

# ANNUAL REPORT **2016**

Year ended September 30, 2016

## Segment Information

### Cosmetics 70.4%

The Group develops, manufactures and sells a versatile collection of products under well-regarded brand names, including *Noevir* high-performance functional face-to-face channel skincare products; popular products for the self-selection cosmetics market, such as the *Namerakahonpo* skincare line and *Excel* makeup line; and *NOV* hypoallergenic cosmetics. Also, the contract manufacturing of cosmetics.

#### Channels

- Face-to-face Sales
- Drugstores
- Specialty Goods Stores
- GMS (General Merchandise Stores)
- Supermarkets
- Deposit Sales
- Online Stores
- Noevir's Own Retail Stores
- Convenience Stores
- Contract Manufacturing

### Pharmaceuticals & Health Food 25.9%

The Group develops, produces and sells such flagship items as the long-selling *Nanten Nodo Ame* cough drops, functional drinks, such as the *Min Min Da Ha* lineup, and other OTC pharmaceuticals, including cold remedies and digestive aids, as well as nutritional supplements, health food and other products featuring high-quality natural ingredients.

#### Channels

- Face-to-face Sales
- Convenience Stores
- Drugstores
- GMS (General Merchandise Stores)
- Supermarkets
- Deposit Sales
- Online Stores
- Noevir's Own Retail Stores
- Contract Manufacturing

### Other 3.7%

The Other segment encompasses apparel and aircraft sales and leasing.

#### Channels

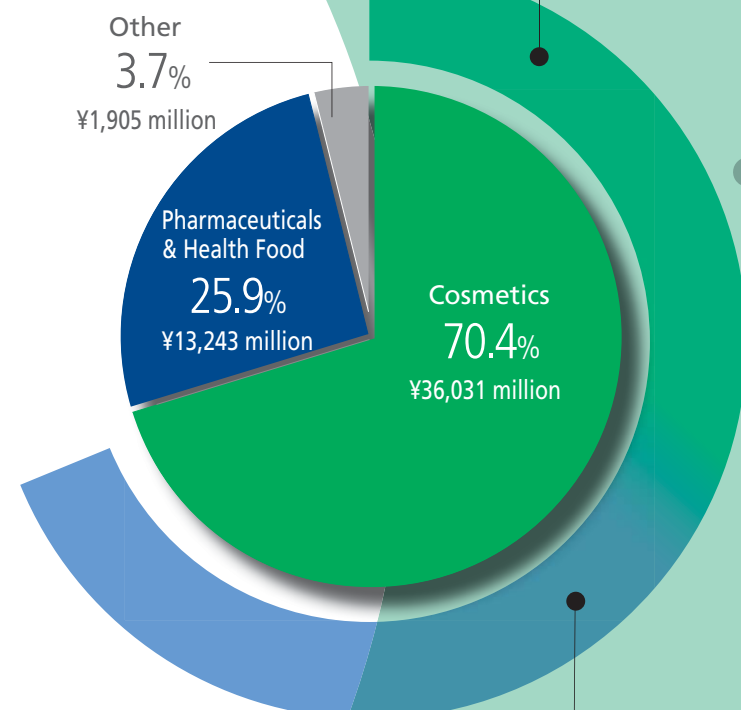
- Face-to-face Sales

## Sales in the Cosmetics Business by Sales Route

### ● Face-to-face Channel Cosmetics

Cosmetics principally represented by prestige products sold through such face-to-face sales channels as sales representatives and Noevir's own retail stores and Group online stores

#### Fiscal 2016 Sales by Segment



### ● Self-selection Cosmetics

Cosmetics principally represented by affordably priced products sold through general retailers and Group online stores

### ● Overseas business

Sales of face-to-face channel cosmetics and self-selection cosmetics in ten regions overseas:  
**China, Taiwan, South Korea, Hong Kong, Singapore, Thailand, the Philippines, the United States, Canada and Russia**

### ● OEM (Original Equipment Manufacturing)

The contract manufacturing of cosmetics and quasi-drugs on an OEM basis, utilizing the Group's know-how in both fields

## Face-to-face Channel Cosmetics Brands

### Cosmetics principally represented by prestige products sold through face-to-face sales channels

- ▶ Providing prestige skincare products through a domestic network of sales representatives who furnish consulting services and undertake face-to-face sales
- ▶ Of those, specially certified sales representatives operate approximately 1,800 Noevir Beauty Studios that both propose skincare products and provide facials
- ▶ A network of our own retail stores covers mainly metropolitan areas
- ▶ Our high-end skincare products have garnered a solid reputation due to their superior anti-aging and brightening functionalities

## A Unique Approach to R&D

- ▶ Constantly developing unique products that are insulated from price competition
- ▶ Expanding the scope of R&D and accumulating a wealth of expertise in botanical research, a field in which we have been engaged in since our founding, as well as brain science, genetics and neuroscience, with the Noevir Group Research Laboratory serving as a core facility
- ▶ Stepping up joint research with external business corporations as well as governmental and academic institutions

## Self-selection Cosmetics Brands

### Cosmetics principally represented by affordably priced products sold through general retailers

- ▶ Sold mainly through drugstores, specialty goods stores and general merchandise stores
- ▶ Boasting a robust sales structure backed by storefront promotional campaigns as well as advertising utilizing SNSs and other media
- ▶ Product planning capabilities that help create trendsetting items and unique offerings aimed at addressing specialized customer needs

Medium-Term Management Plan

Medium-term management plan concept:

“Realizing steady corporate growth by securing sustainability in every Group business segment”

In line with the three-year medium-term management plan it revised in November 2016, the Noevir Group is pursuing initiatives to best accommodate ever changing and increasingly diverse market needs, with the final year set at fiscal 2019. Specifically, the Group is rallying its collective strengths to promptly execute the following five policies aimed at enhancing profitability and developing new markets.

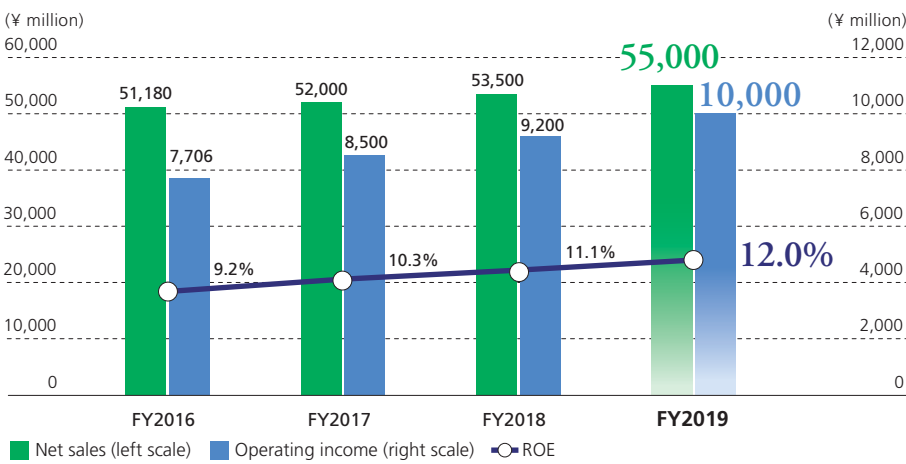
Five policies

- 1. Pursue innovation and continuous profit generation in Japan
- 2. Enhance our brand value and develop new markets in countries worldwide
- 3. Diversify and globalize human resources and our corporate structure
- 4. Strengthen our manufacturing competitiveness
- 5. Promote a management approach that is responsive to changes in the business environment

Numerical Targets and Achievements

Having positioned net sales, operating income and return on equity (ROE) as key management indicators, the Noevir Group aims to maximize its corporate value and enhance profitability.

(Millions of yen)	Fiscal 2016 results	Fiscal 2017 forecasts	Fiscal 2018 forecasts	Fiscal 2019 targets
Net sales	¥51,180	¥52,000	¥53,500	¥55,000
Operating income	7,706	8,500	9,200	10,000
ROE (%)	9.2%	10.3%	11.1%	12.0%



History of The Noevir Group

Noevir Co., Ltd.

- 1964 J.H. Okura & Co., Ltd. established, initiating the import and sale of aircraft parts, medical equipment and commodities
- 1971 J.H. Okura & Co., Ltd. reorganized as a limited liability company, initiating the import and sale of natural cosmetics incorporating herbal extracts
- 1978 Company name changed to Noevir Co., Ltd. and the full-scale manufacture and marketing of cosmetics in Japan initiated
- 1979 Noevir, Inc. (now Noevir U.S.A., Inc.) established in the United States
- 1985 Nov Co., Ltd. established
- 1986 Sana Co., Ltd. established
- 1988 Noevir stock registered on the over-the-counter (OTC) market of the Japan Securities Dealers Association
- 1991 Noevir U.S.A., Inc. made Noevir Canada, Inc. its subsidiary
- 1993 Noevir International Corporation (now Noevir Aviation, Inc.) established in the United States
- 1994 Noevir Co., Ltd. made Japan Air Trust Co., Ltd. (now Noevir Aviation Co., Ltd.) its subsidiary, entering the aviation transport business
- 1996 Noevir Co., Ltd. made Noevir Taiwan, Inc. its subsidiary

- 2001 Bonanza Co., Ltd. established, initiating the OEM of cosmetics  
  
Noevir Holding of America, Inc. established in the United States, making Noevir Aviation Inc., Noevir U.S.A., Inc. and Noevir Canada, Inc. its subsidiaries
- 2002 Noevir Co., Ltd. made Tokiwa Pharmaceutical Co., Ltd. its subsidiary, entering the pharmaceutical business
- 2004 Tokiwa Pharmaceutical Co., Ltd. merged with Nov Co., Ltd. and Sana Co., Ltd.  
  
Noevir stock listed on the JASDAQ Securities Exchange
- 2005 Noevir Europe s.r.l. established in San Marino
- 2007 Shanghai Noevir Co., Ltd. established as a joint venture  
  
Noevir stock listed on the Second Section of the Tokyo Stock Exchange
- 2011 Noevir Holdings Co., Ltd. established, with Noevir Co., Ltd. delisting its stock and becoming the former's subsidiary
- Noevir Holdings Co., Ltd.
- 2011 Noevir Holdings Co., Ltd. established, listing its stock on the Second Section of the Tokyo Stock Exchange  
  
Acquired equity in three subsidiaries (Tokiwa Pharmaceutical Co., Ltd., Bonanza Co., Ltd. and Noevir Aviation Co., Ltd.) of Noevir Co., Ltd.
- 2012 Noevir Holdings Co., Ltd. listed on the First Section of the Tokyo Stock Exchange



# Profitability through the Creation of Products with Greater Customer Value

Takashi Okura  
President and CEO

## Q1 What is your assessment of the operating environment surrounding the Noevir Group and the areas in which its competitiveness lies?

A During fiscal 2016, economic trends in Japan remained uncertain due to apparent areas of weakness in private consumption and corporate earnings as well as dramatic fluctuations in exchange rates and concerns over economic slowdowns overseas. In the domestic cosmetics market, growth in inbound marketing demand was modest due to the ongoing appreciation of the yen. Given the circumstances, cosmetics makers strove to stimulate domestic demand through such steps as the introduction of new products aimed at accommodating the latest customer needs. This move is expected to spur market growth.

The Noevir Group has strengths in diverse product spectrums, including prestige face-to-face channel cosmetics available primarily through face-to-face sales and affordably priced self-selection cosmetics sold through retailers. Our highly functional products created through extensive R&D targeting both these fields boast significant market presence in Japan.

Moving forward, we are emphasizing innovation in the domestic market in line with our medium-term management plan, thereby achieving greater profitability and improving ROE.

## Q2 Please tell us about the Company's fiscal 2016 business results.

A Consolidated net sales were ¥51,180 million, while operating income totaled ¥7,706 million and net income attributable to owners of the parent amounted to ¥5,049 million. The Company has thus

registered a second consecutive year of record highs in both income categories. The rise in operating income was thanks to an increase in revenues from the Cosmetics business that outpaced a loss caused by a voluntary recall of medicated *Nanten Nodo Ame* cough drops and the depreciation of production facilities. The operating income margin remained virtually unchanged year on year at 15.1%.

## Q3 Please tell us about your fiscal 2016 initiatives and achievements as well as progress under the medium-term management plan.

A In line with the medium-term management plan, our focus is unwaveringly on effectively allocating management resources while enhancing profitability and customer loyalty. With the goal of "Realizing steady corporate growth by securing sustainability in every Group business segment," in November 2016 we



Facial service provided at a Noevir Beauty Studio

revised the plan, setting targets for fiscal 2019 that will position us for further growth. Please see page 2 for details.

In the Cosmetics business, our fiscal 2016 operating results included increases in both revenues and earnings. In addition to building on the previous fiscal year's accomplishments, this advance reflected the success of our introduction of new products aimed at capturing customer needs and of initiatives to boost profitability. With the number of Noevir Beauty Studios having expanded by approximately 150 to 1,800, the upgrade of the antiaging serum *Noevir BIOSIGN inner treatment*, which embodies the Group's accomplishments in the field of bioresearch, and firm sales of such prestige skincare lines as *Noevir 505* and *Noevir SPECIALE*, face-to-face channel cosmetics are making strong showings. Meanwhile, in self-selection cosmetics, sales of the *Namerakahonpo* skincare line were firm thanks to expansion in the customer base. Also contributing to sales growth in this category were efforts to more swiftly meet market needs by stepping the *Excel* makeup line's new product release rate. The end result of our sales boosting activities for self-selection cosmetics was burgeoning growth, with revenues from self-selection cosmetics surpassing those from face-to-face channel cosmetics for the first time in our history.

Overseas, we developed a network of distribution outlets for the *Namerakahonpo* skincare line in such Asian markets as China, Hong Kong and Taiwan.

In the Pharmaceuticals & Health Food business, sales of pharmaceutical and functional drinks were on par with those of the previous fiscal year, while sales of nutritional supplements were firm. Despite recording a loss attributable to the voluntary recall of medicated *Nanten Nodo Ame* cough drops, we were able to secure profitability in this segment.

## Q4 What are your key future initiatives and outlook?

A In the Cosmetics business, we aim to secure 100 more Noevir Beauty Studios by the end of fiscal 2017 while enhancing the service quality and sales capabilities of extant studios. At the same time, we will release the newly developed *Noevir PLACENTA Enrich 33* beauty serum, which—boasting dense placenta content—is the encapsulation of our latest R&D achievements, as well as other new products in the *Namerakahonpo* skincare line and *Excel* makeup line. We will also expand the *NOV L&W* skincare series lineup. In overseas markets, we will increase the number of outlets in Asia while stepping up marketing via e-commerce. In the

Pharmaceuticals & Health Food business, we will focus on developing unique healthcare products mainly in the field of functional drinks in addition to strengthening the deposit system marketing of pharmaceuticals, thereby enhancing profitability.

Taking these factors into account, our consolidated performance forecasts for fiscal 2017 (from October 1, 2016 to September 30, 2017) comprise net sales of ¥52,000 million, operating income of ¥8,500 million and net income attributable to owners of the parent of ¥ 5,800 million.



An overseas sales outlet carrying the *Excel* makeup line

## Q5 Finally, do you have a few words for Noevir Holdings' stakeholders?

A We have positioned the return of profit to our shareholders as an important management issue. In line with our basic policy of ensuring stable shareholder returns, for fiscal 2016 we decided to pay out cash dividends of ¥120 per share. Not only is this amount ¥20 higher than the dividend forecast made at the beginning of the year, it is our fifth consecutive annual increase in dividends. For fiscal 2017, we plan to pay ¥120 per share.

Striving to contribute to health and beauty, the Noevir Group has long been helping people maintain and improve their quality of life through its business operations. Thanks to this dedication, the Group has won the trust of society. Looking ahead, we will continue to enhance our corporate value while boosting our ability to quickly and flexibly accommodate market changes and diversifying needs.



## Special Feature: Face-to-face Channel Cosmetics

### Product Strategy

The Noevir Group periodically introduces new products and renews its lineups by applying the latest findings in botanical research, a field of strength since its founding, and 27 years of expertise in bio research.

Our face-to-face channel cosmetics brand portfolio consists mainly of prestige skincare products that boast stable sales, particularly in our key fields of strength, namely anti-aging and skin brightening solutions, as well as beauty serums and other functional cosmetics, the lineups of which are periodically expanded and renewed to reflect our latest R&D accomplishments.

In fiscal 2016, we released the new skin toner *Noevir 505 Enrich Lotion*, expanding the lineup of the long-selling *Noevir 505* skincare line, which incorporates the results of painstaking botanical research. Boasting rich emollient ingredients and improved moisturizing properties, this product enhances the skin's firmness and moisture retention. We also upgraded the *Noevir BIOSIGN inner treatment* anti-aging serum as well as the *Noevir BIOSIGN Blanc Beauté* skin-brightening beauty serum, enhancing our *Noevir BIOSIGN* lineup, a prime example of our achievements under longstanding bioresearch initiatives.

NOEVIR 505

99<sup>+</sup>



CLAY MASK



BIOSIGN

### Sales Strategy

The Noevir Group markets its face-to-face channel cosmetics brands mainly through face-to-face sales channels backed by sales representatives while also offering them through Noevir's own retail stores and online store. In addition, the Group has enhanced its sales capabilities by introducing an in-house system that certifies those Noevir Beauty Studios that demonstrate service quality and techniques that meet strict standards, choosing from among salons run by sales representatives. As of September 30, 2016, approximately 1,800 salons have been certified. Meanwhile, Noevir operates a network of its own retail stores that encompasses nine outlets in major cities across Japan. Serving as contact points with potential customers, these stores strive to help enhance customer understanding of the importance of consulting, stimulate purchasing and promote brand recognition.

#### Main Brands

- *Noevir SPECIALE*
- *Noevir 99 Plus*
- *Noevir 505*
- *Noevir 80*
- *Noevir TOUT BLANC*
- *Noevir BIOSIGN*



SPECIALE

### A Message from Ms. Momoko Takase, the Store Manager of Noevir Style Ginza



**Momoko Takase**  
Store Manager, Noevir Style  
Ginza

With the aim of enhancing brand recognition, Noevir maintains one of its own stores in Tokyo's prestigious Ginza shopping district. To ensure that customers fully appreciate all that Noevir cosmetics have to offer, we provide consulting services closely attuned to individual needs while introducing skincare methods and products uniquely suited to them. Boasting highly specialized beauty consulting techniques and knowledge as well as a painstaking

approach to service and expertise in high-end cosmetics, we constantly strive to meet customers' expectations of us through enhanced employee training for our consulting personnel. Looking ahead, we will endeavor to boost our service capabilities further by paying even closer attention to the skincare needs of each customer. In these ways, we will earn customer loyalty.



## Special Feature: Self-Selection Cosmetics, Pharmaceuticals & Health Food

### Product Strategy

With regard to self-selection cosmetics targeting the general retail market, both the *Namerakahonpo*—our mainstay brand of affordably priced skincare products with an extensive lineup—and the hypoallergenic *Nov* skincare lines boast considerable market shares in Japan. In addition, the *Excel* makeup line has garnered a solid reputation among domestic consumers in a broad age range, and sales of the line were initiated overseas in Hong Kong in 2016.

Meanwhile, our Pharmaceuticals & Health Food segment commands an array of unique products, including the long-selling *Nanten Nodo Ame* cough drops and *Min Min Da Ha* functional drinks.

### Sales Strategy

As for the marketing channels for self-selection cosmetics, the Group utilizes such general retailers as general merchandise stores, drugstores and specialty goods stores. With regard to pharmaceuticals, the Group markets a variety of products, including functional drinks and cough drops, through such outlets as drugstores and convenience stores in addition to employing deposit sales, in which products are delivered on regular basis to contracted households and companies.

Looking to enhance brand recognition and an understanding of our products among the general public, we are engaged in ongoing sales promotion initiatives via TV commercials and social network services (SNSs). In particular,

we are working to boost sales of the *Namerakahonpo* skincare line, cumulative sales of which have topped 100 million units,\* by stepping up promotional campaigns for the line's anti-aging products. Also, in concert with web campaigns we use on-the-street promotional events for the *Excel* makeup line. Furthermore, we promote *Min Min Da Ha* functional drinks via transportation advertising as well as online campaigns employing Twitter and a dedicated website that features sales promotion characters. In these ways, we are constantly endeavoring to broaden our customer base.

\*Number of product units sold over the September 2004–2016 period

### Main Brands

- *Namerakahonpo*
- *Excel*
- *Pore Putty*
- *NOV*
- *CELLPHARMA*
- *Cellnew*
- *Nanten Nodo Ame*
- *Min Min Da Ha*
- *Gronvita*
- *Vita C*



Namerakahonpo skincare line



Namerakahonpo skincare line



A display of *Namerakahonpo* self-selection skincare products in a Chinese store



Nov brand



NOV L&W skincare line



Nanten Nodo Ame cough drops



Min Min Da Ha functional drink brand



In-station advertising for the *Min Min Da Ha* functional drink brand



A sales promotion event for the *Excel* makeup line



Excel makeup line



*Excel Powder & Pencil Eyebrow EX* was chosen to receive the "Best-Buy Item Award" (in the Japanese and South Korean cosmetics makers category) in the 2016 Cosmetics Competition program sponsored by *Queen*, a popular Taiwan-based beauty tip magazine and TV program



Pore Putty makeup line



## A vertical strip of various colorful flowers and plants, including purple blossoms, white daisies, yellow flowers, and a large orange flower.

Continually striving to expand the scope of its R&D activities, the Noevir Group has built a wealth of expertise in brain science, genetics and neuroscience, in addition to its strengths in botanical research—a field in which it has been engaged in since its founding. Moreover, the Group is rallying its overall strengths to take on the challenge of entering new R&D fields as it strives to enhance the market competitiveness of its products. Also, we are actively engaged in collaboration with universities, medical institutions and other external research organizations with the aim of creating unique products that are insulated from price competition.

## Our R&D Facilities

With the Noevir Group Research Laboratory in Shiga Prefecture serving as a core, our robust network of R&D facilities consists of the Tokyo Research Laboratory, the Suzuka Alpine Plants Research Center, Minami Daito Island Marine Research Center and Hokkaido Shokanbetsu Mountain Pilot Farm. These facilities engage in basic research on such subjects as native plants that thrive in extreme climates.

The Hokkaido Shokanbetsu Mountain Pilot Farm, which is certified under the Japanese Agricultural Standard (JAS) for Organic Plants, is engaged in joint research with Ritsumeikan University, with which it has successfully established an organic cultivation method that improves the crop yield of



Hokkaido Shokanbetsu Mountain Pilot Farm

## Pursuing R&D with a Strong Commitment to Ensuring Product Safety



**Yumi Murakami**  
Ph.D., Manager, Nov Academic Research,  
Tokiwa Pharmaceutical Co., Ltd.

In 1985, the *Nov* line was launched to deliver hypoallergenic skincare products for those with sensitive skin. Collaborating in our product development with dermatologists, we proactively incorporated the insights these professionals had amassed through the clinical treatment of various skin ailments into the clinical trials that we ourselves undertook. Our work was aimed at creating products that would address various skin conditions and help users

maintain healthy skin. Thanks to these efforts, *Nov* gained a solid and long-lasting reputation backed by scientific evidence in the area of dermatological research. In 2016, I acquired a Ph.D. in medical science and have since then been playing an ever greater role in the clinical trials of products that address patient needs. Strongly committed to ensuring product safety, we will create a skincare brand worthy of customers' lasting support by employing the latest findings in clinical dermatology.

## Quality Assurance

The Noevir Group provides high-quality products capable of satisfying stringent safety standards. Constantly upgrading its quality assurance structure, the Group implements a quality policy that places the utmost priority on customer satisfaction while supplying safe products of superior quality. Guided by this policy, the Shiga Factory has established a management system that satisfies the technical requirements stipulated in Good Manufacturing Practice (GMP) guidelines for the manufacture and quality control of cosmetics alongside its

in-house manufacturing management system encompassing all its production sites. Moreover, in October 2015 this factory acquired certification for compliance with ISO 22716: Cosmetics—Good Manufacturing Practices (GMP)—Guidelines on Good Manufacturing Practices. The Mie Factory, meanwhile, maintains a sophisticated management system, producing an array of offerings, including pharmaceuticals, functional drinks and health food.

## Corporate Governance

## 1. Fundamental Concepts of Corporate Governance

To realize the ongoing enhancement of corporate value and maintain the trust of all of its stakeholders, including shareholders, the Noevir Group has positioned corporate governance as a key management issue. Accordingly, the Group has developed a robust management structure while strengthening auditing functions to ensure strict compliance with laws, regulations and corporate ethics as well as its articles of incorporation. Moreover, the Group has set up internal control and risk management systems, both of which are

constantly upgraded.

To deepen the understanding of its stakeholders and ensure their appropriate evaluation, Noevir Holdings voluntarily and consistently discloses important information pertaining to the Group in a fair, timely and appropriate manner. To disseminate investor relations (IR) information, Noevir Holdings established a dedicated division, appointed a director to be in charge of IR, and regularly holds briefings for analysts and institutional investors in addition to updating IR information posted on its website.

## 2. Corporate Governance Structure Overview

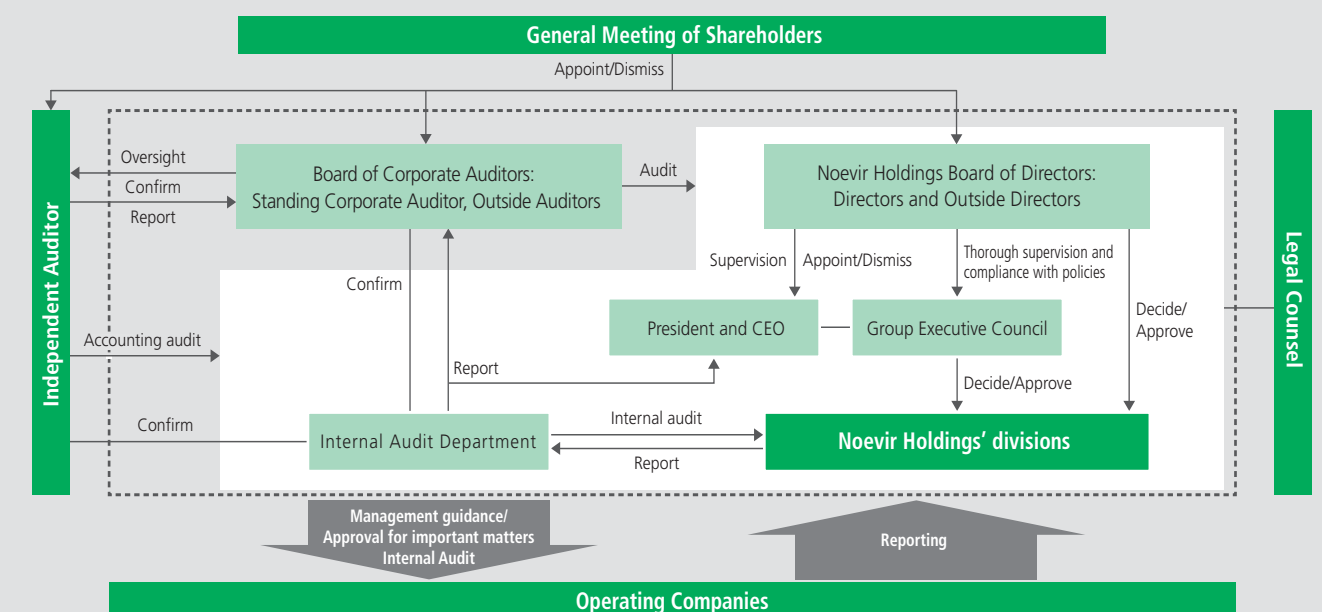
Type of governance model	A company with auditors	The establishment of an internal audit department	Yes
Number of directors (of whom, outside directors)	7 (2)	Adoption of an executive officer system	Yes
Number of corporate auditors (of whom, outside corporate auditors)	3 (2)	Advisory body supporting president's decision making	Group Executive Council
Number of independent directors and corporate auditors (within outside directors and corporate auditors)	4 (2:2)	Remuneration systems for directors and corporate auditors	Directors: Performance-based remuneration system Corporate auditors: Fixed remuneration
Directors' term	One year	Accounting auditor	Deloitte Touche Tohmatsu LLC
Frequency of Board of Directors' meetings	Monthly (plus extraordinary meetings convened on an as-needed basis)	Systems for supporting outside directors and corporate auditors	Persons in charge of support are appointed from Corporate Affairs Department
Number of Board of Directors' meetings held during fiscal 2016	12		

### 3. Fundamental Concepts of Internal Control System

To ensure the appropriate and sound execution of its Group operations, Noevir Holdings undertakes the storage, management and streamlining of information associated with the execution of directors' duties while endeavoring to maintain clarity in its risk management structure as well as to strengthen and promote its compliance structure under the Corporate

Governance Policy and the Noevir Group Code of Conduct. With the aim of securing a structure for reporting to a board of auditors and conducting effective audits and reliable financial reporting, Noevir Holdings continues to further enhance its internal control and compliance systems in order to ensure strict adherence to laws, regulations and its articles of incorporation.

#### 4. Corporate Governance Organizational Structure





## Corporate Social Responsibility

### Basic Philosophy

Working toward the realization of affluent lifestyles for all stakeholders, the Noevir Group is engaged in the creation of beauty and health. With a clear awareness of the responsibilities that we bear for each stakeholder, namely, customers, business partners, shareholders, employees, society and the environment, we will proactively contribute to the development of society while aiming to achieve further business growth.

### Noevir Green Charity

Since 2010, Noevir Co., Ltd. has pursued the Noevir Green Charity, a fund raising campaign aimed at social contribution. The Noevir Green Charity gathers and donates a part of proceeds from designated items sold during a biannual skincare product fair. The amount gathered is donated to the Manasul fund headed by alpinist Ken Noguchi, which raises money for school construction at the foot of the Himalayas and for the provision of other support to the region's children. The charity held its 13rd campaign and donated a total of ¥1,921,163 during fiscal 2016.



The Manasul fund provides assistance for school construction at the foot of the Himalayas

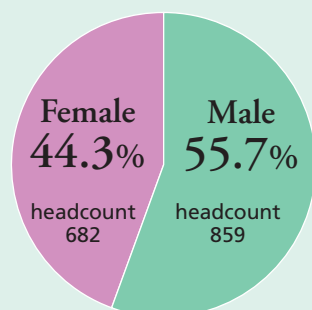
### Introducing Innovative Working Styles



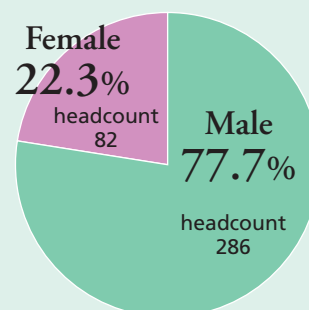
To enhance productivity and foster innovation, the Noevir Group strives to help its employees strike an optimal balance between their work duties and private activities so that they

can lead fulfilling lives. In particular, we strive to ensure that the career development path of no one in our workforce is constrained by such events as childbirth, childrearing or nursing care. Rather, we encourage employees to fully utilize annual paid leave while striving to minimize overtime. Moreover, we have implemented various initiatives, including letting eligible personnel work at locations other than the office via a telecommuting system, enhancing childcare leave plans, allowing those engaged in child rearing or nursing care to shorten their working hours and introducing nursing care leave plans. With particular emphasis on helping women achieve career success, we also provide employees with opportunities to seek out professional interaction across sectional boundaries. In these ways, we are creating and introducing working styles that allow every employee to develop their full potential and freely apply their creativity to work.

#### Proportion of Male and Female Employees in the Noevir Group



#### Proportion of Male and Female Managers in the Noevir Group



(As of October 1, 2016)

## Management's Discussion and Analysis

### Overview

During fiscal 2016 (October 1, 2015 to September 30, 2016), the Japanese economy continued along a track of gradual recovery, mainly due to improvements in corporate capital investment and the employment situation. However, overall economic trends remained uncertain due to apparent areas of weakness in private consumption and corporate earnings as well as dramatic fluctuations in exchange rates and concerns over economic slowdowns overseas.

The cosmetics market in Japan—the Group's main business domain—has saturated and matured, while consumer needs have continued to change, most notably in their diversity and segmentation.

Under these circumstances, the Cosmetics segment saw strong sales. Revenues from face-to-face channel cosmetics were firm thanks to brisk sales of new products and high-end basic skincare series. Sales of self-selection cosmetics grew, buoyed up by hard-won support from a diverse range of customers for both new products and existing series. Sales in the Pharmaceuticals & Health Food segment declined year on year due to the impact of a voluntary recall of medicated cough drops. Sales in the Other segment declined year on year.

As a result, net sales for the fiscal year ended September 30, 2016 came to ¥51,180 million, while the cost of sales amounted to ¥17,995 million and as a percentage of net sales was 35.2%. Selling, general and administrative (SG&A) expenses were ¥25,478 million, and as a percentage of net sales came to 49.8%.

Operating income was ¥7,706 million and net income attributable to owners of the parent came to ¥5,049 million, up 3.3% compared with the previous fiscal year. Thus, the Company registered record highs for both operating income and net income attributable to owners of the parent for a second consecutive year.

### Segment Information

#### Cosmetics

##### Overview

The Group develops, produces and sells a versatile collection of products under well-regarded brand names, including *Noevir* high-performance functional face-to-face channel skincare products; various popular products for the self-selection cosmetics market, including the *Namerakahonpo* skincare line and the *Excel* makeup line; and *NOV* hypoallergenic cosmetics. The Group also undertakes the contract manufacturing of cosmetics.

#### Fiscal 2016 Results

In sales of face-to-face channel cosmetics, new products and high-end basic skincare series performed strongly. Sales of self-selection cosmetics grew, buoyed by hard-won support from a diverse range of customers for both new products and existing series.

As a result, the Cosmetics segment saw growth in both revenues and profit, with segment sales and income totaling ¥36,031 million and ¥9,537 million, respectively.

#### Pharmaceuticals & Health Food

##### Overview

The Group develops, produces and sells such flagship items as the long-selling *Nanten Nodo Ame* cough drops, functional drinks, such as the *Min Min Da Ha* lineup, and other OTC

pharmaceuticals, including cold remedies and digestive aids, as well as nutritional supplements, health food and other products featuring high-quality natural ingredients.

#### Fiscal 2016 Results

Sales of pharmaceutical drinks and health drinks were unchanged from previous fiscal year. Sales of nutritional supplements were strong. However, sales and income both declined year on year due to the recording of a loss of ¥583 million related to the impact of a voluntary recall of medicated cough drops.

As a result, sales in the Pharmaceuticals & Health Food segment totaled ¥13,243 million and segment income came to ¥170 million.

#### Other

##### Overview

The Other segment encompasses apparel and aircraft sales and leasing.

#### Fiscal 2016 Results

Sales in the apparel-related business were unchanged year on year. Sales in the aviation-related business decreased year on year due to unstable demand from the European and U.S. markets.

As a result, sales in the Other segment decreased year on year to ¥1,905 million, while segment loss, at ¥63 million, improved compared with the previous fiscal year.

### Assets, Liabilities and Net Assets

Total assets at the fiscal 2016 year-end stood at ¥89,709 million, an increase of ¥2,361 million compared with the previous fiscal year-end. This was mainly due to increases of ¥1,268 million in lease assets, net, as a result of warehousing equipment investment, and ¥786 million in other receivables.

Total liabilities came to ¥33,801 million, an increase of ¥1,051 million from the previous fiscal year-end. This was mainly due to an increase in lease obligations (long-term) of ¥1,282 million due to warehousing equipment investment.

Net assets came to ¥55,908 million, an increase of ¥1,309 million from the previous fiscal year-end. This primarily reflected an increase in retained earnings of ¥1,504 million, due to the increase in net income attributable to owners of the parent, even after the distribution of ¥3,545 million in dividends for the previous fiscal year.

As a result, the equity ratio stood at 62.2%, down 0.2 percentage points from the previous fiscal year-end, and net assets per share stood at ¥1,573.50, an increase of ¥36.66.

### Cash Flows

Cash and cash equivalents on a consolidated basis as of September 30, 2016 stood at ¥37,895 million, an increase of ¥755 million compared with the ¥37,139 million recorded at the previous fiscal year-end.

Net cash provided by operating activities amounted to ¥5,960 million. The main inflows were ¥7,815 million in income before income taxes and depreciation of ¥1,654 million. The main outflow was income tax paid of ¥3,360 million.

Net cash used in investing activities came to ¥1,377 million. The principal cash outflow was ¥1,690 million for the purchase of property, plant and equipment.

Net cash used in financing activities came to ¥3,640 million. This was mainly due to the payment of ¥3,542 million in dividends.



## Five-Year Summary

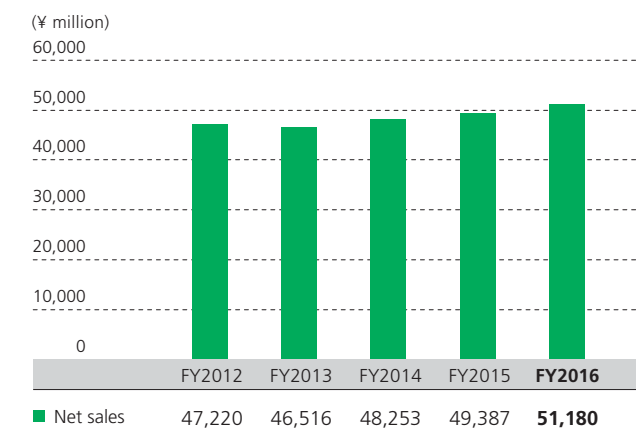
(Millions of yen)					
Fiscal Year	2012	2013	2014	2015	2016
Period/Item	October 1, 2011– September 30, 2012	October 1, 2012– September 30, 2013	October 1, 2013– September 30, 2014	October 1, 2014– September 30, 2015	October 1, 2015– September 30, 2016
Net sales	¥ 47,220	¥ 46,516	¥ 48,253	¥ 49,387	¥ 51,180
Operating income	5,150	7,252	7,064	7,588	7,706
Net income	2,787	4,580	4,349	4,890	5,049*
Total assets	83,701	86,871	88,058	87,348	89,709
Net assets	49,689	53,278	56,018	54,598	55,908
Capital expenditures	234	701	2,989	3,225	2,506
Depreciation	1,702	1,107	1,021	1,237	1,654
R&D expenses**	1,095	974	1,044	1,106	1,185
Cash dividends per share (yen)	¥ 40.00	¥ 50.00	¥ 60.00	¥ 100.00	¥ 120.00
Earnings per share, basic (yen)	¥ 73.37	¥ 122.34	¥ 116.16	¥ 136.79	¥ 142.44
Net assets per share (BPS) (yen)	¥1,325.88	¥1,421.42	¥1,494.14	¥1,536.84	¥1,573.50
ROE (%)	5.5%	8.9%	8.0%	8.9%	9.2%
Equity ratio (%)	59.3%	61.3%	63.5%	62.4%	62.2%
Number of employees (consolidated)	1,798	1,670	1,641	1,674	1,609
Cosmetics					
Net sales	¥ 32,223	¥ 31,278	¥ 32,100	¥ 34,013	¥ 36,031
Operating income/Segment income	5,591	7,775	8,413	8,705	9,537
Pharmaceuticals & Health Food					
Net sales	13,595	13,549	14,067	13,456	13,243
Segment income	1,245	1,295	674	1,012	170
Other					
Net sales	1,401	1,688	2,085	1,918	1,905
Operating income/Segment income	70	3	(158)	(241)	(63)

\* Net income attributable to owners of the parent

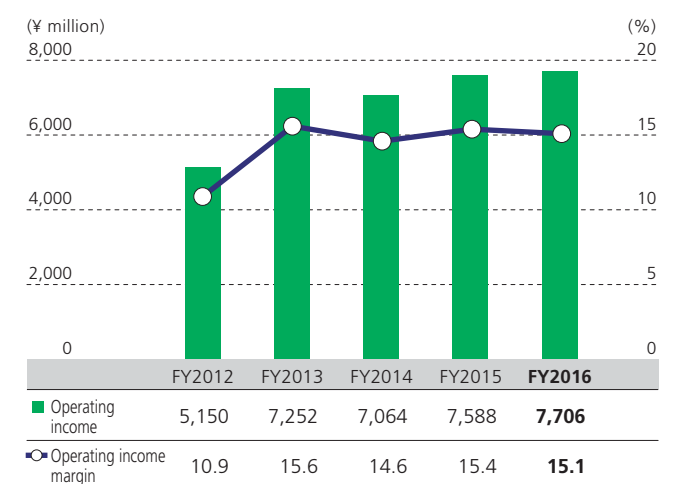
\*\* The total of R&D expenses recorded as part of SG&A expenses and those recorded as part of production costs during the fiscal year under review.

## Financial Highlights

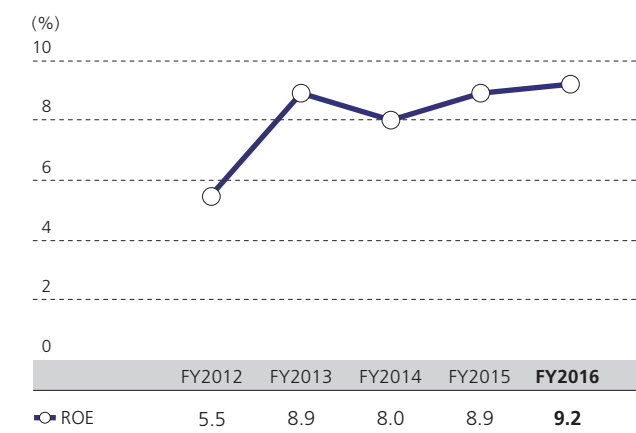
### Net Sales



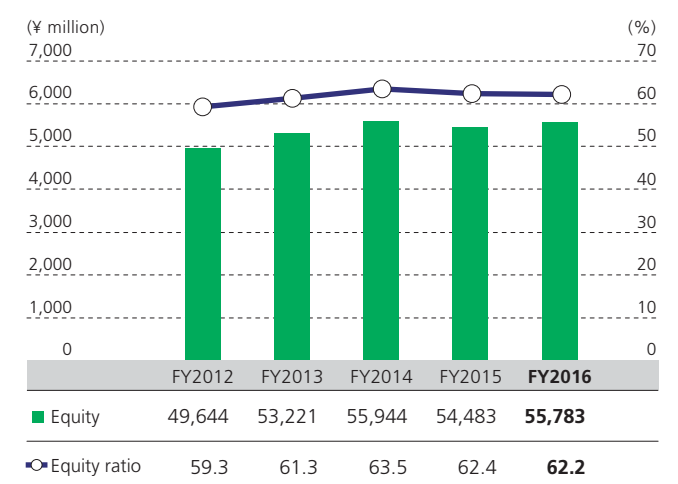
### Operating Income / Operating Income Margin



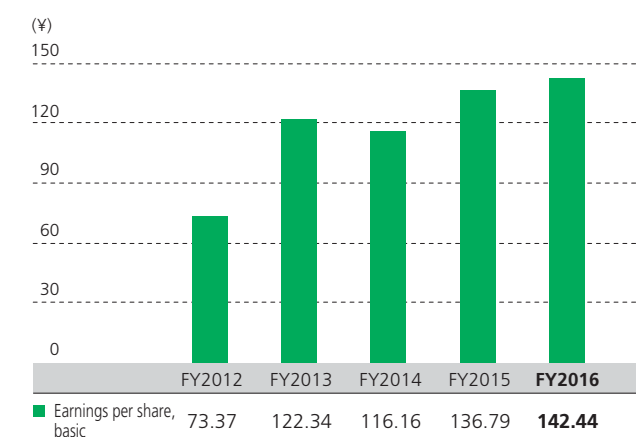
### ROE



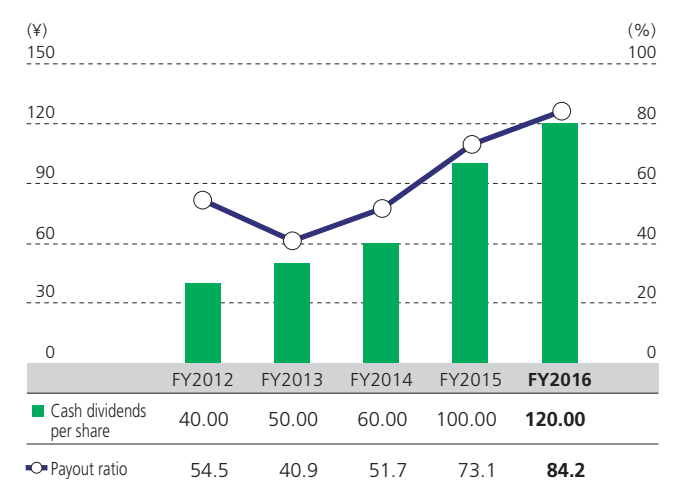
### Equity / Equity Ratio



### Earnings per Share, Basic



### Cash Dividends per Share / Payout Ratio



Principal Consolidated Subsidiaries (As of September 30, 2016)

Name	Location	Issued Share Capital (millions of yen, except as otherwise stated)	Direct or Indirect Ownership by the Company (percent)	Principal Business
Noevir Co., Ltd.	(Kobe Headquarters) 6-13-1 Minatojima-nakamachi Chuo-ku, Kobe 650-8521 Japan (Tokyo Headquarters) 7-6-15 Ginza, Chuo-ku Tokyo 104-8208 Japan	¥7,319	100.00	Production and sale of cosmetics, toiletries and food products as well as purchase and sale of makeup items and apparel
Tokiwa Pharmaceutical Co., Ltd.	3-5-12 Azuchi-machi Chuo-ku, Osaka 541-0052 Japan	¥4,301	100.00	Production and sale of cosmetics, toiletries and food products as well as purchase and sale of makeup items/Production and sale of over- the-counter (OTC) pharmaceuticals and quasi-drugs
Bonanza Co., Ltd.	6-13-1 Minatojima-nakamachi Chuo-ku, Kobe 650-8521 Japan	¥10	100.00	Production and sale of cosmetics and toiletries as well as purchase and sale of makeup items
Tokiwa Medical Service Co., Ltd.	3-12-23 Kitahorie Nishi-ku, Osaka 550-0014 Japan	¥98	100.00	Sale of cosmetics, toiletries and food products as well as purchase and sale of makeup items/ Production and sale of over-the- counter (OTC) pharmaceuticals and quasi-drugs
Noevir Aviation Co., Ltd.	2-12 Yao Airport Yao, Osaka 581-0043 Japan	¥35	100.00	Air transportation business
Noevir Holding of America, Inc.	1095 Main Street Irvine, California 92614 U.S.A.	US\$7,250 thousand	100.00	Holding company for two U.S. subsidiaries and one Canadian subsidiary
Noevir U.S.A., Inc.	1095 Main Street Irvine, California 92614 U.S.A.	US\$5,900 thousand	100.00	Sale of cosmetics, makeup products, toiletries and food products
Noevir Canada, Inc.	7360 River Road, Richmond British Columbia V6X 1X6 Canada	C\$1,131 thousand	100.00	Sale of cosmetics, makeup products, toiletries and food products
Noevir Taiwan, Inc.	8th Fl.-2, No. 111 Songjiang Road, Zhongshan District Taipei City 10486 Taiwan	NT\$31,000 thousand	100.00	Sale of cosmetics, makeup products, toiletries and food products
Shanghai Noevir Co., Ltd.	Room 2206, Feidiao International Plaza No. 1065A Zhaojiabang Road Shanghai 200030, China	5,000 thousand Chinese yuan	50.00	Sale of cosmetics, makeup products and toiletries as well as procurement and sale of sales promotion goods for the Noevir Group
Noevir Aviation, Inc.	200 West Grand Avenue Montvale, New Jersey 07645 U.S.A.	US\$1,350 thousand	100.00	Purchase and sale of aircraft and vessels as well as aviation-related operations
Noevir Europe s.r.l.	Via Tre Settembre, 99 (5°-#183) 47891 Dogana Repubblica di San Marino	26,000 euro	100.00	Market research in Europe

Board of Directors and Auditors (As of December 7, 2016)

Chairman and  
Representative Director  
Hiroshi Okura

President and CEO  
Takashi Okura

Directors  
Ikkou Yoshida  
Yasuo Kaiden  
Masataka Nakano

Outside Directors  
Sanae Tanaka\*  
Yukino Kikuma\*

Standing Corporate Auditor  
Masashi Akagawa

Outside Corporate Auditors  
Masakazu Ueda\*\*  
Kazuhiro Kida\*\*

\* Independent directors  
\*\* Independent corporate auditors

Profiles of Outside Directors

Sanae Tanaka	Representative of Sanae Tanaka Law Office Vice chairperson of TV Asahi Corporation Program Assessment Council Outside director of PILOT CORPORATION Outside director of Shochiku Co., Ltd. Outside director of Kintetsu World Express, Inc.
Yukino Kikuma	Attorney-at-law, MATSUO & KOSUGI Law Office

Profiles of Outside Corporate Auditors

Masakazu Ueda	Representative of Ueda Law Office Professor of the Faculty of Law, Teikyo University
Kazuhiro Kida	Representative of Kida Certified Public Accountant Office Representative partner of Haruka Audit Corporation

Investor Information (As of September 30, 2016)

Name

Noevir Holdings Co., Ltd.

Date of Establishment

March 22, 2011  
(Noevir Co., Ltd. was founded in April 1964.)

Paid-in Capital

¥7,319 million

Headquarters

• Kobe  
6-13-1 Minatojima-nakamachi  
Chuo-ku, Kobe 650-8521, Japan

• Tokyo  
7-6-15 Ginza, Chuo-ku  
Tokyo 104-8208, Japan

Stock Listing

Tokyo Stock Exchange, First Section (Ticker: 4928)

Transfer Agent and Registrar

Sumitomo Mitsui Trust Bank, Limited  
1-4-1 Marunouchi, Chiyoda-ku, Tokyo 100-8233, Japan

Major Shareholders

Name	Number of Shares Held (thousands)	Percentage of Total Shares Issued (percent)
NII Co., Ltd.	7,972	22.48
Hiroshi Okura	6,438	18.15
Takashi Okura	3,699	10.43
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,006	2.83
Sumitomo Mitsui Banking Corporation	900	2.53
Mizuho Bank, Ltd.	600	1.69
Noevir Holdings Employees Shareholdings Scheme	592	1.67
Japan Trustee Services Bank, Ltd. (Trust Account)	574	1.61
Nihon Kolmar Co., Ltd.	300	0.84
Sumitomo Life Insurance Company	300	0.84

Forward-Looking Statements

Statements in this annual report with respect to Noevir Holdings’ plans, strategies, projected financial results and beliefs as well as other statements that are not historical facts are forward-looking statements based on information currently available, and such statements involve risks and uncertainties that could cause actual results to differ substantially from expectations.



# NOEVIR HOLDINGS

7-6-15 Ginza, Chuo-ku, Tokyo 104-8208, Japan

Phone: +81-3-5568-0305 Fax: +81-3-5568-0441

<http://www.noevirholdings.co.jp/english/>