Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 [J-GAAP]

May 15, 2018

Name of listed company:	ARTNATURE INC.	Listed on: Tokyo Stock Exchange
Securities code:	7823	URL: http://www.artnature.co.jp/english/index.html
Representative:	Yoshikata Igarashi, Chairman and President	
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Scheduled date of holding the ordinary general meeting of shareholders:	June 21, 2018
Scheduled date to start dividends distribution:	June 22, 2018
Scheduled date of filing the financial report:	June 22, 2018
Supplementary documents for this summary of financial statements:	No
Explanation meeting for financial results:	Yes (for institutional investors and analysts)

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated results for the fiscal year ended March 31, 2018 (April 1, 2017 – March 31, 2018)

(1) Consolidated operating results

(Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2018	37,254	(4.4)	2,579	(8.4)	2,707	(7.4)	897	(35.6)
Year ended March 31, 2017	38,961	(3.8)	2,816	(18.5)	2,923	(15.4)	1,394	(19.5)

Note: Comprehensive income: Year ended March 31, 2018: ¥872 million (-34.4%) Year ended March 31, 2017: ¥1,329 million (-16.3%)

	Net income per share	Fully diluted net income per share	Return on shareholders' equity	Ordinary income to total assets	Operating income to net sales
	Yen	Yen	%	%	%
Year ended March 31, 2018	27.17	27.08	3.7	6.6	6.9
Year ended March 31, 2017	42.09	42.00	5.8	7.1	7.2

(Reference) Equity in earnings of affiliates: Year ended March 31, 2018: ¥— million Year ended March 31, 2017: ¥— million

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2018	40,897	24,021	58.6	731.51
As of March 31, 2017	41,729	24,432	58.5	736.09

(Reference) Equity capital: As of March 31, 2018: ¥23,946 million As of March 31, 2017: ¥24,395 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 year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2018	3,686	(1,000)	(1,756)	16.401
Year ended March 31, 2017	4,301	(3,434)	(1,378)	15,515

2. Dividends

	Dividends per share					Total dividends (annual)	Dividends payout ratio (consolidated)	Dividends on net assets (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2017	—	14.00	—	16.00	30.00	994	71.3	4.1
Year ended March 31, 2018	—	14.00	—	14.00	28.00	922	103.1	3.8
Year ending March 31, 2019 (Forecast)	—	14.00	—	14.00	28.00		60.4	

Note: The year-end dividend for the fiscal year ended March 31, 2017 comprises an ordinary dividend of ¥14.00 and a commemorative dividend of ¥2.00 to mark the Company's 50th anniversary.

3. Consolidated financial forecast for the fiscal year ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentage figures show changes from the previous year.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent company		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	38,000	2.0	2,796	8.4	2,813	3.9	1,517	69.1	46.34

Notes:

(1) Significant changes to subsidiaries during the term (Transfers of specific subsidiaries with changes in the scope of consolidation): Yes

Excluded: 1 Company name: ARTNATURE (CAMBODIA) INC.

Note: For details, please refer to page 14 of the supplementary materials, "4. Consolidated financial statements and related notes, (5) Notes on consolidated financial statements (Basic important matters for preparing the consolidated financial statements)."

(2) Changes in accounting policies, accounting estimates and restatement of revisions

1) Changes in accounting policies due to revision of accounting standard, etc.: None
2) Changes in accounting policies other than 1): None
3) Changes in accounting estimates: None
4) Restatement of revisions: None

(3) Number of outstanding shares (common stock):

1) Number of shares issued and outstanding (including treasury shares)	As of March 31, 2018	34,393,200 shares	As of March 31, 2017	34,393,200 shares
2) Number of treasury shares	As of March 31, 2018	1,657,038 shares	As of March 31, 2017	1,251,738 shares
3) Average number of shares issued and outstanding in each period	Year ended March 31, 2018	33,029,633 shares	Year ended March 31, 2017	33,131,422 shares

*** This kessan tanshin document is outside the scope of audit procedures conducted by certified public accountants or the independent auditor.**

*** Explanation of appropriate use of forecasts of financial results; other important items**

(Cautionary statement with regard to the forward-looking statements, etc.)

The forward-looking statements in this document, including forecasts, are based on information available at the time of disclosure and on certain assumptions deemed to be reasonable by the Company. Actual results may differ materially from forward-looking statements due to a number of factors. For more details about these assumptions and other conditions that form the basis of these forecasts, please refer to page 3 of the supplementary materials, "1. Analysis of operating results, etc., (4) Business forecasts."

(Change in unit of presentation)

Previously, figures in the Company's consolidated financial statements and other items were shown in thousand-yen units. However, effective from the fiscal year under review, figures have been shown in million-yen units. To facilitate comparison, figures for the previous fiscal year have been changed to million-yen units.

Contents

1. Analysis of operating results, etc.

(1) Analysis of operating results

In fiscal 2018, ended March 31, 2018, the Japanese economy expanded at moderate pace, supported by improving corporate earnings and a sustained upturn in the employment environment, despite continued uncertainty due to unstable political conditions overseas and other factors. In that environment, consumer spending increased in Japan, albeit at a modest pace.

Against this backdrop, the Group formulated a new medium-term management plan called the “ARTNATURE REBORN Plan,” aimed at delivering further growth as the Company celebrates its 50th anniversary. During the fiscal year under review, the whole Group worked as one to implement initiatives based on the plan's four key areas of focus: customer satisfaction, systemic reform, personnel training and employee satisfaction.

As a result of the above measures, the Company largely achieved its forecasts for lower sales and profits in fiscal 2018, which was positioned as a period to build the foundations for an earnings recovery. However, consolidated net sales declined 4.4% year on year to ¥37,254 million, mainly due to weaker sales in the men’s business. The Group reduced sales-related expenses and other costs, but this was insufficient to offset the drop in sales. As a result, operating income declined 8.4% year on year to ¥2,579 million, ordinary income fell 7.4% to ¥2,707 million and net income attributable to owners of the parent company fell 35.6% to ¥897 million.

Sales in each segment were as follows:

< Men’s business >

Sales in the men’s business declined 6.2% year on year to ¥21,573 million. The business implemented measures to reinforce the sales structure, such as stepping up efforts to create more welcoming stores to promote customer retention, and strengthening the skills and customer service of sales staff to improve customer satisfaction. Due to the focus on those measures, sales from new customers and repeat customers both declined.

< Ladies’ business >

Sales in the ladies business declined 1.8% year on year to ¥11,515 million. The business implemented various initiatives, such as efficiently holding trial fitting events, enhancing the skills, customer service and product proposal capabilities of sales staff, and building systems to create long-lasting relationships with customers. However, sales from new customers decreased, reflecting a drop in orders at trial fitting events in line with the number of events.

< Ladies’ ready-made wigs business >

Sales in the JULLIA OLGER business, which sells ladies’ ready-made wigs, declined 7.7% year on year to ¥3,102 million due to weak sales from repeat customers at existing stores, despite various initiatives such as highly targeted sales promotions at each salon and efforts to improve the skills of sales staff.

(2) Analysis of financial position

(Assets)

As of the fiscal year-end, total assets were ¥40,897 million, a decrease of ¥832 million compared with the end of the previous fiscal year. Current assets increased ¥510 million, mainly due to an increase in cash and desposits, while non-current assets declined ¥1,343 million, primarily due to decreases in buildings and structures, and investment securities.

(Liabilities)

As of the fiscal year-end, liabilities totaled ¥16,875 million, a decrease of ¥421 million compared with the end of the previous fiscal year. This mainly reflected a decrease of ¥272 million in current liabilities due to a decrease in income taxes payable and a decrease of ¥148 million in non-current liabilities due to a decrease in long-term loans payable.

(Net Assets)

As of the fiscal year-end, net assets totaled ¥24,021 million, a decrease of ¥410 million compared with the end of the previous fiscal year. This primarily reflected an increase of ¥326 million in treasury shares.

(3) Analysis of cash flow

As of the fiscal year-end, cash and cash equivalents (cash) totaled ¥16,401 million, an increase of ¥885 million compared with the end of the previous fiscal year. The Company’s cash flow position and factors behind changes in cash flows were as follows:

(Cash flows from operating activities)

Operating activities provided net cash of ¥3,686 million, compared with ¥4,301 million in the previous fiscal year. This mainly reflected income before income taxes of ¥1,343 million, depreciation of ¥1,179 million, impairment loss of ¥1,266 million, increase in net defined benefit liability of ¥279 million, decrease in inventories of ¥468 million and other operating revenue of ¥2,266 million, versus income taxes paid of ¥1,240 million and decrease in provision for directors' retirement benefits of ¥1,664 million.

(Cash flows from investing activities)

Investing activities used net cash of ¥1,000 million, compared with ¥3,434 million in the previous fiscal year. This mainly reflected purchase of property, plant and equipment of ¥874 million and purchase of intangible assets of ¥324 million, versus proceeds from redemption of investment securities ¥300 million and proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation of ¥226 million.

(Cash flows from financing activities)

Financing activities used net cash of ¥1,756 million, compared with ¥1,378 million in the previous fiscal year. This mainly reflected repayments of long-term loans payable of ¥401 million, purchase of treasury shares of ¥331 million and cash dividends paid of ¥993 million.

The Group’s cash flow-related indicators are as follows:

Year ended March 31,	2014	2015	2016	2017	2018
Equity ratio (%)	56.5	55.8	58.0	58.5	58.6
Market value-based equity ratio (%)	128.4	88.4	82.4	59.2	57.0
Cash flow to interest-bearing debt (%)	–	59.9	51.6	27.9	21.7
Interest coverage ratio (times)	–	2,889.2	261.3	468.3	566.6

Notes: The above indicators are calculated as follows:

Equity ratio:	Equity capital / total assets
Market value-based equity ratio:	Market capitalization / total assets
Cash flow to interest-bearing debt:	Interest-bearing debt / cash flow from operating activities
Interest coverage ratio:	Cash flow from operating activities / interest payments

* All indicators are calculated using consolidated financial data.

* Market capitalization is calculated by multiplying the number of shares outstanding at the fiscal year end (excluding treasury shares) by the closing share price at the fiscal year end.

* Cash flow is "Cash flow from operating activities” shown on the consolidated statements of cash flow.

* Interest-bearing debt is all liabilities on which interest is paid shown under liabilities on the consolidated balance sheet. Interest payments are “Interest paid” shown on the consolidated statement of cash flow.

(4) Business forecasts

The Japanese economy and consumer spending continue to grow at a moderate pace, but the Group’s operating environment in fiscal 2019, ending March 31, 2019, is likely to remain challenging, due mainly to intensifying competition from companies in the same sector and from new market entrants from peripheral and other sectors.

Against this backdrop, the Group formulated a medium-term management plan called “ARTNATURE REBORN Plan,” which was launched in fiscal 2018. In the plan’s first year, the Group focused on building the foundations for an earnings recovery. In fiscal 2019, the plan’s second year, the Group will use those foundations to support stable growth. In custom-made wigs, our mainstay product category, the men’s business and the ladies’ business will both work to increase the number of customers by continuing to focus on raising customer satisfaction. In the JULLIA OLGER ladies’ ready-made wigs business, we will focus on upgrading sales areas and frontline capabilities in our nationwide retail store network in order to reinforce a loyal base of customers. We are also targeting growth by focusing on the online business and the overseas business.

Based on these initiatives, for fiscal 2019, we forecast consolidated net sales of ¥38,000 million, up 2.0% year on year, operating income of ¥2,796 million, up 8.4%, ordinary income of ¥2,813 million, up 3.9%, and net income attributable to owners of the parent company of ¥1,517 million, up 69.1%.

(5) Basic policy on distribution of profits and dividends for fiscal 2018 and fiscal 2019

ARTNATURE Group believes that returning profits to shareholders is one of the most important issues for management. The Company’s basic policy is to pay stable dividends to shareholders while ensuring there are sufficient internal reserves to reinforce the Group’s management base and financial position and to invest in future business expansion.

In line with this policy, the Company will pay a full-year dividend of ¥28 per share for fiscal 2018, ended March 31, 2018, comprising an interim dividend of ¥14 per share and a year-end dividend of ¥14 per share.

For fiscal 2019, ending March 31, 2019, the Company plans to pay a full-year dividend of ¥28 per share, comprising an interim dividend of ¥14 per share and a year-end dividend of ¥14 per share.

2. Management policies

(1) Basic management policy

As a comprehensive hair consultancy business, ARTNATURE strives to help all customers with concerns about their hair by providing them with the highest-quality products and services for their needs. Our management philosophy is to "foster a culture of hair that satisfies customers.”

To make this philosophy a reality, the Group is reinforcing its product development capabilities, upgrading its manufacturing framework, and improving its sales service system in areas such as counseling, customer support and styling skills, while also striving to operate its business in a way that wins the trust of shareholders, investors and all other stakeholders by strengthening its compliance system and actively disclosing corporate information.

(2) Management indicators and targets

The Group is working to expand its comprehensive hair consultancy business and boost profitability as well as capital efficiency by increasing sales and promoting efficient management.

We are therefore focusing on three key performance indicators: sales, ordinary margin (ratio of ordinary income to net sales) and ROE (return on equity).

We aim to steadily grow sales by gradually upgrading our sales structure. Based on that approach, we are targeting sales of ¥38,000 million in fiscal 2019, compared with ¥37,254 million in fiscal 2018.

We also aim to steadily increase the ordinary margin by overhauling our earnings structure to create an efficient and effective framework for earnings.

In addition, we will operate our business with an emphasis on ROE to ensure we use capital entrusted by shareholders efficiently and increase corporate value.

(3) Medium- and long-term management strategy

We have formulated a three-year medium-term management plan called the “ARTNATURE REBORN Plan,” starting in fiscal 2018, based on the above performance indicators.

Specifically, we will steadily implement initiatives in four key areas – customer satisfaction, systemic reform, personnel training and employee satisfaction – aiming for consolidated net sales of ¥40,932 million, an ordinary margin of 6.8% and ROE of 6.5% in fiscal 2020.

(4) Issues to be resolved

We project rising demand in the domestic hair products and services market, where the ARTNATURE Group is active, due to trends such as increased stress in society, population aging and growing interest in anti-aging treatments. However, we also expect competition to intensify with companies in the sector of hair products and services, and with companies in peripheral industries. In this environment, we plan to work on the following key issues in order to generate stable growth and boost corporate value.

First, we will increase the number of customers in domestic and overseas markets. We will generate new demand by developing and regularly launching the highest-quality products and services in line with customer needs, and by devising advertising campaigns that resonate more closely with customers. In both the men’s category and the ladies’ category, we aim to generate stable growth by focusing on improving customer satisfaction to increase the number of “true ARTNATURE fans,” while also implementing a range of initiatives to strengthen customer retention. The JULLIA OLGER ladies’ ready-made wigs business is approaching its 10th anniversary. In this business, we are targeting earnings growth by upgrading sales areas and frontline business capabilities, enabling us to offer proposals that match the individual needs of each customer. In overseas markets, we will work to expand our business by raising brand awareness and implementing sales initiatives tailored to local markets in China, Singapore, Thailand and Malaysia in order to capture potential demand.

Second, we will switch to a business structure that enables the Group to generate stronger earnings. We will overhaul the Group’s earnings structure and rigorously eliminate waste in all areas of our business to reduce fixed costs and lower the breakeven point, resulting in an efficient and effective earnings structure. Also, we will work to improve productivity by adopting paperless processes and systemization to improve efficiency and by pushing ahead with rationalization. At the same time, we will reinforce various systems to support the development of businesses in new fields.

Third, we will improve our capacity to address the needs of all types of customers. As of March 31, 2018, 1,899 employees, or roughly 80% of the Company’s permanent employees, were qualified as barbers or hairdressers. We aim to increase customer trust and satisfaction by enhancing the basic capabilities of those employees – their technical skills, customer service skills and product proposal capabilities – allowing us to better address customer needs. Also, to transform our employees in non-sales divisions into experts in their respective fields, we will establish training courses and build systems to support self-study as part of wider efforts to upgrade personnel training.

Fourth, we aim to retain high-level human resources. We have developed a range of initiatives to increase the motivation of all our employees and ensure they reach their maximum potential. We are promoting diversity management, illustrated by

ARTNATURE's certification as an "Eruboshi" company, which recognizes the Company's efforts in promoting the active involvement of female employees in line with the Act on Promotion of Women's Participation and Advancement in the Workplace, and two top prizes received by ARTNATURE in the White Company Awards in the "Child Support Category" and the "Ikubosu Category." Also, amid the current focus on "workstyle reforms," we emphasize work-life balance, such as eliminating long overtime hours and providing support so that employees can balance work and family commitments, while also actively promoting health management. We plan to introduce various other initiatives to foster a shared sense of unity with our employees and create more rewarding workplaces.

3. Basic stance on selection of accounting standards

The Group uses Japanese accounting standards, as many shareholders, creditors, business partners and other stakeholders are based in Japan, and there is limited need for the Group to procure funds overseas.

4. Consolidated financial statements and related notes

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and deposits	15,482	16,530
Notes and accounts receivable - trade	－	2,895
Accounts receivable – trade	2,770	－
Secutities	144	140
Merchandise and finished goods	1,726	1,385
Work in process	100	105
Raw materials and supplies	1,691	1,510
Deferred tax assets	555	516
Others	961	859
Allowance for doubtful accounts	(1)	(1)
Total current assets	23,431	23,942
Non-current assets		
Property, plant and equipment		
Buildings and structures	13,532	12,891
Accumulated depreciation	(7,295)	(7,681)
Buildings and structures, net	6,236	5,210
Machinery equipment and vehicle	160	106
Accumulated depreciation	(127)	(82)
Machinery equipment and vehicle, net	32	24
Land	3,533	3,530
Construction in progress	39	－
Others	2,545	2,620
Accumulated depreciation	(2,045)	(2,218)
Others, net	500	402
Total property, plant and equipment	10,342	9,167
Intangible assets		
Others	1,081	846
Total intangible assets	1,081	846
Investments and other assets		
Investment securities	2,310	2,064
Deferred tax assets	2,038	2,245
Lease and guarantee deposits	2,337	2,352
Net defined benefit asset	20	13
Others	231	321
Allowance for doubtful accounts	(64)	(56)
Total investments and other assets	6,873	6,940
Total non-current assets	18,298	16,954
Total assets	41,729	40,897

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Liabilities		
Current liabilities		
Notes and accounts payable – trade	235	151
Current portion of long-term loans payable	401	400
Accounts payable – other	1,880	2,413
Income taxes payable	740	162
Advances received	4,529	4,576
Provision for bonuses	980	845
Provision for directors' bonuses	113	110
Provision for product warranties	44	39
Provision for point card certificates	92	93
Others	1,042	996
Total current liabilities	10,062	9,789
Non-current liabilities		
Long-term loans payable	799	398
Provision for directors' retirement benefits	1,664	–
Net defined benefit liability	3,313	3,472
Asset retirement obligations	1,265	1,332
Others	192	1,882
Total non-current liabilities	7,234	7,085
Total liabilities	17,296	16,875
Net assets		
Shareholders' equity		
Capital stock	3,667	3,667
Capital surplus	3,557	3,557
Retained earnings	17,657	17,560
Treasury shares	(494)	(821)
Total shareholders' equity	24,387	23,963
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(10)	1
Foreign currency translation adjustment	207	88
Remeasurements of defined benefit plans	(189)	(106)
Total accumulated other comprehensive income	7	(16)
Subscription rights to shares	24	61
Non-controlling interests	12	13
Total net assets	24,432	24,021
Total liabilities and net assets	41,729	40,897

(2) Consolidated statements of income and comprehensive income

(Consolidated statements of income)

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Net sales	38,961	37,254
Cost of sales	11,736	11,594
Gross profit	27,225	25,659
Selling, general and administrative expenses	24,408	23,080
Operating income	2,816	2,579
Non-operating income		
Interest income	110	75
Foreign exchange gains	6	15
Commission fee	21	18
Insurance return	12	59
Others	60	36
Total non-operating income	211	206
Non-operating expenses		
Interest expenses	9	6
Loss on valuation of investment securities	11	–
Loss on redemption of investment securities	–	9
Guarantee commission	53	52
Others	29	9
Total non-operating expenses	104	78
Ordinary income	2,923	2,707
Extraordinary income		
Gain on sales of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on retirement of non-current assets	45	1
Impairment loss	609	1,266
Loss on sales of shares of subsidiaries and associates	–	96
Total extraordinary losses	654	1,364
Income before income taxes	2,269	1,343
Income taxes – current	1,312	646
Income taxes – deferred	(437)	(200)
Total income taxes	875	446
Net income	1,394	897
Net income (loss) attributable to non-controlling interests	(0)	0
Net income attributable to owners of the parent company	1,394	897

(Consolidated statements of comprehensive income)

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Net income	1,394	897
Other comprehensive income		
Valuation difference on available-for-sale securities	(13)	11
Foreign currency translation adjustment	(161)	(119)
Remeasurements of defined benefit plans	110	83
Total other comprehensive income	(64)	(24)
Comprehensive income	1,329	872
(Comprehensive income attributable to)		
Owners of the parent company	1,330	872
Non-controlling interests	(0)	0

(3) Consolidated statements of changes in net assets

Year ended March 31, 2017

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of period	3,667	3,556	16,815	(502)	23,536
Cumulative effects of changes in accounting policies			375		375
Restated balance	3,667	3,556	17,190	(502)	23,911
Change of items during the period					
Dividends from surplus			(927)		(927)
Net income attributable to owners of the parent company			1,394		1,394
Disposal of treasury shares		1		7	8
Net changes of items other than shareholders' equity					
Total change of items during the period	-	1	466	7	475
Balance at the end of the period	3,667	3,557	17,657	(494)	24,387

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of period	3	368	(300)	71	31	13	23,653
Cumulative effects of changes in accounting policies							375
Restated balance	3	368	(300)	71	31	13	24,028
Change of items during the period							
Dividends from surplus							(927)
Net income attributable to owners of the parent company							1,394
Disposal of treasury shares							8
Net changes of items other than shareholders' equity	(13)	(160)	110	(64)	(6)	(0)	(71)
Total change of items during the period	(13)	(160)	110	(64)	(6)	(0)	404
Balance at the end of the period	(10)	207	(189)	7	24	12	24,432

Year ended March 31, 2018

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of period	3,667	3,557	17,657	(494)	24,387
Change of items during the period					
Dividends from surplus			(994)		(994)
Net income attributable to owners of the parent company			897		897
Purchase of treasury shares				(331)	(331)
Disposal of treasury shares		0		4	4
Net changes of items other than shareholders' equity					
Total change of items during the period	-	0	(97)	(326)	(423)
Balance at the end of the period	3,667	3,557	17,560	(821)	23,963

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasure-ments of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of period	(10)	207	(189)	7	24	12	24,432
Change of items during the period							
Dividends from surplus							(994)
Net income attributable to owners of the parent company							897
Purchase of treasury shares							(331)
Disposal of treasury shares							4
Net changes of items other than shareholders' equity	11	(119)	83	(24)	37	0	12
Total change of items during the period	11	(119)	83	(24)	37	0	(410)
Balance at the end of the period	1	88	(106)	(16)	61	13	24,021

(4) Consolidated statements of cash flows

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Cash flows from operating activities		
Income before income taxes	2,269	1,343
Depreciation	1,267	1,179
Impairment loss	609	1,266
Increase (decrease) in allowance for doubtful accounts	(3)	(8)
Increase (decrease) in provision for bonuses	164	(134)
Increase (decrease) in provision for directors' bonuses	(37)	(3)
Increase (decrease) in provision for product warranties	(1)	(5)
Increase (decrease) in provision for point card certificates	10	0
Increase (decrease) in provision for directors’ retirement benefits	380	(1,664)
Increase (decrease) in net defined benefit liability	268	279
Interest income	(110)	(75)
Interest expenses	9	6
Loss on retirement of non-current assets	45	1
Loss (gain) on sales of non-current assets	(0)	(0)
Loss (gain) on valuation of investment securities	11	－
Loss (gain) on redemption of investment securities	－	9
Loss (gain) on sales of shares of subsidiaries and associates	－	96
Decrease (increase) in notes and accounts receivable – trade	243	(137)
Decrease (increase) in inventories	348	468
Increase (decrease) in notes and accounts payable – trade	(72)	(77)
Increase (decrease) in advances received	241	46
Others	(172)	2,266
Subtotal	5,472	4,859
Interest income received	116	73
Interest expenses paid	(9)	(6)
Income taxes paid	(1,278)	(1,240)
Net cash provided by (used in) operating activities	4,301	3,686
Cash flows from investing activities		
Payments into time deposits	(214)	(384)
Proceeds from withdrawal of time deposits	113	217
Purchase of property, plant and equipment	(877)	(874)
Proceeds from sales of property, plant and equipment	0	0
Purchase of intangible assets	(377)	(324)
Purchase of investment securities	(2,000)	(53)
Proceeds from redemption of investment securities	－	300
Collection of long-term loans receivable	0	0
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	－	226
Payments for lease and guarantee deposits	(70)	(80)
Proceeds from collection of lease and guarantee deposits	67	55
Others	(76)	(84)
Net cash provided by (used in) investing activities	(3,434)	(1,000)

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Cash flows from financing activities		
Repayments of long-term loans payable	(401)	(401)
Repayments of lease obligations	(50)	(30)
Purchase of treasury shares	－	(331)
Cash dividends paid	(926)	(993)
Net cash provided by (used in) financing activities	(1,378)	(1,756)
Effect of exchange rate change on cash and cash equivalents	(46)	(43)
Net increase (decrease) in cash and cash equivalents	(557)	885
Cash and cash equivalents at the beginning of period	16,072	15,515
Cash and cash equivalents at the end of period	15,515	16,401

(5) Notes on consolidated financial statements

(Notes related to the going concern assumption)

There is no related information.

(Basic important matters for preparing the consolidated financial statements)

1. Items related to the scope of consolidation

All the Company's subsidiaries are consolidated

Number of consolidated subsidiaries: 10

Name of important consolidated subsidiaries

ARTNATURE PHILIPPINES INC., ARTNATURE MANUFACTURING PHILIPPINES INC.
ARTNATURE (SHANGHAI) INC. (ANCN)

ARTNATURE (CAMBODIA) INC. (ANKH), a consolidated subsidiary in the previous fiscal year, has been excluded from the scope of consolidation after the Company sold all shares held in this company.

2. Notes related to fiscal years and other details of consolidated subsidiaries

The Company has eight consolidated subsidiaries with December 31 fiscal year ends. The Company's consolidated financial statements are prepared based on the financial statements of those companies at their fiscal year-ends. Where necessary, any significant transactions that occur between their fiscal year-ends and the Company's consolidated balance sheet date are reflected in the consolidated financial statements.

All other consolidated subsidiaries have the same fiscal year-ends as the Company's consolidated balance sheet date.

3. Items related to accounting policies

(1) Valuation standards and methods for important assets

1) Securities

Other marketable securities

With market value

Market value method based on market prices on the fiscal year closing date. (All valuation differences are booked directly to net assets, while cost of sales is calculated using the moving average method.) Hybrid financial instruments, from which an embedded derivative cannot be separated, are stated at fair value and gains or losses are recognized in the consolidated financial statements for that fiscal year.

Without market value

Moving average cost method

2) Derivatives

Market value method

3) Inventories

Products

Wigs

Custom-made wigs

Cost method based on the specific cost method

Other wigs

Moving average cost method

Other products

Moving average cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

Products, materials, work-in-process

Cost method mainly based on the moving average cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

Inventory goods

Loaned products

Moving average cost method

Sample products

Cost method based on the specific cost method

Other inventory goods

Last cost method

(The value of products on the balance sheet is written down based on declines in the profitability of those products)

(2) Depreciation and amortization methods for important depreciable assets

1) Property, plant and equipment (Excluding lease assets)

Declining balance method

However, the straight-line method is used for buildings and structures (excluding attached facilities) purchased after April 1, 1998 and for attached facilities and structures purchased after April 1, 2016. At overseas consolidated subsidiaries, the straight-line method is used for property, plant and equipment.

Expected useful lives of assets are principally as follows:

Buildings and structures: 10 – 50 years

2) Intangible assets (Excluding lease assets)

Straight-line method

Software for use by the Company is based on estimated usable life within the Company (five years).

3) Lease assets

Lease assets related to the finance lease transactions other than those where the ownership of the lease assets is deemed to be transferred to the lessee

Straight-line method assuming the lease period as the useful life and no residual value

4) Long-term prepaid expenses

Straight-line method

(3) Accounting standards for important allowances and provisions

1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for at an amount determined based on the loan loss ratio with respect to general receivables, plus an estimate of unrecoverable amounts determined by reference to specific doubtful receivables from customers experiencing financial difficulties.

2) Provision for bonuses

Provision for employee bonuses is provided for at the expected payment amount.

3) Provision for directors’ bonuses

Provision for director bonuses is provided for at the expected payment amount.

4) Provision for point card certificates

Provision for the use of points given to customers under the point card system is provided for at the amount expected to cover the estimated cost of points used in the future based on historical rates of point usage.

5) Provision for product warranties

Allowance for product warranties is provided for at an expected amount to cover repair costs under free repair guarantees, based on historical repair rates.

(4) Accounting for retirement benefits

1) Allocation of expected benefit payments

When calculating retirement benefit liabilities, the straight-line method is used to allocate expected benefit payments to the period until this fiscal year-end.

2) Actuarial differences

Actuarial differences are amortized mainly using the straight-line method over a period within the average remaining service years for employees (six years) at the time of recognition, and recorded as expenses from the fiscal year following the fiscal year of recognition.

(5) Standards for translation of foreign currency-denominated assets and liabilities into Japanese yen

Foreign currency receivable and payable is converted into Japanese yen at the exchange rates prevailing at the consolidated balance sheet date, and translation is recorded as income or expeses.

The assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen based on spot exchange rates at their respective balance sheet dates, while revenues and expenses at overseas consolidated subsidiaries are converted based on average exchange rates during the fiscal year. Differences arising from such translations are included in both “Foreign currency translation adjustments” and “Non-controlling interests” in the net assets section of the balance sheet.

(6) Scope of funds in the consolidated statements of cash flows

Funds include cash at hand, demand deposits at banks and highly liquid short-term investments with negligible risk of fluctuation in value and maturities of less than three months.

(7) Goodwill amortization method and period

Goodwill is amortized using the straight-line method over a period of five years.

(8) Additional information related to the preparation of consolidated financial statements

Accounting treatment of consumption and other taxes

Tax exclusion method

(Additional information)

(Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts)

(1) Summary of transactions

The Company has introduced an Employee Stock Ownership Plan (J-ESOP) to motivate and incentivize employees to increase the share price and results. The scheme is designed to create a closer link between employee remuneration and the Company's share price and results so that economic benefits are shared among shareholders. In accordance with the provisions of the Company's stock benefit regulations, employees that satisfy certain criteria are granted shares in the Company.

Specifically, employees are awarded points based on performance, and accumulated points can be converted into shares of the Company once certain conditions are met. Shares granted to employees, including shares to be granted in the future, are acquired using funds held in trust and managed independently as trust assets. In addition to increasing the motivation of employees and encouraging greater interest in the Company's share price, this scheme is also expected to help the Company retain and attract high-caliber personnel.

(2) Accounting treatment related to transactions for granting shares to employees through trusts

The Company has applied the provisions in paragraph 20 of the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ Practical Issues Task Force No. 30, March 26, 2015) and continued to use existing accounting treatment.

(3) Items related to shares of the Company held in trust

The book value of shares held in trust was ¥182 million in the previous fiscal year and ¥281 million in the fiscal year under review. In addition, shares of the Company held in trust were recorded under net assets as treasury shares at book value in the trust (excluding associated costs). Shares held in trust totaled 276,000 at the end of the previous fiscal year and 409,100 at the end of the fiscal year under review. The average number of shares held in trust was 278,050 during the previous fiscal year and 320,510 during the fiscal year under review. These shares are included in treasury shares, which is deducted from calculations of per share data.

(Abolition of retirement benefit system for directors)

At the 50th Ordinary General Meeting of Shareholders on June 22, 2017, final retirement benefit payments were approved in conjunction with the abolition of the retirement benefit system for directors. As a result, the entire amount under "Provision for directors' retirement benefits" in the consolidated balance sheets has been reversed and outstanding final retirement benefit payments of ¥1,664 million have been included in "Others" under non-current liabilities in the consolidated balance sheets. The outstanding final retirement benefit payments have also been included in "Others" under cash flows from operating activities in the consolidated statements of cash flows.

(Consolidated balance sheets)

1 Commitment line

The Company has concluded commitment line contracts with four financial institutions in order to secure efficient fund procurement.

The balance of available funds under these contacts at the end of the fiscal year was as follows:

(Millions of yen)

	As of March 31, 2017	As of March 31, 2018
Total amount of commitment line	5,000	5,000
Funds borrowed	–	–
Balance	5,000	5,000

(Consolidated statements of income)

*1 Inventory amounts at the fiscal year-end are after writedowns to book value related to declines in profitability and the following valuation loss on inventories is included in the cost of sales.

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
	213	218

*2 The main components in selling, general and administrative expenses and their amounts are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Advertising expenses	6,385	6,335
Salaries	4,014	3,826
Provision for bonuses	416	376
Provision for point card certificates	10	0
Provision for retirement benefits	213	165
Provision for directors’ bonuses	82	110
Provision for directors’ retirement benefits	534	–
Depreciation	1,198	1,077
Rent expenses	3,199	3,160

*3 Total research and development expenses included in general and administrative expenses are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
	146	133

*4 Breakdown of gain on sales of non-current assets is as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Machinery, equipment and vehicles	0	0

*5 Breakdown for loss on retirement of non-current assets are as follows:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Buildings and structures	43	1
Machinery, equipment and vehicles	–	0
Other property, plant and equipment	1	–
Total	45	1

*6 Impairment loss

The Company has booked impairment losses on the following asset groups.

Year ended March 31, 2017

(1) Main assets for which impairment losses have been recognized

Company / location	Application	Type
ARTNATURE INC. (Tokyo and 23 other prefectures)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ARTNATURE (SHANGHAI) INC. (ANCN) (China)	Stores (Business assets)	Buildings and structures, etc.

(2) Reasons for recognition of impairment losses

Impairment losses were recognized on the business assets due to sustained losses arising from operating activities at those business sites.

(3) Breakdown of impairment losses

Main purpose	Type	Amount (Millions of yen)
Stores	Buildings and structures, etc.	609
Total		609

* Breakdown of impairment losses by applications

- Stores ¥609 million (comprising ¥573 million for buildings and structures, and ¥35 million for other property, plant and equipment).

(4) Asset grouping method

The Group groups its business assets on a single store basis.

(5) Recoverable value calculation method

The recoverable value of stores is calculated based on value in use. The discount rate has been omitted, as undiscounted future cash flow is negative.

Year ended March 31, 2018

(1) Main assets for which impairment losses have been recognized

Company / location	Application	Type
ARTNATURE INC. (Tokyo and 25 other prefectures)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANCN (China)	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANSG (Singapore)*	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANMY (Malaysia)*	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANTH (Thailand)*	Stores (Business assets)	Buildings and structures, etc.
Consolidated subsidiary ANKH (Cambodia)	Plants (Business assets)	Buildings and structures, etc.

*ANSG: ARTNATURE SINGAPORE PTE. LTD., ANMY: ARTNATURE MALAYSIA SDN. BHD., ANTH: ARTNATURE (THAILAND) CO., LTD.

(2) Reasons for recognition of impairment losses

Impairment losses were recognized on the business assets due to sustained losses arising from operating activities at those business sites. Also, following a decision to sell ANKH, the Company booked impairment losses on ANKH business assets, as recoverable value was calculated as lower than the carrying amount.

(3) Breakdown of impairment losses

Main purpose	Type	Amount

		(Millions of yen)
Stores and plants	Buildings and structures, etc.	1,266
Total		1,266

* Breakdown of impairment losses by applications

- Stores and plants ¥1,266 million (comprising ¥1,105 million for buildings and structures, ¥141 million for other property, plant and equipment and ¥18 million for other intangible assets).

(4) Asset grouping method

The Group groups its business assets on a single store or plant basis.

(5) Recoverable value calculation method

The recoverable value of stores and plants is estimated based on value in use or net realizable value. The sale of the business assets to a third party has been finalized, so the sales amount has been used to determine net realizable value. The discount rate has been omitted, as undiscounted future cash flow is negative.

(Consolidated statements of cash flows)

* The relationship between the balance of cash and cash equivalents at the end of the fiscal year and the amount shown on the consolidated balance sheet is shown below:

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Cash and deposit account	15,482	16,530
Deposit account (over 3 months)	(112)	(269)
Securities account	144	140
Cash and cash equivalents	15,515	16,401

(Segment information, etc.)

Segment information

1. Overview of reportable segments

The Group's reportable segments are components of the Group for which separate financial information is available. These segments are regularly reviewed to enable the Company's Board of Directors to decide how to allocate resources and assess operating performance.

The Group develops business strategy and conducts business activities related to hair products and services for general customers based on the gender of the customer.

Consequently, the Group has classified its operations into three reportable segments: the men's business, the ladies' business and the ladies's ready-made wigs business. In the men's business, the Company supplies male customers with custom-made wigs and other products and services. In the ladies' business, the Company supplies female customers with custom-made wigs and other products and services. In the ladies' ready-made wigs business, the Company supplies female customers with ready-made wigs and other products and services.

2. Method used to calculate sales, income (loss), assets, liabilities and other items by reportable segment

Accounting policies for the reportable segments are the same as those described in "Basic important matters for preparing the consolidated financial statements."

Intersegment sales are booked based on the value of transactions with external customers.

3. Information regarding sales, income (loss), assets, liabilities and other items by reportable segment

Year ended March 31, 2017

(Millions of yen)

	Reportable segment				Others Note 1	Total	Adjustment Note 2	Carried on consolidated financial statements Note 3
	Men's business	Ladies' business	Ladies' ready-made wigs business	Total				
Net sales								
Sales to external customers	23,003	11,726	3,359	38,090	871	38,961	－	38,961
Intersegment sales and transfers	－	－	－	－	2,180	2,180	(2,180)	－
Total	23,003	11,726	3,359	38,090	3,052	41,142	(2,180)	38,961
Segment income	15,670	8,203	2,763	26,637	584	27,222	2	27,225

Year ended March 31, 2018

(Millions of yen)

	Reportable segment				Others Note 1	Total	Adjustment Note 2	Carried on consolidated financial statements Note 3
	Men's business	Ladies' business	Ladies' ready-made wigs business	Total				
Net sales								
Sales to external customers	21,573	11,515	3,102	36,191	1,063	37,254	－	37,254
Intersegment sales and transfers	－	－	－	－	2,007	2,007	(2,007)	－
Total	21,573	11,515	3,102	36,191	3,071	39,262	(2,007)	37,254
Segment income	14,544	8,032	2,367	24,944	763	25,707	(47)	25,659

Notes:1. Other is not a reportable segment and mainly includes businesses related to ready-made products in the men's business and manufacturing subsidiaries.

2. Details of adjustments are as follows:

Segment income

(Millions of yen)

	Year ended March 31, 2017	Year ended March 31, 2018
Intersegment eliminations*	2	(47)
Total	2	(47)

*Intersegment eliminations refers to the elimination of inventory asset adjustments related to intersegment transactions, etc.

3. Segment income have been adjusted to reconcile with gross profits on the consolidated financial statements.
4. Assets and liabilities have not been shown, as they are not allocated to each segment.
5. Adjustments to reconcile total segment income for reportable segments with operating income in the consolidated financial statements

(Millions of yen)

Income	Year ended March 31, 2017	Year ended March 31, 2018
Total for reportable segments	26,637	24,944
Other*1	584	763
Total	27,222	25,707
Adjustment*2	2	(47)
Gross profit in consolidated financial statements	27,225	25,659
Selling, general and administrative expenses	24,408	23,080
Operating income in consolidated financial	2,816	2,579

statements		

(Per share information)

(Yen)

Year ended March 31, 2017		Year ended March 31, 2018	
Net assets per share	736.09	Net assets per share	731.51
Net income per share	42.09	Net income per share	27.17
Fully diluted net income per share	42.00	Fully diluted net income per share	27.08

Note: The basis for calculating net income per share and fully diluted net income per share is as follows:

	Year ended March 31, 2017	Year ended March 31, 2018
Net income per share		
Net income attributable to owners of the parent company (millions of yen)	1,394	897
Amounts not attributable to owners of common stock (millions of yen)	–	–
Net income attributable to owners of the parent company associated with common stock (millions of yen)	1,394	897
Average number of shares of common stock during fiscal year (thousands of share)	33,131	33,029
Fully diluted net income per share		
Adjustment to net income attributable to owners of the parent company (millions of yen)	–	–
Increase in number of shares of common stock (thousands of share)	67	103
(of which, subscription rights to shares)	(67)	(103)
Summary of residual shares not included in calculations of fully diluted net income per share due to no dilutive effect	–	–

Note: Treasury shares, which is excluded from the number of shares issued and outstanding at the end of the fiscal year for the purposes of calculating "Net assets per share," includes shares of the Company held by the Trust & Custody Services Bank, Ltd. (trust account E) (276,000 shares as of March 31, 2017, 409,100 shares as of March 31, 2018). In addition, treasury shares, which is excluded from the average number of shares during the fiscal year for the purposes of calculating "Net income per share" and "Fully diluted net income per share," includes shares of the Company held by the Trust & Custody Services Bank, Ltd. (trust account E) (278,050 shares during fiscal year ended March 31, 2017, 320,510 shares during fiscal year ended March 31, 2018).

(Significant subsequent events)

There is no related information.

(Disclosure omissions)

Notes related to consolidated statements of comprehensive income, consolidated statements of changes in net assets, lease transactions, related party information, tax effect accounting, financial instruments, investment securities, derivative transactions, retirement benefits, stock options, etc., business combinations, etc., asset retirement obligations, and leased real estate have been omitted, as they have been judged to be immaterial to disclosures for these consolidated financial results.

5. Other

(1) Top management changes

1) Changes to representatives

There is no related information.

2) Changes to other directors and auditors

- New candidates for auditors

    Auditor, Shunichi Matsushima (currently Director of Administration Headquarters)

    Auditor, Hiroaki Hasegawa (currently substitute auditor, certified accountant)

    Auditor, Satoshi Hiyama (currently attorney-at-law)

    Note: Hiroaki Hasegawa and Satoshi Hiyama are candidates for outside auditors.

- Auditors scheduled to retire

    Auditor, Makoto Sano

    Auditor, Yasuaki Hasegawa

3) Scheduled date of appointment/retirement

June 21, 2018