Summary of Financial Results

For the Fiscal Year Ended December 31, 2018 (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 13, 2019

POLA ORBIS HOLDINGS INC.

Listing:	Tokyo Stock Exchange, First Section (Code No.: 4927)	
URL:	https://www.po-holdings.co.jp/	
Representative:	Satoshi Suzuki, Representative Director And President	
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Annual Shareholders' Meeting:		March 26, 2019
Filing Date of Securities Report:		March 26, 2019
Start of Cash Dividend Payment:		March 27, 2019
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, 2018

(January 1, 2018–December 31, 2018)

(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	%
FY2018	248,574	1.7	39,496	1.6	38,954	(0.8)	8,388	(69.1)
FY2017	244,335	11.8	38,881	44.9	39,250	44.7	27,137	66.2

Note: Comprehensive income: FY2018: ¥7,630 million (-72.5%); FY2017: ¥27,740 million (106.4 %)

	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	%	%	%
FY2018	37.93	37.88	4.3	15.7	15.9
FY2017	122.70	122.54	14.2	16.3	15.9

Reference: Equity in losses of affiliates: FY2018: ¥— million; FY2017: ¥ —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 2017.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
At December 31	Millions of yen	Millions of yen	%	Yen
FY2018	244,596	188,797	77.0	851.78
FY2017	252,567	198,845	78.6	897.26

Reference: Equity capital: At December 31, 2018: ¥188,395 million; At December 31, 2017: ¥198,453 million

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2018	30,283	(9,125)	(20,127)	76,462
FY2017	35,333	(22,065)	(12,945)	75,944

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	%	%
FY2017	—	25.00	—	45.00	70.00	15,482	57.1	8.1
FY2018	—	35.00	—	45.00	80.00	17,694	210.9	9.1
FY2019(Forecast)	—	35.00	—	81.00	116.00		100.6	

Note 1: Dividend per share for Year-end of ¥81.00 for the fiscal year ended December 31, 2019 consists of ¥45.00 for ordinary dividend and ¥36.00 for special dividend.
Note 2 : Capital surplus is included in dividend resources for the fiscal year ended December 31, 2018. For details, please see "Breakdown of Dividends Paid Out of Capital Surplus" below.

3. Consolidated Performance Forecast for the Fiscal Year Ending December 31, 2019
(January 1, 2019–December 31, 2019)

(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	117,000	(6.6)	20,800	(10.0)	20,800	(8.5)	13,600	(11.2)	61.49
Full year	241,000	(3.0)	40,500	2.5	40,500	4.0	25,500	204.0	115.29

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) : None
3) Changes in accounting estimates : None
4) Restatement : None

(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, 2018 229,136,156 shares
At December 31, 2017 229,136,156 shares
2) Number of shares of treasury stock at the end of each period
At December 31, 2018 7,956,853 shares
At December 31, 2017 7,957,837 shares
3) Average number of shares issued and outstanding in each period
Fiscal year ended December 31, 2018 221,178,693 shares
Fiscal year ended December 31, 2017 221,177,961 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 2017.

(Reference) Summary of Non-consolidated Financial Performance

1. Non-consolidated Financial Performance for the Fiscal Year Ended December 31, 2018

(January 1, 2018–December 31, 2018)

(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	%
FY2018	26,779	(12.6)	22,725	(15.9)	22,335	(20.0)	(2,464)	—
FY2017	30,647	95.7	27,031	116.2	27,903	117.6	26,940	—

	Net Income Per Share	Diluted Net Income Per Share
	Yen	Yen
FY2018	(11.14)	—
FY2017	121.80	121.64

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 2017.

(2) Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
At December 31	Millions of yen	Millions of yen	%	Yen
FY2018	208,589	100,170	47.9	451.65
FY2017	228,786	120,320	52.5	542.82

Reference: Equity capital: At December 31, 2018: ¥99,895 million; At December 31, 2017: ¥120,059 million

Summary of Financial Results Is out of the Audit by Certified Public Accountants or Accounting Firms.

Explanation of Appropriate Use of Performance Forecast and Other Special Items

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

Breakdown of Dividends Paid Out of Capital Surplus

The following provides a breakdown of the part of the dividends for the fiscal year ended December 2018 that was paid out of the capital surplus.

Record date	Fiscal year-end	Annual
Dividend per share	Yen 45.00	Yen 45.00
Total dividend payments	Millions of yen 9,953	Millions of yen 9,953

(Note) Proportional reduction in net assets : 0.100

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1. Overview of Consolidated Operating Results

(1) Overview of Consolidated Operating Results for Fiscal 2018

During the fiscal year ended December 31, 2018, the Japanese economy continued on a moderate recovery track, showing signs of a pickup in personal consumption amid continued improvement in the employment and income climate.

The domestic cosmetics market saw a slowdown in recent growth, even though inbound consumption by tourists visiting Japan was steady throughout the year. The market scale is expected to shrink when inbound consumption is excluded. In the overseas cosmetics market, a modest expansion continued with steady growth in Asia, mainly in China.

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

As a result of these factors, the Group achieved the following consolidated operating results for fiscal 2018.

Consolidated net sales grew 1.7% year on year, to ¥248,574 million, reflecting the strong performance of the flagship brand POLA, in addition to the brands under development—THREE and DECENCIA. Operating income rose 1.6% year on year, to ¥39,496 million, resulting from higher gross profit accompanying the increase in sales. Ordinary income declined 0.8% year on year, to ¥38,954 million, due to the recording of foreign exchange losses associated with a strong yen. In addition to these results, an impairment loss on non-current assets related to the Jurlique and a loss on liquidation of business due to a decision to withdraw from the pharmaceuticals business were recorded. As a result, profit attributable to owners of parent fell 69.2% year on year, to ¥8,370 million.

Operating Results Overview (Millions of yen)

	Twelve Months Ended December 31			
			Year-on-Year	
	2017	**2018**	Amount Change	Percent Change (%)
Net Sales	¥244,335	**¥248,574**	¥4,239	1.7
Operating Income	38,881	**39,496**	615	1.6
Ordinary Income	39,250	**38,954**	(295)	(0.8)
Profit Attributable to Owners of Parent	¥27,137	**¥8,388**	¥(18,749)	(69.1)

Operating Results by Segment

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

	Twelve Months Ended December 31			
	2017	**2018**	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥227,133	**¥231,207**	¥4,074	1.8
Real Estate	2,694	**2,707**	12	0.5
Others	14,507	**14,659**	151	1.0
Total	¥244,335	**¥248,574**	¥4,239	1.7

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

	Twelve Months Ended December 31			
	2017	**2018**	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥38,121	**¥38,294**	¥173	0.5
Real Estate	1,082	**1,001**	(81)	(7.5)
Others	(314)	**796**	1,110	—
Reconciliations of Segment Income (Note)	(8)	**(596)**	(587)	—
Total	¥38,881	**¥39,496**	¥615	1.6

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 2018.

Beauty Care

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

POLA is seeking to further strengthen its business foundation and improve the value of its brand using improved brand recognition as a stepping stone through efforts to launch and develop highly functional products and strategically expand the store network. In the domestic market, in January 2018, POLA made a price revision to POLA Wrinkle Shot Serum, the first medicated cosmetic product in Japan approved under quasi-drug rules for improving wrinkles. This has led to an increase in the number of customers and the cross-selling of other products. In October, POLA's pinnacle series B.A launched its first Impression Zone Care. Sales commenced for B.A Eye Zone Cream, which aims for an elastic, supple texture in the skin around the eyes, and B.A Lip Bar Serum, which promotes lush, plump lips with a natural, healthy color. POLA will constantly introduce new beauty value to the market by incorporating the cutting-edge theories of POLA's life science research. In overseas markets, sales of POLA Wrinkle Shot Serum began in June in Hong Kong and Taiwan, and in September in Thailand. In addition, POLA started offering full-scale esthetic services in China. Sales are growing strongly as a whole due to increasing brand value in the Asia region. As a result of these factors, POLA recorded net sales and operating income exceeding those of the previous year.

ORBIS is making efforts to enhance its presence through the creation of brand differentiation and consistent marketing communication in order to re-grow into a highly profitable business. In the domestic market, ORBIS stepped up promotion centered on core products. The new brand message, "Simply you. Simply beautiful.," was set out in October 2018, and sales began for the completely revamped "ORBIS U" anti-aging skincare series. These efforts failed to boost overall sales, even though the ORBIS established a new approach and implemented proactive initiatives that contributed to gaining new customers. As a result, net sales fell below those of the previous year. In overseas markets, a growth trend continued in the Chinese market. As a result of these factors, net sales of ORBIS fell below those of the previous year. Meanwhile, operating income exceeded that of the previous year due to improved cost efficiency.

For overseas brands, the Group took initiatives aimed at business growth in Australia and Asia for Jurlique and in the United States, where H2O PLUS originated. Jurlique sought to shift to a sales model rooted in brand business in order to support long-term growth. Despite this effort, net sales and operating losses deteriorated compared to those of the previous year due to sluggish sales in the Chinese and Australian markets. H2O PLUS felt the impact of a withdrawal from major retailers to optimize sales channels, as well as a decrease in shipments to major business partners. As a result, net sales and operating losses deteriorated compared to those of the previous year.

Brands under development recorded higher net sales than those of the previous year due to the strong performance of THREE and DECENCIA. However, operating income fell below that of the previous year due to further growth investments for the new brands that were added in 2018, namely Amplitude, ITRIM, and FIVEISM × THREE.

As a result of the factors noted above, net sales—sales to external customers—were ¥231,207 million, up 1.8% year on year, and operating income was ¥38,294 million, up 0.5% year on year.

Real Estate

The Real Estate segment concentrates on the leasing of office buildings in urban areas. Efforts are currently directed at sustaining and improving high occupancy rates and increasing rental income 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 2018, net sales exceeded those of the previous year as a result of 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. Meanwhile, operating income fell below that of the previous year due to an increase in expenses for improving office environments.

As a result of the above, net sales—sales to external customers—generated by the Real Estate segment totaled ¥2,707 million, up 0.5% year on year, and operating income was ¥1,001 million, down 7.5% 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 2018, net sales and operating income were up year on year. While, the Company has decided to transfer all shares in its consolidated subsidiary POLA PHARMA INC. and withdraw from the pharmaceuticals business. The share transfer has been completed on January 2019.

The building maintenance business is engaged in the operation and management of buildings mainly catering to the needs of Group companies. Net sales and operating income in fiscal 2018 were down from the previous year

despite large construction orders received, as activities for securing dispatch personnel struggled due to hiring difficulties.

As a result of the above, net sales—sales to external customers—generated by the Others segment totaled ¥14,659 million, up 1.0% year on year, and operating income was ¥796 million (¥314 million of operating loss for the previous year).

(2) Overview of Consolidated Financial Position at End of Fiscal 2018

As of December 31, 2018, total assets stood at ¥244,596 million, down 3.2%, or ¥7,970 million, from December 31, 2017. Factors related to this change included increases of ¥ 3,294 million in merchandise and finished goods and ¥2,845 million in short-term deferred tax assets, as well as decreases of ¥2,150 million in notes and accounts receivable – trade, ¥883 million in goodwill due to the recording of impairment loss, ¥8,996 million in right of trademark, and ¥687 million in other under intangible assets.

Total liabilities amounted to ¥55,799 million, up 3.9%, or ¥2,077 million, from December 31, 2017. Factors related to this change included an increase of ¥9,755 million in provision for loss on business liquidation, as well as decreases of ¥849 million in notes and accounts payable – trade, ¥1,600 million in short-term loans payable, ¥2,554 million in accounts payable – other, and ¥2,972 million in long-term deferred tax liabilities.

Net assets amounted to ¥188,797 million, down 5.1%, or ¥10,048 million, from December 31, 2017. Factors related to this change included decreases of ¥865 million in foreign currency translation adjustments due to exchange rate movements and ¥17,694 million in dividends from retained earnings, partially offset by an increase of ¥8,388 million in profit attributable to owners of parent.

(3) Overview of Consolidated Cash Flows for Fiscal 2018

The balance of cash and cash equivalents as of December 31, 2018 was ¥76,462 million, up ¥518 million from the end of the previous fiscal year.

The status of cash flows from operating activities, investing activities, and financing activities for fiscal 2018, and noteworthy increases and decreases to these cash flows, are described below.

Cash flows from operating activities

Net cash provided by operating activities decreased 14.3% from a year ago, to ¥30,283 million. The primary components contributing to an increase in net cash were ¥16,064 million in profit before income taxes, ¥7,075 million in depreciation and amortization, ¥11,426 million in impairment loss, ¥10,327 million in loss on liquidation of business, and ¥1,639 million of decrease in notes and accounts receivable – trade. Major components leading to a decrease in net cash were ¥4,915 million of increase in inventories and ¥11,583 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities decreased 58.6% from a year ago, to ¥9,125 million. The main factors were an increase in net cash resulting from ¥20,884 million in proceeds from sales and redemption of short-term investments in securities, and a decrease in net cash resulting from outflows of ¥1,000 million due to purchase of short-term investments in securities and ¥19,456 million due to purchase of investments in securities for the management of surplus funds in line with investment plans, ¥6,363 million due to purchase of property, plant and equipment, and ¥2,783 million due to purchase of intangible assets.

Cash flows from financing activities

Net cash used in financing activities increased 55.5% from a year ago, to ¥20,127 million. The increases were primarily attributable to the application of ¥1,600 million in repayments of short-term loans payable and ¥17,694 million in cash dividends paid.

(Reference) Cash flow related indicators

	FY2014	FY2015	FY2016	FY2017	**FY2018**
Equity ratio (%)	80.4	76.5	79.9	78.6	**77.0**
Equity ratio based on market value (%)	119.5	188.1	233.2	346.3	**268.5**
Cash flow/Interest-bearing debt ratio (years)	0.3	0.1	0.2	0.1	**0.1**
Interest coverage ratio (times)	100.9	195.0	406.0	481.0	**510.0**

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.

(4) Consolidated Performance Forecast for Fiscal 2019

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, 2019, the Group forecasts, on a consolidated basis, net sales of ¥241,000 million, down by 3.0%, operating income of ¥40,500 million, up by 2.5%, ordinary income of ¥40,500 million, up by 4.0%, and profit attributable to owners of parent of ¥25,500 million, up by 204.0% compared with the year ended December 31, 2018.

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)

	FY2017 December 31, 2017	**FY2018 December 31, 2018**
Assets		
Current assets		
Cash and deposits	¥ 76,962	**¥77,332**
Notes and accounts receivable – trade	29,435	**27,285**
Short-term investments in securities	23,899	**22,597**
Merchandise and finished goods	13,740	**17,034**
Work in process	1,150	**923**
Raw materials and supplies	4,505	**6,008**
Deferred tax assets	4,385	**7,230**
Other	7,721	**6,230**
Allowance for doubtful accounts	(44)	**(1,396)**
Total current assets	161,756	**163,247**
Non-current assets		
Property, plant and equipment		
Buildings and structures	55,284	**56,324**
Accumulated depreciation	(35,887)	**(36,973)**
Buildings and structures, net	19,396	**19,350**
Machinery, equipment and vehicles	11,000	**11,814**
Accumulated depreciation	(8,460)	**(8,458)**
Machinery, equipment and vehicles, net	2,540	**3,355**
Land	13,069	**14,675**
Leased assets	7,245	**7,579**
Accumulated depreciation	(5,071)	**(5,702)**
Leased assets, net	2,174	**1,877**
Construction in progress	2,007	**379**
Other	16,954	**17,555**
Accumulated depreciation	(10,813)	**(11,367)**
Other, net	6,140	**6,187**
Total property, plant and equipment	45,329	**45,825**
Intangible assets		
Goodwill	883	**—**
Right of trademark	9,026	**29**
Other	6,393	**5,705**
Total intangible assets	16,303	**5,735**
Investments and other assets		
Investments in securities	21,943	**22,737**
Long-term loans receivable	55	**71**
Deferred tax assets	3,123	**2,628**
Other	4,139	**4,610**
Allowance for doubtful accounts	(83)	**(260)**
Total investments and other assets	29,178	**29,788**
Total non-current assets	90,810	**81,349**
Total assets	¥252,567	**¥244,596**

(Millions of yen)

	FY2017 December 31, 2017	**FY2018 December 31, 2018**
Liabilities		
Current liabilities		
Notes and accounts payable – trade	¥ 6,369	**¥ 5,519**
Short-term loans payable	1,600	**—**
Lease obligations	738	**731**
Accounts payable – other	17,803	**15,249**
Income taxes payable	4,223	**5,431**
Provision for bonuses	1,589	**1,585**
Provision for directors' bonuses	43	**40**
Provision for sales returns	27	**26**
Provision for point program	3,678	**3,547**
Provision for loss on business liquidation	150	**9,906**
Other	4,472	**4,115**
Total current liabilities	40,696	**46,154**
Non-current liabilities		
Lease obligations	1,406	**1,132**
Net defined benefit liability	4,378	**4,236**
Provision for environmental measures	53	**52**
Deferred tax liabilities	2,972	**—**
Other	4,213	**4,223**
Total non-current liabilities	13,024	**9,644**
Total liabilities	53,721	**55,799**
Net assets		
Shareholders' equity		
Common stock	10,000	**10,000**
Capital surplus	90,240	**90,240**
Retained earnings	98,273	**88,968**
Treasury stock	(2,188)	**(2,188)**
Total shareholders' equity	196,326	**187,021**
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8	**2**
Foreign currency translation adjustments	2,929	**2,063**
Remeasurements of defined benefit plans	(810)	**(691)**
Total accumulated other comprehensive income	2,127	**1,374**
Subscription rights to shares	260	**275**
Minority interests	131	**125**
Total net assets	198,845	**188,797**
Total liabilities and net assets	¥252,567	**¥244,596**

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

Consolidated Statements of Income

(Millions of yen)

	Twelve Months Ended December 31	
	FY2017 (January 1, 2017– December 31, 2017)	**FY2018 (January 1, 2018– December 31, 2018)**
Net sales	¥244,335	**¥248,574**
Cost of sales	41,632	**41,521**
Gross profit	202,703	**207,052**
Selling, general and administrative expenses		
Sales commission	53,851	**55,664**
Promotion expenses	26,595	**24,518**
Packing and transportation expenses	4,857	**5,217**
Advertising expenses	12,792	**12,584**
Provision of allowance for doubtful accounts	26	**1,621**
Provision for point program	3,595	**3,379**
Salaries, allowances and bonuses	22,395	**22,752**
Welfare expenses	4,060	**4,271**
Retirement benefit expenses	786	**894**
Provision for bonuses	1,375	**1,532**
Depreciation and amortization	4,717	**4,945**
Amortization of goodwill	61	**58**
Other	28,732	**31,737**
Total selling, general and administrative expenses	163,822	**167,556**
Operating income	38,881	**39,496**
Non-operating income		
Interest income	230	**209**
Foreign exchange gain	31	**—**
Rent income	56	**55**
Other	146	**210**
Total non-operating income	465	**476**
Non-operating expenses		
Interest expense	69	**59**
Foreign exchange losses	**—**	**834**
Other	26	**123**
Total non-operating expenses	96	**1,017**
Ordinary income	¥ 39,250	**¥38,954**

(Millions of yen)

	Twelve Months Ended December 31	
	FY2017 (January 1, 2017– December 31, 2017)	**FY2018 (January 1, 2018– December 31, 2018)**
Extraordinary income		
Gain on sales of non-current assets	¥ 624	**¥2**
Reversal of foreign currency translation adjustments	5	**—**
Gain on reversal of subscription rights to shares	**—**	**26**
Total extraordinary income	630	**28**
Extraordinary losses		
Loss on disposal of non-current assets	239	**440**
Impairment loss	404	※1 **11,426**
Loss on business liquidation	413	※2 **10,327**
Loss on litigation	365	**—**
Other	27	**724**
Total extraordinary losses	1,450	**22,919**
Income before income taxes	38,430	**16,064**
Income taxes – current	11,756	**12,885**
Income taxes – deferred	(475)	**(5,210)**
Total income taxes	11,281	**7,675**
Net income	27,148	**8,389**
Profit attributable to non-controlling interests	11	**0**
Profit attributable to owners of parent	¥27,137	**¥8,388**

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Twelve Months Ended December 31	
	FY2017 (January 1, 2017– December 31, 2017)	**FY2018 (January 1, 2018– December 31, 2018)**
Net income	¥27,148	**¥8,389**
Other comprehensive income		
Valuation difference on available-for-sale securities	(3)	**(6)**
Foreign currency translation adjustments	592	**(871)**
Remeasurements of defined benefit plans	2	**119**
Total other comprehensive income	591	**(758)**
Comprehensive income	27,740	**7,630**
Comprehensive income attributable to owners of the parent	27,720	**7,635**
Comprehensive income (loss) attributable to non-controlling interests	¥ 19	**¥ (5)**

(3) Consolidated Statements of Changes in Net Assets

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
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
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

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

(Millions of yen)

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

(Millions of yen)

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

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Twelve Months Ended December 31	
	FY2017 (January 1, 2017– December 31, 2017)	**FY2018 (January 1, 2018– December 31, 2018)**
Cash flows from operating activities		
Income before income taxes	¥38,430	**¥16,064**
Depreciation and amortization	6,551	**7,075**
Impairment loss	404	**11,426**
Amortization of goodwill	61	**58**
Increase (decrease) in allowance for doubtful accounts	(38)	**1,623**
Increase in provision for point program	135	**(129)**
Decrease in other provision	(49)	**5**
Increase (decrease) in net defined benefit liability	177	**25**
Interest and dividend income	(230)	**(209)**
Interest expense	69	**59**
Foreign exchange gain	(413)	**1,084**
Reversal of foreign currency translation adjustments	(5)	**—**
Gain on sales of non-current assets	(599)	**4**
Loss on disposal of non-current assets	239	**440**
Loss on business liquidation	413	**10,327**
Loss on litigation	365	**—**
Decrease (increase) in notes and accounts receivable – trade	(3,373)	**1,639**
Decrease (increase) in inventories	(1,865)	**(4,915)**
Increase (decrease) in notes and accounts payable – trade	1,700	**(921)**
Increase (decrease) in consumption taxes payable	(1,024)	**23**
Decrease in other assets	529	**891**
Increase (decrease) in other liabilities	3,912	**(2,559)**
Other	80	**(127)**
Subtotal	45,470	**41,889**
Interest and dividends received	245	**257**
Interest paid	(73)	**(59)**
Income taxes paid	(9,943)	**(11,583)**
Payments for loss on litigation	(365)	**—**
Other	0	**(220)**
Net cash provided by operating activities	¥35,333	**¥30,283**

(Millions of yen)

	Twelve Months Ended December 31	
	FY2017 (January 1, 2017– December 31, 2017)	**FY2018 (January 1, 2018– December 31, 2018)**
Cash flows from investing activities		
Payments into time deposits	¥(558)	**¥(245)**
Proceeds from withdrawal of time deposits	1,085	**352**
Purchase of short-term investments in securities	(10,900)	**(1,000)**
Proceeds from sales and redemption of short-term investments in securities	17,500	**20,884**
Purchase of property, plant and equipment	(5,727)	**(6,363)**
Proceeds from sales of property, plant and equipment	703	**203**
Purchase of intangible assets	(1,787)	**(2,783)**
Payments for disposal of non-current assets	(105)	**(193)**
Purchase of investments in securities	(21,912)	**(19,456)**
Purchase of long-term prepaid expenses	(191)	**(384)**
Payments for lease and guarantee deposits	(351)	**(342)**
Proceeds from collection of lease and guarantee deposits	153	**281**
Other	27	**(77)**
Net cash used in investing activities	(22,065)	**(9,125)**
Cash flows from financing activities		
Decrease in short-term loans payable	—	**(1,600)**
Repayments of lease obligations	(725)	**(833)**
Cash dividends paid	(11,608)	**(17,694)**
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	(12,945)	**(20,127)**
Effect of exchange rate change on cash and cash equivalents	163	**(511)**
Net increase in cash and cash equivalents	486	**518**
Cash and cash equivalents at beginning of period	75,458	**75,944**
Cash and cash equivalents at end of period	¥75,944	**¥76,462**

(5) Notes to Consolidated Financial Statements

(Going Concern Assumptions)

None

(Notes to the Consolidated Statements of Income)

*1. Impairment loss

The Group recorded impairment losses on the following assets or assets group.

Fiscal Year Ended December 31, 2018 (January 1, 2018-December 31, 2018)

1. Asset group and amount impaired:

(Millions of yen)

Location	Function	Type	Impairment loss amount
Japan	Stores and offices	Buildings and structures, Leased assets, Property, plant and equipment(Other), Intangible assets(Other), and Investments and other assets(Other)	¥110
Australia, Singapore, Thailand, Korea and etc.	Stores	Buildings and structures	375
Australia	Factories and Business asset	Buildings and structures, Machinery, equipment and vehicles, Leased assets, Property, plant and equipment(Other), Goodwill, Right of trademark and Intangible assets(Other)	10,880
Japan	Pharmaceuticals business office	Property, plant and equipment(Other) Intangible assets(Other)	60
Total			¥11,426

2. Background to recognizing impairment loss

Stores and offices represented those asset groups that continuously recorded operating losses 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 reduced amount was recognized as an impairment loss under extraordinary losses.

Regarding factories and business asset, the Group carried out an impairment test in accordance with International Financial Reporting Standards. Following results of Jurlique Group in the recent years which were behind the original business plan, they were impaired to their recoverable value. The amount was recognized as an impairment loss under extraordinary losses after excluding the accumulated amount of amortization already recognized under accounting principles generally accepted in Japan.

3. Grouping method of assets

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

4. Calculation methods of recoverable value

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

The value-in-use for factories and business asset is calculated by discounting future cash flows at 9.53-10.78%. For other properties, the value-in-use is assessed at zero as the future cash flows are not expected.

*2. Loss on business liquidation

Loss on business liquidation is the estimated amount related to share transfer of POLA PHARMA INC. which was resolved at the Board of Directors on 26th November, 2018, etc.

(Investment and Rental Property)

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

In fiscal 2017, net rental income from investment and rental properties was ¥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).

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

The carrying amounts on the consolidated balance sheet, net change during fiscal 2017 and fiscal 2018 and the fair value of those properties are stated below.

(Millions of yen)

		FY2017 (January 1, 2017–December 31, 2017)	**FY2018 (January 1, 2018–December 31, 2018)**
Carrying Amounts on the Consolidated Balance Sheet	Balance at Beginning of Period	¥17,752	**¥16,915**
	Change	¥(837)	**¥1,473**
	Balance at End of Period	¥16,915	**¥18,388**
Fair Value at End of Period		¥47,486	**¥54,985**

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

2. Main change

(Fiscal 2017)

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

Decrease: Sale of land for lease and idle property: ¥84 million

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

(Fiscal 2018)

Increase: Acquisition of office buildings for lease and land: ¥1,789 million

Refurbishment of office buildings for lease: ¥210 million

Decrease: Depreciation on office buildings and residential properties and other properties for lease: ¥653 million

3. Method for calculating fair values

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

(Segment Information)

1. General Information about Reportable Segments

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

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

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

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

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

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

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

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

Fiscal Year Ended December 31, 2018 (January 1, 2018–December 31, 2018)

(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	**¥ 231,207**	**¥ 2,707**	**¥ 233,914**	**¥ 14,659**	**¥ 248,574**	**—**	**¥ 248,574**
Intersegment Sales or Transfers	**73**	**508**	**582**	**2,673**	**3,256**	**¥ (3,256)**	**—**
Total	**231,281**	**3,215**	**234,497**	**17,333**	**251,831**	**(3,256)**	**248,574**
Segment Income	**38,294**	**1,001**	**39,296**	**796**	**40,092**	**(596)**	**39,496**
Segment Assets	**191,766**	**23,436**	**215,202**	**15,086**	**230,288**	**14,308**	**244,596**
Other Items							
Depreciation and Amortization	**5,940**	**694**	**6,635**	**343**	**6,979**	**96**	**7,075**
Amortization of Goodwill	**58**	**—**	**58**	**—**	**58**	**—**	**58**
Increase in property, plant and equipment and intangible assets	**¥ 7,693**	**¥ 1,869**	**¥ 9,562**	**¥ 869**	**¥ 10,432**	**¥ 82**	**¥ 10,514**

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

2. Reconciliations consist of the following:
   (1) The segment income reconciliation of ¥ (596) million includes intersegment transaction eliminations of ¥3,090 million less corporate expenses of ¥(3,686) million, not allocated to each segment. Corporate expenses are primarily the Company’s administrative expenses not allocated to reportable segments.
   (2) The segment assets reconciliation of ¥14,308 million includes corporate assets of ¥119,038 million, not allocated to each segment, less intersegment eliminations of ¥(104,730) 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)

	FY2017 (January 1, 2017 –December 31, 2016)	**FY2018 (January 1, 2018 –December 31, 2018)**
Net assets per share	¥897.26	**¥851.78**
Net income per share	¥122.70	**¥37.93**
Diluted net income per share	¥122.54	**¥37.88**

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

Item	FY2017 (January 1, 2017– December 31, 2017)	**FY2018 (January 1, 2018– December 31, 2018)**
Net income per share		
Profit attributable to owners of parent (millions of yen)	¥27,137	**¥8,388**
Amounts not attributable to shareholders of common stock (millions of yen)	**—**	**—**
Profit attributable to owners of parent associated with common stock (millions of yen)	¥27,137	**¥8,388**
Weighted average number of shares of common stock during the fiscal year	221,177,961	**221,178,693**
Diluted net income per share		
Adjustment of profit attributable to owners of parent (millions of yen)	**—**	**—**
Number of shares of common stock increased	291,511	**281,602**
[Of which, subscription rights to shares]	(291,511)	**(281,602)**
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	FY2017 (At December 31, 2017)	**FY2018 (At December 31, 2018)**
Total net assets (millions of yen)	¥198,845	**¥188,797**
Amount deducted from total net assets (millions of yen)	¥391	**¥401**
[Of which, subscription rights to shares (millions of yen)]	¥(260)	**¥(275)**
[Of which, non-controlling interests (millions of yen)]	¥(131)	**¥(125)**
Net assets associated with common stock (millions of yen)	¥198,453	**¥188,395**
Number of shares of common stock used in the calculation of net assets per share	221,178,319	**221,179,303**

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 2017.

(Subsequent Event)

None