POLA ORBIS HOLDINGS

Summary of Financial Results

For the Fiscal Year Ended December 31, 2017 (Consolidated)

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

February 14, 2018

POLA ORBIS HOLDINGS INC.

Listing:	Tokyo Stock Exchange, First Section (Code No.: 4927)	
URL:	http://www.po-holdings.co.jp/	
Representative:	Satoshi Suzuki, Representative Director And President	
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Annual Shareholders' Meeting:	March 27, 2018
Filing Date of Securities Report:	March 27, 2018
Start of Cash Dividend Payment:	March 28, 2018
Supplemental Materials Prepared for Yearly Financial Results:	Yes
Conference Presentation for Yearly Financial Results:	Yes (for analysts)

(Amounts less than one million yen have been truncated)

1. Consolidated Performance for the Fiscal Year Ended December 31, 2017

(January 1, 2017–December 31, 2017)

(1) Consolidated Operating Results

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2017	244,335	11.8	38,881	44.9	39,250	44.7	27,137	66.2
FY2016	218,482	—	26,839	—	27,121	—	16,328	—

Note: Comprehensive income: FY2017: ¥27,740 million (106.4%); FY2016: ¥13,442 million (— %)

	Net Income Per Share	Diluted Net Income Per Share	Return on Shareholders' Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
FY2017	122.70	122.54	14.2	16.3	15.9
FY2016	73.83	73.74	9.0	11.7	12.3

Reference: Equity in losses of affiliates: FY2017: ¥— million; FY2016: ¥ —million

Note 1: POLA ORBIS HOLDINGS ("the Company") conducted a four for one stock split effective on April 1, 2017. Net income per share and diluted net income per share were calculated assuming that the stock split was conducted at the beginning of fiscal 2016.

Note 2: Figures for FY2016 have been adjusted reflecting impact arising from retrospective application due to change in accounting policy, as such there were no comparative year-on-year percentage changes available for FY2016 compared with the previous year.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
At December 31	Millions of yen	Millions of yen	%	Yen
FY2017	252,567	198,845	78.6	897.26
FY2016	228,845	183,282	79.9	826.65

Reference: Equity capital: At December 31, 2017: ¥198,453 million; At December 31, 2016: ¥182,836 million

Note 1: A four for one stock split was conducted effective on April 1, 2017. Net assets per share were calculated assuming that the stock split was conducted at the beginning of fiscal 2016.

Note 2. Figures for FY2016 have been adjusted reflecting impact arising from retrospective application due to change in accounting policy.

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2017	35,333	(22,065)	(12,945)	75,944
FY2016	23,561	16,379	(10,030)	75,458

2. Dividends

	Annual Cash Dividends Per Share					Total Dividends Paid (Annual)	Payout Ratio (Consolidated)	Dividends to Net Assets (Consolidated)
	Q1-end	Q2-end	Q3-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2016	—	90.00	—	110.00	200.00	11,058	67.7	6.1
FY2017	—	25.00	—	45.00	70.00	15,482	57.1	8.1
FY2018(Forecast)	—	35.00	—	45.00	80.00		63.2	

Note 1: A four for one stock split was conducted effective on April 1, 2017. Dividends for year ended December 31, 2016 were actual dividends announced before the stock split.
Note 2. Figures for FY2016 have been adjusted reflecting impact arising from retrospective application due to change in accounting policy.

3. Consolidated Performance Forecast for the Fiscal Year Ending December 31, 2018
(January 1, 2018–December 31, 2018)

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Net Income Per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	121,000	3.1	19,600	(6.4)	19,600	(6.4)	13,000	(6.8)	58.78
Full year	253,000	3.5	41,500	6.7	41,500	5.7	28,000	3.2	126.59

Notes to Summary Information

(1) Changes in significant subsidiaries during the current year
(Changes in specific subsidiaries resulting in changes in the scope of consolidation) : None

(2) Changes in accounting policies, accounting estimates, and restatement
1) Changes in accounting policies associated with revision of accounting standards : None
2) Changes other than (2)-1) : Yes
3) Changes in accounting estimates : None
4) Restatement : None

Note: Please refer to "3. Consolidated Financial Statements (5) Notes to Consolidated Financial Statements (Change in Accounting Policy)" on page 16 for further detailed information.

(3) Number of shares issued and outstanding (common stock)
1) Number of shares issued and outstanding at the end of each period (including treasury stock)
At December 31, 2017 229,136,156 shares
At December 31, 2016 229,136,156 shares
2) Number of shares of treasury stock at the end of each period
At December 31, 2017 7,957,837 shares
At December 31, 2016 7,958,040 shares
3) Average number of shares issued and outstanding in each period
Fiscal year ended December 31, 2017 221,177,961 shares
Fiscal year ended December 31, 2016 221,156,248 shares

Note 1: For the number of shares used as the base for calculation of consolidated net income per share, please refer to "3. Consolidated Financial Statements (5) Notes to Consolidated Financial Statements (Per Share Information)" on page 21 for further detailed information.
Note 2: A four for one stock split was conducted effective on April 1, 2017. Number of shares issued were calculated assuming that the stock split was conducted at the beginning of fiscal 2016.

(Reference) Summary of Non-consolidated Financial Performance

1. Non-consolidated Financial Performance for the Fiscal Year Ended December 31, 2017
(January 1, 2017–December 31, 2017)

(1) Operating Results

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2017	30,647	95.7	27,031	116.2	27,903	117.6	26,940	—
FY2016	15,660	5.0	12,500	1.4	12,823	3.5	1,911	(81.3)

	Net Income Per Share	Diluted Net Income Per Share
	Yen	Yen
FY2017	121.80	121.64
FY2016	8.64	8.63

Note: The Company conducted a four for one stock split effective on April 1, 2017. Net income per share and diluted net income per share were calculated assuming that the stock split was conducted at the beginning of fiscal 2016.

(2) Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
At December 31	Millions of yen	Millions of yen	%	Yen
FY2017	228,786	120,320	52.5	542.82
FY2016	206,591	104,949	50.7	473.53

Reference: Equity capital: At December 31, 2017: ¥120,059 million; At December 31, 2016: ¥104,734 million

Note: A four for one stock split was conducted effective on April 1, 2017. Net assets per share were calculated assuming that the stock split was conducted at the beginning of fiscal 2016.

Summary of Financial Results Is out of the Audit Scope

Explanation of Appropriate Use of Performance Forecast and Other Special Items

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

Table of Contents

1. Overview of Consolidated Operating Results

(1) Overview of Consolidated Operating Results for Fiscal 2017

During the fiscal year ended December 31, 2017, the Japanese economy continued on a moderate recovery track, backed by the effects of various government policies amid a continuing trend toward improvement in the employment and income climate. Personal consumption has also picked up gradually. However, there are concerns about the impact of overseas economies and fluctuations in financial capital markets.

The domestic cosmetics market grew steadily, as inbound consumption by tourists visiting Japan, which had weakened since the second half of the previous year, increased again. The market scale is expected to be on par with that of the previous year when inbound consumption is excluded. In the overseas cosmetics market, a modest expansion continued with steady growth in China and other countries in Asia.

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

As a result of these factors, the Group achieved the following consolidated operating results for fiscal 2017.

Consolidated net sales grew 11.8% year on year, to ¥244,335 million, reflecting the strong performance of the flagship brand POLA, in addition to the brands under development—THREE and DECENCIA. Operating income rose 44.9% year on year, to ¥38,881 million, resulting from higher gross profit accompanying the increase in sales and cost efficiency. Ordinary income advanced 44.7% year on year, to ¥39,250 million. As a result, profit attributable to owners of parent grew 66.2% year on year, to ¥27,137million.

From the fiscal year ended December 31, 2017, the Group's consolidated subsidiary has changed its accounting policy to recognize deferred tax liabilities relating to intangible assets with an indefinite useful life that have been acquired as part of business combinations. The figures for the previous period were retroactively adjusted for comparative purpose.

Operating Results Overview (Millions of yen)

	Twelve Months Ended December 31			
	2016	**2017**	Year-on-Year	
			Amount Change	Percent Change (%)
Net Sales	¥218,482	**¥244,335**	¥25,853	11.8
Operating Income	26,839	**38,881**	12,041	44.9
Ordinary Income	27,121	**39,250**	12,128	44.7
Profit Attributable to Owners of Parent	¥16,328	**¥27,137**	¥10,809	66.2

Operating Results by Segment

Net Sales (Segment Sales to External Customers) (Millions of yen)

	Twelve Months Ended December 31			
	2016	**2017**	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥202,446	**¥227,133**	¥24,686	12.2
Real Estate	3,043	**2,694**	(349)	(11.5)
Others	12,992	**14,507**	1,515	11.7
Total	¥218,482	**¥244,335**	¥25,853	11.8

Segment Income (Loss), Operating Income (Loss) (Millions of yen)

	Twelve Months Ended December 31			
	2016	**2017**	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥25,904	**¥38,121**	¥12,216	47.2
Real Estate	1,395	**1,082**	(313)	(22.4)
Others	(133)	**(314)**	(180)	—
Reconciliations of Segment Income (Note)	(326)	**(8)**	318	—
Total	¥26,839	**¥38,881**	¥12,041	44.9

Note: Reconciliations of segment income refer to elimination of profits arising from inter-company transactions and expenses not allocated to reportable segments. Please see note 2 in “3. Information about Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment” on page 20 for the details of reconciliations of segment income in fiscal 2017.

Beauty Care

The Beauty Care segment consists of the flagship brands ***POLA*** and ***ORBIS;*** the overseas brands ***Jurlique*** and ***H2O PLUS***, and the brands underdevelopment—***THREE***, ***DECENCIA***, and ***ORLANE***.

POLA is seeking to achieve long-term stable growth through brand penetration and investment in hiring and developing professional Beauty Directors. In the domestic market, POLA debuted ***POLA Wrinkle Shot Serum***, the first medicated cosmetic product in Japan approved under quasi-drug rules for improving wrinkles in January. The product's characteristic of diminishing wrinkles, which meets the demands of many women with concerns about wrinkles, and the offering of product information through face-to-face consulting and promotional activities have led to an increase in the number of customers and the cross-selling of other products. Business also performed favorably due to an expansion of the inbound sales from tourists visiting Japan in cosmetics. In overseas markets, sales are growing strongly as a whole due to growing brand recognition in Greater China. As a result of these factors, POLA recorded net sales exceeding those of the previous year.

ORBIS is making efforts to reinforce brand communication, acquire customers by means of social media, and improve second-time purchase rate with the aim of achieving further growth and improved profitability through brand evolution. In the domestic market, ORBIS entirely revamped the ***AQUA FORCE*** series, its core product, in January. Despite amplifying communications by ways of social media, the customer base decreased due to restraints on advertising expenses in the previous year. As a result, lower net sales were recorded than those of the previous year. In overseas markets, a growth trend continued in the Chinese and Singapore markets. As a result of these factors, net sales of ORBIS fell below those of the previous year.

For overseas brands, the Group took initiatives aimed at business growth in Australia and the United States, where Jurlique and H2O PLUS originated. Jurlique suffered the impact of a shrinking number of customers at stores in Australia, while struggling in the travel retail market, and net sales fell below those of the previous year. H2O PLUS saw a temporary increase in shipment accompanying the shift to restaging products in June 2016, as well as a fall in shipments to Russia. As a result, net sales fell below those of the previous year. Meanwhile, operating income exceeded that of the previous year due to the trimming of one-time expenses incurred in 2016 in conjunction with the withdrawal from the Chinese business.

Brands under development recorded higher net sales than those of the previous year due to the strong performance of THREE and DECENCIA.

As a result of the factors noted above, net sales—sales to external customers—were ¥227,133 million, up 12.2% year on year, and operating income was ¥38,121 million, up 47.2% year on year.

Real Estate

The Real Estate segment concentrates on the leasing of office buildings in urban areas. Efforts are currently directed at sustaining rent levels but leaning more toward raising rents and occupancy rates by creating attractive office environments. Another area of emphasis is the residential properties rental business. This business highlights condominiums perfect for families with young children. During fiscal 2017, net sales fell below those of the previous year due to the sale of POLA EBISU BUILDING in 2016, despite revision to occupancy conditions in light of the situation in the market and at other companies as well as the implementation of measures to improve the value of buildings.

As a result of the above, net sales—sales to external customers—generated by the Real Estate segment totaled ¥2,694 million, down 11.5% year on year, and operating income was ¥1,082 million, down 22.4% year on year.

Others

The Others segment comprises the pharmaceuticals and building maintenance businesses.

The pharmaceuticals business draws on results accumulated by Group companies in research related to cosmetics and quasi-pharmaceuticals to develop, manufacture and sell new pharmaceuticals and conduct contract manufacturing of pharmaceuticals. During fiscal 2017, net sales were up year on year as a result of the Group's continued sales activities specializing in the priority field of dermatology, in addition to sales of ***Duac® Gel***, a combination drug for the treatment of acne vulgaris, the launch of ***LUCONAC®Solution 5%***, a treatment for onychomycosis in 2016 and ***Heparinoid Foam Spray 0.3%[PP].***

The building maintenance business is engaged in the operation and management of buildings mainly catering to the needs of Group companies. During fiscal 2017, net sales exceeded those of the previous year due to favorable growth in orders received as a result of ongoing sales activities. Meanwhile, operating income fell below that of the previous year due to worsened cost efficiency caused by intense competition to recruit new employees.

As a result of the above, net sales—sales to external customers—generated by the Others segment totaled ¥14,507 million, up 11.7%year on year, and operating loss amounted to ¥314 million (¥133 million of operating loss for the previous year).

(2) Overview of Consolidated Financial Position at End of Fiscal 2017

As of December 31, 2017, total assets stood at ¥252,567 million, up 10.4%, or ¥23,721 million from December 31, 2016. Factors related to this change included increases of ¥3,450 million in notes and accounts receivable –trade, ¥1,237 million in merchandise and finished goods, ¥5,399 million in short-term investments in securities for the management of surplus funds and ¥8,896 million in investment in securities.

Total liabilities amounted to ¥53,721 million, up 17.9%, or ¥8,158 million from December 31, 2016. Factors related to this change included increases of ¥1,675 million in notes and accounts payable – trade, ¥4,257 million in accounts payable – other and ¥2,188 million in income taxes payable.

Net assets amounted to ¥198,845 million, up 8.5%, or ¥15,562 million from December 31, 2016. Factors contributing to this change included recording of ¥27,137 million in profit attributable to owners of parent and an increase of ¥583 million in foreign currency translation adjustments due to exchange rate movements, partially offset by a decrease of ¥11,611 million in dividends from retained earnings.

(3) Overview of Consolidated Cash Flows for Fiscal 2017

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

The status of cash flows from operating activities, investing activities, and financing activities for fiscal 2017, and noteworthy increases and decreases to these cash flows, are described below.

Cash flows from operating activities

Net cash provided by operating activities increased 50.0% from a year ago, to ¥35,333 million. The primary components contributing to an increase in net cash were ¥38,430 million in profit before income taxes, ¥6,551 million in depreciation and amortization, and ¥3,912 million of increase in other liabilities primarily due to an increase in accounts payable – other. Major components leading to a decrease in net cash were ¥3,373 million of increase in notes and accounts receivable – trade, and ¥9,943 million in income taxes paid.

Cash flows from investing activities

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

Cash flows from financing activities

Net cash used in financing activities increased 29.1% from a year ago, to ¥12,945 million. The increases were primarily attributable to the application of ¥11,608 million in cash dividends paid and ¥610 million in purchase in shares of subsidiary without change in consolidation scope.

(Reference) Cash flow related indicators

	FY2013	FY2014	FY2015	FY2016	**FY2017**
Equity ratio (%)	79.5	80.4	76.5	79.9	**78.6**
Equity ratio based on market value (%)	95.2	119.5	188.1	233.2	**346.3**
Cash flow/Interest-bearing debt ratio (years)	0.3	0.3	0.1	0.2	**0.1**
Interest coverage ratio (times)	137.3	100.9	195.0	406.0	**481.0**

Equity ratio = Shareholders' equity/Total assets
Equity ratio based on market value = Market capitalization/Total assets
Cash flow/Interest-bearing debt ratio = Interest-bearing debt/Cash flow
Interest coverage ratio = Cash flow/Interest payments

Notes: 1. All indicators were calculated using consolidated financial figures.
2. Market capitalization was calculated based on the number of shares issued and outstanding, excluding treasury stock.
3. Cash flow refers to cash flows from operating activities.
4. Interest-bearing debt includes all debts on which we pay interest among the debts shown on the consolidated balance sheets.

Note: As noted in "3 Consolidated Financial Statements (5) Notes to Consolidated Financial Statements (Change in Accounting Policy)", from the fiscal 2017 the Group's consolidated subsidiary has amended its accounting policy to recognize a deferred tax liability on indefinite life intangibles acquired as part of a business combination. The change in its accounting policy resulted in a retrospective application. The overviews of operating results, financial positions and cash flows information for the fiscal 2017 have been compared with those for the fiscal 2016 after adjustments with reflecting retrospective application.

(4) Consolidated Performance Forecast for the Fiscal Years Ending 2018

The Japanese economy is expected to continue on a moderate recovery track backed by the effects of various government policies amid a continuing trend toward improvement in the employment and income climate. However, there is a risk of downward pressure on the Japanese economy due to economic downturns and government policy trends in countries around the world.

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

For the fiscal year ending December 31, 2018, the Group forecasts, on a consolidated basis, net sales of ¥253,000 million, up by 3.5%, operating income of ¥41,500 million, up by 6.7%, ordinary income of ¥41,500 million, up by 5.7%, and profit attributable to owners of parent of ¥28,000 million, up by 3.2% compared with the year ended December 31, 2017.

2. Basic Approach to the Selection of Accounting Standards

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

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

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	FY2016 December 31, 2016	**FY2017 December 31, 2017**
Assets		
Current assets		
Cash and deposits	¥ 76,978	**¥76,962**
Notes and accounts receivable – trade	25,985	**29,435**
Short-term investments in securities	18,500	**23,899**
Merchandise and finished goods	12,503	**13,740**
Work in process	1,090	**1,150**
Raw materials and supplies	3,977	**4,505**
Deferred tax assets	4,033	**4,385**
Other	5,351	**7,721**
Allowance for doubtful accounts	(83)	**(44)**
Total current assets	148,335	**161,756**
Non-current assets		
Property, plant and equipment		
Buildings and structures	52,439	**55,284**
Accumulated depreciation	(34,306)	**(35,887)**
Buildings and structures, net	18,132	**19,396**
Machinery, equipment and vehicles	10,536	**11,000**
Accumulated depreciation	(8,391)	**(8,460)**
Machinery, equipment and vehicles, net	2,144	**2,540**
Land	13,116	**13,069**
Leased assets	6,758	**7,245**
Accumulated depreciation	(4,632)	**(5,071)**
Leased assets, net	2,125	**2,174**
Construction in progress	1,926	**2,007**
Other	16,362	**16,954**
Accumulated depreciation	(10,489)	**(10,813)**
Other, net	5,872	**6,140**
Total property, plant and equipment	43,318	**45,329**
Intangible assets		
Goodwill	905	**883**
Right of trademark	8,642	**9,026**
Other	6,789	**6,393**
Total intangible assets	16,337	**16,303**
Investments and other assets		
Investments in securities	13,046	**21,943**
Long-term loans receivable	59	**55**
Deferred tax assets	3,076	**3,123**
Other	4,758	**4,139**
Allowance for doubtful accounts	(86)	**(83)**
Total investments and other assets	20,854	**29,178**
Total non-current assets	80,510	**90,810**
Total assets	¥228,845	**¥252,567**

(Millions of yen)

	FY2016 December 31, 2016	**FY2017 December 31, 2017**
Liabilities		
Current liabilities		
Notes and accounts payable – trade	¥ 4,694	**¥ 6,369**
Short-term loans payable	600	**1,600**
Lease obligations	627	**738**
Accounts payable – other	13,546	**17,803**
Income taxes payable	2,034	**4,223**
Provision for bonuses	1,639	**1,589**
Provision for directors' bonuses	31	**43**
Provision for sales returns	37	**27**
Provision for point program	3,541	**3,678**
Provision for loss on business liquidation	—	**150**
Other	5,108	**4,472**
Total current liabilities	31,862	**40,696**
Non-current liabilities		
Long-term loans payable	1,000	**—**
Lease obligations	1,362	**1,406**
Net defined benefit liability	4,207	**4,378**
Provision for environmental measures	53	**53**
Deferred tax liabilities	2,904	**2,972**
Other	4,173	**4,213**
Total non-current liabilities	13,701	**13,024**
Total liabilities	45,563	**53,721**
Net assets		
Shareholders' equity		
Common stock	10,000	**10,000**
Capital surplus	90,731	**90,240**
Retained earnings	82,747	**98,273**
Treasury stock	(2,187)	**(2,188)**
Total shareholders' equity	181,291	**196,326**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	12	**8**
Foreign currency translation adjustments	2,346	**2,929**
Remeasurements of defined benefit plans	(813)	**(810)**
Total accumulated other comprehensive income	1,544	**2,127**
Subscription rights to shares	214	**260**
Minority interests	231	**131**
Total net assets	183,282	**198,845**
Total liabilities and net assets	¥228,845	**¥252,567**

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

Consolidated Statements of Income

(Millions of yen)

	Twelve Months Ended December 31	
	FY2016 (January 1, 2016– December 31, 2016)	**FY2017 (January 1, 2017– December 31, 2017)**
Net sales	¥218,482	**¥244,335**
Cost of sales	40,940	**41,632**
Gross profit	177,542	**202,703**
Selling, general and administrative expenses		
Sales commission	46,618	**53,851**
Promotion expenses	26,369	**26,595**
Packing and transportation expenses	4,984	**4,857**
Advertising expenses	8,794	**12,792**
Salaries, allowances and bonuses	21,687	**22,395**
Welfare expenses	3,754	**4,060**
Retirement benefit expenses	726	**786**
Provision for bonuses	1,547	**1,375**
Provision for point program	3,401	**3,595**
Depreciation and amortization	5,021	**4,717**
Amortization of goodwill	749	**61**
Other	27,046	**28,732**
Total selling, general and administrative expenses	150,702	**163,822**
Operating income	26,839	**38,881**
Non-operating income		
Interest income	246	**230**
Foreign exchange gain	—	**31**
Rent income	56	**56**
Other	159	**146**
Total non-operating income	462	**465**
Non-operating expenses		
Interest expense	63	**69**
Foreign exchange losses	65	**—**
Other	52	**26**
Total non-operating expenses	180	**96**
Ordinary income	¥ 27,121	**¥39,250**

(Millions of yen)

	Twelve Months Ended December 31	
	FY2016 (January 1, 2016– December 31, 2016)	**FY2017 (January 1, 2017– December 31, 2017)**
Extraordinary income		
Gain on sales of non-current assets	¥ 10,182	**¥624**
Gain on sales of investment securities	527	**—**
Gain on sales of shares of subsidiaries	1,053	**—**
Reversal of foreign currency translation adjustments	7	**5**
Other	37	**—**
Total extraordinary income	11,809	**630**
Extraordinary losses		
Loss on disposal of non-current assets	245	**239**
Impairment loss	14,957	**404**
Loss on sales of shares of subsidiaries	65	**—**
Loss on business liquidation	—	**413**
Loss on litigation	—	**365**
Other	37	**27**
Total extraordinary losses	15,304	**1,450**
Income before income taxes	23,626	**38,430**
Income taxes – current	7,534	**11,756**
Income taxes – deferred	(255)	**(475)**
Total income taxes	7,279	**11,281**
Net income	16,347	**27,148**
Profit attributable to non-controlling interests	19	**11**
Profit attributable to owners of parent	¥16,328	**¥27,137**

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Twelve Months Ended December 31	
	FY2016 (January 1, 2016– December 31, 2016)	**FY2017 (January 1, 2017– December 31, 2017)**
Net income	¥16,347	**¥27,148**
Other comprehensive income		
Valuation difference on available-for-sale securities	(500)	**(3)**
Foreign currency translation adjustments	(2,126)	**592**
Remeasurements of defined benefit plans	(271)	**2**
Share of other comprehensive income of associates accounted for using equity method	(7)	**—**
Total other comprehensive income	(2,904)	**591**
Comprehensive income	13,442	**27,740**
Comprehensive income attributable to owners of the parent	13,453	**27,720**
Comprehensive income (loss) attributable to non-controlling interests	¥ (10)	**¥ 19**

(3) Consolidated Statements of Changes in Net Assets

FY2016 (January 1, 2016 – December 31, 2016)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	¥10,000	¥90,722	¥77,381	¥(2,194)	¥175,909
Cumulative effect of changes in accounting policies			(1,562)		(1,562)
Balance at the beginning of the period after reflecting changes in accounting policies	10,000	90,722	75,818	(2,194)	174,346
Changes of items during the period					
Dividends from retained earnings			(9,398)		(9,398)
Net income attributable to owners of parent			16,328		16,328
Purchase of treasury shares					—
Disposal of treasury stock		8		7	15
Purchase of shares of consolidated subsidiaries					—
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	8	6,929	7	6,945
Balance at the end of the period	¥10,000	¥90,731	¥82,747	¥(2,187)	¥181,291

(Millions of yen)

	Accumulated other comprehensive income				Subscrip-tion rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income			
Balance at the beginning of the period	¥512	¥4,359	(542)	¥4,329	¥183	¥214	¥180,635
Cumulative effect of changes in accounting policies		90		90			(1,472)
Balance at the beginning of the period after reflecting changes in accounting policies	512	4,449	(542)	4,419	183	214	179,163
Changes of items during the period							
Dividends from retained earnings							(9,398)
Net income attributable to owners of parent							16,328
Purchase of treasury shares							—
Disposal of treasury stock							15
Purchase of shares of consolidated subsidiaries							—
Net changes of items other than shareholders' equity	(500)	(2,103)	¥(271)	(2,875)	31	17	(2,825)
Total changes of items during the period	(500)	(2,103)	(271)	(2,875)	31	17	4,119
Balance at the end of the period	¥12	¥2,346	¥(813)	¥1,544	¥214	¥231	¥183,282

FY2017 (January 1, 2017 – December 31, 2017)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	**¥10,000**	**¥90,731**	**¥82,747**	**¥(2,187)**	**¥181,291**
Cumulative effect of changes in accounting policies					**—**
Balance at the beginning of the period after reflecting changes in accounting policies	**10,000**	**90,731**	**82,747**	**(2,187)**	**181,291**
Changes of items during the period					
Dividends from retained earnings			**(11,611)**		**(11,611)**
Net income attributable to owners of parent			**27,137**		**27,137**
Purchase of treasury shares				**(0)**	**(0)**
Disposal of treasury stock		**0**		**0**	**0**
Purchase of shares of consolidated subsidiaries		**(490)**			**(490)**
Net changes of items other than shareholders' equity					
Total changes of items during the period	**—**	**(490)**	**15,526**	**(0)**	**15,034**
Balance at the end of the period	**¥10,000**	**¥90,240**	**¥98,273**	**¥(2,188)**	**¥196,326**

(Millions of yen)

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	**¥12**	**¥2,346**	**¥(813)**	**¥1,544**	**¥214**	**¥231**	**¥183,282**
Cumulative effect of changes in accounting policies							**—**
Balance at the beginning of the period after reflecting changes in accounting policies	**12**	**2,346**	**(813)**	**1,544**	**214**	**231**	**183,282**
Changes of items during the period							
Dividends from retained earnings							**(11,611)**
Net income attributable to owners of parent							**27,137**
Purchase of treasury shares							**(0)**
Disposal of treasury stock							**0**
Purchase of shares of consolidated subsidiaries							**(490)**
Net changes of items other than shareholders' equity	**(3)**	**583**	**2**	**582**	**45**	**(100)**	**528**
Total changes of items during the period	**(3)**	**583**	**2**	**582**	**45**	**(100)**	**15,562**
Balance at the end of the period	**¥8**	**¥2,929**	**¥(810)**	**¥2,127**	**¥260**	**¥131**	**¥198,845**

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Twelve Months Ended December 31	
	FY2016 (January 1, 2016– December 31, 2016)	**FY2017 (January 1, 2017– December 31, 2017)**
Cash flows from operating activities		
Income before income taxes	¥23,626	**¥38,430**
Depreciation and amortization	6,787	**6,551**
Impairment loss	14,957	**404**
Amortization of goodwill	749	**61**
Increase in provision for point program	95	**135**
Decrease in other provision	(66)	**(88)**
Increase (decrease) in net defined benefit liability	(35)	**177**
Interest and dividend income	(260)	**(230)**
Interest expense	63	**69**
Foreign exchange gain	(25)	**(413)**
Reversal of foreign currency translation adjustments	(7)	**(5)**
Gain on sales of non-current assets	(10,174)	**(599)**
Loss on disposal of non-current assets	245	**239**
Gain on sales of investment securities	(527)	**—**
Gain on sales of shares of subsidiaries	(988)	**—**
Loss on business liquidation	—	**413**
Loss on litigation	—	**365**
Decrease (increase) in notes and accounts receivable – trade	180	**(3,373)**
Decrease (increase) in inventories	1,118	**(1,865)**
Increase (decrease) in notes and accounts payable – trade	(362)	**1,700**
Increase (decrease) in consumption taxes payable	495	**(1,024)**
Decrease in other assets	949	**529**
Increase (decrease) in other liabilities	(2,446)	**3,912**
Other	262	**80**
Subtotal	34,634	**45,470**
Interest and dividends received	240	**245**
Interest paid	(58)	**(73)**
Income taxes paid	(11,139)	**(9,943)**
Payments for loss on litigation	—	**(365)**
Other	(115)	**0**
Net cash provided by operating activities	¥23,561	**¥35,333**

(Millions of yen)

	Twelve Months Ended December 31	
	FY2016 (January 1, 2016– December 31, 2016)	**FY2017 (January 1, 2017– December 31, 2017)**
Cash flows from investing activities		
Payments into time deposits	¥(1,585)	**¥(558)**
Proceeds from withdrawal of time deposits	1,560	**1,085**
Purchase of short-term investments in securities	—	**(10,900)**
Proceeds from sales and redemption of short-term investments in securities	16,700	**17,500**
Purchase of property, plant and equipment	(4,464)	**(5,727)**
Proceeds from sales of property, plant and equipment	20,491	**703**
Purchase of intangible assets	(6,743)	**(1,787)**
Payments for disposal of non-current assets	(141)	**(105)**
Purchase of investments in securities	(11,000)	**(21,912)**
Proceeds from sales of investment securities	669	**—**
Proceeds from sales of shares of subsidiaries	1,146	**—**
Purchase of long-term prepaid expenses	(149)	**(191)**
Payments for lease and guarantee deposits	(248)	**(351)**
Proceeds from collection of lease and guarantee deposits	121	**153**
Other	23	**27**
Net cash used in investing activities	16,379	**(22,065)**
Cash flows from financing activities		
Repayments of lease obligations	(632)	**(725)**
Cash dividends paid	(9,398)	**(11,608)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	**(610)**
Other	0	**(0)**
Net cash used in financing activities	(10,030)	**(12,945)**
Effect of exchange rate change on cash and cash equivalents	(296)	**163**
Net increase in cash and cash equivalents	29,614	**486**
Cash and cash equivalents at beginning of period	45,843	**75,458**
Cash and cash equivalents at end of period	¥75,458	**¥75,944**

(5) Notes to Consolidated Financial Statements

(Going Concern Assumptions)

None

(Change in Accounting Policy)

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

The amendment resulted in a retrospective application. The consolidated financial statements for the previous year have been presented reflecting the retrospective application.

As a result, an increase of ¥2,581 million to deferred tax liabilities and of ¥100 million to foreign currency translation adjustments, and a decrease of ¥2,682 million to retained earnings have been reflected in the consolidated balance sheet as at the end of the previous year.

In addition, a decrease of ¥69 million to operating income and ordinary income, of ¥1,119 million to income before income taxes, net income and profit attributable to owners of parent, respectively have been reflected in the consolidated statement of income for the previous period.

Due to the cumulative effect has been reflected in the net assets as at the beginning of the previous year, after the retrospective application, retained earnings decreased by ¥1,562 million and foreign currency translation adjustments increased by ¥90 million on the consolidated statement of changes in net assets as at the beginning of the previous year.

Impact on the segment information and information per share is noted under (Segment Information) and (Information per Share).

(Investment and Rental Property)

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

In fiscal 2016, net rental income from investment and rental properties was ¥1,549 million (rental income is recorded under net sales and non-operating income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and non-operating expenses).

In fiscal 2017, net rental income from investment and rental properties is ¥1,341 million (rental income is recorded under net sales and non-operating income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and non-operating expenses).

The carrying amounts on the consolidated balance sheet, net change during fiscal 2016 and fiscal 2017 and the fair value of those properties are stated below.

(Millions of yen)

		FY2016 (January 1, 2016–December 31, 2016)	**FY2017 (January 1, 2017–December 31, 2017)**
Carrying Amounts on the Consolidated Balance Sheet	Balance at Beginning of Period	¥24,431	**¥17,752**
	Change	¥(6,679)	**¥(837)**
	Balance at End of Period	¥17,752	**¥16,915**
Fair Value at End of Period		¥46,461	**¥47,486**

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

2. Main change

(Fiscal 2016)

Increase: Refurbishment of office buildings for lease: ¥200 million

Decrease: Sales of office buildings for lease: ¥5,566 million

Sale of idle property: ¥730 million

Depreciation on office buildings and residential properties and other properties for lease: ¥535 million

(Fiscal 2017)

Increase: Refurbishment of office buildings for lease: ¥189 million

Decrease Sale of idle property and land: ¥84 million

Depreciation on office buildings and residential properties and other properties for lease: ¥523 million

3. Method for calculating fair values

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

(Segment Information)

1. General Information about Reportable Segments

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

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

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

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

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

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

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

As noted in (Change in Accounting Policy), the Group's consolidated subsidiary has amended its accounting policy to recognize a deferred tax liability on indefinite life intangibles acquired as part of a business combination. The change in its accounting policy resulted in a retrospective application. The segment information for the previous year has been presented reflecting the retrospective application. As a result, amortization of goodwill increased by ¥69 million, and segment income decreased by ¥69 million for the previous period in Beauty Care business.

3. Information about Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment
Fiscal Year Ended December 31, 2016 (January 1, 2016–December 31, 2016)

(Millions of yen)

	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount Shown on the Consolidated Financial Statements (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
Intersegment 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)	218,482
Segment Income	25,904	1,395	27,300	(133)	27,166	(326)	26,839
Segment Assets	182,267	32,580	214,848	15,281	230,129	(1,283)	228,845
Other Items							
Depreciation and Amortization	5,249	572	5,821	876	6,698	88	6,787
Amortization of Goodwill	749	―	749	―	749	―	749
Increase in property, plant and equipment and intangible assets	¥6,991	¥221	¥7,213	¥894	¥8,107	¥19	¥8,127

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance businesses.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥ (326) million includes intersegment transaction eliminations of ¥2,521 million and less corporate expenses of ¥ 2,848 million, not allocated to each segment. Corporate expenses are primarily the Company's administrative expenses not allocated to reportable segments.
(2) The segment assets reconciliation of ¥ (1,283) million includes corporate assets of ¥98,742 million, not allocated to each segment, less intersegment eliminations of ¥100,025 million. Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment, and intangible assets are those related to corporate assets and intersegment eliminations.
3. Segment income is adjusted for operating income reported in the consolidated statements of income.
4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment, and intangible assets, respectively.

Fiscal Year Ended December 31, 2017 (January 1, 2017–December 31, 2017)

(Millions of yen)

	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount Shown on the Consolidated Financial Statements (Note 3)
	Beauty Care	Real Estate	Subtotal				
Net Sales							
Sales to External Customers	¥ 227,133	¥ 2,694	¥ 229,827	¥ 14,507	¥ 244,335	—	¥ 244,335
Intersegment Sales or Transfers	64	515	579	3,108	3,688	¥ (3,688)	—
Total	227,197	3,209	230,407	17,616	248,023	(3,688)	244,335
Segment Income	38,121	1,082	39,203	(314)	38,889	(8)	38,881
Segment Assets	200,602	23,821	224,423	16,310	240,734	11,832	252,567
Other Items							
Depreciation and Amortization	5,546	563	6,109	368	6,477	74	6,551
Amortization of Goodwill	61	—	61	—	61	—	61
Increase in property, plant and equipment and intangible assets	¥ 7,883	¥ 420	¥ 8,303	¥ 497	¥ 8,801	¥ 84	¥ 8,885

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

2. Reconciliations consist of the following:
   (1) The segment income reconciliation of ¥ (8) million includes intersegment transaction eliminations of ¥3,270 million less corporate expenses of ¥3,278 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 ¥11,832 million includes corporate assets of ¥117,291 million, not allocated to each segment, less intersegment eliminations of ¥105,458 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.

(Per Share Information)

	FY2016 (January 1, 2016 –December 31, 2016)	**FY2017 (January 1, 2017 –December 31, 2017)**
Net assets per share	¥826.65	**¥897.26**
Net income per share	¥73.83	**¥122.70**
Diluted net income per share	¥73.74	**¥122.54**

Note 1: Basis for calculation of net income per share and diluted net income per share is stated below:

Item	FY2016 (January 1, 2016– December 31, 2016)	**FY2017 (January 1, 2017– December 31, 2017)**
Net income per share		
Profit attributable to owners of parent (millions of yen)	¥16,328	**¥27,137**
Amounts not attributable to shareholders of common stock (millions of yen)	–	**–**
Profit attributable to owners of parent associated with common stock (millions of yen)	¥16,328	**¥27,137**
Weighted average number of shares of common stock during the fiscal year	221,156,248	**221,177,961**
Diluted net income per share		
Adjustment of profit attributable to owners of parent (millions of yen)	–	**–**
Number of shares of common stock increased	287,696	**291,511**
[Of which, subscription rights to shares]	(287,696)	**(291,511)**
Outline of the dilutive shares not included in the calculation of diluted net income per share due to their antidilutive effects	–	

Note 2: Basis for calculation of net assets per share is stated below:

Item	FY2016 (At December 31, 2016)	**FY2017 (At December 31, 2017)**
Total net assets (millions of yen)	¥183,282	**¥198,845**
Amount deducted from total net assets (millions of yen)	¥446	**¥391**
[Of which, subscription rights to shares (millions of yen)]	¥(214)	**¥(260)**
[Of which, non-controlling interests (millions of yen)]	¥(231)	**¥(131)**
Net assets associated with common stock (millions of yen)	¥182,836	**¥198,453**
Number of shares of common stock used in the calculation of net assets per share	221,178,116	**221,178,319**

Note 3: The Company conducted a four for one stock split effective on April 1, 2017. Net assets per share, net income per share and diluted net income per share were calculated assuming that the stock split was conducted at the beginning of fiscal 2016.

Note 4: As noted in (Change in Accounting Policy), the Group's consolidated subsidiary has amended its accounting policy to recognize a deferred tax liability on indefinite life intangibles acquired as part of a business combination. As a result, assuming that the stock split was conducted at the beginning of fiscal 2016, ¥11.67 of net assets per share, ¥5.06 of net income and diluted net income per share decreased against those prior retrospective application.

(Subsequent Event)

None