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Announcement Regarding Recording of Extraordinary Loss

The POLA ORBIS Group hereby announces that POLA ORBIS HOLDINGS INC. (the "Company") will record an extraordinary loss as outlined below in its consolidated financial results for the fourth quarter of fiscal 2016.

1. Recording of extraordinary loss

(1) Details of extraordinary loss

The Company will record an impairment loss of ¥4,425 million for the fourth quarter of fiscal 2016 on intangible assets (other) related to POLA PHARMA INC. (President: Yasunori Inaoka; head office: Shinagawa-ku, Tokyo; hereafter, "POLA PHARMA"), its consolidated subsidiary.

(2) Reason for extraordinary loss

In January 2016, POLA PHARMA concluded an exclusive license agreement in Japan and obtained associated domestic marketing rights for Duac® Gel (hereafter, "Duac"), a combination agent that GlaxoSmithKline K.K. is permitted to manufacture and market for the treatment of acne vulgaris.

In Japan, the number of people who know that acne vulgaris requires a visit to a clinic or other medical institution for treatment is low compared with awareness in the West. POLA PHARMA, focusing on dermatology, has aggressively undertaken information activities to acquaint as many patients as possible with new treatment options for acne vulgaris.

However, increasingly fierce competition with new drugs brought to market around the same time, as well as other factors, such as a delay in recognizing Duac as a recommended drug for treatment of acne vulgaris at the acute inflammation stage and insufficient marketing capabilities on the distribution front, caused recent sales performance to fall below the level anticipated at the time POLA PHARMA acquired rights to market Duac.

Against this backdrop, the POLA ORBIS Group prudently reviewed the sales target for Duac in 2017 and carefully examined future cash flow potential from this business, then used the calculations to run an impairment test. This led to the decision to book the impairment loss.

(3) Measures going forward

POLA PHARMA identified increasingly fierce competition with new drugs from other companies, a delay in recognizing Duac as a recommended drug for treatment of acne vulgaris at the acute inflammation stage and insufficient marketing capabilities on the distribution front as the primary factors that fell short of the sales target. Measures to address the situation are described below.

1) Move experienced personnel hired externaly from pharmaceutical companies to focus on marketing, and totally revise the marketing structure. Then reinforce the responsiveness of medical representatives through the introduction of external training systems and other programs to improve marketing capabilities.
2) Set up a dedicated department with medical science liaisons (MSL), who are trained field staff with high-level medical and scientific knowledge, and provide Duac information from a multifaceted perspective to key opinion leaders who were not on the contact lists of medical representatives. These efforts will underpin enhanced product value and boost the profile of Duac as a recommended drug.
3) Rewrite the list of target facilities, strengthen alliances with wholesaler and distributors, and promote activities over a wider geographical area to deliver product to as many facilities as possible.

(4) Impact on consolidated performance

The Company will record an impairment loss of ¥4,425 million, as described above, for the fourth quarter of fiscal 2016.