With online sales, though, customers cannot try a product before buying it. Because of that, ORBIS really has to work on conveying the quality of the brand. Today, the quality of a mail-order brand is known only at the delivery address. It stops there unless someone talks about it to someone else. At Oisix, we are eager to visualize brand quality with social media and owned media like your company website or blog. I believe brand communication requires different gears. Pursue customers but also make them smile. Also, do you somehow project a "point of sales" image? Instead, create fun—a "place to browse"—and maintain that atmosphere even in cyberspace. This is sure to improve brand value and differentiate ORBIS from other companies.

Yumiko Aboshi

Manager, FRUGRA Division, Marketing Group, Calbee, Inc.

Actual interaction with customers in stores is extremely important. More than 20 years ago, my company had a team of more than 200 people who would do what we called "zone sales"—going around to stores and checking on the sales status of Frugra (fruit granola) from various angles. What caused sales to fluctuate? The way sales space is created. A member of the team built a contraption with simple materials, but the setup showcased innovative thought and in-store experience and was well-matched to the characteristics of customers in that area. This "legendary wagon," as it was called, produced good sales. ORBIS too has stores all over the country, and the age range and distinctive characteristics of its customer base vary with the location. Taking a different approach at each store might prove effective.



→ ORBIS' Response

This time, the comments from our two guests highlighted the multi-faceted aspects of ORBIS and drove home the importance of matching customer-oriented approaches to the times if we are to achieve a great leap forward. In 2017, we will celebrate our 30th anniversary. Going forward, we will work even harder to create brand value as we seek to make ORBIS a one-and-only brand—a brand that most customers always choose.

With online sales, the tendency is to market with explanations, that is, to present honest, easy-to-understand descriptions of product claims. We have not yet reached a point where we are creating tactics to steer customers in a particular purchasing direction. We will work on approaches that entice customers on a more emotional level.

For physical stores, we once emphasized aspects that made each store different. But now, to ensure a consistent brand image, promotions are essentially the same everywhere, while each store deals with the different needs of each customer on an individual basis. However, the "just a point of sales" element of our stores is strong, so we are aiming to shift toward a "place to try out the brand," drawing on the advantages of a physical store to let customers experience ORBIS products firsthand.

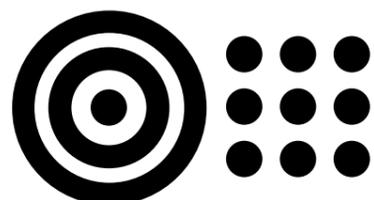
Representing ORBIS: Yoshifumi Abe (Representative Director and President); Sosuke Matsueda (Manager, cosmetics planning team, product planning division); Emi Nishino (Manager, new media planning team, mail order and online sales division); Tomoko Sasaki (Manager, sales and planning team, store sales division)

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

Working with the Community

"3-9 Project"

On the occasion of POLA's 80th anniversary 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 at the same time. The project name plays on the Japanese reading of "3-9"—*san kyū*—which sounds like "thank you." 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 a mineral water product containing deep seawater from Sado, in Niigata Prefecture. Going forward, such activities will be expanded beyond POLA to encompass the Group.



Japan	World	Area	Artisan
Design	Tradition	Innovation	Discovery
Economy	Continuation	Hospitality	Coproduction



Edo kiriko cut glass container for B.A The Cream

Encouraging women in rural communities to be active in society

A shortage of young workers in rural areas of Japan is a growing social concern.

At a multi-company job fair in Nara Prefecture for women to meet potential employers, POLA was in charge of makeup in a corner where women got a makeup makeover and an ID photo taken by a

professional photographer.

The corner was well received, its popularity contributing to event attendance. Through this activity, participants experienced the joy of having a beautiful appearance, which gave them greater confidence in their job hunting. POLA used the event to connect with local schools, with the intention of offering makeup lessons in the future. The company also described its business activities to women in the community.

ORBIS and ACRO will also pursue activities that convey the joy of beauty to the next generation of customers through makeup lectures for female students.



POLA took part in a multi-company job fair in Nara Prefecture.

Nippon Bihada-ken Grand Prix and Bihada Yoho draw on big data

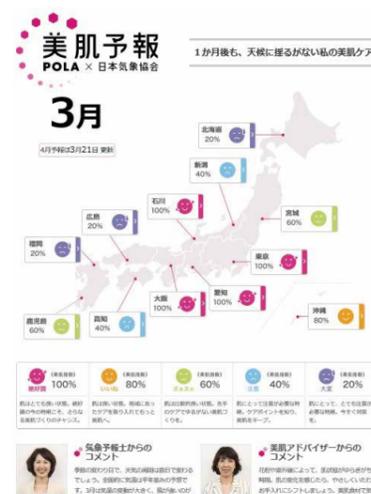
Since 2012, POLA has conducted the Nippon Bihada-ken Grand Prix (All-Japan Beautiful Skin Grand Prix) to enable women in Japan to better understand the characteristics of their own skin. The company draws on a database of about 16.8 million entries on the skin condition of Japanese women collected around 30 years through APEX skin analysis services, turning the six leading characteristics of beautiful skin into a score and tabulating the results for Japan's 47 prefectures to determine a ranking of beautiful skin.

In 2016, Hiroshima Prefecture took the top spot for the first time, as a long spell of rainy weather last year kept humidity high and exposure to sunlight low. In Japan, weather and climate vary significantly by region. The amount of ultraviolet radiation, the dryness of the air and other environmental factors affecting skin differ widely, depending on location—south or north, the Pacific Ocean side or the Sea of Japan side, coastal or inland—and the

ranking confirmed that the influential factors shift even from year to year.

In 2014, in cooperation with the Japan Weather Association, a privately run company with weather expertise, POLA began posting Bihada Yoho (Beautiful Skin Forecast) on its website to provide prefecture-specific information needed in the next month to ensure that skin is properly cared for. This joint effort enables POLA to communicate new information, such as that certain climates have a bigger impact on pore size.

Today's women are so inundated with beauty information that they have a difficult time figuring out what is true. In response, POLA seeks to convey ideal beauty techniques and care appropriate to the season and the area where each woman lives rather than across-the-board information from a national perspective. Because the company has a unique source of data gleaned through APEX, a semi-customized skincare and foundation makeup line tailored to each customer according to personal skin analysis, it is able to contribute to brand promotion among its target customer base and elicit greater interest in POLA products.



Bihada Yoho (Beautiful Skin Forecast) content on the POLA website

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 direction 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 also holds small meetings with the president for analysts and organizes tours of facilities, including factories, and will continue such activities.

Meanwhile, in IR activities for individual investors, POLA ORBIS HOLDINGS has

actively hosted IR seminars, particularly for female investors, since its stock listing. Through the connection to POLA and other operating companies, the Company raises the profile of Group brands by incorporating beauty-related content in IR activities and also strategically encourages female investors to become customers as well. The approach has led to a higher female shareholder ratio.

POLA ORBIS HOLDINGS also devised a points-based incentive program for shareholders that utilizes the Company's noteworthy multi-brand portfolio. This program allows shareholders to exchange points for desired products in Group brands, as presented in a special perks catalog issued every year, based on the number of shares owned and the number of years they have been held. Special shareholder perks like this have been very well received by individual shareholders and have fueled a higher ratio of long-term shareholders.

For protecting shareholder rights and guaranteeing impartiality, POLA ORBIS HOLDINGS respects the rights of shareholders, including voting rights, strives to protect such rights and responds impartially to all shareholders, in accordance with the Corporate Governance Code. The Company also considers the rights of minority shareholders and uses the corporate website to disclose stock handling rules about ways

to exercise rights to create an environment conducive to the smooth exercise of rights.

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 give shareholders sufficient time to consider agenda items, the Company issues the convocation notice electronically 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 11th Annual Meeting of Shareholders, on March 29, 2017, company representatives provided explanations on various topics, including the business report for fiscal 2016 and the new medium-term management plan. A question-and-answer session covered such topics as R&D over the medium to long term, marketing strategies for new products, overseas business strategies hinging on Asia and the decision-making process for important matters. The information acquired will be valuable for future management activities.

Fiscal 2016 Activity Results

Number of briefings with domestic and international investors More than 500 during the year (650 companies)

Overseas IR Eight 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 48.9% (36.6% in 2010)

Shareholder perks evaluation 97.8% positive (through Company perks questionnaire)

- Awards**
- Fiscal 2015 The IR Award: Best IR Award (sponsor: Japan Investor Relations Association)
 - Fiscal 2016 All Listed Company Website Quality Ranking: Best Site (sponsor: Nikko Investor Relations Co., Ltd.)
 - Fiscal 2016 Nikkei Annual Report Awards: Award for Excellence for second consecutive year (sponsor: Cross-Media Advertising & Business Bureau at Nikkei Inc.)
 - Fiscal 2017 Fifth 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* 2017 Edition ["Useful Information on Shareholder Perks"], published by Nomura Investor Relations Co., Ltd.)



Environmental Initiatives

The POLA ORBIS Group Embracing Environmentally Conscious Business Activities

POLA ORBIS Group Environmental Principles

The following principles guide the POLA ORBIS Group in executing business activities with the environment in mind.

- 1 Strive to reduce environmental impact throughout the lifecycle of products.
- 2 Set environmental targets and work toward sustainable improvement of environmental performance and pollution prevention to the extent technologically and economically possible.
- 3 Emphasize environment-friendly product development and, at business sites, promote resource- and energy-saving and waste-reduction measures to protect the global environment and make it better.
- 4 Ensure compliance, including respect for environment-related laws, local regulations, and agreements as well as voluntary standards.
- 5 Strive to coexist with society at the community level and beyond, and promote activities to protect the environment and make it better.

Policy on Animal Welfare

As a policy*, POLA ORBIS HOLDINGS has abolished the practice of animal testing in R&D for cosmetics, including quasi-drugs, throughout the Group as well as at its outsourcing companies, in tandem with the establishment of alternative methods and technologies.

*This policy will not apply if, for whatever reason, the company involved in R&D or production is required to be accountable for safety to the public or government in certain countries that demand animal testing of cosmetics, including quasi-drugs.

Guided by a new philosophy formulated for the POLA ORBIS Group, POLA ORBIS HOLDINGS is looking toward POLA's 100th anniversary and has set concrete targets for the Group's environmental activities. Particular effort will be directed toward reducing CO₂ emissions, water consumption and waste.

The Group CSR Committee monitors environmental initiatives for the Group, appoints an environmental officer for each Group company and tracks each company's progress on environmental responses. The focus of CO₂ emissions, water consumption and waste reduction is mainly at offices and production divisions. But CO₂ emissions are in the spotlight, with measures introduced in

2017 that target a 26% decrease on a per unit of sales basis by 2029, with 2015 as the base year. Going forward, POLA ORBIS HOLDINGS will expand the scope of reduction targets to include materials procurement and logistics activities and will encourage steps to control CO₂ emissions, water consumption and waste and develop eco-friendly products. In 2016, CO₂ emissions reached 15,891t, total waste

amounted to 1,494t and water consumption totaled 239,380m³. Referenced against 2015 data, CO₂ emissions were up 0.4% (down 1.4% on a per unit of sales basis), waste was down 2.7% (down 4.3% on a per unit of sales basis) and water consumption was up 4.7% (up 2.9% on a per unit of sales basis).

Initiatives at Group production sites

POLA CHEMICAL INDUSTRIES and Jurlique have installed solar power generation systems in their facilities, with this energy supplying 1.65%—or 130,432kWh—of the power used to manufacture products in 2016.

POLA CHEMICAL INDUSTRIES strives to recycle all industrial waste. The company achieved zero emission status in 2003 and continues efforts to reduce industrial waste or recover and convert it to a valuable resource. The company recycles waste from its factory for use in corporate greening.

In 2016, POLA CHEMICAL INDUSTRIES successfully reduced total volume of industrial waste—82.8% of the amount reported in 2015—through measures to control waste generation and achieved a valuable resource ratio of 40.5% (104.5% year on year).

The Fukuroi Factory has actively promoted greening activities since it began operations, a commitment recognized with a Prime Minister's Commendation for Contributors to the National Greening

Campaign. Production there reflects due consideration for harmony with nature.

This factory is actively involved in local beautification activities, including a learning program called Environment Kids for the children of employees; the Mt. Hatta Clean Walk in which participants walk to the mountain and pick up garbage along the way; and flower-replanting along roads near the factory twice a year.

POLA's activities

POLA wants customers to feel comfortable with its products, not only when they use them but also after the containers are empty. The company thus sells refills, even for products in the high-prestige, ¥20,000+ B.A series, that address both design and environmental concerns. With other brands, the company is switching to easily recyclable containers when products are revamped.

The company is also working to cut the number of cars used by headquarters staff to make the rounds of shops by 20% over three years.

In the past, cosmetics and fashion items were shipped separately, but in 2014, POLA began shipping products in both categories in the same boxes, thereby dramatically reducing the number of trucks needed for delivery.



ORBIS' activities

Since its establishment in 1987, ORBIS has been conscious of the impact its operations have on the environment, including the use of paper, a feature of the mail-order business. Seeking to conserve resources and reduce garbage, the company simplified its packaging, offers product refills and introduced an eco-point system at its stores.

In 2002, ORBIS teamed up with non-profit OISCA, Japan—The Organization for Industrial, Spiritual and Cultural Advancement—International—to pursue environmental protection activities, primarily domestic and overseas reforestation projects in which

employees take part. In Japan, the company has been involved in the Kosu City ORBIS Forest project to restore mountain forests in Yamanashi Prefecture, and has been honored twice—in 2006 and 2014—with letters of gratitude from the governor of the prefecture. Overseas, the company participates in the Children's Forest Program, an initiative led by OISCA, with support that began in 2002 to replant mangrove forests in Fiji. In 2016, local children and others involved in the project visited ORBIS in Japan and met with employees to give an update on the status of the replanting efforts.



Visit by children from Fiji

Initiatives in biodiversity

In Indonesia and Malaysia, oil palm plantations for palm oil production have rapidly expanded, often at the expense of forests. This has prompted calls for sustainable, environmentally conscious palm oil production. At its facility, Jurlique responded notably, replacing 40% of the raw materials that contain palm oil with sustainable raw materials and becoming a member of the Roundtable on Sustainable Palm Oil*.

At Brote Yokohama Takashimadai, rental condominiums operated by P.O. REAL ESTATE INC., 20% of the site has undergone greening

in support of efforts spearheaded by the city of Yokohama to enhance the local environment. The emphasis on replanting with native shrubbery and preserving biodiversity fosters a better connection between people and the natural environment.

In 2016, an event for residents called the Odawara Nature Experience Eco Tour took participants to the area where the trees planted at the condominium site originated. Everyone got close to nature and the mountain landscape, having fun while learning about the environment.

* Non-profit organization established in 2004 by the World Wildlife Fund and other parties to promote production and use of sustainable palm oil.



Eco tour for residents of Brote Yokohama Takashimadai

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. Spearheaded by POLA, 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 at the POLA Museum Annex

The POLA Museum Annex, an art gallery operated by POLA ORBIS HOLDINGS, reflects the Group’s commitment, as a corporate group providing “beauty,” to support culture and art as a bridge to inner beauty and deliver a message of corporate value to stakeholders at home and abroad.

In 2016, gallery events were planned and completed with the aim of broadening awareness of the POLA ORBIS Group. These events successfully captured the interest of the target segment—women in their 20s to 40s.

“*Iwai no Yosohoi*” (Costumes of Celebration), a colorful pre-spring event to commemorate the 40th anniversary of the Pola Research Institute of Beauty & Culture, was held January 15 through February 21, 2016. The exhibition showcased attire worn on special occasions, particularly weddings, and drew on research materials and treasured items used by women to dress up on such fine days.

“Ultra Plants Exhibition 2016,” by plant hunter Seijun Nishihata, ran from August 4 through September 25, 2016, the second expo-style event, following the hugely popular inaugural event in 2015. Seijun Nishihata, who annually imports over 240 tons of exotic plants from around the world, again collected various kinds of rare plants for the exhibition. This time, Shinichiro Ogata, a designer and founder of Simplicity Co., Ltd., supervised the venue

layout, putting strong emphasis on plant selection and creating an atmosphere different from last year’s to attract repeat visitors. He suggested novel ways of presenting the plants, unprecedented from an exhibition perspective, including works that combined the pottery of Koichi Uchida and Mr. Nishihata’s plants. Gallery talks and other events were held, making for a tremendously successful occasion.

During this exhibition, donations were collected to support people whose lives had been disrupted by the Kumamoto Earthquake on April 14, 2016. A total of ¥585,269 plus some foreign currency was collected, with the yen amount forwarded to the Minamiaso Town Hall and the foreign currency sent to UNICEF. The idea was to utilize an art opportunity to encourage many people to offer a message of solidarity and actively support those in trying circumstances and in need of a helping hand.

“GUSTAVE-kun by HIGUCHI YUKO,” held from October 7 through November 20, 2016, featured picture-book sketches by Yuko Higuchi, a painter particularly popular with young women. On this occasion, the picture-book world took over the whole venue, earning stellar reviews, substantiated by a 99% satisfaction rate from visitors*. Of the visitor count, 85% were women, about half in their 20s to 30s.

*From visitor questionnaire



Ultra Plants Exhibition 2016



GUSTAVE-kun by HIGUCHI YUKO

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, mainly through publications, the corporate website and exhibitions, to promote

greater appreciation of the culture of cosmetics.

In 2016, the institute published “Cosmetics Culture in the Meiji, Taisho and Showa Periods—Historical Context and Transitions in Cosmetics and Beauty.” Another activity featured a survey on the colors of lipstick used by women today.

To enable individuals and organizations to get a close-up view of items in its collection, including makeup instruments, the institute actively participates in exhibitions and other events. In 2016, the institute opened a 40th anniversary commemorative exhibition titled “*Iwai*

no Yosohoi” (Costumes of Celebration) at the POLA Museum Annex. The institute also participated in presentations and lectures on the culture of cosmetics at art museums across Japan.



Display at “*Iwai no Yosohoi*” exhibition

Support for the POLA Art Foundation

The POLA Art Foundation, which has the overall support of the POLA ORBIS Group, seeks to deepen appreciation of culture in Japan and offers financial assistance to young artists with a fine arts specialty and to professional staff at art museums. In 2016, the foundation allocated funds to 41 projects. In its support for artists studying overseas, the foundation held group exhibitions at the POLA Museum Annex to showcase the art of selected artists and

thereby encourage greater productivity.

The POLA Museum of Art, which runs the foundation, is recognized for the quality and quantity of its Impressionist collection and for a building designed to blend into the surrounding environment. In 2016, the museum presented two special exhibitions: “Modern Beauty: Art and Fashion in France” and “Artists on the edges of Paris: Le Douanier Rousseau, Foujita, and Atget.”



Special exhibition “Artists on the edges of Paris: Le Douanier Rousseau, Foujita, and Atget”

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, now in its 36th year, recognizes people who have made tremendous achievements in the fields of traditional arts and crafts, traditional performing arts and folk performing arts, and provides encouragement for further activity. In 2016, awards of excellence were

given to ceramics artist Norio Kamiya, from Chiba Prefecture, for crafting *tetsu-e dosai* (iron paintings in copper colors) and passing on his practical skills and knowledge, and koto performer Tomoko Sunazaki, from Tokyo, for her musical performances and efforts to promote koto music. This occasion also saw one person receive an encouragement award and four persons and one organization earn regional awards, for a total of eight awards.

In the assistance program, funds were extended to projects with the potential to effectively protect and perpetuate Japan’s intangible traditional culture, including

craft techniques, fine arts and folk arts and ceremonies. In 2016, the program assisted five projects, contributing to communities and society in general through culture.



Winners of the 36th POLA Award for Traditional Japanese Culture

Five-Year Summary of Selected Financial Data

Years ended December 31	Millions of yen (Except per share data)					Thousands of U.S. dollars ^{*1} (Except per share data)
	2012	2013	2014	2015	2016	2016
Operating Results						
Net sales ^{**2}	¥180,873	¥191,355	¥198,094	¥214,788	¥218,482	\$1,875,545
Beauty Care	168,811	178,306	184,475	200,570	202,446	1,737,886
POLA	99,204	100,740	99,571	109,352	116,126	996,877
ORBIS	48,009	48,163	52,302	56,354	55,857	479,504
Overseas Brands	13,011	20,298	22,476	22,334	15,665	134,484
Brands under Development	8,587	9,104	10,123	12,529	14,796	127,021
Real Estate	2,841	3,035	3,179	2,951	3,043	26,127
Others	9,220	10,013	10,440	11,266	12,992	111,532
Operating income	13,520	16,017	17,683	22,511	26,909	230,999
Beauty Care	11,812	14,780	16,535	21,290	25,974	222,973
POLA	7,031	7,951	8,583	12,302	16,993	145,880
ORBIS	7,881	8,807	10,792	11,197	11,279	96,830
Overseas Brands	(1,897)	(895)	(1,881)	(2,194)	(3,140)	(26,961)
Brands under Development	(1,202)	(1,082)	(958)	(15)	841	7,224
Real Estate	1,139	1,258	1,227	1,265	1,395	11,982
Others	335	410	472	293	(133)	(1,150)
Operating margin(%)	7.5	8.4	8.9	10.5	12.3	
Net income attributable to owners of parent	6,681	7,318	10,382	14,095	17,447	149,779
Financial Position						
Net assets	164,896	173,887	180,793	180,635	185,864	1,595,537
Total assets	209,140	218,005	224,536	235,734	228,845	1,964,510
Cash Flows						
Cash flows from operating activities	17,592	13,500	16,643	28,379	23,561	202,265
Cash flows from investing activities	(39,625)	(2,452)	(8,391)	(7,331)	16,379	140,611
Cash flows from financing activities	(3,280)	(2,815)	(3,661)	(13,896)	(10,030)	(86,107)
Cash and cash equivalents at end of year	25,106	34,137	39,111	45,843	75,458	647,765
Depreciation and amortization	6,466	6,704	6,948	6,528	6,787	58,265
Capital expenditure	9,609	8,670	8,257	12,074	8,127	69,769
Financial Indicators						
Equity ratio(%)	78.8	79.5	80.4	76.5	81.0	
Return on equity(%)	4.2	4.3	5.9	7.8	9.5	
Return on assets(%)	7.3	8.4	8.6	9.7	11.7	
Price-earnings ratio(times)	20.5	28.4	25.9	31.5	30.6	
Per Share Data						
Net income per share(¥/\$)	120.86	132.39	187.81	254.95	315.57	2.71
Net assets per share(¥/\$)	2,980.48	3,133.82	3,264.13	3,260.00	3,353.28	28.79
Cash dividends per share(¥/\$)	50	55	187	150	200	1.72

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.\$1=¥116.49 as of December 31, 2016.

*2 Net sales do not include consumption taxes.

Management's Discussion and Analysis

Summary of business results

In fiscal 2016, ended December 31, 2016, conditions in the domestic cosmetics market remained firm. However, there were signs of weakening growth in inbound spending by visitors to Japan. If the effect from inbound demand is excluded, the size of the market is probably the same as in 2015. Overseas, the cosmetics market

was characterized by continued gradual expansion, despite indications of economic sluggishness in newly emerging markets in Asia, particularly China.

Against this market backdrop, the POLA ORBIS Group pushed ahead on measures to reinforce the domestic earnings structure, accelerate overseas expansion and boost

corporate value through more efficient use of capital in the final year of the three-year medium-term management plan launched in fiscal 2014. 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 2016 and fiscal 2015

Net sales

Net sales edged up 1.7% over the fiscal 2015 level, to ¥218,482 million, reflecting strong performance by POLA, THREE and DECENCIA.

Cost of sales, and selling, general and administrative expenses

Cost of sales decreased 2.1% year on year, to ¥40,940 million, owing to a streamlined cost of sales ratio for flagship brands and brands under development. The cost of sales ratio—cost of sales as a percentage of net sales—improved 0.7 percentage point, to 18.7%.

Selling, general and administrative expenses rose very slightly—0.1%—from a year earlier, to ¥150,633 million, owing to

aggressive advertising for POLA. The ratio of selling, general and administrative expenses to net sales dropped 1.1 percentage points, to 68.9%, as cost-cutting measures led to enhanced operating efficiency on a Groupwide basis.

Operating income

Operating income climbed 19.5% year on year, to ¥26,909 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 1.8 percentage points, to 12.3%.

Income before income taxes

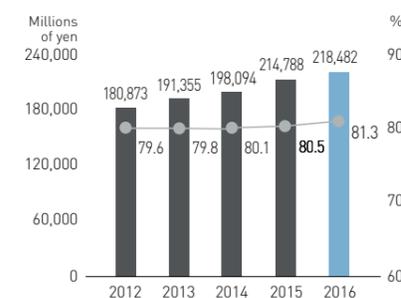
Income before income taxes increased 9.1%, to ¥24,746 million. This was largely due to higher

ordinary income, along with proceeds of ¥10,182 million from the sale of a rental office building and paintings and artwork under extraordinary income, and goodwill on the Jurlique brand and an impairment loss on marketing rights associated with the pharmaceuticals business of ¥13,907 million under extraordinary loss.

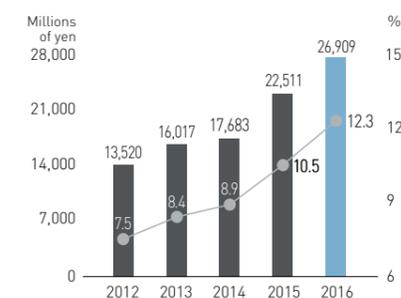
Net income attributable to owners of parent

Given the reasons listed above, net income attributable to owners of parent jumped 23.8% year on year, to ¥17,447 million. Net income per share expanded to ¥315.57, from ¥254.95, in fiscal 2015. Return on equity climbed to 9.5%, up from 7.8%, a year ago.

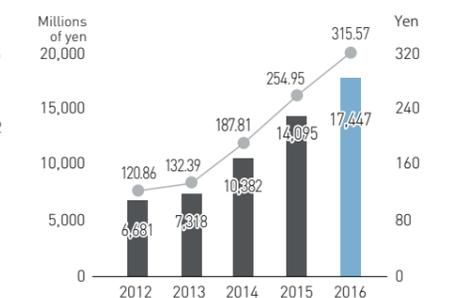
Net Sales and Gross Margin



Operating Income and Operating Margin



Net Income Attributable to Owners of Parent and Net Income per Share



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, DECENCIA and ORLANE).

At POLA, the objective was to achieve long-term stable growth, and efforts were directed toward invigorated branding, a change in the sales commission structure and wider investment in training programs to develop the skills of the company's professional Beauty Directors. In Japan, POLA steadily expanded its customer base through the vigorous launch of new products, including the August debut of *B.A SERUM REVUP*, a new-sensation beauty essence that brings out a fresh, youthful appearance, and the October debut of *ALLU*, a skincare series focusing on a correlation between hormones and the skin, and through resourceful sales promotions. The company also marked favorable inbound sales, thanks to demand from tourists visiting Japan, as interest expanded from beauty foods to

skincare products. Overseas, results were challenging overall with the exception of the Hong Kong market. Nevertheless, 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 Japan, ORBIS was able to increase its ratio of customers who made purchases on a continuous basis, facilitated by the debut of the skin-whitening and anti-aging *ORBIS=U WHITE* series in March 2016 as well as the point system strategy and enhanced communication practices using social media. But efforts to control advertising and promotional expenses caused a drop in the number of new customers, leading to a year-on-year decline in sales. Overseas, sales were favorable in China and Singapore, rising above the level recorded a year ago. Overall, however, ORBIS recorded a drop in sales over fiscal

2015. Operating income benefited from a better cost of sales ratio, rising year on year.

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 was able to keep sales in Australia at a year-on-year par but continued to struggle in the travel retail market and in Hong Kong, and was affected by a shift in China from directly operated stores to agency-routed sales, effective March 2016. Consequently, sales dropped below the level posted in fiscal 2015. H2O PLUS launched new products under a completely revised concept, design and formulation strategy as part of its brand-restaging policy to jump-start growth and also ran marketing campaigns targeting new customer segments. Unfortunately, an operational withdrawal from China, as resolved in fiscal 2016, was a primary factor in a year-on-year drop in sales.

Brands under development delivered a year-on-year improvement in sales,

driven by favorable demand for THREE and DECENCIA.

Seeking to concentrate management resources into products in the mid- to high-price range and channels with direct customer contact, and to improve investment efficiency, POLA ORBIS HOLDINGS decided to sell all shares held in FUTURE LABO in November 2016 and all shares in pdc in December 2016.

All told, Beauty Care sales—sales to external customers—edged up 0.9%, to ¥202,446 million in fiscal 2016, and operating income jumped 22.0%, to ¥25,974 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 2016, a review of tenant conditions, based on market prices and conditions surrounding

other companies, as well as efforts to boost the value of buildings, led to a higher occupancy rate and an increase in price per *tsubo* (unit of area used in Japan), and inevitably, a year-on-year rise in sales. Note that the POLA Ebisu Building, managed as rental office space, was sold in December 2016, reflecting a decision to concentrate management resources into other assets and maximize the corporate value of the POLA ORBIS Group.

As a result, segment sales—sales to external customers—rose 3.1%, to ¥3,043 million, and operating income climbed 10.3%, to ¥1,395 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 2016, sales were up

over the previous fiscal year, reflecting a sustained approach that channeled resources into dermatology—a strategic field of pursuit—along with sales of Duac® Gel, a combination agent for the treatment of acne vulgaris, in accordance with a licensing agreement with the GlaxoSmithKline Group, and the April 2016 launch of LUCONAC® Solution 5%, a topical agent for onychomycosis (fungal infection of the toenails or fingernails). Operating income, however, declined year on year, owing to additional costs related to initial-stage promotion of two new drugs.

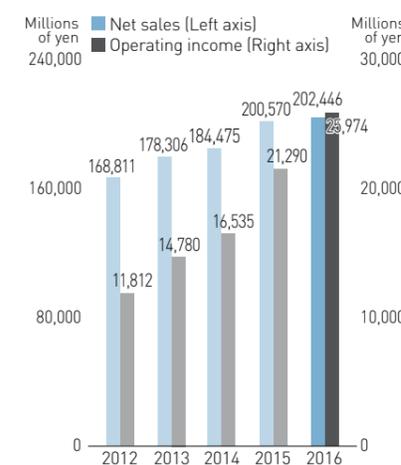
The building maintenance business handles management and operation of buildings, primarily for Group companies. In fiscal 2016, steady marketing activities attracted more orders, pushing sales above the level recorded in fiscal 2015.

Overall, the Others segment generated sales—sales to external customers—of ¥12,992 million, up 15.3%, but posted an operating loss of ¥133 million, retreating ¥427 million from the operating income of ¥293 million recorded in fiscal 2015.

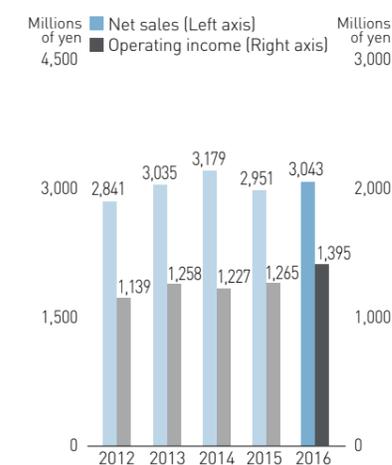
Key Financial Indicators

	2014	2015	2016
Cost of sales ratio	19.9%	19.5%	18.7%
Gross margin ratio	80.1%	80.5%	81.3%
SG&A ratio	71.2%	70.1%	68.9%
Personnel expenses	15.2%	14.3%	13.2%
Sales commissions	23.2%	22.7%	21.3%
Sales-related expenses	19.1%	20.1%	21.1%
Administrative and other expenses	13.7%	13.0%	13.3%
Operating margin	8.9%	10.5%	12.3%
Net income margin	5.2%	6.6%	8.0%

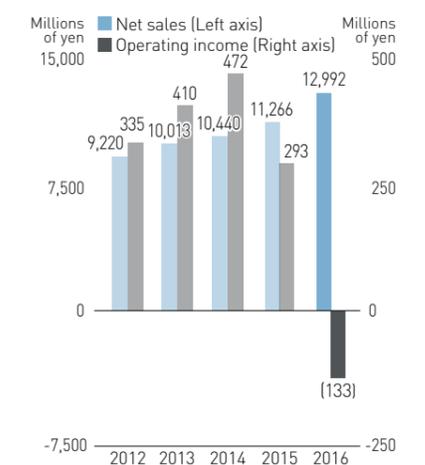
Beauty Care



Real Estate



Others



Analysis of Financial Position

Assets, liabilities and net assets

Assets

As of December 31, 2016, total assets stood at ¥228,845 million, down 2.9% from a year earlier. This change reflects decreases, namely, ¥10,049 million in total property, plant and equipment, due to the sale of a rental office building, paintings and artwork, and idle assets, and ¥10,989 million in goodwill due to the booking of impairment loss, along with ¥5,076 million in intangible assets (Other), and ¥8,401 million in investments in securities, which overshadowed an increase of ¥29,527 million in cash and deposits.

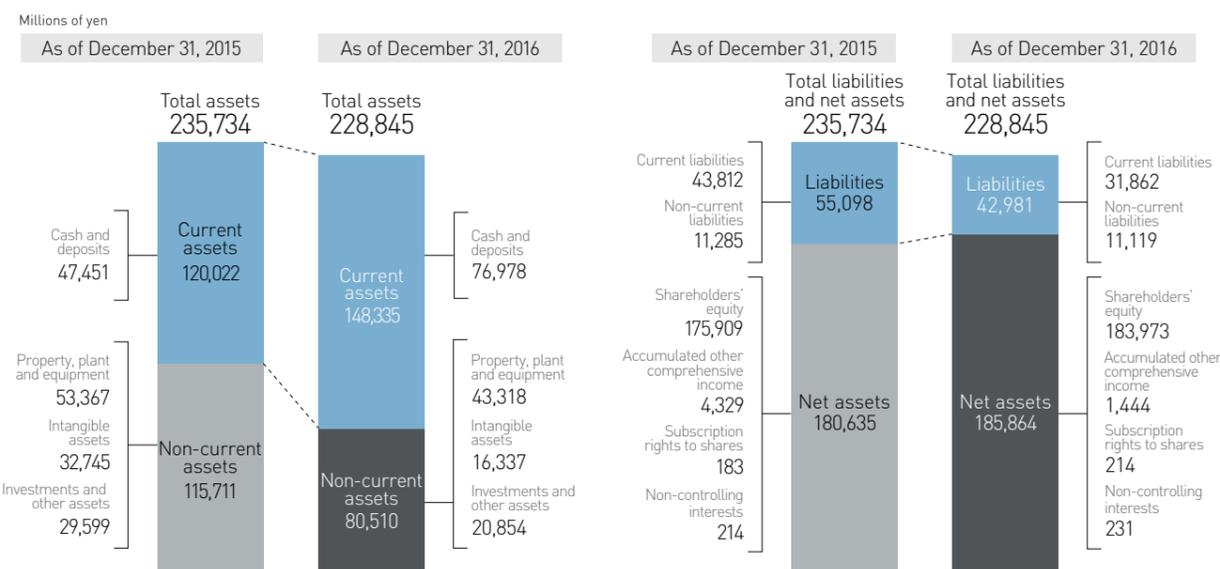
Liabilities

Total liabilities dropped 22.0% from December 31, 2015, to ¥42,981 million, as of December 31, 2016. The primary factors leading to this change were decreases of ¥7,219 million in accounts payable – other, which was primarily due to a decrease in sales commission payable, and ¥3,489 million in income taxes payable.

Net assets

Total net assets edged up 2.9%, to ¥185,864 million, as of December 31, 2016. This change is largely because of ¥17,447 million in net income attributable to owners of parent, a decrease of ¥2,114 million in foreign currency translation adjustments due to exchange rate movements and ¥9,398 million in dividends from retained earnings.

Overview of Consolidated Balance Sheets



Cash flows

The balance of cash and cash equivalents as of December 31, 2016, was ¥75,458 million, up ¥29,614 million from the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities in fiscal 2016 amounted to ¥23,561 million, falling 17.0% from the previous fiscal year. Primary inflow factors contributing to this change were ¥24,746 million in income before income taxes, ¥6,787 million in depreciation and amortization and ¥13,907 million in impairment loss. Major components causing a decrease in net cash were ¥10,174 million in gain on sales of non-current assets, a ¥2,446 million reduction in other liabilities due to lower sales commission payable and ¥11,139 million in income taxes paid.

Cash flows from investing activities

Net cash provided by investing activities amounted to ¥16,379 million, a turnaround from ¥7,331 million used in investing activities in fiscal 2015. The main factors contributing to the year-on-year change were increases

in net cash resulting from ¥16,700 million in proceeds from sales and redemption of short-term investments in securities and ¥20,491 million in proceeds from the sale of property, plant and equipment, which offset a decrease in net cash resulting from outflows of ¥11,000 million due to purchase of investments in securities for application of surplus funds in line with investment plans, ¥4,464 million due to purchase of property, plant and equipment, and ¥6,743 million due to purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities reached ¥10,030 million, falling 27.8% from a year ago. The primary application of cash was ¥9,398 million in cash dividends paid.

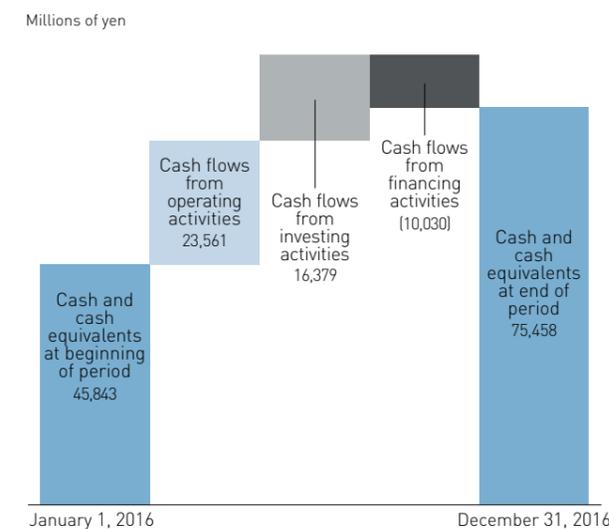
Sources of funds and policy on fund liquidity

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 ¥463 million from the amount at December 31, 2015, to ¥3,589 million at December 31, 2016. 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.

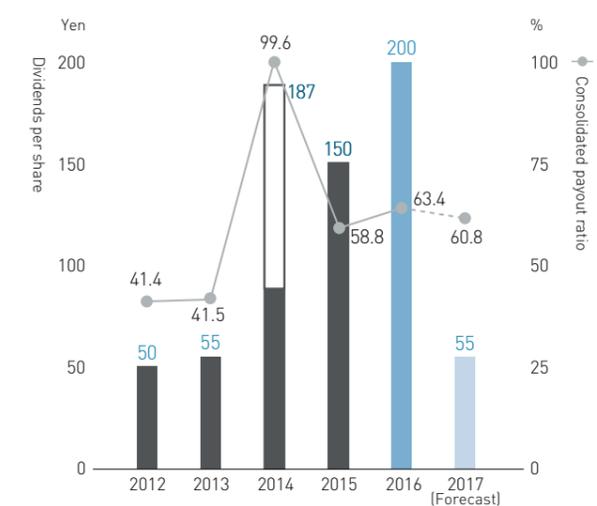
The Company adheres to fund management regulations and standards to ensure appropriate application of operating funds and surplus funds, respectively. The balance of cash and deposits stood at ¥76,978 million as of December 31, 2016, up ¥29,527 million from a year earlier. The change is mainly due to increased cash flow from operating activities.

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 for 2016 are based on the number of shares before the split.
3: Anticipated dividends for 2017 take into consideration the effect of the share split.

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 50%.

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 ¥200.00 per share for fiscal 2016, comprising an interim dividend of ¥90.00, and a year-end dividend of ¥110.00. 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, 2016.

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 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 labour environment changes and measures to secure human resources become more difficult to implement, the number of Beauty Director applicants may drop, thus heightening the possibility of a shortage of sales partners. Should this occur, the operating results and financial position of the Group could be adversely affected.

* From January 2016, new terms are applied to the following positions:
Chief of sales office → Shop owners/managers
POLA LADIES → Beauty Directors

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—and through outsourcing. Its pharmaceutical products are made at two locations in Japan, at KAYAKU CO., LTD.'s Saitama Factory and Tokorozawa Factory, both in Saitama Prefecture—and through outsourcing. 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

Patent infringement litigation was brought against POLA PHARM INC., a consolidated subsidiary of POLA ORBIS HOLDINGS, with a decision handed down on March 24, 2017, by the Supreme Court of Japan in favor of the plaintiff. A suit for damages, related to this patent infringement, is now before the Tokyo District Court. As a result, the impact of the case on the consolidated results of the Company is unknown at this time. But if the decision is unfavorable, from the Group's perspective, it could adversely affect the business results and financial standing of the Company and, by extension, the Group as well.

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, pharmaceutical products are produced at the Saitama Factory and Tokorozawa Factory of KAYAKU. Since both 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 2017 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 new 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 the fiscal year ending December 31, 2017, POLA ORBIS HOLDINGS anticipates

consolidated net sales of ¥227,000 million, up 3.9% year on year; operating income of ¥31,000 million, up 15.2%; ordinary income of ¥31,000 million, up 14.0%; and net income attributable to owners of parent of ¥20,000 million, up 14.6%.

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 2017 Forecast

Millions of yen	FY2017 Full Year	YoY Change	
		Amount	Percentage
Net sales	227,000	8,517	3.9
Beauty Care	210,500	8,053	4.0
Real Estate	2,500	(543)	(17.9)
Others	14,000	1,007	7.8
Operating income	31,000	4,090	15.2
Beauty Care	30,200	4,225	16.3
Real Estate	1,000	(395)	(28.4)
Others	0	133	—
Reconciliations	(200)	126	—
Net income attributable to owners of parent	20,000	2,552	14.6

Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
December 31

	Millions of yen		Thousands of U.S. dollars [Note 3]
	2016	2015	2016
Assets			
Current assets			
Cash and deposits (Notes 4 and 18)	¥ 76,978	¥ 47,451	\$ 660,814
Notes and accounts receivable – trade (Note 18)	25,985	27,646	223,072
Short-term investments in securities (Notes 4, 18 and 19)	18,500	16,700	158,812
Merchandise and finished goods	12,503	13,463	107,334
Work in process	1,090	1,294	9,363
Raw materials and supplies	3,977	4,693	34,142
Deferred tax assets (Note 15)	4,033	4,825	34,621
Other	5,351	4,102	45,941
Allowance for doubtful accounts	(83)	(154)	(720)
Total current assets	148,335	120,022	1,273,378
Property, plant and equipment (Note 13)			
Buildings and structures	52,439	54,974	450,167
Machinery, equipment and vehicles	10,536	10,538	90,449
Land	13,116	19,135	112,595
Leased assets	6,758	5,831	58,017
Construction in progress	1,926	779	16,534
Other	16,362	20,416	140,459
Total property, plant and equipment	101,139	111,675	868,221
Accumulated depreciation	(57,820)	(58,308)	(496,359)
Net property, plant and equipment	43,318	53,367	371,861
Intangible assets			
Goodwill, net (Note 20)	905	11,894	7,775
Right of trademark	8,642	8,983	74,187
Other intangible assets, net	6,789	11,866	58,286
Net intangible assets	16,337	32,745	140,248
Investments and other assets			
Investments in securities (Notes 5, 18 and 19)	13,046	21,447	111,998
Long-term loans receivable	59	72	508
Deferred tax assets (Note 15)	3,076	2,316	26,410
Other	4,758	5,829	40,847
Allowance for doubtful accounts	(86)	(67)	(740)
Total investments and other assets	20,854	29,599	179,024
Total non-current assets	80,510	115,711	691,133
Total assets	¥ 228,845	¥ 235,734	\$ 1,964,510

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]
	2016	2015	2016
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 18)	¥ 4,694	¥ 5,386	\$ 40,300
Short-term loans payable (Notes 7 and 18)	600	600	5,151
Lease obligations (Note 7)	627	514	5,387
Accounts payable – other (Note 18)	13,546	20,765	116,285
Income taxes payable	2,034	5,523	17,461
Provision for bonuses	1,639	1,734	14,075
Provision for directors' bonuses	31	47	271
Provision for sales returns	37	103	325
Provision for point program	3,541	3,450	30,405
Provision for loss on business liquidation	—	128	—
Provision for business structure improvement	—	110	—
Other	5,108	5,447	43,857
Total current liabilities	31,862	43,812	273,517
Non-current liabilities			
Long-term loans payable (Notes 7 and 18)	1,000	1,000	8,584
Lease obligations (Note 7)	1,362	1,011	11,693
Net defined benefit liability (Note 8)	4,207	4,026	36,120
Provision for environmental measures	53	56	462
Deferred tax liabilities (Note 15)	322	808	2,771
Other	4,173	4,382	35,825
Total non-current liabilities	11,119	11,285	95,456
Total liabilities	42,981	55,098	368,973
Net assets (Note 9)			
Shareholders' equity			
Common stock			
Authorized: 200,000,000 shares			
Issued: 57,284,039 shares at December 31, 2016 and 57,284,039 shares at December 31, 2015	10,000	10,000	85,844
Capital surplus	90,731	90,722	778,878
Retained earnings	85,430	77,381	733,368
Treasury stock, at cost			
(1,989,510 shares at December 31, 2016 and 1,996,110 shares at December 31, 2015)	(2,187)	(2,194)	(18,780)
Total shareholders' equity	183,973	175,909	1,579,311
Accumulated other comprehensive income (Note 14)			
Unrealized gain (loss) on available-for-sale securities	12	512	104
Foreign currency translation adjustments	2,245	4,359	19,276
Remeasurements of defined benefit plans	(813)	(542)	(6,984)
Total accumulated other comprehensive income	1,444	4,329	12,396
Subscription rights to shares (Notes 9 and 23)	214	183	1,844
Non-controlling interests	231	214	1,987
Total net assets	185,864	180,635	1,595,537
Total liabilities and net assets	¥ 228,845	¥ 235,734	\$ 1,964,510

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)
	2016	2015	2016
Net sales (Note 20)	¥218,482	¥214,788	\$1,875,545
Cost of sales (Notes 10, 11 and 20)	40,940	41,800	351,448
Gross profit	177,542	172,988	1,524,097
Selling, general and administrative expenses (Notes 10, 12 and 20)	150,633	150,477	1,293,098
Operating income	26,909	22,511	230,999
Other income (expenses) (Note 13)			
Interest and dividend income	260	293	2,238
Interest expense	(63)	(139)	(542)
Foreign exchange loss	(65)	(336)	(559)
Gain on sales of non-current assets	10,182	738	87,414
Reversal of foreign currency translation adjustments	7	538	63
Loss on disposal of non-current assets	(245)	(272)	(2,104)
Gain on sales of investment securities	527	—	4,530
Gain on sales of shares of subsidiaries	988	—	8,489
Impairment loss	(13,907)	(107)	(119,389)
Loss on business liquidation	—	(539)	—
Business structure improvement expenses	—	(121)	—
Other, net	150	121	1,292
	(2,162)	174	(18,567)
Income before income taxes	24,746	22,685	212,432
Income taxes (Note 15)			
Current	7,534	9,036	64,683
Deferred	(255)	(469)	(2,195)
	7,279	8,567	62,487
Net income	17,467	14,118	149,944
Net income attributable to non-controlling interests	19	23	165
Net income attributable to owners of parent	¥ 17,447	¥ 14,095	\$ 149,779
Per share information (Note 21)	Yen		U.S. dollars (Note 3)
Basic net income per common share	¥315.57	¥254.95	\$2.71
Diluted net income per common share	¥315.16	¥254.64	\$2.71
Weighted average common shares outstanding (thousands of shares)	55,289	55,286	55,289
Cash dividends declared per common share	¥200.00	¥150.00	\$1.72

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)
	2016	2015	2016
Net income	¥17,467	¥14,118	\$149,944
Other comprehensive income (Note 14)			
Unrealized gain (loss) on available-for-sale securities	(500)	63	(4,293)
Foreign currency translation adjustments	(2,136)	(3,278)	(18,342)
Remeasurements of defined benefit plans	(271)	53	(2,331)
Share of other comprehensive income of associates accounted for using the equity method	(7)	0	(63)
Total other comprehensive income (Note 14)	(2,915)	(3,160)	(25,028)
Comprehensive income	¥14,551	¥10,957	\$124,916
Comprehensive income attributable to:			
Owners of parent	¥14,562	¥10,943	\$125,008
Non-controlling interests	¥ (10)	¥ 13	\$ (92)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

	Millions of yen								
	Common shares (Thousands) (Note 9)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 14)	Subscription rights to shares (Note 9 and 23)	Non-controlling interests	Total net assets
Balance at January 1, 2015	57,284	¥10,000	¥90,718	¥74,454	¥ (2,199)	¥7,481	¥ 138	¥ 200	¥180,793
Cumulative effect of changes in accounting policies				828					828
Restated balance	57,284	¥10,000	¥90,718	¥75,283	¥ (2,199)	¥7,481	¥ 138	¥ 200	¥181,622
Dividends from retained earnings				(11,996)					(11,996)
Net income attributable to owners of parent				14,095					14,095
Disposal of treasury stock			4		4				8
Change in unrealized gain (loss) on available-for-sale securities						63			63
Foreign currency translation adjustments						(3,269)			(3,269)
Remeasurements of defined benefit plans						53			53
Subscription rights to shares							44		44
Non-controlling interests								13	13
Balance at January 1, 2016	57,284	¥10,000	¥90,722	¥77,381	¥ (2,194)	¥4,329	¥ 183	¥ 214	¥180,635
Dividends from retained earnings				(9,398)					(9,398)
Net income attributable to owners of parent				17,447					17,447
Disposal of treasury stock			8		7				15
Change in unrealized gain (loss) on available-for-sale securities						(500)			(500)
Foreign currency translation adjustments						(2,114)			(2,114)
Remeasurements of defined benefit plans						(271)			(271)
Subscription rights to shares							31		31
Non-controlling interests								17	17
Balance at December 31, 2016	57,284	¥10,000	¥90,731	¥85,430	¥ (2,187)	¥1,444	¥ 214	¥ 231	¥185,864

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 14)	Subscription rights to shares (Note 9 and 23)	Non-controlling interests	Total net assets
Balance at January 1, 2016	\$85,844	\$778,804	\$664,273	\$(18,842)	\$37,168	\$1,571	\$1,837	\$1,550,656
Dividends from retained earnings			(80,685)					(80,685)
Net income attributable to owners of parent			149,779					149,779
Disposal of treasury stock		74		62				137
Change in unrealized gain (loss) on available-for-sale securities					(4,293)			(4,293)
Foreign currency translation adjustments					(18,148)			(18,148)
Remeasurements of defined benefit plans					(2,331)			(2,331)
Subscription rights to shares						272		272
Non-controlling interests							149	149
Balance at December 31, 2016	\$85,844	\$778,878	\$733,368	\$(18,780)	\$12,396	\$1,844	\$1,987	\$1,595,537

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)
	2016	2015	2016
Cash flows from operating activities			
Income before income taxes	¥24,746	¥22,685	\$212,432
Adjustments to reconcile income before income taxes to net cash flows from operating activities:			
Depreciation and amortization	6,787	6,528	58,265
Impairment loss	13,907	107	119,389
Amortization of goodwill	679	765	5,836
Increase (decrease) in provision for point program	95	605	817
Increase (decrease) in other provisions	(66)	151	(573)
Increase (decrease) in net defined benefit liability	(35)	(439)	(304)
Interest and dividend income	(260)	(293)	(2,238)
Interest expense	63	139	542
Foreign exchange loss (gain)	(25)	594	(222)
Reversal of foreign currency translation adjustments	(7)	(538)	(63)
Gain on sales of non-current assets	(10,174)	(735)	(87,344)
Loss on disposal of non-current assets	245	272	2,104
Gain on sales of investment securities	(527)	—	(4,530)
Gain on sales of shares of subsidiaries	(988)	—	(8,489)
Loss on business liquidation	—	539	—
Business structure improvement expenses	—	121	—
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	180	(3,998)	1,548
Decrease (increase) in inventories	1,118	300	9,602
Increase (decrease) in notes and accounts payable – trade	(362)	1,057	(3,111)
Increase (decrease) in consumption taxes payable	495	(56)	4,257
Decrease (increase) in other assets	949	(1,453)	8,148
Increase (decrease) in other liabilities	(2,446)	4,073	(21,005)
Other	262	11	2,257
Subtotal	34,634	30,439	297,317
Interest and dividends received	240	306	2,065
Interest paid	(58)	(145)	(498)
Income taxes paid	(11,139)	(2,191)	(95,630)
Other	(115)	(28)	(989)
Net cash provided by operating activities	¥23,561	¥28,379	\$202,265

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)
	2016	2015	2016
Cash flows from investing activities			
Payments into time deposits	¥ (1,585)	¥ (1,241)	\$ (13,612)
Proceeds from withdrawal of time deposits	1,560	892	13,400
Purchase of short-term investments in securities	—	(3,601)	—
Proceeds from sales and redemption of short-term investments in securities	16,700	23,600	143,360
Purchase of property, plant and equipment	(4,464)	(4,575)	(38,322)
Proceeds from sales of property, plant and equipment	20,491	1,091	175,906
Purchase of intangible assets	(6,743)	(1,623)	(57,889)
Payments for disposal of non-current assets	(141)	(410)	(1,215)
Purchase of investments in securities	(11,000)	(21,399)	(94,429)
Proceeds from sales of investment securities	669	—	5,746
Proceeds from sales of shares of subsidiaries	1,146	—	9,843
Purchase of long-term prepaid expenses	(149)	(185)	(1,288)
Payments for lease and guarantee deposits	(248)	(233)	(2,136)
Proceeds from collection of lease and guarantee deposits	121	271	1,045
Other	23	85	201
Net cash provided by (used in) investing activities	16,379	(7,331)	140,611
Cash flows from financing activities			
Net increase (decrease) in short-term loan payable	—	(1,274)	—
Repayments of lease obligations	(632)	(609)	(5,426)
Cash dividends paid	(9,398)	(12,012)	(80,681)
Other	0	0	0
Net cash used in financing activities	(10,030)	(13,896)	(86,107)
Effect of exchange rate changes on cash and cash equivalents	(296)	(419)	(2,548)
Net increase (decrease) in cash and cash equivalents	29,614	6,732	254,221
Cash and cash equivalents at beginning of year (Note 4)	45,843	39,111	393,544
Cash and cash equivalents at end of year (Note 4)	¥75,458	¥45,843	\$647,765

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 prior years 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.

There were 37 subsidiaries included in the scope of consolidation at December 31, 2016 (43 at December 31, 2015). There were no affiliated companies accounted for using the equity method at December 31, 2016 (1 at December 31, 2015).

Changes in significant subsidiaries in fiscal 2016 compared with fiscal 2015 are as follows:

Consolidation:

(Excluded: 6)

In fiscal 2016, the Company has transferred its shares in pdc INC., FUTURE LABO INC. and C20 Plus Asia Limited to certain third parties. As a result, these 3 companies including their 3 subsidiaries were excluded from the scope of consolidation.

Equity Method:

(Excluded: 1)

In fiscal 2016, the Company has completed the liquidation procedures for B2O IMPORT AND TRADE OF COSMETICS AND PERFUMES LIMITED.

As a result, it was excluded from the scope of application of equity method.

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 which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risks 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. 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 3 years.

1.9. 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 5 years.

1.10. 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.

1.11. 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 its carrying amount exceeds the amount to be recovered through use or sale of such asset or asset group.

1.12. 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 2016 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 the 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.

1.13. 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.

1.14. 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 the past return ratios.

Provision for point program

Provisions are set up to cover future discounts and commemorative gifts under point program plans based on the 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 business structure improvement expenses

Provisions are set up to cover estimated future expenses and losses accompanying the plant integration.

Provision for environmental measures

Provisions are set up to cover the estimated charges for disposal of waste (polychlorinated biphenyl [PCB]).

1.15. Research and development costs

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

1.16. 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 which will be in effect when the differences are expected to reverse.

1.17. 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 55,289 thousand shares for fiscal 2016 (55,286 thousand shares for fiscal 2015). Diluted net income per share is computed for fiscal 2016 and fiscal 2015 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.

1.18. Foreign currency translation

Receivables and payables of the 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 the foreign consolidated subsidiaries are translated into Japanese 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 Japanese yen

are presented as foreign currency translation adjustments and non-controlling interests in net assets of the accompanying consolidated balance sheets.

1.19. Amortization method and period of goodwill

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

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

1.20.1. Accounting method for consumption tax and local consumption tax

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

1.20.2. Application of consolidated tax system

The consolidated tax system is applied.

Upon adoption, the depreciation method for facilities attached to buildings and structures that were acquired on or after April 1, 2016 has been changed from the declining-balance method to the straight-line method.

The effect of this change on operating income and income before income taxes for fiscal 2016 was immaterial.

2.2. Accounting standards and guidance issued but not yet adopted

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

On March 28, 2016, the ASBJ issued Revised Implementation Guidance on Recoverability of Deferred Tax Assets (Guidance No. 26). The Implementation Guidance basically continues to apply the framework used in the Auditing Committee Report No. 66 "Audit Treatment for Judgment of Recoverability of Deferred Assets" in which companies are grouped into five categories and assess the amounts of deferred tax assets based on such categories. However, necessary reviews on the following treatments are being implemented.

- (i) Treatment for companies that do not satisfy any of the category requirements for Category 1 through Category 5
- (ii) Requirements for categories 2 and 3
- (iii) Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as Category 2
- (iv) Treatment related to the reasonable estimable period of future pre-adjusted taxable income in

companies that qualify as Category 3 (v) Treatments in cases that companies satisfy Category 4 requirements but are applicable to Category 2 or 3.

Effective date: This implementation guidance will become effective for the Group from the beginning of fiscal 2017.

Impact on consolidated financial statements: The Group is currently evaluating the impact of applying this implementation guidance on its consolidated financial statements.

2.3. Changes in presentation method

Consolidated Statements of Cash Flows

"Increase (decrease) in allowance for doubtful accounts" has been included in "Increase (decrease) in other provisions" for the fiscal year ended December 31, 2016 due to its immateriality. This item had been presented separately under "Operating activities" for the previous fiscal year ended December 31, 2015. The consolidated statement of cash flows for the previous fiscal year has been restated in order to reflect this change.

As a result, ¥11 million of "Increase in allowance for doubtful accounts" has been included as a part of ¥151 million of "Increase (decrease) in other provisions" under "Operating activities" on the consolidated statement of cash flows for the previous fiscal year.

Note 2 Changes in Accounting Policies

2.1. Changes in accounting policies

Adoption of Business Combinations Accounting Standard

Effective from the beginning of fiscal 2016, the Group adopted (1) the Accounting Standard for Business Combinations (ASBJ Statement No. 21, revised on September 13, 2013), (2) the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, revised on September 13, 2013), (3) the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on September 13, 2013), and other accounting standards.

Upon adoption, the method of recording differences associated with changes in the Company's ownership interests in subsidiaries when the Company retains control, was changed to record them in capital surplus, and the method of recording acquisition-related costs was changed to recognize them as expenses for the fiscal year in which the costs are incurred. Furthermore, for

business combinations carried out on or after January 1, 2016, the accounting method was changed to reflect the reviewed acquisition cost allocation resulting from the finalization of the provisional accounting treatment in the consolidated financial statements for the annual period in which the business combination occurs. In addition, the presentation of net income, etc., has been changed, and the presentation of minority interests has been changed to non-controlling interests. In order to reflect these changes in presentation, reclassifications were made to the consolidated financial statements for fiscal 2015.

The application of the Business Combinations Accounting Standard and other standards was in accordance with the transitional treatment provided in Article 58-2 (4) of the Accounting Standard for Business Combinations, Article 44-5 (4) of the Accounting Standard for Consolidated Financial Statements, and Article 57-4 (4) of the Accounting Standard for Business Divestitures, and these standards have been applied from

the beginning of fiscal 2016.

Regarding the consolidated statement of cash flows, cash flows from the acquisition or sales of shares of subsidiaries that do not result in a change in the scope of consolidation, have been presented under cash flows from financing activities. Cash flows from expenses arising from the acquisition or sales of shares of subsidiaries that either result in or do not result in a change in the scope of consolidation have been presented under cash flows from operating activities.

These changes had no impact on the consolidated financial statements and per share information for fiscal 2016.

Change in Depreciation Method for Property, Plant and Equipment

Effective from the beginning of fiscal 2016, the Group adopted Practical Solution on a Change in Depreciation Method due to Tax Reform 2016 (PITF No. 32, issued on June 17, 2016) in accordance with a revision of the Corporation Tax Act.

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= ¥116.49, the approximate rate of exchange prevailing at December

31, 2016. 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:

December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and deposits	¥76,978	¥47,451	\$660,814
Short-term investments in securities	18,500	16,700	158,812
Less:			
Time deposits with maturities exceeding three months	(1,520)	(1,607)	(13,049)
Stocks and bonds with maturities exceeding three months	(18,500)	(16,700)	(158,812)
Cash and cash equivalents	¥75,458	¥45,843	\$647,765

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

In fiscal 2016, the Company has transferred its shares in pdc INC., FUTURE LABO INC. and C20 Plus Asia Limited to certain third parties. As a result, these 3 companies including their 3 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	Thousands of U.S. dollars
Current assets	¥2,423	\$20,807
Non-current assets	201	1,729
Current liabilities	(1,190)	(10,223)
Non-current liabilities	(152)	(1,306)
Foreign currency translation adjustments	(58)	(501)
Gain on sales of shares of subsidiaries	1,176	10,097
Selling price of shares of subsidiaries	2,400	20,603
Subsequent expenses related to sales of shares	(187)	(1,608)
Cash and cash equivalents	(1,066)	(9,152)
Proceeds from sales of shares of subsidiaries	¥1,146	\$ 9,843

4.3. Significant non-cash transactions

December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Assets and liabilities related to finance leases	¥ 1,105	¥ 825	\$ 9,487
Asset retirement obligations	¥ 120	¥ 86	\$ 1,035

Note 5 Items Related to Non-consolidated and Affiliated Companies

Items related to non-consolidated and affiliated companies are as follows:

December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investments in securities (stock)	—	¥0	—
[Of which, investments in joint ventures]	—	¥0	—

Note 6 Contingent Liabilities

Contingent liabilities consist of the following:

December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Guarantees of loans			
Employees' mortgages	¥69	¥97	\$595
Total	¥69	¥97	\$595

Note 7 Short-term and Long-term Debt

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

December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term loans payable	¥ 600	¥ 600	\$ 5,151
Lease obligations – current portion	627	514	5,386
Long-term loans payable	1,000	1,000	8,584
Lease obligations – long term	1,362	1,011	11,693
Total debt	¥ 3,589	¥ 3,125	\$ 30,814

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

December 31	2016	Maturity
Short-term loans payable	0.21%	—
Lease obligations – current portion	2.37%	2018
Long-term loans payable	0.69%	—
Lease obligations – long term	2.67%	2018 to 2022

At December 31, 2016, the annual maturities of loans payable and lease obligations excluding those within 1 year for the subsequent five years are as follows:

Years ending December 31	Loans payable		Lease obligations	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2018	¥1,000	\$8,584	¥540	\$4,644
2019	—	—	426	3,659
2020	—	—	261	2,242
2021	—	—	¥107	\$ 925

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 2016 are less than 1% of the total liabilities and net assets at the beginning and at the end of fiscal 2016, respectively.

Note 8 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.

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

8.1.1. Movement in retirement benefit obligations

Years ended and at December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at the beginning of the year	¥10,365	¥11,945	\$88,983
Cumulative effect of changes in accounting policies	—	(1,242)	—
Restated balance	10,365	10,703	88,983
Service cost	691	700	5,936
Interest cost	54	51	467
Actuarial loss (gain)	444	(35)	3,820
Benefits paid	(761)	(1,053)	(6,534)
Other	(148)	(1)	(1,276)
Balance at the end of the year	¥10,646	¥10,365	\$91,395

8.1.2. Movement in pension assets

Years ended and at December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at the beginning of the year	¥6,339	¥6,116	\$54,419
Expected return on pension assets	95	91	816
Actuarial gain (loss)	5	(3)	49
Contribution paid by the employer	426	747	3,657
Benefits paid	(427)	(613)	(3,667)
Balance at the end of the year	¥6,438	¥6,339	\$55,274

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

December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded retirement benefit obligations	¥9,773	¥9,362	\$83,900
Pension assets	(6,438)	(6,339)	(55,274)
Unfunded retirement benefit obligations	3,334	3,023	28,625
Total net liability for retirement benefits in the consolidated balance sheets	4,207	4,026	36,120
Net defined benefit liability	4,207	4,026	36,120
Total net liability for retirement benefits in the consolidated balance sheets	¥4,207	¥4,026	\$36,120

8.1.4. Retirement benefit costs

Years ended and at December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥691	¥700	\$5,936
Interest cost	54	51	467
Expected return on pension assets	(95)	(91)	(816)
Amortization of net actuarial loss (gain)	88	102	758
Amortization of past service cost	(14)	(14)	(126)
Other	6	48	58
Total retirement benefit costs	¥731	¥796	\$6,276

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

(2) ¥15 million (U.S. \$133 thousand) in fiscal 2016 and ¥52 million in fiscal 2015, which exceeded the provisions for additional lump sum retirement payment and lump sum retirement payment, were recorded under "Other."

8.1.5. 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:

Year ended December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial loss (gain)	¥(350)	¥134	\$(3,013)
Past service cost	(14)	(14)	(126)
Total	¥(365)	¥119	\$(3,139)

8.1.6. 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		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized actuarial loss	¥1,204	¥853	\$10,337
Unrecognized past service cost	(76)	(91)	(659)
Total	¥1,127	¥761	\$ 9,678

8.1.7. Items related to pension assets

8.1.7.1. Pension assets comprise

Year ended December 31	2016	2015
Life insurance general accounts	100%	100%

8.1.7.2. 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.

8.1.8. Items related to actuarial assumptions

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

Year ended December 31	2016	2015
Discount rate	0.6%	1.0%
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, 2016.

8.2. Defined contribution pension plans

Foreign consolidated subsidiaries' required contributions to defined contribution pension plans were ¥51 million (U.S. \$444 thousand) in fiscal 2016 (¥60 million in fiscal 2015).

Note 9 Net Assets

Information regarding changes in net assets is summarized as follows:

9.1. Shares issued and outstanding/Treasury stock

Shares	Common stock	
	Shares issued	Treasury stock
Balance at January 1, 2015	57,284,039	2,000,000
Increase	—	—
Decrease	—	3,890
Balance at January 1, 2016	57,284,039	1,996,110
Increase	—	—
Decrease (note)	—	6,600
Balance at December 31, 2016	57,284,039	1,989,510

Note: Treasury stock decreased due to the execution of stock option rights.

9.2. Subscription rights to shares

Year ended December 31, 2016

Name of company	Details of subscription rights to shares	Type of shares issued	Number of shares issued				Balance at December 31, 2016	Millions of yen	Thousands of U.S. dollars
			At beginning of year	Increase	Decrease	At end of year			
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥214	\$1,844	
	Total		—	—	—	—	¥214	\$1,844	

Year ended December 31, 2015

Name of company	Details of subscription rights to shares	Type of shares issued	Number of shares issued				Balance at December 31, 2015	Millions of yen
			At beginning of year	Increase	Decrease	At end of year		
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥183	
	Total		—	—	—	—	¥183	

9.3. Dividends

9.3.1. Dividends paid in fiscal 2016

Year ended December 31, 2016

Resolution	Type of shares	Thousands of U.S. dollars		Yen		Record date	Effective date
		Millions of yen	Total dividends	Dividends per share	Dividends per share		
Annual Meeting of Shareholders on March 30, 2016	Common stock	¥4,423	\$37,969	¥80.00	\$0.69	December 31, 2015	March 31, 2016
Board of Directors' Meeting on August 1, 2016	Common stock	¥4,975	\$42,715	¥90.00	\$0.77	June 30, 2016	September 9, 2016

9.3.2. Dividends paid in fiscal 2015

Year ended December 31, 2015

Resolution	Type of shares	Thousands of U.S. dollars		Yen		Record date	Effective date
		Millions of yen	Total dividends	Dividends per share	Dividends per share		
Annual Meeting of Shareholders on March 26, 2015	Common stock	¥8,126	\$52,214	¥147.00	\$0.94	December 31, 2014	March 27, 2015
Board of Directors' Meeting on July 30, 2015	Common stock	¥3,870	\$31,215	¥70.00	\$0.57	June 30, 2015	September 11, 2015

9.3.3. 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	Thousands of U.S. dollars		Yen		Record date	Effective date
			Millions of yen	Total dividends	Dividends per share	Dividends per share		
Annual Meeting of Shareholders on March 29, 2017	Common stock	Retained earnings	¥6,082	\$52,214	¥110.00	\$0.94	December 31, 2016	March 30, 2017

9.3.4. Dividends with the record date in fiscal 2015 and the effective date in fiscal 2016

Year ended December 31, 2015

Resolution	Type of shares	Source of dividends	Thousands of U.S. dollars		Yen		Record date	Effective date
			Millions of yen	Total dividends	Dividends per share	Dividends per share		
Annual Meeting of Shareholders on March 30, 2016	Common stock	Retained earnings	¥4,423	\$37,969	¥80.00	\$0.69	December 31, 2015	March 31, 2016

Note 10 Research and Development Costs

Research and development costs of ¥3,732 million (U.S. \$32,043 thousand) and ¥3,506 million were expensed for fiscal 2016 and 2015, respectively, as incurred, and included in selling, general and administrative expenses and cost of sales.

Note 11 Cost of Sales

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

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Reversal of provision for sales returns	¥37	¥111	\$325
Provision for sales returns	¥48	¥110	\$416

Note 12 Selling, General and Administrative Expenses

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

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Sales commission	¥46,618	¥48,822	\$400,194
Promotion expenses	26,369	23,616	226,371
Advertising expenses	8,794	8,117	75,493
Packing and transportation expenses	4,984	5,083	42,790
Salaries, allowances and bonuses	21,687	23,373	186,173
Welfare expenses	3,754	3,977	32,227
Retirement benefit expenses	726	771	6,237
Provision for bonuses	1,547	1,625	13,286
Provision for point program	3,401	3,732	29,203
Depreciation and amortization	5,021	4,655	43,109
Amortization of goodwill	679	765	5,836
Other	27,046	25,934	232,179
Total	¥150,633	¥150,477	\$1,293,098

Note 13 Other Income (Expenses)

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

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	—	—	—
Land	¥ 2,945	¥737	\$ 25,286
Others	7,237	0	62,128
Total	¥10,182	¥738	\$87,414

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

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	¥ 99	¥ 83	\$ 858
Machinery, equipment and vehicles	16	8	144
Removal and demolition	34	28	292
Others	94	151	808
Total	¥245	¥272	\$2,104

13.3. Impairment loss consists of the following:

Year ended December 31, 2016			Millions of yen	Thousands of U.S. dollars
Location	Function	Type	2016	2016
Japan	Stores and offices	Buildings and structures Property, plant and equipment (Other)	¥ 85	\$ 737
Japan	Artwork and paintings	Property, plant and equipment (Other)	9	85
Australia	Business assets	Goodwill	9,386	80,579
Japan	Marketing rights of ethical pharmaceuticals	Intangible assets (Other)	4,425	37,987
Total			¥13,907	\$119,389

(1) Background of recognizing impairment loss

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

The Group wrote down the book value of artwork and paintings to their recoverable value. 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 value. 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 their book values, the Group wrote down the book values of the assets to their recoverable value, 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, 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 by individual basis.

(3) Calculation methods of recoverable value

The recoverable values for artwork and paintings were 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.

Year ended December 31, 2015			Millions of yen
Location	Function	Type	2015
Japan	Stores	Buildings and structures Property, plant and equipment (Other)	¥ 21
China, Taiwan, Singapore	Stores	Buildings and structures Property, plant and equipment (Other)	36
Japan	Vehicles	Leased assets	50
Total			¥107

(1) Background of recognizing impairment loss

Among stores and mobile stores, when any asset groups have been continuously recording operating losses and the total amount of estimated future cash flows falls short of their book value, impairment losses are recognized under "Other expenses" by reducing their book value to the recoverable value.

(2) Grouping method of assets

Stores and mobile stores are grouped separately, mainly on a business department basis, whereby income and expenditures are continually being examined.

(3) Calculation methods of recoverable value

Recoverable value is measured by value-in-use based on future cash flows.

The value-in-use of stores and mobile stores is assessed at zero because future cash flows cannot be expected.

13.4. Loss on business liquidation:

The losses arising from the closure of the Hong Kong office of ORBIS and the withdrawing from the Russia operations of the POLA brand, resolved by the Board of Directors' Meetings on December 12, 2014 and November 27, 2015, respectively, were accounted for as "Loss on business liquidation" in fiscal 2015.

There was no loss on business liquidation incurred in fiscal 2016.

Note 14 Information on Consolidated Statements of Comprehensive Income

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

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	¥ (204)	¥ 116	\$ (1,753)
Reclassification adjustment	(534)	(57)	(4,587)
Amount before tax effect	(738)	58	(6,341)
Tax effect	238	4	2,048
Unrealized gain (loss) on available-for-sale securities, net of tax	(500)	63	(4,293)
Foreign currency translation adjustments			
Amount arising during the year	(2,135)	(3,151)	(18,330)
Reclassification adjustment	—	(152)	—
Amount before tax effect	(2,135)	(3,303)	(18,330)
Tax effect	(1)	25	(11)
Foreign currency translation adjustments	(2,136)	(3,278)	\$(18,342)
Remeasurements of defined benefit plans			
Amount arising during the year	(439)	32	(3,771)
Reclassification adjustment	73	87	631
Amount before tax effect	(365)	119	(3,139)
Tax effect	94	(66)	809
Remeasurements of defined benefit plans	(271)	53	(2,331)
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	—	0	—
Reclassification adjustment	(7)	—	(63)
Share of other comprehensive income of associates accounted for using the equity method	(7)	—	(63)
Total other comprehensive income	¥2,915	¥(3,160)	\$(25,028)

Note 15 Income Taxes

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

December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Provision for bonuses	¥ 452	¥ 552	\$ 3,884
Net defined benefit liabilities	1,264	1,270	10,852
Loss on valuation of inventories	547	623	4,696
Impairment loss	3,797	8,695	32,602
Provision for point program	1,096	1,233	9,412
Unrealized inter-company profit	1,139	1,314	9,785
Tax loss carry-forwards	10,123	8,864	86,904
Tax loss carry-forwards on liquidation of subsidiary	259	863	2,224
Enterprise tax payable	374	431	3,217
Asset retirement obligations	750	765	6,444
Other	1,060	1,391	9,101
Less valuation allowance	(12,939)	(17,843)	(111,082)
Total deferred tax assets	7,925	8,163	68,038
Deferred tax liabilities:			
Unrealized gain (loss) on available-for-sale securities	(5)	(243)	(46)
Restoration cost for asset retirement obligations	(255)	(269)	(2,194)
Goodwill, right of trademark and other intangible assets	(742)	(859)	(6,376)
Other	(135)	(457)	(1,162)
Total deferred tax liabilities	(1,139)	(1,829)	(9,778)
Deferred tax assets, net	¥ 6,786	¥ 6,333	\$ 58,260

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

Years ended December 31	2016	2015
Statutory income tax rate	33.1%	35.6%
Expenditure not allowable for income tax purposes (Entertainment expense, etc.)	0.4	0.5
Per capita inhabitants' tax	0.3	0.2
Increase (decrease) in valuation allowance	(17.9)	0.3
Amortization of goodwill	0.9	1.2
Impairment loss	12.5	—
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	(1.0)	(2.0)
Income taxes for prior periods	0.2	(0.0)
Reduction in deferred tax assets at reporting date due to revision of tax law	0.8	2.0
Other	(0.9)	0.0
Effective income tax rate	29.4%	37.8%

15.3. Changes in deferred tax assets and liabilities arising from the change in corporate tax rate

Following the promulgation of the "Act for Partial Revision of the Income Tax Act, etc.," the "Act for Partial Revision of the Local Tax Act, etc.," issued on March 29, 2016, and other acts issued on November 18, 2016, the statutory income tax rates used to measure deferred tax assets and liabilities were changed from 32.3% to 30.9% and 30.6% for those temporary differences expected to be eliminated in fiscal years beginning on January 1, 2017 and ending December 31, 2018, and those expected to be eliminated in the fiscal year beginning on January 1, 2019 and thereafter, respectively.

As a result, deferred tax assets (net of deferred tax liabilities) decreased by ¥203 million (U.S. \$1,748 thousand) at December 31, 2016, while fiscal 2016 income taxes-deferred increased by ¥194 million (U.S. \$1,673 thousand), unrealized gain (loss) on available-for-sale securities increased by ¥0 million (U.S. \$2 thousand), foreign currency translation adjustments increased by ¥2 million (U.S. \$19 thousand), and remeasurements of defined benefit plans decreased by ¥11 million (U.S. \$95 thousand).

Note 16 Leases

(As a lessee)

16.1. Finance leases that do not transfer ownership

16.1.1. Accounting treatment for the finance leases entered into on or after January 1, 2009

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.

16.1.2. Accounting treatment for the finance leases entered into on or prior to December 31, 2008

The finance leases entered into on or prior to December 31, 2008 are not capitalized but accounted for using a method similar to that applicable to operating lease transactions.

If such leases were capitalized, their depreciation or amortization would be determined on the straight-line method over the lease term with zero residual value and interest expense would be 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.

Lease payments, reversal of impairment loss on leased assets, depreciation and amortization, interest expense and impairment loss are as follows:

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Lease payments	—	¥6	—
Reversal of impairment loss on leased assets	—	—	—
Depreciation and amortization	—	4	—
Interest expense	—	0	—
Impairment loss	—	—	—

16.2. Operating lease transactions

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

December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Due within 1 year	¥ 3	¥ 7	\$29
Due after 1 year	1	4	10
Total	¥ 4	¥12	\$39

Note 17 Investment and Rental Property

17.1. Overview

The Group owns office buildings and residential properties for lease in Tokyo and other areas. Net rental income was ¥1,549 million (U.S. \$13,297 thousand) in fiscal 2016, (¥1,316 million in fiscal 2015) (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).

17.2. 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:

Carrying amount	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
At beginning of year	¥24,431	¥25,193	\$209,734
Movement during the year	[6,679]	[761]	[57,338]
At end of year	17,752	24,431	152,396
Fair value at end of year	¥46,461	¥52,361	\$398,842

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

(2). Components of change

Increase:

In fiscal 2016: Refurbishment of office buildings for lease: ¥200 million (U.S. \$1,725 thousand)

In fiscal 2015: Refurbishment of office buildings for lease: ¥155 million

Decrease:

In fiscal 2016: Depreciation on office buildings, residential properties and other properties for lease: ¥535 million (U.S. \$4,593 thousand)

Sale of office building for lease: ¥5,566 million (U.S. \$47,783 thousand)

Sale of idle property: ¥730 million (U.S. \$6,275 thousand)

In fiscal 2015: Depreciation on office buildings, residential properties and other properties for lease: ¥567 million

Sale of idle property: ¥342 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 reflecting market price, and the fair values of depreciable assets such as buildings are determined by the carrying amounts on the consolidated balance sheets.

Note 18 Financial Instruments

18.1. Overview of financial instruments

18.1.1. 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.

18.1.2. 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. Loans payable with floating interest rates are exposed to the risk of interest rate fluctuations, while long-term loans payable are borrowed by fixed interest rates to restrain such risks.

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.

18.1.3. 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.

18.2. 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.)

December 31	Millions of yen		
	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

December 31	Millions of yen		
	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 47,451	¥ 47,451	—
(ii) Notes and accounts receivable – trade (*1)	27,491	27,491	—
(iii) Investments in securities:			
Held-to-maturity securities	36,199	35,997	¥(202)
Available-for-sale securities	1,866	1,866	—
Total assets	113,008	112,806	(202)
Liabilities			
(i) Notes and accounts payable – trade	5,386	5,386	—
(ii) Short-term loans payable	600	600	—
(iii) Accounts payable – other	20,765	20,765	—
(iv) Long-term loans payable	1,000	1,007	7
Total liabilities	¥ 27,752	¥ 27,760	¥ 7

December 31	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	\$ 660,814	\$ 660,814	—
(ii) Notes and accounts receivable – trade (*1)	222,352	222,352	—
(iii) Investments in securities:			
Held-to-maturity securities	261,821	260,547	\$(1,273)
Available-for-sale securities	8,584	8,584	—
Total assets	1,153,571	1,152,297	(1,273)
Liabilities			
(i) Notes and accounts payable – trade	40,300	40,300	—
(ii) Short-term loans payable	5,151	5,151	—
(iii) Accounts payable – other	116,285	116,285	—
(iv) Long-term loans payable	8,584	8,631	46
Total liabilities	\$ 170,320	\$ 170,367	\$ 46

(*1) Notes and accounts receivable – trade are presented net of allowance for doubtful accounts.

(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 stock is determined based on the quoted price on stock exchanges and the fair value of debt securities is determined on the quoted prices provided by financial institutions. For the short-term investments in securities, their fair values approximate carrying value.

For the notes related to securities for holding purpose, please refer to Note 19 “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.

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
December 31	Carrying amount		Carrying amount
Unlisted stock	¥ 0	¥ 2	\$ 0
Capital contribution to investment in a limited partnership	47	79	404
Total	¥47	¥81	\$404

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 schedule of monetary receivables and investments in securities with maturities at December 31, 2016 and 2015 are as follows:

December 31	Millions of yen			
	2016			
	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	—	—

December 31	Millions of yen			
	2015			
	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	¥47,451	—	—	—
Notes and accounts receivable – trade	27,491	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	15,700	¥20,499	—	—
Available-for-sale securities with maturities (other)	1,000	79	—	—
Total	¥91,642	¥20,578	—	—

December 31	Thousands of U.S. dollars			
	2016			
	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	\$ 660,814	—	—	—
Notes and accounts receivable – trade	222,352	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	150,227	\$111,593	—	—
Available-for-sale securities with maturities (other)	8,584	404	—	—
Total	\$1,041,978	\$111,998	—	—

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

December 31	Millions of yen					
	2016					
	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	—	—	—	—

December 31	Millions of yen					
	2015					
	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	—	—	—

December 31	Thousands of U.S. dollars					
	2016					
	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	\$5,151	—	—	—	—	—
Long-term loans payable	—	\$8,584	—	—	—	—
Total	\$5,151	\$8,584	—	—	—	—

Note 19 Investments in Securities

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

December 31	Millions of yen					
	2016			2015		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds						
Other	¥14,499	¥14,550	¥ 51	¥ 9,100	¥ 9,111	¥ 11
Subtotal	14,499	14,550	51	9,100	9,111	11
Securities with carrying amount exceeding fair value						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds						
Other	16,000	15,800	(199)	27,099	26,885	(213)
Subtotal	16,000	15,800	(199)	27,099	26,885	(213)
Total	¥30,499	¥30,351	¥(148)	¥36,199	¥35,997	¥(202)

December 31	Thousands of U.S. dollars		
	2016		
	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount			
Government and municipal bonds	—	—	—
Corporate bonds			
Other	\$124,470	\$124,908	\$ 438
Subtotal	124,470	124,908	438
Securities with carrying amount exceeding fair value			
Government and municipal bonds	—	—	—
Corporate bonds			
Other	137,351	135,639	(1,712)
Subtotal	137,351	135,639	(1,712)
Total	\$261,821	\$260,547	\$(1,273)

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

December 31	Millions of yen					
	2016			2015		
	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost						
Stock	—	—	—	¥ 866	¥ 134	¥732
Bonds	—	—	—	—	—	—
Other	—	—	—	—	—	—
Subtotal	—	—	—	866	134	732
Securities with acquisition cost exceeding carrying amount						
Stock	—	—	—	—	—	—
Bonds	—	—	—	—	—	—
Other	¥1,000	¥1,000	—	1,000	1,000	—
Subtotal	1,000	1,000	—	1,000	1,000	—
Total	¥1,000	¥1,000	—	¥1,866	¥1,134	¥732

December 31	Thousands of U.S. dollars		
	2016		
	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	\$8,584	\$8,584	—
Subtotal	8,584	8,584	—
Total	\$8,584	\$8,584	—

Unlisted stock of ¥0 million (U.S. \$0 thousand) at December 31, 2016 (¥2 million at December 31, 2015) and capital contribution to investment in a limited partnership of ¥47 million (U.S. \$404 thousand) at December 31, 2016 (¥79 million at December 31, 2015) 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 "(2). Financial instruments for which fair values are not readily available" in Note 18 "Financial Instruments."

19.3. Available-for-sale securities sold during fiscal 2016 and 2015 consist of the following:

In fiscal 2016, proceeds from sales of investment securities were ¥669 million (U.S. \$5,746 thousand). Gain on sales of investment securities was ¥532 million (U.S. \$4,573 thousand). No available-for-sale securities were sold in fiscal 2015.

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, a variety of businesses is conducted to contribute to the Group's profits.

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

The Beauty Care business manufactures and markets cosmetics and health foods and sells fashion items (women's underwear, women's apparel and jewelry) under the following brand names: **POLA, ORBIS, ORLANE, DECENCIA, THREE, H2O PLUS and Jurlique**. 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.

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

Year ended or at December 31	Millions of yen						
	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
	Beauty Care	Real Estate	Subtotal				
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	25,974	1,395	27,369	(133)	27,236	(326)	26,909
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	679	—	679	—	679	—	679
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 (U.S. \$(2,807) thousand) includes intersegment transaction eliminations of ¥2,521 million (U.S. \$21,644 thousand) and corporate expenses of ¥(2,848) million (U.S. \$(24,451) 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 ¥(1,283) million (U.S. \$(11,020) thousand) includes corporate assets of ¥98,742 million (U.S. \$847,646 thousand), not allocated to each segment, and intersegment eliminations of ¥(100,025) million (U.S. \$(858,666) 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.

Year ended or at December 31	Millions of yen						
	2015						Consolidated total (Note 3)
	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	
	Beauty Care	Real Estate	Subtotal				
Net sales							
Sales to external customers	¥200,570	¥2,951	¥203,522	¥11,266	¥214,788	—	¥214,788
Inter-segment sales or transfers	81	509	591	2,502	3,093	¥(3,093)	—
Total	200,652	3,461	204,113	13,768	217,882	(3,093)	214,788
Segment income	21,290	1,265	22,556	293	22,850	(339)	22,511
Segment assets	190,902	27,749	218,652	23,341	241,993	(6,259)	235,734
Other items							
Depreciation and amortization	5,573	599	6,173	320	6,494	33	6,528
Amortization of goodwill	765	—	765	—	765	—	765
Increase in property, plant and equipment and intangible assets	¥ 6,445	¥ 231	¥ 6,676	¥ 5,080	¥ 11,757	¥ 316	¥ 12,074

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 ¥(339) million includes intersegment transaction eliminations of ¥1,953 million and corporate expenses of ¥(2,292) 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 ¥(6,259) million includes corporate assets of ¥79,564 million, not allocated to each segment, and intersegment eliminations of ¥(85,824) 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.

Year ended or at December 31	Thousands of U.S. dollars						
	2016						Consolidated total (Note 3)
	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	
	Beauty Care	Real Estate	Subtotal				
Net sales							
Sales to external customers	\$1,737,886	\$ 26,127	\$1,764,013	\$111,532	\$1,875,545	—	\$1,875,545
Inter-segment sales or transfers	541	5,119	5,660	24,235	29,895	\$(29,895)	—
Total	1,738,427	31,246	1,769,673	135,767	1,905,440	(29,895)	1,875,545
Segment income	222,973	11,982	234,955	(1,150)	233,806	(2,807)	230,999
Segment assets	1,564,660	279,688	1,844,348	131,182	1,975,530	(11,020)	1,964,510
Other items							
Depreciation and amortization	45,064	4,912	49,976	7,526	57,502	763	58,265
Amortization of goodwill	5,836	—	5,836	—	5,836	—	5,836
Increase in property, plant and equipment and intangible assets	\$ 60,020	\$ 1,900	\$ 61,920	\$ 7,681	\$ 69,601	\$ 168	\$ 69,769

20.4. Related information

20.4.1. Sales information by product and service

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Sales to external customers			
Cosmetics	¥190,364	¥187,144	\$1,634,167
Fashion	12,082	13,426	103,719
Others	16,035	14,217	137,659
Total	¥218,482	¥214,788	\$1,875,545

20.4.2. Information by geographical area

a. Sales

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Japan	¥199,509	¥189,215	\$1,712,678
Overseas	18,972	25,573	162,967
Total	¥218,482	¥214,788	\$1,875,545

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

b. Property, plant and equipment

Information by geographical area 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 for fiscal 2016 and 2015.

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 2016 and 2015.

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

Year ended December 31	Millions of yen					
	2016					
	Reportable Segments			Others	Reconciliations	Total
Beauty Care	Real Estate	Subtotal				
Impairment loss	¥9,472	—	¥9,472	¥4,425	¥9	¥13,907

Year ended December 31	Millions of yen					
	2015					
	Reportable Segments			Others	Reconciliations	Total
Beauty Care	Real Estate	Subtotal				
Impairment loss	¥107	—	¥107	—	—	¥107

Year ended December 31	Thousands of U.S. dollars					
	2016					
	Reportable Segments			Others	Reconciliations	Total
Beauty Care	Real Estate	Subtotal				
Impairment loss	\$81,317	—	\$81,317	\$37,987	\$85	\$119,389

Notes: The amount in "Others" were impairment losses associated with marketing rights of ethical pharmaceuticals, while the amount in "Reconciliation" were impairment losses associated with artworks and paintings.

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

Year ended or at December 31	Millions of yen					
	2016					
	Reportable Segments			Others	Reconciliations	Total
Beauty Care	Real Estate	Subtotal				
Amortization of goodwill	¥679	—	¥679	—	—	¥679
Goodwill	¥905	—	¥905	—	—	¥905

Year ended or at December 31	Millions of yen					
	2015					
	Reportable Segments			Others	Reconciliations	Total
Beauty Care	Real Estate	Subtotal				
Amortization of goodwill	¥ 765	—	¥ 765	—	—	¥ 765
Goodwill	¥11,894	—	¥11,894	—	—	¥11,894

Year ended or at December 31	Thousands of U.S. dollars					
	2016					
	Reportable Segments			Others	Reconciliations	Total
Beauty Care	Real Estate	Subtotal				
Amortization of goodwill	\$5,836	—	\$5,836	—	—	\$5,836
Goodwill	\$7,775	—	\$7,775	—	—	\$7,775

No gains arising from negative goodwill were recognized in fiscal 2016 and 2015.

Note 21 Per Share Information

For fiscal 2016 and 2015, 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 2016 and 2015 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.

21.1. Net income per share and assumptions used for calculations are as follows:

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Numerator:			
Net income attributable to owners of parent	¥17,447	¥14,095	\$149,779
Amount not attributable to shareholders of common stock	—	—	—
Net income attributable to owners of parent associated with common stock	¥17,447	¥14,095	\$149,779
Denominator:			
Weighted average number of common stock outstanding (shares)	55,289,062	55,286,732	55,289,062
	Yen	U.S. dollars	
Basic net income per share	¥315.57	¥254.95	\$ 2.71
Adjustment for Numerator:			
Adjustment of net income attributable to owners of parent	—	—	—
Adjustment for Denominator:			
Increase in the number of common stock (shares)	71,924	66,820	71,924
[Of which, subscription rights to shares]	(71,924)	(66,820)	(71,924)
	Yen	U.S. dollars	
Diluted net income per share	¥315.16	¥254.64	\$ 2.71

21.2. Net assets per share and assumptions used for calculations are as follows:

At December 31	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Numerator:			
Total net assets	¥ 185,864	¥ 180,635	\$1,595,537
Amount deducted from total net assets	446	397	3,830
[Of which, subscription rights to shares]	(214)	(183)	(1,844)
[Of which, non-controlling interests]	(231)	(214)	(1,987)
Net assets attributable to common stock	¥ 185,417	¥ 180,238	\$1,591,707
Denominator:			
Common shares outstanding used in the calculation of net assets per share (shares)	55,294,529	55,287,929	55,294,529
	Yen	U.S. dollars	
Net assets per share	¥3,353.28	¥3,260.00	\$ 28.79

Note 22 Related Party Transactions

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 (U.S. \$66,340 thousand) excluding consumption tax, on which gains of ¥3,496 million (U.S. \$30,011 thousand) were recognized. The sale prices were decided based on appraisal prices provided by several independent companies specializing in artwork and paintings.

There was no applicable information on related party transactions involving the Company or significant affiliates in fiscal 2015 to be disclosed.

Note 23 Stock Options

23.1. Stock option-related expenses

Share-based compensation expenses of ¥47 million (U.S. \$409 thousand) arising from stock options were included in selling, general and administrative expenses in fiscal 2016 (¥53 million in fiscal 2015).

23.2. Details of the stock options

23.2.1. Information on the stock options

	Subscription rights to shares issued in fiscal 2016	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2014
Date of approval	March 31, 2016	March 27, 2015	March 28, 2014
Grantees	6 directors of the Company and 5 directors of subsidiaries	6 directors of the Company and 7 directors of subsidiaries	7 directors of the Company and 7 directors of subsidiaries
Type and number of shares granted	Common stock: 6,250 shares	Common stock: 9,640 shares	Common stock: 15,670 shares
Grant date	April 15, 2016	April 13, 2015	April 14, 2014
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 16, 2016—April 15, 2046	April 14, 2015—April 13, 2045	April 15, 2014—April 14, 2044

	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
Date of approval	March 29, 2013	March 30, 2012
Grantees	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: 19,700 shares	Common stock: 29,700 shares
Grant date	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
Service period required	Not specified	Not specified
Exercisable period	April 16, 2013—April 15, 2043	April 17, 2012—April 16, 2042

23.2.2. Information on and changes to the stock options

The number 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 2016	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2014
Date of approval	March 31, 2016	March 27, 2015	March 28, 2014
Non-vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	—	9,110	12,560
Granted	6,250	—	—
Forfeited	—	—	—
Vested	—	1,640	2,400
Outstanding at end of year	6,250	7,470	10,160
Vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	—	400	2,160
Vested	—	1,640	2,400
Exercised	—	530	780
Forfeited	—	—	—
Outstanding at end of year	—	1,510	3,780

	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
Date of approval	March 29, 2013	March 30, 2012
Non-vested	(shares)	(shares)
Outstanding at beginning of year	15,540	20,290
Granted	—	—
Forfeited	—	—
Vested	3,270	4,700
Outstanding at end of year	12,270	15,590
Vested	(shares)	(shares)
Outstanding at beginning of year	2,860	6,690
Vested	3,270	4,700
Exercised	1,060	4,230
Forfeited	—	—
Outstanding at end of year	5,070	7,160

b. Price information

Date of approval	Subscription rights to shares issued in fiscal 2016		Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2014
	March 31, 2016		March 27, 2015	March 28, 2014
	Yen	U.S. dollars	Yen	Yen
Exercise price	¥ 1	\$ 0.01	¥ 1	¥ 1
Average stock price at the time of exercise	—	—	8,740	8,740
Fair value of stock options on the grant date	¥7,324	\$62.87	¥5,845	¥2,999

Date of approval	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
	March 29, 2013	March 30, 2012
	Yen	Yen
Exercise price	¥ 1	¥ 1
Average stock price at the time of exercise	8,740	8,760
Fair value of stock options on the grant date	¥2,564	¥1,832

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 2016
Volatility (*1)	30.228%
Estimated remaining period (*2)	15 years
Estimated dividend (*3)	¥150.00 per share
Risk-free rate (*4)	0.094%

(*1) Volatility is calculated using weekly stock prices during the period (5.35 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 2015.

(*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 the future forfeited shares, the Company adopted the method of reflecting the actual number of forfeited shares only.

Note 24 Significant Subsequent Events

24.1. Stock Split

The Board of Directors resolved at the meeting held on February 14, 2017 to conduct a stock split effective on April 1, 2017. The details are as follows:

24.1.1. Purpose of the stock split

The purpose of the stock split is to provide an environment where investors can make investments more easily to broaden the investor base and increase stock liquidity by lowering the market price per share.

24.1.2. Outline of the stock split

24.1.2.1. Method of stock split

Setting March 31, 2017 as the record date, common stock of the Company held by shareholders recorded in the final register of shareholders as of the record date will be split at a ratio of four shares per one share.

24.1.2.2. Number of shares post-stock split

Number of shares issued pre-stock split	57,284,039 shares
Increase in number of shares due to stock split	171,852,117 shares
Number of shares issued post-stock split	229,136,156 shares
Number of authorized shares after stock split	800,000,000 shares

24.1.2.3. Schedule of stock split

Public notice of record date	March 10, 2017
Record date	March 31, 2017
Effective date	April 1, 2017

24.1.3. Effect on per share information

Assuming that the stock split was conducted at the beginning of fiscal 2015, per share information for fiscal 2016 and 2015 would be as follows:

Years ended December 31	Yen		U.S. dollars
	2016	2015	2016
Net assets per share	¥838.32	¥815.00	\$7.20
Basic net income per share	78.89	63.74	0.68
Diluted net income per share	¥ 78.79	¥ 63.66	\$0.68

Independent Auditor's Report

24.2 Conclusion of lawsuit

On February 19, 2013, a lawsuit was filed against Pola Pharma Inc., wholly owned by the Company, and two other manufacturers and distributors and one importer of raw materials (collectively; the "four companies") with the Tokyo District Court by Chugai Pharmaceutical Co., Ltd. ("Chugai"), in which Chugai sought an injunction based on the infringement of a process patent on MAXACALCITOL Ointment 25µg/g, a drug launched on December 2012 for the treatment of keratosis, such as plaque psoriasis. The four companies filed a petition with the Supreme Court to accept an appeal of the judgement of the Intellectual Property High Court dismissing the appeal on March 25, 2016. On March 24, 2017, the Supreme Court rendered a judgement dismissing the appeal after having accepted the appeal from petitions on March 8, 2017. As a result, the lawsuit has been concluded.

The distribution of products using the material was suspended following a decision on a preliminary injunction issued by the Tokyo District Court on February 25, 2015. Since October 15, 2015, the products have been manufactured and distributed using material developed based on a process not related to the one filed in the complaint.

Based on the lawsuit of infringement of the patent above, on August 10, 2015, Chugai filed a related lawsuit to seek recovery of damages of ¥1,100 million (U.S. \$9,443 thousand) and subsequent interest of 5% of damages from Pola Pharma and the three other companies. The case is being considered by the Tokyo District Court. As a result, the impact on the Company's consolidated performance cannot currently be determined.



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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, 2016, 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, 2016, 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 29, 2017
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	ORBIS drafts new corporate message "Change is beautiful." POLA ORBIS HOLDINGS welcomes outside director. POLA CHEMICAL wins the highest award (best oral presentation category) at the 23rd IFSCC Conference.
2016	POLA redefines its unique values under a new brand strategy—"Science. Art. Love." POLA receives permission to manufacture and market a beauty product with an ingredient recognized as a quasi-drug to effectively improve wrinkles. pdc INC. and FUTURE LABO INC. are transferred.

Corporate Information [As of December 31, 2016]

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	3,847 (for the Group) 115 (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.
ORLANE JAPON 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, 2016]

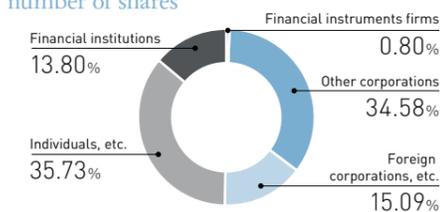
Total number of authorized shares	200,000,000 shares
Total number of issued shares	57,284,039 shares
Number of shareholders	15,696

Principal Shareholders

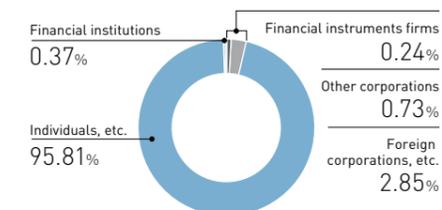
Shareholders	Number of shares held (Thousands)	Percentage of shareholding (%)
The POLA Art Foundation	19,654	35.5
Satoshi Suzuki	12,691	23.0
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,193	4.0
Japan Trustee Services Bank, Ltd. (Trust Account)	2,184	4.0
Naoko Nakamura	1,192	2.2
Hiromi Suzuki	778	1.4
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	621	1.1
POLA ORBIS Group Employees' Stockholding	617	1.1
Japan Trustee Services Bank, Ltd. (Trust Account 9)	500	0.9
J.P. MORGAN BANK LUXEMBOURG S.A.380578	475	0.9

Composition of Shareholders

By number of shares



By number of shareholders



Notes: 1. The number of shares is rounded down to the nearest thousand shares.
2. In addition to the above, the Company holds 1,989 thousand shares of treasury stock.
3. The percentage of shareholding is calculated by deducting shares of treasury stock.



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