

Annual Report 2013



Group Philosophy

*Inspire all people
and
touch their hearts.*

Group Developments

- 1929** Shinobu Suzuki establishes business in Shizuoka Prefecture.
Business grows through door-to-door sales, the cornerstone of today's POLA INC.
- 1984** ORBIS Inc. is established and new brand ORBIS debuts.
- 1999**
)
2000 Sales channels expand with launch of e-commerce site ORBIS THE NET and opening of ORBIS THE SHOP retail network.
- 2005** The first POLA THE BEAUTY store opens, establishing a business model that transcends conventional door-to-door sales approach by creating specialty stores that integrate cosmetics, consulting, and facial esthetic treatments.
- 2006** POLA ORBIS HOLDINGS INC. is established, strengthening the business foundation and thus paving the way for global operations.
- 2010** Lists on the First Section of the Tokyo Stock Exchange.
- 2011** Announces Long-Term Vision 2020 and medium-term management plan, highlighting ultimate objective of becoming a "highly profitable global company."
Brings H2O PLUS HOLDINGS, LLC (currently H2O PLUS HOLDINGS INC.) under the Group umbrella.
- 2012** Brings Jurlique International Pty Ltd under the Group umbrella.
- 2014** Announces new medium-term management plan and launches second stage of Long-Term Vision 2020.

POLA

ORBIS



POLA ORBIS
HOLDINGS

h2o+

Jurlique

Overview of Our Business

The POLA ORBIS Group pursues businesses related to beauty and health, centering on cosmetics, a segment that dates back to 1929 and the establishment of POLA INC. Today, the Group meets the needs of a diverse customer base through flagship brands POLA and ORBIS, overseas brands H2O PLUS and Jurlique—acquired in 2011 and 2012, respectively—and brands under development. The Group counts nine brands in its corporate cosmetics bag, each with its own concept, sales channels, and price range.



Flagship Brands

POLA



Concept | High-prestige brand built on leading-edge technology in the fields of anti-aging and skin-whitening

Distinctive Product Series | B.A., APEX, and WHITE SHOT

Sales Channels | POLA THE BEAUTY, Esthe Inn, conventional door-to-door sales, and department stores

ORBIS



Concept | Original-concept 100% OIL-FREE skincare

Distinctive Product Series | AQUA FORCE, ORBIS=U, and CLEAR

Sales Channels | Mail-order (catalog and Internet) as well as directly operated retail stores

Overseas Brands

Jurlique



Concept | An organic skincare brand featuring ingredients made from herbs grown on the company's own farm in Australia

Distinctive Product Series | Purely Age-Defying and Herbal Recovery

Sales Channels | Sold at department stores and shopping malls in 19 countries and regions, including China, Hong Kong, and Australia

h2o+



Concept | A skincare brand featuring natural, sea-derived ingredients, such as seaweed

Distinctive Product Series | Oasis™ and Total Source, developed with POLA CHEMICAL INDUSTRIES

Sales Channels | Sold at shopping malls and specialty cosmetics stores primarily through agents in 23 countries and regions, including the United States, China, and Hong Kong

Brands under Development

T H R E E



Concept | A skincare and makeup brand featuring naturally derived ingredients extracted from plants grown in Japan

Distinctive Product Series | Balancing, Conditioning, and Concentrate

Sales Channels | Directly operated stores and department stores

ORLANE PARIS

Concept | Well-established high-prestige brand of skincare cosmetics from France with anti-aging properties

Distinctive Product Series | Royale, Absolute Skin Recovery, and Extreme Line-Reducing

Sales Channels | Department stores and specialty cosmetics stores

FUTURE LABO

Concept | Cosmetics brand with unique features

Distinctive Product Series | Derma QII and White Diamante

Sales Channels | TV shopping channels

decencia

Concept | Skincare products for dry, sensitive skin

Distinctive Product Series | ayanasu, saeru, and tsutsumu

Sales Channels | Mail-order (catalog and Internet)

pdc

Concept | Affordably priced cosmetics with a skincare focus

Distinctive Product Series | Pure Natural, 1 de, and Naturina

Sales Channels | Drugstores, supermarkets, and general retail outlets

Our Expertise

The capacity to make and market products in-house has enabled POLA ORBIS Group companies to expedite responses to evolving market and customer needs and facilitate swift innovations matched to the changing times.

The spirit of innovation infuses the Group like DNA—a quality that runs through its generations, beginning with POLA's establishment back in 1929.

Strength 1

Skincare

Because women tend to see skincare products as a necessity, demand is stable and characterized by a high ratio of repeat purchases and sustained profitability.

The POLA ORBIS Group has access to a database of nearly 14 million data entries of Japanese women's skin attributes. This data is applied, along with leading-edge technological capabilities, to expedite skincare research. We place a particular emphasis on R&D in the fields of anti-aging and skin-whitening, where demand is likely to expand still further. The concentration of corporate resources into these areas of R&D investment fuels the development of competitive products matched to customer needs.



Strength 2

Direct Selling

Flagship brands POLA and ORBIS are sold directly to customers, allowing them to establish a higher profile along self-established routes matched to their respective brand concept and product. POLA leverages its nationwide network of about 150,000 POLA LADIES to deepen communication with customers through face-to-face meetings and consulting opportunities. Meanwhile, ORBIS, which focuses on mail-order sales, has put greater effort into online sales in recent years. In 2013, ORBIS totally revamped its platform system and is working toward one-to-one communication over the Internet.

Through these direct-selling channels, each brand builds strong relationships with customers, which encourages repeat purchasing and keeps the rate of repeat customers high. In addition, the collection of various data, such as the condition of skin, customer pastimes and preferences, and purchasing history, provides useful information for R&D and product planning by both POLA and ORBIS.

Strength 3

Multi-Brand Strategy

Today, the value perceptions and lifestyles of our customers are becoming increasingly diverse, paralleling changes in the social landscape. Given this environment, a single-brand approach for many customers would damage the cohesiveness of the image, which would dilute the brand concept. To avoid this, the Group maintains a collection of nine cosmetics brands, each with its own concept, sales channels, and price range.

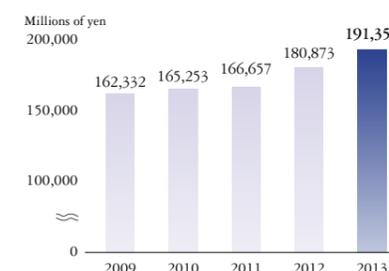
By promoting multiple brands with distinctly clear brand images in market sectors perfectly suited for each brand, we are better able to address the needs of more customers and capture a larger share of the cosmetics market.



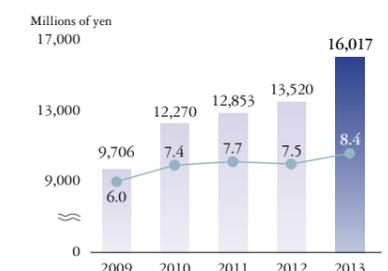
Financial Highlights

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

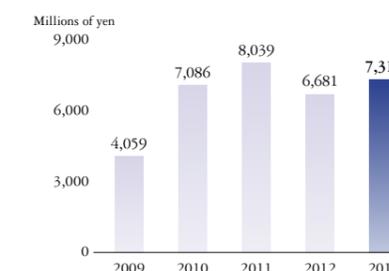
Net Sales



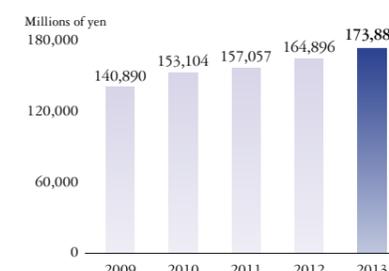
Operating Income and Operating Margin



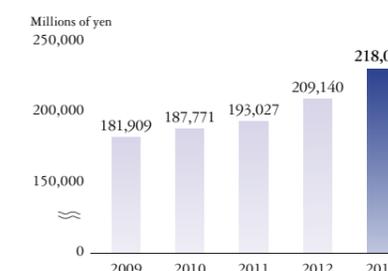
Net Income



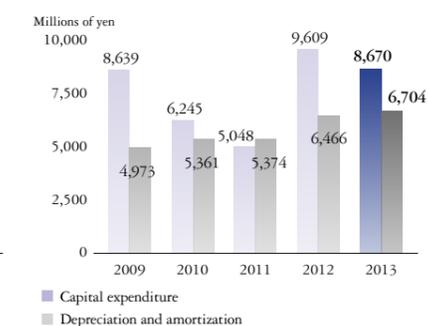
Net Assets



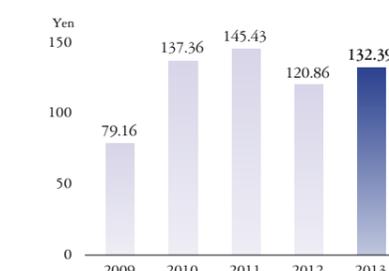
Total Assets



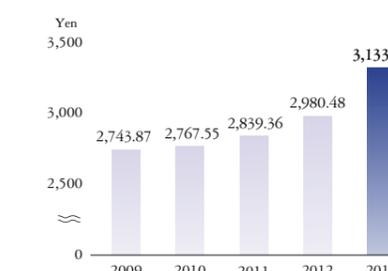
Capital Expenditure and Depreciation and Amortization



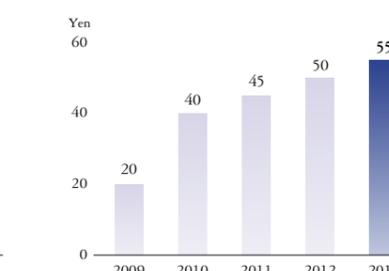
Net Income per Share



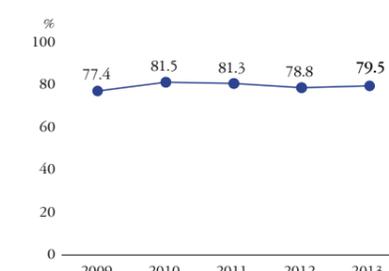
Net Assets per Share



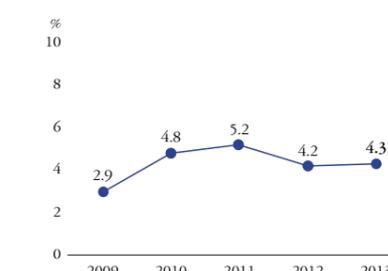
Cash Dividends per Share



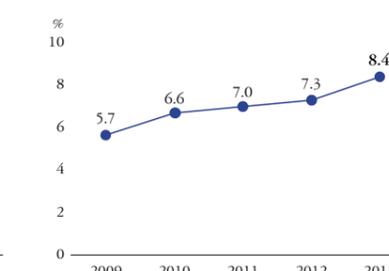
Equity Ratio



Return on Equity



Return on Assets



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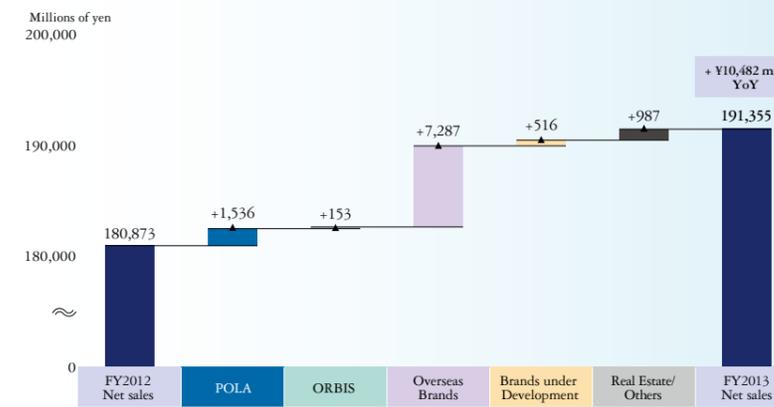
Forward-looking statements
 Forecasts and other forward-looking statements in this report are predictions related to future results or events, except where the information is historical fact, and are based on assumptions made by the Company using information available at the time. The risks and uncertainties inherent in such assumptions may cause actual results to differ from stated expectations.
 Information related to the closing of accounts has been prepared on the basis of data available as of February 13, 2014.

Five-Year Summary of Selected Financial Data

Years ended December 31	Millions of yen (Except per share data)					Thousands of U.S. dollars*1 (Except per share data)
	2009	2010	2011	2012	2013	2013
Operating Results						
Net sales*2	¥162,332	¥165,253	¥166,657	¥180,873	¥191,355	\$1,815,692
Beauty Care	150,330	153,091	154,778	168,811	178,306	1,691,876
POLA	96,363	96,543	97,353	99,204	100,740	955,884
ORBIS	47,663	49,356	47,918	48,009	48,163	456,999
Overseas Brands	—	—	1,851	13,011	20,298	192,608
Brands under Development	6,304	7,192	7,654	8,587	9,104	86,386
Real Estate	3,216	3,102	3,089	2,841	3,035	28,804
Others	8,787	9,059	8,790	9,220	10,013	95,013
Operating income	9,706	12,270	12,853	13,520	16,017	151,987
Beauty Care	7,910	10,165	10,787	11,812	14,780	140,247
POLA	4,702	5,592	6,168	7,031	7,951	75,445
ORBIS	5,364	6,169	6,526	7,881	8,807	83,566
Overseas Brands	—	—	(81)	(1,897)	(895)	(8,497)
Brands under Development	(2,156)	(1,596)	(1,826)	(1,202)	(1,082)	(10,267)
Real Estate	1,598	1,304	1,283	1,139	1,258	11,943
Others	(696)	223	501	335	410	3,894
Operating margin (%)	6.0	7.4	7.7	7.5	8.4	
Net income	4,059	7,086	8,039	6,681	7,318	69,446
Financial Position						
Net assets	140,890	153,104	157,057	164,896	173,887	1,649,939
Total assets	181,909	187,771	193,027	209,140	218,005	2,068,555
Cash Flows						
Cash flows from operating activities	12,530	17,906	14,401	17,592	13,500	128,101
Cash flows from investing activities	(4,374)	(40,367)	(3,444)	(39,625)	(2,452)	(23,268)
Cash flows from financing activities	(1,125)	(2,789)	(4,093)	(3,280)	(2,815)	(26,713)
Cash and cash equivalents at end of year	68,817	43,507	50,246	25,106	34,137	323,918
Depreciation and amortization	4,973	5,361	5,374	6,466	6,704	63,621
Capital expenditure	8,639	6,245	5,048	9,609	8,670	82,268
Financial Indicators						
Equity ratio (%)	77.4	81.5	81.3	78.8	79.5	
Return on equity (%)	2.9	4.8	5.2	4.2	4.3	
Return on assets (%)	5.7	6.6	7.0	7.3	8.4	
Price-earnings ratio (times)*3	—	12.3	14.3	20.5	28.4	
Per Share Data						
Net income per share (¥/\$)	79.16	137.36	145.43	120.86	132.39	1.26
Net assets per share (¥/\$)	2,743.87	2,767.55	2,839.36	2,980.48	3,133.82	29.74
Cash dividends per share (¥/\$)	20	40	45	50	55	0.52

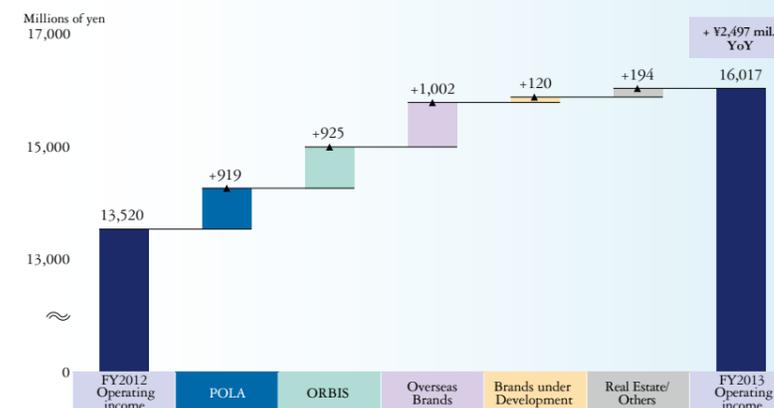
*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.\$1=¥105.39 as of December 31, 2013.
 *2 Net sales do not include consumption taxes.
 *3 The price-earnings ratio is not shown for fiscal 2009 as the stock was not listed.

Factors Impacting Net Sales



Key Points: Net Sales
 Net sales reached ¥191,355 million, up 5.8% year on year, reflecting a full-year contribution from Jurlique, which was acquired in February 2012, and also reflecting growth by H2O PLUS, especially in China, as well as the impact of yen depreciation.

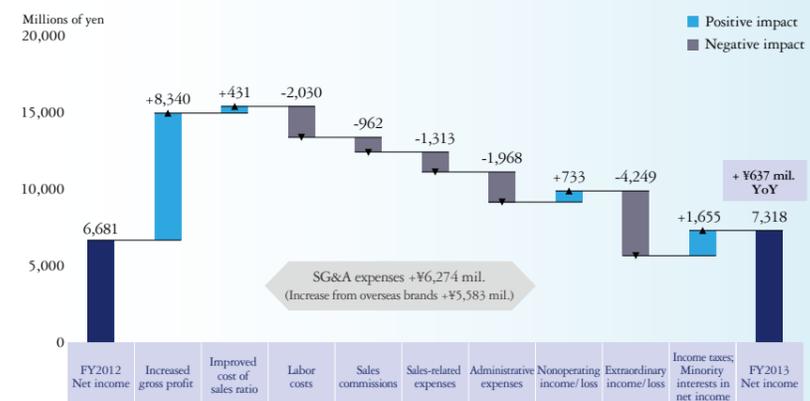
Factors Impacting Operating Income



Key Points: Operating Income
 With the absence of one-time expenses that accompanied the acquisition of Jurlique in 2012 and cost reductions achieved at POLA and ORBIS, the cost of sales ratio edged down 0.23 percentage point year on year, to 20.2%. A lighter shade of red in the losses booked by overseas brands led to an 18.5% year-on-year improvement in operating income, to ¥16,017 million.

Note: The year-on-year change of ¥(664) million in reconciliations is not shown.

Factors Impacting Net Income



Key Points: Net Income
 The Company booked an extraordinary loss of ¥5,455 million, caused by realignment of the domestic production structure, as announced in February 2013; POLA's withdrawal from U.S. operations, as announced in April 2013; and an impairment loss on intangible assets (goodwill and right of trademark) for H2O PLUS. A decline in tax-related expenses, however, led to a 9.5% increase in net income over the previous fiscal year, to ¥7,318 million.

An Interview with the President

Fiscal 2013, ended December 31, 2013, marked the fourth straight year of higher sales and operating income for the POLA ORBIS Group. In 2014, we will strive for further improvement in corporate value, underpinned by a new medium-term management plan.



Satoshi Suzuki

鈴木郷史

President

Q

How was 2013 for the POLA ORBIS Group?

A

In Japan, we thoroughly improved our earnings structure. And overseas, we expanded our market presence, particularly in China and other parts of Asia, which pushed the overseas sales ratio above 10%. Such successes put us well on our way to achieving the targets of our long-term vision.

In fiscal 2013, we were able to achieve our sales and operating income targets. Some issues from the previous medium-term management plan remain unresolved due to the difficult operating environment. Nevertheless, we were still able to pave the way for further progress toward realization of our long-term vision.

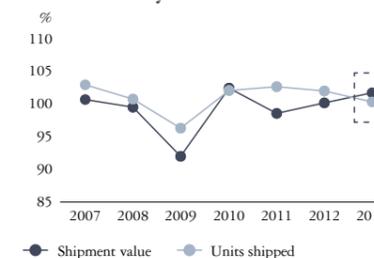
Domestic Operations In the cosmetics industry, the year was marked by a steady stream of striking developments. Most notably, the cosmetics market showed signs of regaining ground, which paralleled recovery in the domestic economy, while spending per customer, which had been sluggish ever since the financial crisis of 2008, finally turned upward.⁽¹⁾ In addition, we positioned 2013 as a year to get back to the basics with a fresh perspective on the responsibilities incumbent upon us as a manufacturer of consumer goods. We reaffirmed our mission to provide products that are safe, of course, and also to lend a ready ear to customer feedback and create products from a customer perspective.

Our medium-term management plan concluded in 2013. Under this plan, we marked a noticeable improvement in our earnings structure, especially with regard to our flagship brands—success that was reflected in our business results for the year. In further assessing our operations, we made a key decision to restructure our domestic production system, and we embarked on measures to concentrate management resources into the Group’s area of distinction—skincare—to improve product supply capabilities and to make operations significantly more efficient.

Overseas Operations H2O PLUS and Jurlique came under the Group umbrella in July 2011 and February 2012, respectively, and have contributed to a higher overseas sales ratio. As of 2013, this ratio hovered around 12%, as compared with a level of about 3% in 2011.⁽²⁾ The acquisitions have also allowed us to take huge strides forward to achieving our long-term vision of becoming a “highly profitable global company.” Both companies have pursued investments for future growth, with an emphasis on developing higher profiles for their brands in Asia, and solid progress has steadily expanded the scale of revenues. At the same time, leveraging the overseas development know-how of these brands paved the way for other Group brands to enter new markets—namely, ORBIS, in Singapore, and THREE, in Thailand.

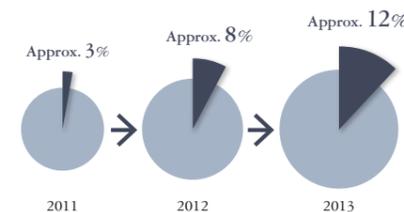
Despite steady progress, overseas operations did not reach the stated profit target. One reason tracks back to H2O PLUS. The company has pursued aggressive expansion since joining the Group, highlighted by rebranding efforts, a change in agent in China, and the establishment of a joint venture. In spite of these measures, internal issues, notably, stalled shipments to our new

(1) Annual Changes in Shipments of Cosmetics by Unit Count and Value



Source: Current Survey of Production, Ministry of Economy, Trade and Industry

(2) Overseas Sales Ratio





Top Management Development Program

agent and increased costs associated with rebranding, have been compounded by external developments, namely, higher marketing costs due to increasingly fierce competition in China's cosmetics market. Consequently, H2O PLUS's profits fell below initial post-acquisition expectations, and an impairment loss on goodwill and trademark rights was booked. It is indeed regrettable that we have been unable to meet the expectations of shareholders and investors with regard to H2O PLUS. Overseas brands' contribution to Group profitability is a key priority in the new medium-term management plan launched in 2014, and we will immediately be accelerating efforts to address the situation.



Future Study Program

Q It has been three years since the December 2010 stock listing. What has changed because of the listing, and what events have been particularly memorable for you over the past three years?

A The listing has increased contact with stakeholders and improved awareness, not only at the management level but also among employees.

The listing fueled a dramatic increase in stakeholders from a Groupwide perspective, encompassing customers, institutional investors, and individual shareholders at home and abroad. To enable any and all stakeholders to understand the activities of the POLA ORBIS Group, we decided to publish an integrated annual report that includes all of our CSR activities, beginning in 2014, which is the first year of the new medium-term management plan. This annual report naturally offers detailed financial information, such as performance data and business plans, but also provides important non-financial content that cannot be conveyed by numbers alone. This would include information about the kind of employees who work here and the corporate culture and ideas that shape our activities.

We had a stock listing in mind when we transitioned to a holding company structure in 2006. One of the main reasons for our listing was to improve job quality among management as well as employees. Speaking from a personal perspective, as I came into direct contact with shareholders and investors, I gained a stronger sense of responsibility as a corporate executive; and I was more motivated to set targets with greater accuracy and to reach those targets. Elsewhere, at the monthly Group Strategy Meeting, where management from Group companies get together, the exchange of opinions often becomes rather focused and animated, and I sense that job quality throughout the organization has improved tremendously, compared with before our listing.

The acquisition of overseas brands H2O PLUS and Jurlique added an element of diversity to human resources, with backgrounds and fields of expertise that had not been present before. These mutually enriching differences have generated synergies that extend Groupwide capabilities vertically and horizontally.

So, looking back over the last three years, our listing has certainly had an impact, and I really feel that it was the starting point for big strides forward to our long-term destination—becoming a “highly profitable global company.”

Q What are the key strategies of the new medium-term management plan that begins this year?

A We seek to be a truly global company, and toward this end we will emphasize three key issues: profitable growth in overseas operations, higher capital efficiency, and enhanced shareholder return.

The three years of the new medium-term management plan, which starts from 2014, is the second stage of our long-term journey toward our 2020 destination. We will direct concerted efforts into further strengthening the domestic earnings structure and accelerating overseas expansion.

Profitable growth is a critically important issue to the Group as a whole but particularly so as it pertains to our overseas brands Jurlique and H2O PLUS. To date, the emphasis has been on improving brand recognition and boosting sales, primarily through aggressive store openings. Going forward, though, the focus will be on balancing investments for future growth and profitability while ensuring that these brands deliver a solid contribution to Group profits.

Improving capital efficiency and shareholder return are key issues for the entire POLA ORBIS Group. In the new medium-term management plan, we aim to raise corporate value, substantiated by quantitative targets of return on equity above 8% and a payout ratio exceeding 50%, which will underpin our development into a “highly profitable global company.”

Q What is the outlook for 2014?

A We aim to achieve a fifth consecutive year of higher sales and operating income by raising the profitability and operating efficiency of each brand.

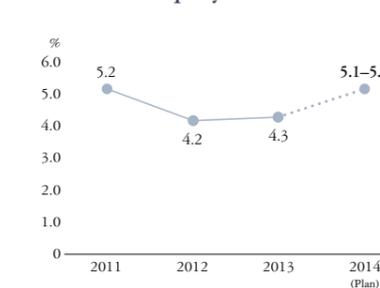
The performance forecast for fiscal 2014 points toward a fifth consecutive year of higher sales and operating income, with consolidated net sales of ¥198,000 million, up 3.5% year on year, and operating income of ¥17,650 million, up 10.2%. Under the new guidelines for shareholder return, we envision an annual dividend of ¥87 per share, up ¥32 from the previous year.

In Japan, the consumption tax rose on April 1, 2014. We believe, however, our business results will not be impacted too much by this increase, because skincare products are indispensable to the daily routine of our customers and also because we have built very strong relationships with customers through direct selling, a cornerstone of our sales operations.

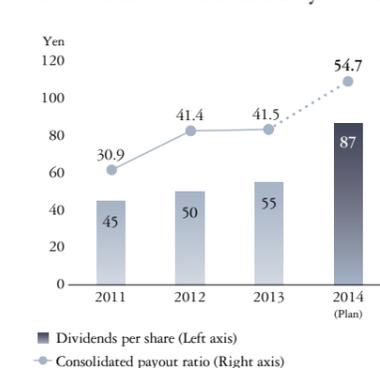
By brand, POLA is planning a July relaunch of APEX, a semi-customized series tailored to each customer according to personal skin analysis. We aim to model this series after B.A in terms of developing it into a key pillar of our business. The renewal effort is intended to increase profitability by elevating customer satisfaction and highlighting the features that make POLA different from the competition.

Meanwhile, in February ORBIS launched ORBIS=U, a new skincare series

Return on Equity



Annual Dividend and Payout Ratio



POLA APEX series



ORBIS ORBIS=U series



Jurlique Nutri-Define series

that symbolizes progress in brand-rebuilding efforts. The next step will be to invigorate sales.

In overseas operations, our brands must deal with increasingly fierce competition in China, a key market. Jurlique, for example, will introduce appealing new products showcasing the R&D capabilities of the POLA ORBIS Group and apply a new customer management tool designed to raise the number of repeat customers, while H2O PLUS will promote sales at stores handling its products and provide programs to strengthen its marketing capabilities. Both brands will strive to enhance efficiency per store.

Q As an executive, what is important to you, and what is your business ideal?

A If each and every employee can fully demonstrate inherent capabilities, we, as an organization, can constantly reinvent ourselves and build corporate value higher as we evolve as a business. This is what I strive for.

I believe that a company must, while seeking to realize its vision, place an emphasis on promoting strategies to resolve issues and an equal if not greater emphasis on quickly identifying those very issues that require attention.

To pinpoint these issues, we—not just me but each and every employee under the Group umbrella—must look inward and reflect on what we think and do from a consumer perspective, all the time. This introspection is indispensable for success. Through the constant application of new approaches and a concerted effort to embrace challenges and deal with whatever issues arise, we will keep our brands fresh and exciting as well as appealing to all our customers, existing and potential.

When evaluating employees, I am curious about the character of the individual more so than his or her results. Why? Because I believe that one who adheres to an objective as set by oneself, as a person, not as an employee, will be able to take the company forward in a more positive direction when faced with a problem.

Within the Group, we run in-house programs such as the Future Study Program for young employees and the Top Management Development Program for selected employees in their 30s and 40s. Since POLA ORBIS HOLDINGS listed, I go on more business trips abroad. These and other corporate activities keep me very busy. Still I always make time to attend these training programs, at least three days every month, because these are opportunities to discover potential candidates for management positions and to cultivate requisite skills. The ideal company, in my view, would be one where employees can show their individuality and fully demonstrate the capabilities they have honed so that the organization constantly evolves and, through this progression, sustains brands that enjoy enduring customer loyalty.

Going forward, we will all work together, as a single unit, striving to achieve our long-term vision.

The continued support and encouragement of stakeholders will, as always, be integral to our success.

New Medium-Term Management Plan



We will strive to boost corporate value even higher, based on our philosophy “Inspire all people and touch their hearts” and our long-term vision of becoming a “highly profitable global company.”

Looking Back on the Previous Medium-Term Management Plan

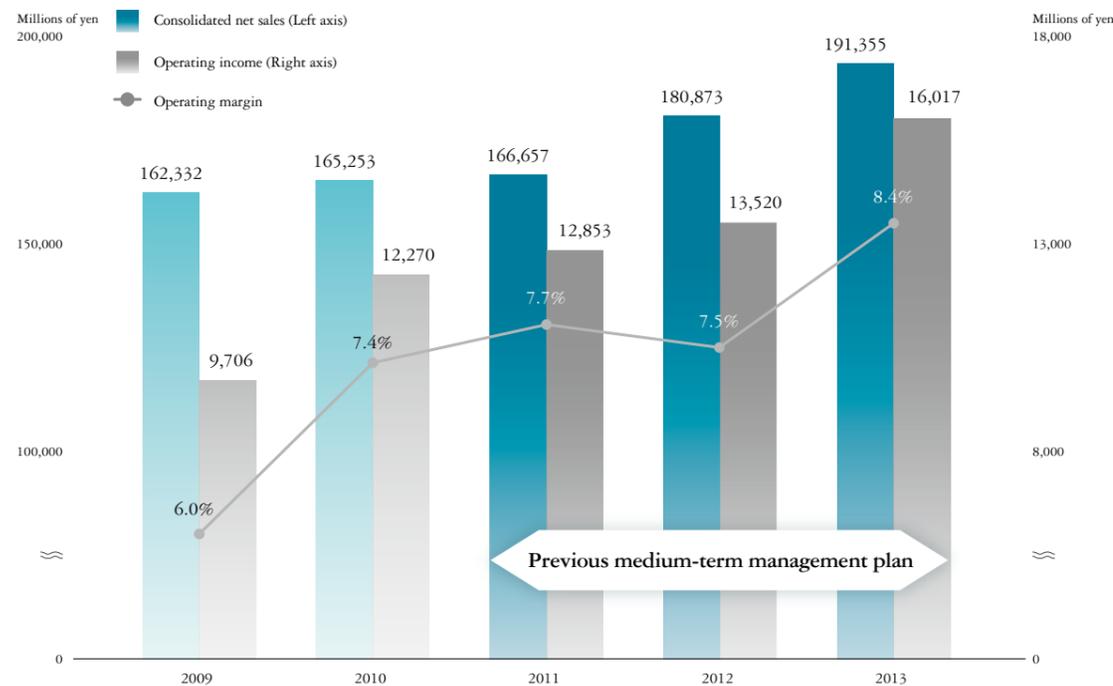
		Goal	Result	Evaluation
Management indicators	Consolidated net sales	CAGR* 2%-3%	CAGR 5.0%	Exceeded
	Operating income	CAGR 10%	CAGR 9.3%	Fell short
	Operating margin	9% (10% for domestic business)	8.4% (11.4% for domestic business)	Fell short

* Compound annual growth rate

		Strategy	Evaluation
Growth strategies	Strategy 1	Generate stable profits with flagship brands	Exceeded
	Strategy 2	Accelerate growth of the portfolio of brands under development	Fell short
	Strategy 3	Develop the Group's presence overseas by leveraging its strengths	Failed
	Strategy 4	Reinforce R&D capabilities	Achieved
	Strategy 5	Reinforce the operating base	Achieved

The domestic profit structure was significantly improved, owing mainly to contributions from POLA and ORBIS. Through M&As, the overseas sales ratio increased substantially, exceeding 10%. Some issues still need to be resolved, but the Group made every effort to succeed amid a challenging operating environment.

Net Sales and Operating Income Trend over Five Years



Strategy 1 Generate stable profits with flagship brands

Operating margin	2010	2013
POLA	5.8%	7.9%
ORBIS	12.5%	18.3%

At POLA, operating income outpaced net sales in terms of growth, fueled by an improvement in the cost of sales ratio and concentration on highly profitable skincare products. At ORBIS, the brand-restructuring process was accelerated, which helped lower the cost of sales ratio and boost spending per customer. These performances underpinned a major increase in operating income.

Strategy 2 Accelerate growth of the portfolio of brands under development

Net sales	2010	2013
Brands under development	¥7,192 million	¥9,104 million

Brands under development, of which THREE is a key brand, saw net sales jump around 27%. On the profit front, the fixed cost ratio declined, as the scope of net sales expanded and losses were minimized to a degree.

Strategy 3 Develop the Group's presence overseas by leveraging its strengths

Overseas sales ratio	2010	2013
	Approx. 3%	12.2%

Bringing the two overseas brands under the Group umbrella contributed to higher net sales and also provided intangible resources, such as know-how to facilitate flexible overseas development through local agents, which had not been available to Group companies before. With regard to overseas development of our flagship brands, we were unable to create a business model according to plan. However, we were able to clarify certain issues that will be resolved under the new medium-term management plan.

Strategy 4 Reinforce R&D capabilities



Winning Poster Award at 27th IFSCC Congress

We have concentrated world-caliber R&D capabilities into the fields of anti-aging and skin-whitening and debuted products matched to customer needs. At the 27th IFSCC* Congress held in 2012, our achievements were recognized with the first IFSCC award granted for the skin-whitening field.

*International Federation of Societies of Cosmetic Chemists

Strategy 5 Reinforce the operating base



Joint Top Management Development Program held with Kagome Co., Ltd., in 2013

We executed M&As to realize our vision of becoming a "highly profitable global company" while seeking to selectively focus resources on our core business through such steps as the sale of our commercial printing business and the liquidation of poorly performing subsidiaries. We also actively implemented steps to cultivate the skills of personnel and hire additional personnel because human resources with far-reaching expertise are an indispensable component of a truly global company.

Management Message

If I were to give out grades for progress under the medium-term management plan that ran from 2011 through 2013, I would give domestic operations "90%" and overseas operations "50%." In the three years since POLA ORBIS HOLDINGS listed its stock, I have had many more opportunities than before the listing to talk with a wider range of people outside the Company. This contact has given me a greater sense of awareness about performance targets and the importance of reaching stated targets. I feel my responsibility as a corporate executive more profoundly.

In the second stage of our transformation, we will strive to raise corporate value even higher and we will work to achieve our new targets.

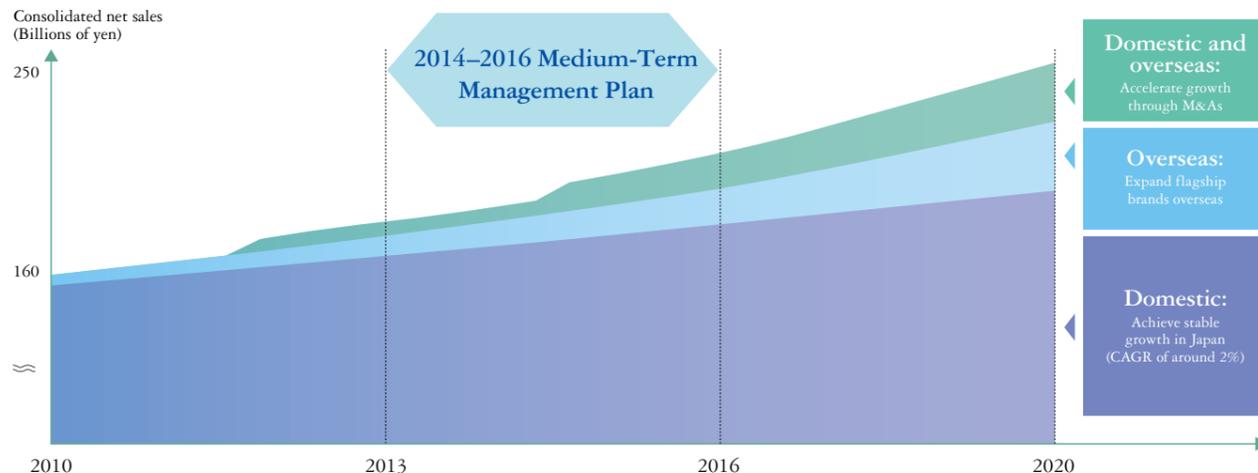


Overview of the New Medium-Term Management Plan

In 2011, we announced a long-term vision for the POLA ORBIS Group that runs until 2020 and will fuel further growth and improve corporate value.

Seeking to become a “highly profitable global company” in the beauty and health domain, we continue to draw on three Group strengths—skincare, direct selling, and multi-brand strategy—and aim to accelerate overseas development, with an emphasis on overseas brands, while ensuring stable growth of flagship brands in Japan to achieve our goals.

Long-Term Vision—Goals for 2020



- Domestic and overseas: Accelerate growth through M&As
- Overseas: Expand flagship brands overseas
- Domestic: Achieve stable growth in Japan (CAGR of around 2%)

1st STAGE
Generate stable domestic profits and create a successful business model overseas

2nd STAGE
Further strengthen domestic earnings structure and accelerate overseas expansion

3rd STAGE
Become a “highly profitable global company”

FY2013 Results

- Net sales
¥191.3 billion
- Overseas sales ratio
12.2%
- Operating margin
8.4%

Goals for FY2016

- Net sales
¥210.0 billion
- Overseas sales ratio
15% or higher
- Operating margin
11% or higher

Goals for FY2020

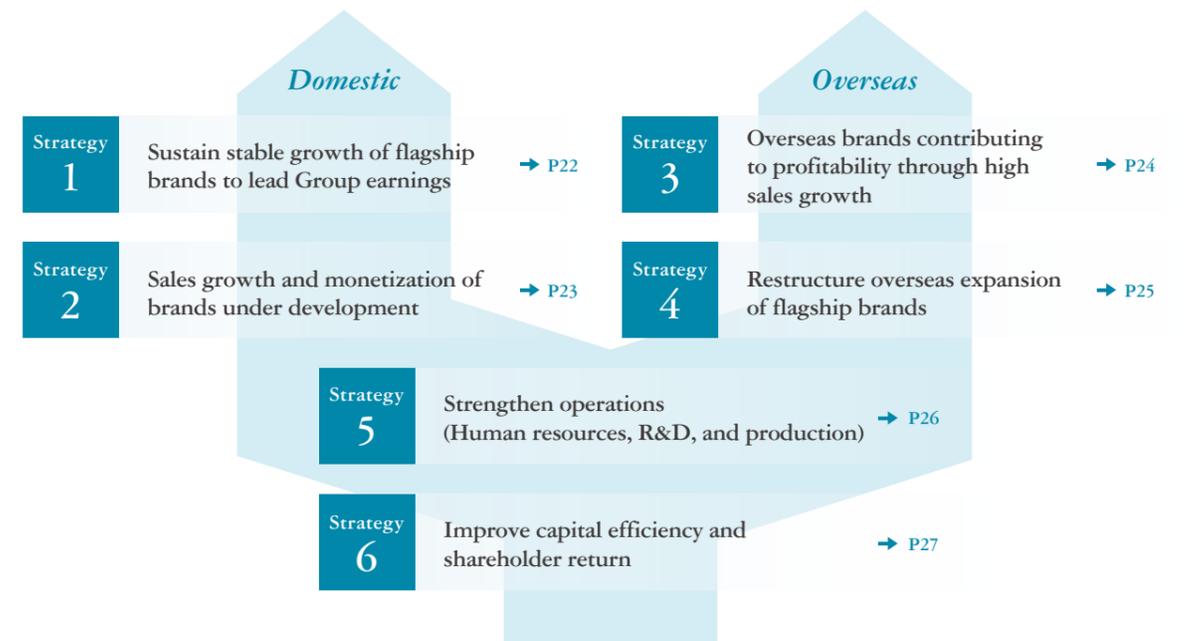
- Net sales
¥250.0 billion or higher
- Overseas sales ratio
20% or higher
- Operating margin
13%–15%

2014–2016 Medium-Term Management Plan

Second Stage of the Long-Term Vision for 2020

Aim to enhance corporate value by further strengthening domestic earnings structure, accelerating overseas expansion, and improving capital efficiency

Consolidated net sales		Capital efficiency	
Consolidated net sales	▶ CAGR 3%–4% (¥210.0 billion in FY2016)	Target for ROE	▶ 8% or higher in FY2016
Overseas sales ratio	▶ 15% or higher in FY2016		
Operating income		Shareholder return	
Operating income	▶ CAGR 15% or higher	Consolidated payout ratio	▶ 50% or higher from FY2014
Operating margin	▶ 11% or higher in FY2016		



Management Message



The second stage of our journey to 2020 began in 2014. Priorities during this new phase are to reinforce the profitability of overseas brands and brands under development. For overseas brands, we aim to expand our presence by striking a good balance between investments and earnings, and for brands under development, we seek to lower the fixed cost ratio as the scope of net sales expands. Efforts will also be directed toward improving capital efficiency and shareholder return. Achieving these goals will not be an easy process by any means, but I firmly believe that the POLA ORBIS Group has the potential to develop its business activities much further. We have painted a big, bright future, but first, we will concentrate on reaching the second-stage goals laid out in the new medium-term management plan.

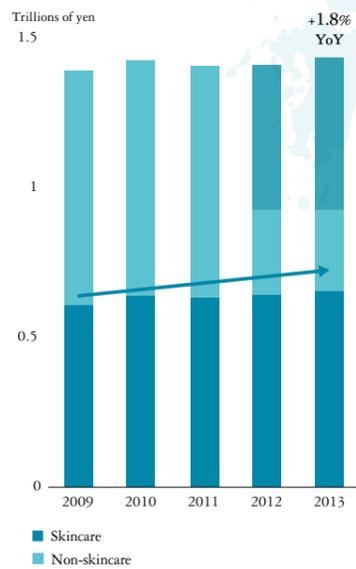
Trends in the Cosmetics Market

Domestic

- The market showed growth of 1.8% in 2013, on a shipment basis, and going forward expectations for growth are more or less in line with this level.
- By product, skincare will remain in high demand, and performance cosmetics, namely anti-aging and skin-whitening products, are likely to comprise an increasing ratio of overall skincare products.
- By price range, items costing ¥10,000 and up account for an increasing proportion of sales every year, and this trend should continue.

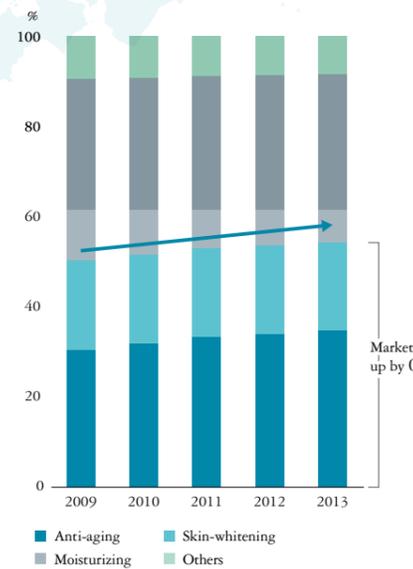
We can expect results exceeding the market growth rate in our areas of expertise—skincare, performance cosmetics, and high-priced prestige products.

Domestic Cosmetics Shipments



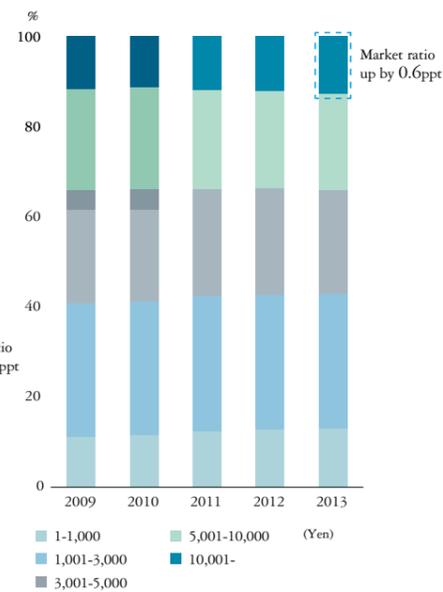
Source: Current Survey of Production, Ministry of Economy, Trade and Industry

Skincare Market by Product Function



Source: Fuji Keizai Group, "Marketing Handbook of Cosmetics 2013"

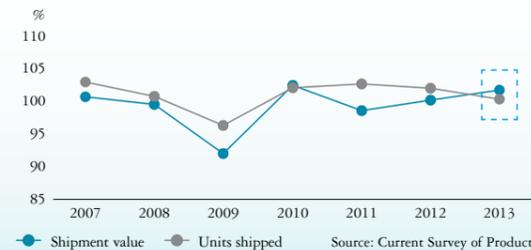
Skincare Market by Price Range



Source: SLI (female consumer panel research), a service by INTAGE Inc. to track market for women's products throughout Japan

Topics

Annual Changes in Shipments of Cosmetics by Unit Count and Value



Source: Current Survey of Production, Ministry of Economy, Trade and Industry

- In 2013, a recovery tone characterized the cosmetics market, paralleling a sense of improved business conditions overall.
- From the beginning of the year, the increase in value of shipments outpaced the increase in units shipped, and the trend toward low prices that had continued since the financial crisis of 2008 finally ended.

Overseas

- Economic growth in China is slowing, but the potential for growth in the cosmetics market remains high. Signs of change have appeared in the market, including a shift in sales from department stores in major cities toward regional cities and the rapid growth of online sales. A flexible approach to these developments is essential to success.
- ASEAN countries are also showing noticeable market growth, but respective market scale is small. Therefore, the use of agents is still an indispensable approach to facilitate efficient business expansion.

China, ASEAN countries, and Russia, where respective skincare markets still present growth potential, remain key regions for business development. Further expansion of overseas operations is possible but requires appropriate selection of sales channels matched to respective market characteristics.

Region	CAGR* 2011–2016	Market Environment
China	+9%–11%	<ul style="list-style-type: none"> ● Although economic growth is slowing, the cosmetics market is expected to show higher growth than in other regions. ● Department stores in major cities are struggling as demand moves to regional cities. ● Recently, online sales channels have been showing rapid growth. ● Competition is intensifying as domestic and foreign players enter the market. ● Expenses such as labor costs and rent are on a rising trend.
ASEAN	+5%–8%	<ul style="list-style-type: none"> ● Like Japan and China, ASEAN has great interest in skincare, and market growth is expected in line with economic growth. ● As market size per country is small, efficient business development is essential.
Russia	+3%–5%	<ul style="list-style-type: none"> ● Among the regions outside Asia, Russia has the highest interest in skincare, and the market is expected to grow. ● Established channel of perfumeries (specialty stores).
North America	+1%–2%	<ul style="list-style-type: none"> ● Although the economy is starting to show signs of growth, the market is already mature. ● Low interest in skincare, and significant market growth is not expected in the future.
Europe	-1%–+1%	<ul style="list-style-type: none"> ● Since the market is mature, significant growth is not expected in the future. In some countries, markets may contract as the economy worsens.

* CAGR 2011–2016 are Company estimates.

Domestic Strategies

Strategy 1 Sustain stable growth of flagship brands to lead Group earnings

Strengthen business base to lead to long-term, stable growth

POLA

Growth Strategies

	Activities
Products	<ul style="list-style-type: none"> Constantly debut products in the fields of anti-aging and skin-whitening, where demand is likely to expand still further Accelerate production outsourcing for items other than core skincare and foundation makeup, and trim the cost of sales ratio
Sales Channels	<ul style="list-style-type: none"> Maintain pace of 20–30 store openings a year for POLA THE BEAUTY stores, which integrate cosmetics, consulting, and facial esthetic treatments—the drivers of POLA's sales growth Rethink direct-selling channel from a medium- to long-term perspective matched to customer needs and changing social trends
Communication with Customers	<ul style="list-style-type: none"> Utilize service strengths, such as facial esthetic treatments, consulting opportunities, and skin analysis, as valuable points of contact to connect better with customers, and strive to differentiate POLA from the competition



APEX series

Return to growth track through successful brand-restructuring

ORBIS

Growth Strategies

	Activities
Products	<ul style="list-style-type: none"> Launch <i>ORBIS=U</i> as the symbol of a revitalized brand and thereby generate renewed interest in the OIL-FREE concept to strengthen brand image <ul style="list-style-type: none"> Reach out to a new customer segment by promoting <i>ORBIS=U</i> as a high-value-added product completely different from anything offered previously in terms of content as well as appearance Encourage more existing customers to become loyal users of ORBIS products and raise spending per customer Concentrate on skincare products, which are the focus of many customers who make repeat purchases, and strive to boost the repeat rate while capturing the eye of new customers
Sales Channels	<ul style="list-style-type: none"> Increase online sales ratio to achieve greater cost efficiency
Communication with Customers	<ul style="list-style-type: none"> Upgrade online system to respond more quickly to customer comments and to apply a more personalized approach to customer requests Make the most of the platform system revamped in 2013 as well as accumulated customer data to make advertising, promotional campaigns, and sales activities more efficient



ORBIS=U series

Strategy 2 Sales growth and monetization of brands under development

Target compound annual growth rate (CAGR) of 10% and turn a profit by 2016 for brands under development

- Underpinned by the multi-brand strategy, promote several brands under different concepts, each in a different price tier and sold through different channels, to accommodate diversifying customer needs
- Because target customer segments differ by brand, strive to expand share in respective market sectors rather than ignite a battle for market share among brands in the cosmetics market in general

THREE

- Open around 3 department store counters a year and boost brand recognition while reinforcing the consulting skills of sales representatives to secure stable growth at existing locations
- Lower cost of sales ratio by expanding the scale of sales, and cement a solid improvement in profitability

pdC

- Expand sales of premium mass-marketed products with higher value-added qualities than typical mass-marketed products
- Utilize social networking sites to build more points of contact with customers and encourage existing customers to become repeat purchasers



Balancing series



Pure Natural series

Key Person

Realize long-term growth driven by strengthened relationships with customers



Miki Takenaga
Director of POLA INC.

In July 2014, POLA will relaunch the *APEX* series, a semi-customized skincare and foundation makeup line tailored to each customer according to personal skin analysis. In-depth consulting and cellular analysis utilizing POLA's own methods provide the basis for skincare options tailored to the true characteristics of each customer's skin—that is, beyond what is visible when a woman looks in the mirror. The relaunched series will facilitate analysis of all skin layers, and at some stores, tablet devices will be used to present information. Improved analysis methods and products will reinforce the consulting capabilities of POLA LADIES and foster stronger customer relationships. Backed by all these enhancements, POLA will continue to be the brand that best understands the skin of Japanese women and will maintain consistent growth in the industry.

Key Person

Take a brand that embodies the Japanese ideal of beauty to the next level



Yasushi Isbibashi
President of ACRO INC.

Since its debut, THREE has gradually developed as a brand with worldwide marketing potential. In creating products, we emphasize not only effectiveness but also fragrance and design as well as other aspects that please the five senses. This year, 2014, marks our fifth anniversary, and we are steadily evolving into an appealing brand with a concept that customers intuitively understand. Under the POLA ORBIS Group's new medium-term management plan, we at THREE will direct concerted efforts into raising the service level of our sales representatives, actively introduce products that attract the interest of a wider range of customers, and build a larger following of loyal THREE fans. By establishing a solid customer base as we embrace new challenges, I am confident that THREE will become the Group's next core brand, following POLA and ORBIS.

Overseas Strategies

Strategy 3 Overseas brands contributing to profitability through high sales growth

Realize profitable expansion centered in Asia

Jurlique

h2o+

Forecast (Millions of AUD)		Forecast (Millions of USD)	
Net Sales		Operating Margin	
FY2013 Result	FY2016 Goal (CAGR)	FY2013 Result	FY2016 Goal
157	+15%	-*1	8% or higher*2

Forecast (Millions of USD)		Forecast (Millions of USD)	
Net Sales		Operating Margin	
FY2013 Result	FY2016 Goal (CAGR)	FY2013 Result	FY2016 Goal
56	+15%	-*1	6% or higher*2

*1 Operating loss was approx. AUD 4 million in FY2013
*2 Operating margin after amortization of goodwill and intangible assets

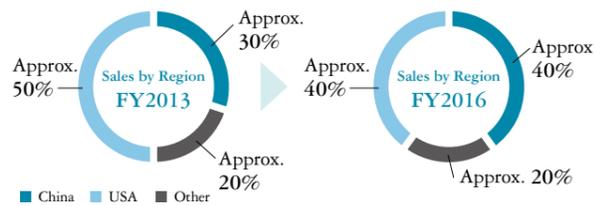
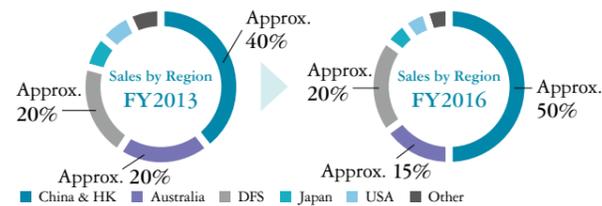
*1 Operating loss was approx. USD 5 million in FY2013
*2 Operating margin after amortization of goodwill and intangible assets

Growth Strategy

	CAGR	Key Agenda
China	+30%	<ul style="list-style-type: none"> Continue to open approx. 20 stores per year Reinvigorate existing stores and increase repeat customers <ul style="list-style-type: none"> Implement CRM tool Introduce new products (anti-aging and skin-whitening) Seek new sales channels (wholesale and online)
Hong Kong	+5%	<ul style="list-style-type: none"> Open 1 to 2 stores per year, mainly in high-end shopping malls
Australia	+5%	<ul style="list-style-type: none"> Reconsider distributions to aim for higher brand stage and profitability
Duty Free Shops (DFS)	+15%	<ul style="list-style-type: none"> Open approx. 10 stores per year in Asia, EU, etc. Increase sales by raising brand presence in China and Hong Kong

Growth Strategy

	CAGR	Key Agenda
China	+30%	<ul style="list-style-type: none"> Start shipments to new retail chain Increase sales per store by reinforcing promotions and sales through a joint venture Expand online sales
Other Regions	+10%	<ul style="list-style-type: none"> Increase shipments to stores specializing in cosmetics (perfumery chains) in Russia Enter new markets in Asia and South America
North America	+5%	<ul style="list-style-type: none"> Improve brand stage and reinforce profit structure



Key Person

Balance investments and earnings to sustain growth



Toru Yamamoto
Managing Director of
Jurlique International Pty Ltd

Over the past two years, rising sales of Jurlique products in China and at duty free shops have fueled high growth. Establishing a wider presence in China remains a pillar of the new medium-term management plan, as applicable to Jurlique, but this goal will not be accomplished merely through the opening of new stores but rather through concerted efforts to make existing stores more efficient and to carve out complementary new sales channels. Naturally, it is important to boost brand recognition, train personnel, and invest in IT, but it is also vital to balance these goals with measures to secure stable profits. Efforts to reinforce management practices and enhance day-to-day operating efficiency are indispensable to our ability to make qualified business decisions. Close communication, including contact with POLA ORBIS HOLDINGS personnel, on each project we pursue will help integrate Group ideas and policy positions into our plans and mitigate any concerns that exist. This will lead to further growth for Jurlique as a brand and as a company.

Strategy 4 Restructure overseas expansion of flagship brands

Create successful business model in key regions and improve profitability by streamlining operations

POLA

ORBIS

- Focus on markets where solid interest in skincare sustains lucrative purchasing activity, and utilize sales channels appropriate to high-prestige brands to highlight the leading-edge technologies and consulting expertise characteristic of the POLA brand

- Capitalize on special features, such as 100% OIL-FREE skincare that customers can use with peace of mind, as well as a high customer satisfaction "fulfillment system," to accelerate expansion, especially in Asia where growth potential remains high

Key Regions	China	Russia
	Interest in skincare is high, comparable to that in Japan, and the market is expected to continue growing at a rate of at least 9% and perhaps as much as 11% or more	The need for skincare is significant because women seek to combat the effects of a severely cold and dry climate
Sales Channel Strategies	China: Favorable progress has already been made, especially at high-end department stores	Russia: POLA products are handled by more stores, particularly local stores specializing in cosmetics (perfumery chains)

Key Regions	China	ASEAN
	Anticipate increase in online sales, fueled by sustained interest in skincare	Establish business platform with ASEAN countries as the next key market after China, as the desire for clear, bright skin is as strong among women in the ASEAN region as it is in Japan, and the market for skin-whitening products is thus primed for growth
Sales Channel Strategies	China: In addition to self-operated online stores, which are currently the focus of business expansion, ORBIS may look to external e-commerce malls to accelerate sales growth and boost brand recognition	ASEAN: Plan to expand into other ASEAN markets following Singapore



POLA store in China



ORBIS store in Singapore

Creating Synergies



H2O PLUS total SOURCE series

- Leverage distribution know-how gained through overseas brands**
Shift from focus on company-carved sales channels, which require time and investment to establish, in favor of flexible marketing development utilizing local agencies
- Make back-office operations more efficient**
Share market information and reduce head office expenses by integrating back-office operations in the countries and regions where several Group brands are sold
- Joint development activities with POLA CHEMICAL**
Create appealing new products that fuse the latest discoveries by POLA CHEMICAL with the respective concepts that distinguish overseas brands

Strategy 5 Strengthen operations

Human Resources

- Implement training programs that run laterally through the Group to develop the leadership skills of people who may one day assume management positions within the Group
- Actively recruit personnel with global experience to expedite overseas expansion efforts
- Develop domestic human resources who will support the Group's global presence, such as individuals posted to Group companies overseas



Top Management Development Program

R&D

- Continue to allocate at least 2% of consolidated net sales to investment in R&D
- Concentrate investment into the search for new ingredients used in anti-aging and skin-whitening products—skincare categories where demand is expected to continue growing
- Promote joint development of products with overseas brands under the Group umbrella and continue to debut new products



Emphasis on R&D

Production

- Integrate the Shizuoka Factory into the Fukuroi Factory—both in Shizuoka Prefecture—under a single-facility production structure, scheduled to kick off in September 2014
- Paralleling facility integration, accelerate production outsourcing for items other than core skincare and foundation makeup and thereby boost production efficiency

Impact on Consolidated Results

The Shizuoka Factory—the facility to be shuttered—will continue to operate until August 2014, so any improvement through lower fixed costs is unlikely to be realized in 2014. From 2015 onward, however, production system restructuring will be the driver of operating income growth.

Schedule for Production System Restructuring

Year	2013	2014	2015	2016	2017
Fukuroi Factory	Expansion of production facilities		Single-facility production structure		
Shizuoka Factory	Relocation of production facilities				
	February 2013 Announcement		September 2014 Single-facility production commences		
			August 2014 Production ends		



Fukuroi Factory in Shizuoka Prefecture

Strategy 6 Improve capital efficiency and shareholder return

Capital Efficiency

- Seek **ROE (return on equity) of 8%**, surpassing Company's capital costs,* in 2016

* Capital costs estimated at 7%–8%

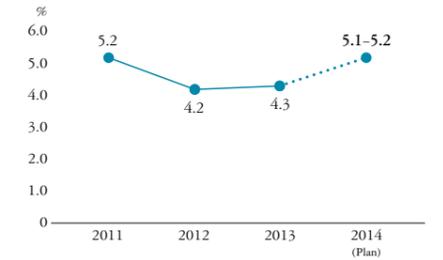
EPS
Earnings per share

- Operating income: CAGR 15% or higher
- Realize higher net income growth than operating income growth
 - ▶ Lower normal effective tax rate by reducing loss in overseas business
 - ▶ Tax revision (elimination of special corporate tax for reconstruction related to earthquake damage)

BPS
Book value per share

- Improve shareholder return
 - ▶ Average payout ratio over the past 3 years: 38% ⇒ Aim for 50% or higher
- Growth investments with financial efficiency in mind

Return on Equity



Shareholder Return

- Shareholder return through stable cash dividends

Change in Dividend Policy

Before change

Dividend increase corresponding to higher profits with lower limit of ¥40

After change

Aim for stable improvement in shareholder return, underpinned by consolidated **payout ratio exceeding 50%***

* In principle, excludes impact of extraordinary income (loss) and associated tax expenses. Not adjusted for goodwill

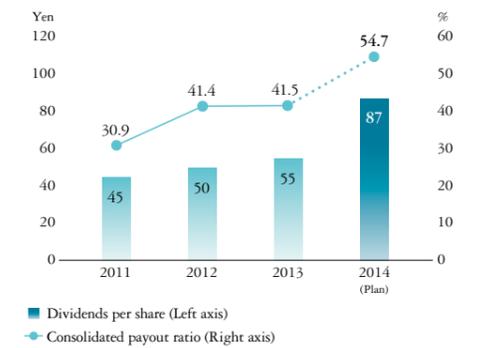
Dividends per Share for Fiscal 2014 (Plan)

Annual dividend: ¥87

(comprising ¥40 interim and ¥47 year-end dividends)

Consolidated payout ratio: 54.7%

Annual Dividend and Payout Ratio



Key Person

Set new financial indicators of growth and strive for higher corporate value

Under the Group's previous medium-term management plan, all employees worked as a team to achieve better fiscal results. These efforts were rewarded with a steady increase in operating income. I have had the occasion to meet with many investors since POLA ORBIS HOLDINGS listed, and while some investors have acknowledged our ability to deliver stable profits, others have felt that our capital efficiency and shareholder return need to be improved. The new medium-term management plan highlights the importance of enhancing capital efficiency, and given this priority perspective, we aim to boost ROE from the current level, which is below 5%, to at least 8%. The underlying shareholder return policy calls for a payout ratio of 50% or higher, in consideration of the level of shareholder equity and any capital needed for future investments. Given profit growth, we will continue to increase dividends based on this payout ratio and lift ROE to the global standard of 10% or more as quickly as possible.



Naoki Kume
Director and Vice President of POLA ORBIS HOLDINGS INC.

At a Glance

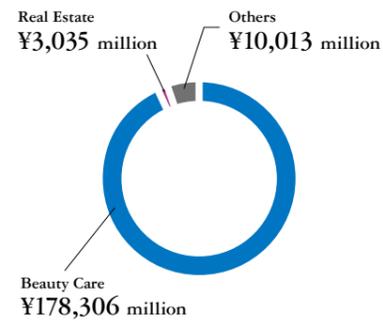
Consolidated Net Sales

¥191,355 million

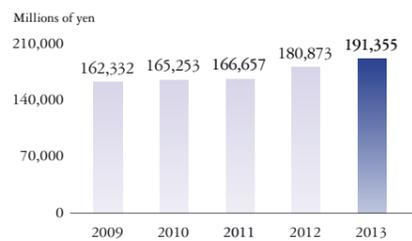
Consolidated Operating Income

¥16,017 million

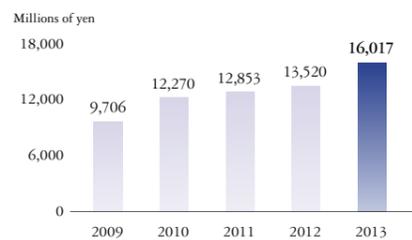
Net Sales Breakdown by Business Segment



Consolidated Net Sales



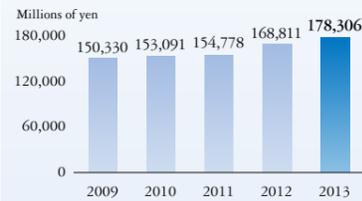
Consolidated Operating Income



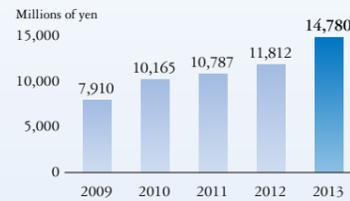
Beauty Care

Cosmetics business, emphasizing skincare products and services, and fashion business

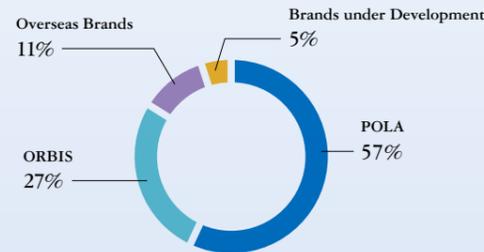
Net Sales



Operating Income



Net Sales Breakdown by Brand



Fiscal 2013 Operating Results

Net sales rose 5.6% over the previous fiscal year, to ¥178,306 million, buoyed by the impact of exchange rates on improved sales for overseas brands Jurlique and H2O PLUS.

Operating income jumped 25.1%, to ¥14,780 million. The significant increase reflects a lower cost of sales ratio and greater cost-efficiency at POLA and ORBIS, as well as narrowing losses for overseas brands.

▶ P30

POLA

▶ P34

Overseas Brands

Jurlique

h2o+

▶ P32

ORBIS

▶ P35

Brands under Development

THREE

ORLANE PARIS

decencia

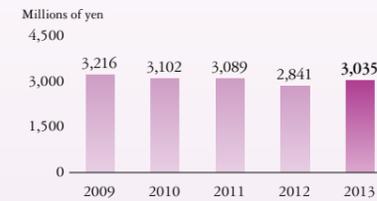
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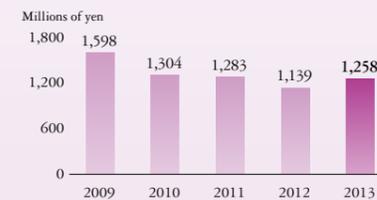
Real Estate

Leasing business utilizing portfolio assets effectively

Net Sales



Operating Income



Fiscal 2013 Operating Results

Considerable effort was made to maintain rent levels and reduce vacancy rates by creating attractive office environments, with a focus on office buildings in urban areas. The real estate segment also promoted rental residential properties, such as Brote Ookurayama, which is designed for families with young children.

In the end, occupancy rates rose and net sales and operating income grew over the previous fiscal year.

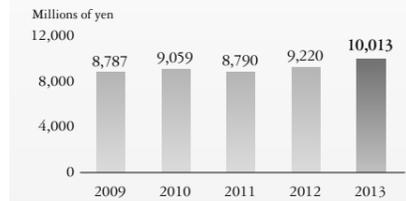


Brote Ookurayama in Kanagawa Prefecture

Others

Pharmaceuticals and building maintenance businesses

Net Sales



Operating Income (Loss)



Note: Printing business was sold in 2011.

Fiscal 2013 Operating Results

A sustained marketing push toward medical institutions specializing in the field of dermatology led to steady expansion in market share for *Lulicon*, a topical antifungal agent. This underpinned a year-on-year increase in pharmaceutical sales.

In the building maintenance business, the emphasis was on marketing activities aimed at signing up new customers to expand orders from outside the Group. A drop in the unit prices of orders caused net sales to fall below the level recorded in the previous fiscal year.



Topical antifungal agent *Lulicon*

Business Overview

POLA

A high-prestige brand built on leading-edge anti-aging and skin-whitening technologies

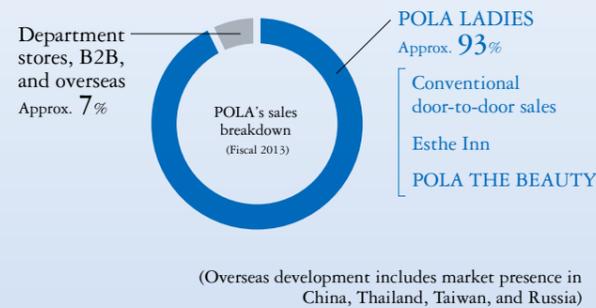


B.A series

Strengths

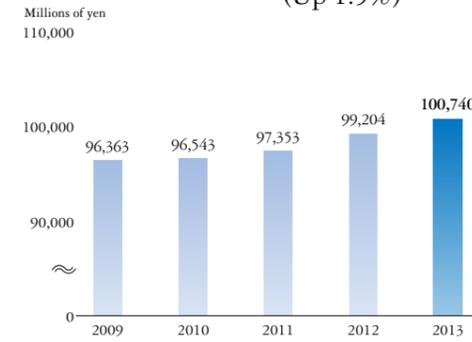
- Approximately 14 million skin analysis data entries**
POLA has built a database of around 14 million entries on the skin condition of customers through the provision of APEX, a semi-customized series tailored to each customer according to personal skin analysis. The company develops high-value-added, high-prestige skincare products featuring leading-edge anti-aging and skin-whitening technologies. Demand for products in these skincare categories is expanding favorably in Japan and throughout Asia.
- Solid customer relationships**
Consulting-based sales activities by a nationwide network of 150,000 exclusive sales representatives—POLA LADIES—underpin solid customer relationships that generate steady sales regardless of downturns in the external environment.

Sales Channels



Net Sales

¥100,740 million (Up 1.5%)



Customers

Number of new customers

Up 4.5%

Sales Channels

POLA THE BEAUTY stores

Net sales growth of cosmetics at POLA THE BEAUTY

602 locations (An increase of 30 stores)

Up 7.8%

Operating Income and Operating Margin

¥7,951 million (Up 13.1%)

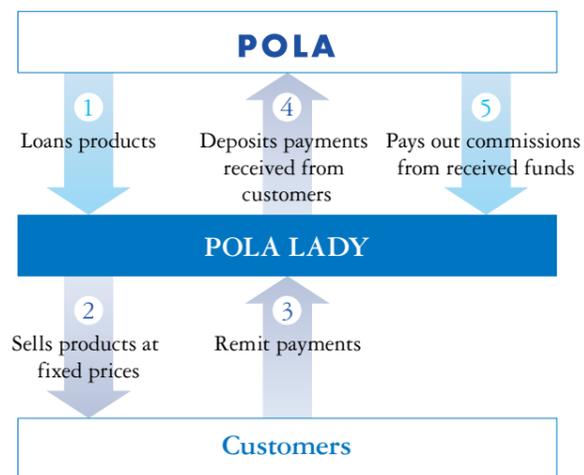


Fiscal 2013 Operating Results

The POLA THE BEAUTY network of retail stores integrating sales, consulting, and facial esthetic treatments utilizes know-how accumulated through the door-to-door sales method. Sales through this network remained steady in fiscal 2013, and on an existing store basis, delivered a high rate of sales growth—6.8%—compared with the previous fiscal year. In addition, net sales grew 1.5%, as efforts to invigorate the frontline sales structure led to an increase in the number of new customers served.

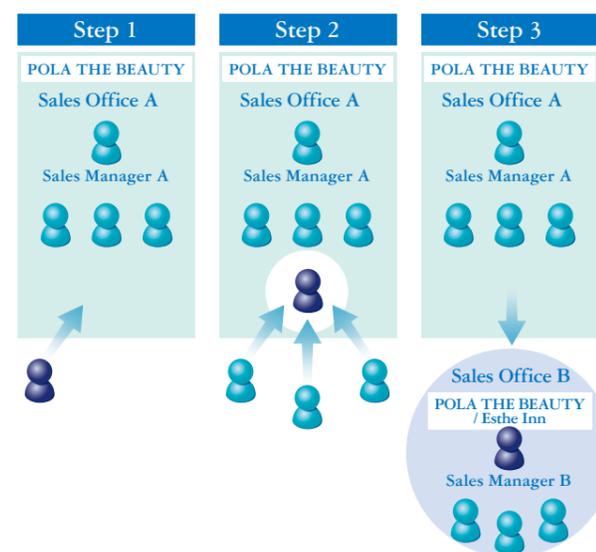
Meanwhile, operating income climbed 13.1% over the previous fiscal year, reflecting successful efforts to lower the cost of sales ratio and utilize sales-related costs more effectively. The operating margin edged up 0.8 percentage point, to 7.9%.

POLA LADY Structure



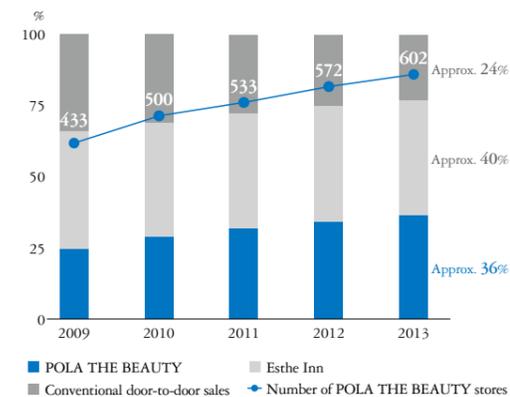
- Sole proprietor on a consignment contract with POLA
- Handles only POLA products
- Unlike other door-to-door sales models, products remain the property of POLA until delivered to customers
- POLA pays a sales commission only when products are sold
- POLA LADIES shoulder all sales office and store operating costs

POLA LADY Career Path



- Receive training, register as POLA LADY
- Recruit new POLA LADIES while securing new customers
- When a POLA LADY and the other POLA LADIES she has recruited bring in a certain level of sales, the operation is recognized as a sales office and the originating POLA LADY is promoted to sales manager. She may then establish her own store (POLA THE BEAUTY or Esthe Inn)

Sales Breakdown by Business Format and Number of POLA THE BEAUTY Stores



Conventional door-to-door sales have fueled POLA's growth since the company was established, but the original sales channel has evolved to match changes in society. In 2005, POLA began developing its POLA THE BEAUTY network. The establishment of stores in carefully selected, favorably located areas is jumpstarted by an initial investment from POLA. All stores in Japan feature similar interior layouts and exterior appearance, and only exceptional POLA LADIES are authorized to operate a POLA THE BEAUTY store. By adhering to this network development formula, the brand has attracted new customers and the higher profile has invariably contributed to overall sales growth. In addition, POLA THE BEAUTY has elevated the image of a POLA LADY, making the role of a cosmetics-savvy consultant a desirable career choice. As more POLA LADIES join the business frontlines and stores welcome new customers, the number of sales offices increases, perpetuating a positive cycle of business expansion.

ORBIS

Skincare brand based on original OIL-FREE concept

Strengths

Original OIL-FREE skincare

The ORBIS brand, in the middle-tier price range, is built around the concept of OIL-FREE skincare. The products are totally free of oil and use water-based ingredients instead to moisturize the skin. Thanks to this unique brand concept, coupled with a strategy that focuses on skincare for everyday use, the brand enjoys a high repeat rate, exceeding 90%.

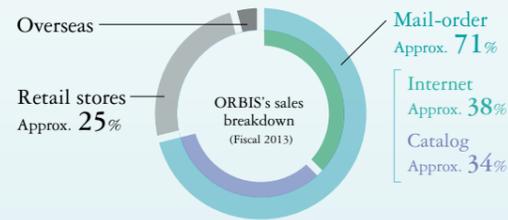
High-profit business model

Since its debut, ORBIS has built a growing market presence primarily through mail-order methods. In recent years, the ratio of online sales has grown, and catalog-related expenses have dropped accordingly, supporting further improvement in profitability. Also, by leveraging the strength of its own sales channels, the company is better able to track customer purchasing trends and gain direct access to customer comments, which ensures high customer satisfaction, from order to delivery.



AQUA FORCE series

Sales Channels



(Overseas development includes market presence in China, Taiwan, South Korea, and Singapore)

Fulfillment System

No. 1 in customer satisfaction in mail-order sales category

Third consecutive year in top spot in mail-order sales category in Japanese Customer Satisfaction Index survey (2011, 2012, and 2013)

Order	No-cost ordering methods (phone, postcard, fax, online) Free samples for almost all products
Shipping	Free shipping, even if order is for just one item Next-day delivery nationwide (same-day delivery in some areas) Convenience store pickup service Simplified packaging with environment in mind
Payment	No service charges on payments
Returns and exchanges	30-day free returns (even if container opened)



Simplified packaging



Shipping boxes

ORBIS's "fulfillment system," designed from a customer perspective, earned the No. 1 spot in customer satisfaction in the mail-order category of the Japanese Customer Satisfaction Index survey—an evaluation conducted by Service Productivity & Innovation for Growth on behalf of the Ministry of Economy, Trade and Industry—for the third consecutive year.

Brand Restructuring

1. Products

- Emphasize high-profitability skincare products with easy-to-see OIL-FREE benefits
- Debut high-value-added skincare products that are priced higher than previous ORBIS products

2. Sales Channels

- Reduce catalog-related expenses by raising the ratio of online sales to total sales
- Realize one-to-one marketing over the Internet by revamping the platform system
- Limit use of discounting

Reinforce Earnings Structure

- Create appealing brand that does not rely on discounts and campaigns to encourage customers to purchase products
- Boost repeat rate and spending per customer
- Lower cost of sales
- Reduce sales-related costs

3. Services

- Realize two-point distribution center—east and west
- Ensure next-day delivery nationwide (same-day delivery in some areas)
- Reduce fixed costs and delivery expenses

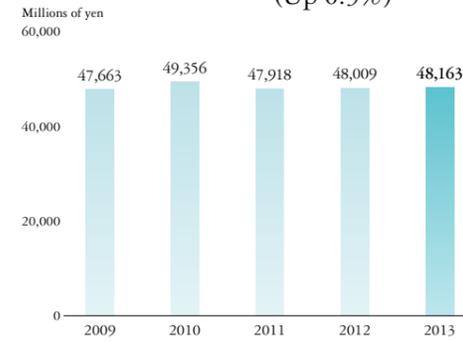
4. Company Culture

- Improve employee awareness and behavior
- Create a challenging corporate culture

A strong brand image may weaken as a brand expands in scope, so it is important to evaluate the ORBIS brand from multiple angles, namely product, sales channel, service, and company culture, to increase earning power. The goal is to dramatically improve the operating margin.

Net Sales

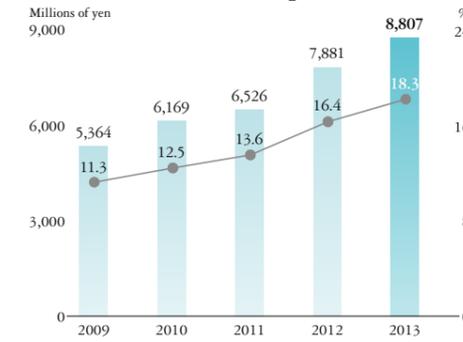
¥48,163 million (Up 0.3%)



Note: Consolidated basis

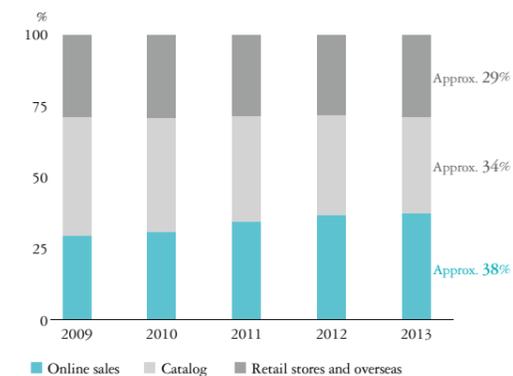
Operating Income and Operating Margin

¥8,807 million (Up 11.7%)



Note: Consolidated basis

Sales Breakdown by Sales Channel



Customers

Sales per customer

Up 3.0%

Repeat rate

Up 1.1ppt

Sales Channels

Ratio of online sales to total sales

Up 0.8ppt

Fiscal 2013 Operating Results

Although net sales were flat, operating income jumped 11.7% over the previous fiscal year. This reflects a lower cost of sales ratio, achieved through an emphasis on skincare products and the introduction of products that are priced higher than previous ORBIS products, as well as a decrease in catalog-related costs, achieved through the increasing popularity of online sales. In addition, brand-rebuilding efforts, with an emphasis on higher sales per customer and more effective use of selling, general and administrative expenses, are yielding better-than-expected results. Consequently, the operating margin improved 1.9 percentage points, to 18.3%, which reinforced the earnings structure.

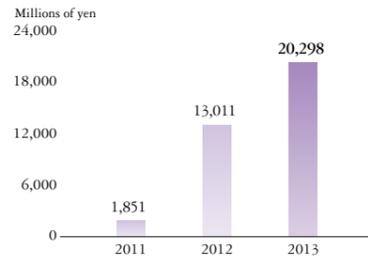
ORBIS, which had developed a market presence mainly through mail-order sales, changed its approach in 1999 with the launch of online sales activities, blazing the trail in Japan's cosmetics industry. A low fixed cost mail-order business to begin with, ORBIS has been able to whittle down its catalog-related costs by increasing the ratio of online sales to total sales each year. This continues to support sustainable improvement in the company's operating margin.

To accelerate online sales activities, the company revamped its platform system in 2013 and applied detailed customer information, such as purchasing history and frequency of purchases, to upgrade its online marketing system.

Overseas Brands

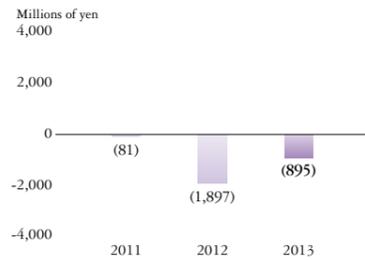
Net Sales

¥20,298 million
(Up 56.0%)



Operating Loss

¥895 million
(¥1,002 million improvement)



Sales contributions from Jurlique and H2O PLUS were considerably larger in fiscal 2013, not only because of wider demand for respective products in Asia, particularly China, but also because the year-to-year change in exchange rates—a comparatively weaker yen—gave yen-converted sales amounts a boost in fiscal 2013.

On the profit front, overseas brands reduced the combined operating loss by about ¥1 billion. The result could have been better, but rising personnel costs in China and higher marketing costs accompanying heightened competition, coupled with the impact of exchange rates, prevented the loss from being minimized as much as initially hoped for.

Progress toward the level of earnings envisioned when POLA ORBIS HOLDINGS acquired H2O PLUS fell behind schedule, mainly because a change in the company's agent in China in 2012 caused a delay in shipments and also because expenses rose, paralleling rebranding efforts. Consequently, an impairment loss of ¥2,862 million on intangible assets (goodwill and right of trademark) was booked under extraordinary losses.

The loss situation should be resolved through further reevaluation of the company's structure, with an emphasis on sales promotions at stores and new product introductions through a joint venture in China.

Jurlique



Jurlique, acquired in February 2012, is a brand of organic skincare made with herbs and other plants grown on the Jurlique farm in Australia. The company was established in Adelaide, Australia in 1985.

Sales Channels Department stores, shopping malls

Overseas Development 19 countries and regions, including China (90 stores), Hong Kong, and Australia

Sales by Region



h2o+



H2O PLUS, acquired in July 2011, is a brand of skincare made with natural, sea-derived ingredients, such as seaweed. The company was established in Chicago in 1989.

Sales Channels Shopping malls, cosmetics specialty stores

Overseas Development 23 countries and regions, including China, Hong Kong, and the United States

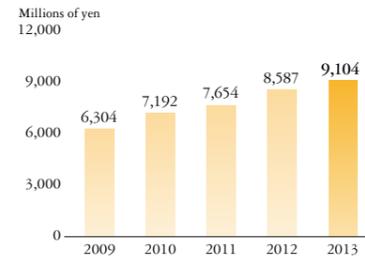
Sales by Region



Brands under Development

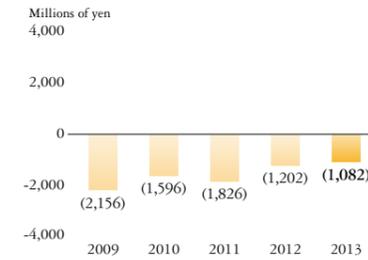
Net Sales

¥9,104 million
(Up 6.0%)



Operating Loss

¥1,082 million
(¥120 million improvement)



Sales of THREE, pdc, and decencia products grew favorably, topping the fiscal 2012 total for brands under development. For THREE, the associated company enhanced brand presence with more department store counters in Japan and ventured abroad for the first time, with a store in Thailand. This highlights steady development of the brand profile.

Brands under development did not turn a profit in fiscal 2013, although the operating loss was a slightly lighter shade of red than in fiscal 2012. A larger improvement was prevented by difficulties encountered by FUTURE LABO. The brand struggled in the TV shopping market, its main sales channel, in the first half.

POLA CHEMICAL INDUSTRIES INC.

Integrated R&D and production applicable to the core products of the Group's flagship brands are undertaken by POLA CHEMICAL INDUSTRIES. The company draws on a database of about 14 million customer-based skin analysis results and concentrates resources into the development of skincare products in the fields of anti-aging and skin-whitening. This emphasis has led to many successful results, including proprietary ingredients and innovative product concepts.

World-Caliber R&D Capabilities

POLA CHEMICAL announces numerous discoveries at top academic conferences, and its R&D capabilities behind the scholarly papers are recognized on a global scale. At the 27th International Federation of Societies of Cosmetic Chemists (IFSCC) Congress, in 2012, POLA CHEMICAL won the Poster Award. This marked the sixth time that the company won an award, placing it No. 3 worldwide in a ranking of multiple-award recipients.

Joint Development with Overseas Brands

POLA CHEMICAL works jointly with brands under the Group umbrella and combines leading-edge discoveries in the fields of anti-aging and skin-whitening with the concepts that characterize each brand. A recent example is H2O PLUS's *Total Source* series.



Winning Poster Award at 27th IFSCC Congress

Corporate Social Responsibility

Our Efforts to Secure and Retain Public Trust

Perpetuating our long-held spirit to “find happiness in giving happiness,” the POLA ORBIS Group strives to build a corporate brand that is loved and trusted by society. Our CSR activities reflect efforts to cultivate this spirit and fulfill our responsibilities as a good corporate citizen in contributing to society.

The POLA ORBIS Group undertakes CSR activities in three areas:



Selective CSR

- Corporate cultural activities
- Environmental protection activities

Business CSR

- Enhancing customer and employee satisfaction
- Offering high-quality products and services
- Supporting local economies and industries
- Creating job opportunities (by generating new value)
- Reducing environmental impact

Fundamental CSR

- Information disclosure • Information security
- Compliance • Corporate governance
- Equitable relationships with business partners

Fundamental CSR

Fundamental activities that all companies should carry out, such as compliance with laws, regulations and public morals, corporate governance related to the Group's operating structure, and information disclosure to meet corporate standards of accountability

Business CSR

Programs implemented through our core business and in cooperation with stakeholders to support sustainable development, such as enhancing customer and employee satisfaction, providing high-quality products and services, supporting local economies and industries, and creating job opportunities by generating new value

Selective CSR

Active corporate culture and environmental protection programs that make significant contributions to society and enrich our core business



We strive to “find happiness in giving happiness.” We have embodied this spirit since the establishment of the Company. It guides our efforts to address the needs of society in the development of our businesses and sets an enduring commitment to fulfill our responsibilities as a good corporate citizen. It is the underlying quality that permeates the corporate social responsibility (CSR) activities of the POLA ORBIS Group.



The POLA ORBIS Group's 2013 CSR Activities

The CSR activities of the POLA ORBIS Group are structured around and implemented according to stakeholder group to allow each company to fulfill its responsibilities and respond to the needs of each respective stakeholder. We maintain a plan-do-check-act (PDCA) cycle* by identifying important issues and addressing each topic, and we provide stakeholders with a progress report each year.

*Method for continuously improving administrative activities through a repeated four-step process to plan, do, check, and act

	Activity Theme	Activities in 2013	Evaluation		
Fundamental CSR	Maintenance of Corporate Governance	Promotion of CSR Management System Realized solid management through further development of governance structure	★★★		
	Reinforcing Compliance	Understanding of CSR and Strict Observance of Basic Policies	Promoted understanding of CSR and ensured strict compliance by all employees Promoted understanding of CSR activities through internal awards	★★★	
		Strengthening of Risk Management	Implemented risk-reduction plan through PDCA cycle Reinforced risk management through strict application of internal controls Implemented Groupwide training based on adoption of business continuity plan (BCP) Enhanced information security	★★	
			Continuation of CSR Education	Promoted understanding and awareness of risks hidden in social media Prevented relations with antisocial forces	
				Implemented e-Learning sessions and seminars for all directors and employees	★★★
			Implementation of Monitoring	Identified and improved issues through employee awareness surveys Reduced risks and prevented infractions using the Help Line System	★★★
	Comments	• We continue to reinforce domestic compliance and risk management systems. In 2014, we will encourage wider cooperation with overseas subsidiaries and strengthen business continuity planning and information security measures.			

Business CSR	Enhancing Customer Satisfaction	Reinforcement of Quality Assurance System	Strengthened quality assurance system in line with basic policies	★★★	
		Enhancing Communication with Customers	Reflected customer needs in business activities and provided better service Continued improving telephone manners, and raised service quality	★★★	
			Realizing Services That Reflect Customer Needs	Extended Moving Salon Bus nationwide to assist customers who find shopping inconvenient Enhanced delivery services, based on feedback from customers Constantly lent an ear to customer feedback and used suggestions to cultivate brands Held free skin disease consultations and open public courses	★★★
		Strengthening Links with Suppliers and Business Partners		Surveyed female tenants to gather input for improving quality of building operations at major rental properties Received high marks from customers in Japan for packaging designs conceived to elicit smiles Supported development of next generation of female entrepreneurs and leaders Worked with stores to better deal with customers and enhance service	★★★
	Working with Business Partners to Support Women's Lifestyles			Held lectures for young dermatologists on microscopic diagnosis of fungal infections Worked with business partners as part of supply chain management and strengthened connections through better communication practices	★★★
			Enhancing Employee Satisfaction	Initiated the AAA Award as an element in activities to support women's lifestyles	★★★
	Developing a Comfortable Work Environment for All Employees	Considered work-life balance and improved work environment Developed a work environment in which individuals with disabilities can work safely and comfortably Reinforced support feature of employee health management system Made Groupwide efforts toward mental healthcare awareness		★★	
		Developing an Environment That Supports Women		Held joint Family Day events at four Group companies to help employees' families understand the work environment Actively supported female employees in their career advancement	★★★
				Developing Human Resources for the Future	Made ongoing efforts to support child-rearing and obtained the "Kurumin" certification label Nurtured employees' skills to support sustained growth of the Group

The POLA ORBIS Group's evaluation of its CSR activities: ★★★= Good; ★★= Satisfactory; ★= Needs improvement

	Activity Theme	Activities in 2013	Evaluation			
Business CSR	Promoting Better Understanding of Our Corporate Activities with Shareholders and Investors	Good Communication with Shareholders and Investors	Held Shareholders' General Meeting Improved benefits and returns to shareholders Enhanced meeting opportunities with investors at home and abroad, and maintained proactive communication practices	★★★		
		Environmental Considerations	Care for the Environment in Offices	Reduced energy consumption at Group companies	★★★	
			Care for the Environment in Production Divisions	Continuously considered the environment in production activities Reduced CO ₂ emissions in production activities Introduced solar power generation systems for harmony with the environment Promoted recycling of industrial waste Continued developing environmentally friendly products Maintained Jurlique's active engagement in environmental protection activities	★★	
	Regional Development and Stimulus for Local Industry			Continued the "3-9 Project" to carry Japan's proud artisanship into the future	★★	
				Contribution to Local Communities	Continued beauty care volunteer work at institutions and hospitals nationwide Used the opportunity of "skin checks" to collect donations for wider use of cervical cancer testing Expanded factory visits to deepen understanding of our business in local communities Operated community Bihada Cafe to support female dermatologists Conducted Nippon Bihada-ken Grand Prix (The All Japan Beautiful Skin Contest) to find prefecture where women have the most beautiful skin	★★★
	Activities to Support Child-Rearing and Education				Provided various forms of educational support for students, from elementary school to university Held events to support child-rearing at condominiums built for families with children	★★★
					Comments	• We are beginning to utilize customers' comments collected by subsidiaries as a management resource. This practice will be applied throughout the Group in 2014. • We continue to cultivate the workplace environment. We will strengthen efforts toward diversity and equal opportunity for all employees in 2014. • Efforts to spur regional development and promote local industry are ongoing. We are considering additional measures in 2014 that harmonize with the image of the POLA ORBIS Group.

Selective CSR	Supporting Recovery from the Great East Japan Earthquake	Continued sales of special regional products from disaster areas to support recovery from the Great East Japan Earthquake Carried on activities in the "TSUMO - Project," a recovery support effort Implemented beauty care volunteer program in areas hit by disaster	★★★	
		Environment Beautification and Conservation Activities	Implemented nationwide cleanup day on the anniversary of our foundation Participated in "Ginza Avenue Cleanup Campaign" Continuously implemented environmental beautification and cleaning activities with close community links Participated in events to combat Tokyo's "heat island" phenomenon	★★
			International Social Contribution Activities	Continued implementation of TFT (Table for Two)* as support for famine relief in developing countries Supported "Pink Ribbon Campaign," which promotes proper awareness of breast cancer Continued the "Ecocap Movement," which delivers vaccines to children around the world Supported women who aspire to truly soar through the art of beauty
	Activities to Support Art and Culture			Undertook support activities to develop beautiful forest trail at Mt. Gwanak, at ORBIS subsidiary in South Korea Operated the POLA Museum Annex to make the arts more accessible Provided research findings on cosmetics and culture across society Continued presenting POLA Traditional Culture Awards to promote traditional culture in all regions of Japan Subsidized young artists and supported operation of POLA Museum of Art Supported development of young artists through product design
		Comments		• Environment beautification activities are ongoing. New activities reflective of the POLA ORBIS Group style are being considered for 2014.

*A program that provides meals to children in developing countries. Every time an employee selects a specified menu item at the company cafeteria, a donation is made toward covering the cost of a child's meal. Note: Activities are described in more detail on the Company's website. Go to <http://www.po-holdings.co.jp/en/>.

Report on Stakeholder Dialogues in 2013 (POLA)

The fifth stakeholder dialogue, held at POLA headquarters, provided a venue for experts to look at the Anti Aging Alliance Declaration—now in its third year—and determine if it is still pertinent with respect to current social needs. Dialogue participants also discussed the direction of corporate activities to see if everything was on track.



AAA Declaration stands for the Anti Aging Alliance Declaration. To have confidence in oneself and to love oneself in the future even more. POLA believes that the true nature of anti-aging is to increase one's passion for life a little at a time. For the sake of each and every woman who desires to "be beautiful at any and for all time," POLA seeks to forge alliances with partners in fields including the media, companies, and communities, who share and empathize with the Declaration. By doing so, POLA intends to create opportunities to encounter those wonderfully genuine individuals.

Participants Top row, from left: Sachiko Fumoto (Bizlife Group Publisher and *Nikkei Woman* Publisher, Nikkei Business Publications, Inc.); Nobuko Nishikiori (Recruit Lifestyle Co., Ltd., Beauty Institute); Yoko Kawashima (Director, Future Lab, Itochu Fashion System Co., Ltd.) **Representing POLA** Middle row, from left: Takako Konishi (Executive and Vice President, Task Force for AAA Promotion, owner); Miki Takenaga (Corporate Officer, Task Force for AAA Promotion, leader); Mitsuru Noda (General Manager, Sales Organization Service Division) **Facilitator** Hiroko Ozawa (International Integrated Reporting Council) [The titles of participants reflect positions as of the date when the dialogue occurred.]

Theme 1 POLA LADIES becoming role models for lifestyle diversity

Comments from Stakeholders

Everyone's perception of beauty is different, so it naturally follows that the value each person places on beauty and health is different. Today's young people seem to have a standard outlook on value placement, so a message that I would like POLA to promote is that greater diversity in lifestyles and value placement is OK. As a specific approach, I would suggest visiting schools to tell students from elementary school through high school about the diverse lifestyles of POLA LADIES or the activities associated with the AAA Declaration. It would be great for young people to realize that they have so many avenues to explore in their personal and working lives.

POLA's Response

The POLA LADY network comprises women of all ages, from 16-year-olds to seniors well into their 90s, and the atmosphere allows people with varied backgrounds to interact as equals through work. In addition, many POLA LADIES have children of school age. This dialogue enabled us to see that we should direct our message not only to the current generation in the workplace but to the next generation as well.

We will try to let people of many generations know about the lifestyles that are created through work as a POLA LADY.

Going forward, we will publish materials, hold events, and utilize media, enhanced by the perspective acquired through this dialogue, to strategically present the merits of greater diversity in lifestyles and values.

Theme 2 Wider recognition of AAA Declaration

Comments from Stakeholders

To deepen awareness of the AAA Declaration in society, I think POLA must listen very carefully to what the market says. The necessary approach would, I think, start with a platform to tap opinions and requests directly from POLA LADIES, who are in direct contact with customers on the front lines of business, and convey the information through two-way communication with corporate management. Also, AAA activities don't really have a customer perspective. For instance, use Facebook and other types of social media to present scenes of POLA LADIES interacting with their customers. It is activities like this, showcasing POLA's customer-oriented attitude, that will sustain business and lead to stronger bonds with customers.

POLA's Response

As suggested, we must reaffirm the importance of the three components—customers, POLA LADIES, and POLA—that comprise our pyramid communication structure. POLA will pick up the frontline comments of POLA LADIES through quick questionnaires. In activities with a customer perspective, we will constantly create opportunities to gather comments directly, through customer questionnaires as part of marketing activities, and we will use print media as well as our website to actively present the AAA Declaration to society.

Report on Stakeholder Dialogues in 2013 (ORBIS)

The sixth stakeholder dialogue, held at ORBIS headquarters, generated very constructive comments from experts who provided their perspectives on specific issues that ORBIS needs to address, particularly the company's approach to brand-rebuilding currently in progress, and the communication techniques and structures required to facilitate solutions.



Participants Top row, from left: Eiichiro Adachi (Counselor, Head of ESG Research Center, The Japan Research Institute, Limited); Romiyo Hayashi (Co-representative, SHOKAY Japan Office); Motoko Matsushita (Nomura Research Institute, Ltd.) **Representing ORBIS** Middle row, from left: Tsuneo Machida (Representative Director and President); Toshifumi Iwanaga (Corporate Officer, in charge of Mail Order & Online Business Management); Naoko Abe (Corporate Officer, in charge of HR); Bottom row, from left: Hiromi Kumamoto (Executive General Manager, Product Planning Division); Yoshihisa Hashimoto (General Manager, Business Management Division) **Facilitator** Bottom row, right: Hiroko Ozawa (International Integrated Reporting Council) [The titles of participants reflect positions as of the date when the dialogue occurred.]

Theme 1 Solutions to social issues

Comments from Stakeholders

Today's consumers tend to choose products with a message that they can relate to. ORBIS takes an energetic role in environment-oriented activities, too, but the company doesn't seem to convey the value of this effort very well. For instance, I believe the message that "women who use products with social value are sophisticated" would elicit interest in making choices that support society and would highlight lifestyle options that underpin solutions to social problems.

ORBIS's Response

Prompted by a comment about the importance of market-inward concepts, we strengthened our system infrastructure in 2013. We set up the community site Kikulabo* and made it possible for interactive communication, including active responses to customer queries or dissatisfaction expressed through social media other than official accounts. Going forward, we will present specific lifestyle ideas and hone our ability to respond to customer sensibilities.

* The name "Kikulabo" is a combination of "kiku" (to hear or ask) and "labo" (laboratory).

Theme 2 Brand-rebuilding

Comments from Stakeholders

In brand-rebuilding, a company must be fully prepared to change everything except its identity. CSV* may be common to any active company, but it still requires efforts to cultivate a corporate atmosphere and lay a foundation that enables employees to exchange ideas and opinions in a free and open-minded environment filled with creative curiosity. I would like ORBIS to embrace this process.

* CSV is an abbreviation for creating shared value. This management philosophy aims to reconcile a company's profits with its value in society, as well as to solve social problems through business activities and build competitive strength.

ORBIS's Response

ORBIS's greatest asset is its level of customer focus, which has fueled the company's growth since its earliest days, so this is the only thing that we will keep. We want to impress customers and excite them with excellent products and services, without pushing them into a corner. Kicking things off in February 2014, we unveiled a new product series that symbolizes our strong sense of determination to rebuild the brand. With regard to cultivating a more open environment, in fiscal 2013 we opened an employees' cafeteria in response to in-house comments. Going forward, we will continue to enhance our internal environment.



Special Feature 1

Employment Opportunities Geared to the Changing Stages of a Woman's Life

POLA's sales activities depend on the resourceful efforts of some 150,000 POLA LADIES. They forge strong partnerships around the country, put tremendous effort into daily marketing activities, and provide each and every customer with services and the highest-quality products with heartfelt sincerity. POLA creates job opportunities for women and encourages women to get out into the workforce. The company maintains programs and seminars that allow POLA LADIES to stay active on the frontlines for a long time and through the changing stages of life.

POLA

Job opportunities that enable the younger generation to become shop owners



Sae Nishikimi
(25 years old)
Manager
Esthe Inn CielBleu Sales Office
Kyoto area

Mitsuko Sugie
(22 years old)
Manager
Angeli Sales Office

I became a POLA LADY to pursue a career in sync with my personal life plan, not the confines of a job per se.

"I was getting married and wanted a job that would let me put family first. I decided to become a POLA LADY because I would be able to set my own hours and choose where I conducted business. I had support from many people, and was able to open my own shop right after graduating from university. The reputation I have built has little to do with age or work experience, and I can take pride in the efforts I put into this work. A university student followed in my footsteps and became a sales office manager, which just fuels my motivation even more." **Sae Nishikimi, Manager**

Job opportunities that enable women in their 60s and older to remain active



Nobue Iwata
(94 years old)
Manager
Tokyu Kosugi Sales Office
Tokyo area

Frontline manager, at 90+ years old

Working as a POLA LADY allows me to keep a youthful, ever-beautiful appearance.

"I lost my husband many years ago. I started my career as a POLA LADY when I was 39, because I wanted to stay beautiful so that when I met my husband in heaven he would recognize me. Some of my customers and colleagues go back 50-some years. I have great support from the people around me, and I feel healthy and beautiful. All thanks to POLA. There's no mandatory retirement age at POLA; it doesn't matter how old I am, as long as I still want to work. I am so glad that I followed the POLA path."



Special Feature 2

Strong Customer Bonds, Higher Customer Satisfaction

Since its establishment, ORBIS has made customers the focus of every aspect of its business. In 2013, efforts to communicate better with customers and to raise the level of customer services were substantiated by yet another year at the top—the third straight year in the No. 1 spot—in the Japanese Customer Satisfaction Index survey, an evaluation conducted by Service Productivity & Innovation for Growth on behalf of Japan's Ministry of Economy, Trade and Industry.

ORBIS

Messages with a human touch through branding that utilizes social media

ORBIS took the No. 1 spot with a top consumer behavior score in a ranking of successful marketing methods using social media, as reported in the *Nikkei Digital Marketing Journal*.

Even though the ratio of online ordering to retail sales is rising, ORBIS feels that conveying appreciation to customers directly is important and has thus adopted a marketing approach that actively utilizes social media to deliver information with the all-important human touch that the company and its brand are well-known for.

A male employee posts introductions about ORBIS products on the company's Facebook page, and tweets are closely followed in the company's Twitter account. This evolution of social media contact has added a touch of surprising warmth to the way the company communicates with customers through online methods. As a result, ORBIS has received many return messages with such comments as "promotes comfortable feeling" and "trustworthy." These customer connections translate into actual purchasing activity, so the extra effort to reach out to online customers is obviously highly appreciated.



Employees use Facebook to introduce products

Introducing follow-up calls through call center

Call centers focus on communication that retains a suitable sense of distance between the company and customers. Over the past few years, ORBIS has used its call center to make follow-up calls, which underpin enhanced service quality while offering a first line of contact with customers.

The function of follow-up calls is to present practical information to customers. During such calls, it is possible to ask customers why they have not made any purchases recently and to apply the vital feedback to improve operations.



ORBIS call center



Special Feature 3

Growing Brands by Always Lending a Ready Ear to Customer Comments

decencia is a brand of skincare for sensitive skin. It was created through the application of research results by POLA CHEMICAL INDUSTRIES, specially selected ingredients, and patented technology. People with sensitive skin want products that are not only gentle but also enhance the appearance of skin. We continue to provide our customers with value solutions that no other brand can deliver.



Selling products built on the comments of customers

At decencia, lending an ear to what customers have to say is very important, so the company holds round-table discussions every year. In 2013, four meetings were arranged.

Two meetings in the spring, dubbed the “Original Coffret Summit,” brought in four customers who helped in the design of premium products for an autumn-released beautiful skin coffret set. At the new skin-whitening products announcement, in April, loyal users of the decencia products joined the media to hear details, such as effectiveness and product performance as well as concept and thoughts behind the products from the person in charge of product development. A round-table discussion also took place, and customers offered opinions on the products and services they use on a regular basis. In October, decencia organized an autumn seminar and round-table discussion on beauty care for people with sensitive skin. This event provided an opportunity to present methods for properly caring for sensitive skin—very important for women who have concerns about their skin—and to hear from customers about the products and services they normally use.



Autumn beautiful skin coffret, released in September 2013



Autumn seminar on beauty care

Voice

After having participated in the round-table discussion and coffret summit, I gained greater insight into decencia.

I really felt that my opinions were reflected in the products and services. I was familiar with the products, just like someone who works in the company, and I am so pleased whenever I come across a product in a magazine.

Naturally, I feel very passionate about the products covered in the coffret summit. I'm a little self-conscious when I see the report describing the summit, but the report is a wonderful treasure for me to keep!

Kaori Hata
Customer



Special Feature 4

THREE AOYAMA Advocates a “Morning-Oriented” Lifestyle

We emphasize the power of plants, starting with essential oils, and set the stage for a healthy mind, body, and skin. We actively support the intrinsic power that women have to become beautiful. That is what THREE is all about.



THREE opens flagship store

In October 2013, THREE opened a flagship store in the Aoyama district of Tokyo. The shop, spa, and cafe of THREE AOYAMA open early in the morning, under a concept that healthy beauty is achieved by making the morning an important part of the day. The store also holds morning workshops, a service that has won high marks from customers. A typical comment has been that “the workshops are a good opportunity to rethink how mornings should be spent.”



Yoga workshop held in-store

Three services at THREE AOYAMA

- SHOP**
8:30 a.m.* The shop is not only a place where customers can try out skincare and makeup products but also a venue for regular workshops, including yoga sessions.
- SPA**
7:30 a.m.* The spa uses original programs built around biorhythms to set the right conditions for a healthy and beautiful mind, body, and skin. Head spa treatments are also popular among male customers.
- CAFE**
7:00 a.m.* The original breakfast menu offers fruit and gluten-free items. REVIVE KITCHEN provides a delightful array of body-energizing dishes made with organic ingredients and juices made from fresh fruits and vegetables.

* Weekends and holidays: 10:00 a.m.



Dining area at REVIVE KITCHEN

Voice

We started working with the project team at ACRO in 2011 on a series of services geared toward the opening of THREE AOYAMA. These services have covered concept development, location search, construction and design support, sundry goods, and other merchandise support, as well as food and drink development. We encountered many challenges but overcame all the stumbling blocks in the end thanks to everyone's passion for the brand and a keen determination to open the store. It would be great to see continued support of THREE AOYAMA as it firmly establishes itself as a new landmark in the Aoyama district.

Masaki Yokokawa
President, Welcome Co., Ltd.



Development of Human Resources for the Group's Sustainable Growth

Practical training across Group structure develops skills of executive candidates

Seeking to realize its long-term vision to become a “highly profitable global company,” the POLA ORBIS Group invites personnel from all Group companies to participate in training to cultivate the abilities of employees who may one day assume management positions within the Group.

Striving to Discover and Develop Personnel Through Training

Personnel development programs that run horizontally through the Group include the Future Study Program, which seeks to cultivate the skills of young employees with the potential to become executives one day, and the Top Management Development Program, which targets employees at the section manager level who are next in line as candidates for executive positions. Also, in fiscal 2013

the Company introduced the Coaching Program for the general manager class.

These programs are geared to each progressive level of career advancement, and by establishing a continuity-based and career- and level-specific training structure, the Company will be able to identify and then develop the employees who will become tomorrow's managers.

Introduction to Top Management Development Program

Of all the personnel development programs offered across the Group structure, the most challenging curriculum is found in the Top Management Development Program for section managers. Comments from participants who have completed the program include such revelations as “I now have a broader perspective—my vantage point is higher, completely different”; and “I am now keenly aware of the importance of asking questions of myself and speaking about issues in my own voice.” What kind of activities help participants embrace new behavior? Some of the program content is described below.

1 Select program participants through performance assessment

Participants come from all Group companies, so prospective participants are assessed to determine who will be selected for the program. Specifically, two methods are used: 360-degree feedback involving superiors, coworkers, and junior staff, and assessment through a one-day group exercise. The Top Management Development Program starts with an awareness of issues that affect the daily thoughts and actions of each participant.

2 Heighten impact in the workplace through managerial changes

The curriculum does not emphasize knowledge learning. Rather, it is based on managerial changes—that is, actual management concerns at each company that each individual pinpoints and then works to resolve. The content of the program is not aimed at implementing management plans that already exist but to see intrinsic problems pertaining to customers or caused by changes in the social environment from a different perspective, and to pinpoint issues that require drastic steps for improvement. For example, the themes set in 2013 included creating a new R&D process and revamping brand portfolios. Participants tackled issues that went beyond the responsibilities of their existing job descriptions to a more extensive scope of responsibility with Groupwide impact. It is difficult to get involved from a place on the outside looking in. Participants came up against barriers to implementation and they had to account for their performance again and again, but rising to these challenges served to polish participants' leadership skills.



Personnel Development Across Group Structure

Seeking to identify human resources with potential and develop their leadership skills, POLA ORBIS HOLDINGS extends invitations to personnel throughout the Group and provides growth opportunities through specialized training.

Program	Future Study Program	Top Management Development Program	Coaching Program
Content	<ul style="list-style-type: none"> Management basics Leadership and competency development Business planning 	<ul style="list-style-type: none"> Managerial problem solving Drafting proposals for new businesses 	<ul style="list-style-type: none"> Enhancing emotional intelligence to increase capability to influence others
Eligibility	Employees in their late 20s to early 30s	Employees in their mid-30s to early 40s; section manager level	Employees in their mid-40s to early 50s; general manager level
Length	9 months	9 months	9 months

3 Draft proposal for new business

In the second part of the program, participants are given new hurdles to overcome. In fiscal 2013, POLA ORBIS HOLDINGS teamed up with Kagome Co., Ltd., on a curriculum that had participants draft proposals for new overseas businesses. For about two months, participants contemplated businesses that would draw on the resources of both companies and then made their pitch to top management at both companies. Participants with different backgrounds worked toward a single achievement, and pursued thorough discussions within the limited time frame. This kind of environment fosters new patterns in personal thinking and behavior.

4 Conclude with evaluation from top management

There is no guarantee that all participants will complete the training. We expect everyone to stay with the program for the whole nine months, and we expect to see concrete results. In the last month, participants have an opportunity to present the final proposal of all their efforts on the theme of managerial changes, with top management in attendance. We consider progress made during all stages of the program, including changes in 360-degree feedback surveys throughout the nine months as well as conduct demonstrated during the new business proposal segment of the program with another company. These factors determine program completion. If all stages are successfully completed, the participant receives a certificate of completion.



During the Top Management Development Program, we run activities designed to elicit changes in the behavior of each and every participant by enabling everyone to acquire a variety of hands-on experience.

Voice

Top Management Development Program is truly Japan's version of Crotonville*

The concept “structure follows strategy” was proposed 50 years ago. Companies, like this one, are few in so far as the amount of effort directed into developing human resources in the belief that strategy is limited by structural capabilities. The program, with its intense discussions and verbal critiques, is a place to experience the rigors of management as well as the underlying thought and philosophy. The subjective involvement of top management in this program is another major feature. President Suzuki takes part in every program and earnestly debates topics with the executive candidates. Truly, this is the model for structure in the future.

* Established by General Electric, this is the world's first corporate business school; this leadership institute has produced many successful executives.

Takashi Isbioka
Coach
Dream Incubator Inc.
Organization & Leadership
Development Practice Group
Manager



Environmental Activities

Operate production facilities with conscious approach to maintain harmony with environment

POLA CHEMICAL INDUSTRIES, which handles production for the POLA ORBIS Group, acquired ISO 14001 environmental management system certification in 2000 and has maintained a steadfast approach to addressing environmental issues since then. The company pinpoints the status of environmental impact, based on ISO 14001, and sets annual targets and then circles through the PDCA cycle again.

With regard to global warming, a social concern everywhere, POLA CHEMICAL strives to curb CO₂ emissions and promotes energy-saving practices through aggressive application of the latest technologies, particularly solar power generation and LED lighting. In 2013, the company achieved a 200,000kW/year decrease in power consumption through concentrated installation of large dust collectors, which remove airborne particles and keep machinery operating efficiently, and high-efficiency compressors.

Also, through adherence to the practice of industrial waste recycling, reuse, and reduction, POLA CHEMICAL achieved zero emissions—resource recovery of all industrial waste for reuse—in 2003 and has continuously worked to reduce output of industrial waste still further while increasing sales of value-carrying materials. In 2013, in cooperation with local governments, the company participated in regional beautification projects, including the use of mulched materials to spread on walking paths and around trees and bushes in local parks.

Contribution to Local Communities

Nippon Bihada-ken Grand Prix (The All Japan Beautiful Skin Contest)

Japan's climate varies from place to place, so skin health also varies depending on location. Using its database of more than 1.4 million customer-based skin analysis results, POLA pinpoints features that characterize each area in Japan and then ranks the skin attributes by prefecture. This ranking enables women in Japan to better understand the qualities of their own skin. POLA teamed up with Shimane Prefecture, which took the No. 1 spot for the second year in a row,* to develop a menu using locally produced ingredients to promote beautiful skin. The debut of these products, offered mainly through antenna shops,** had the added impact of supporting the local economy.

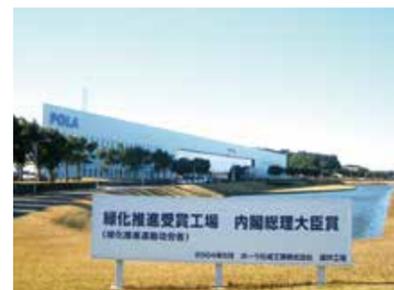
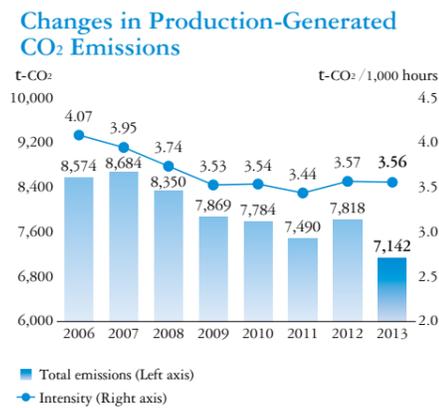
* According to POLA research

** Shops featuring specialty products, traditional crafts, souvenirs, and cuisines from local areas across Japan to help promote local tourism

Contributing to skill development of dermatologists

In recent years, fungal infections* have been on the rise. But a decrease in the number of experienced doctors with the ability to provide technical guidance on treatment has had an adverse impact on the development of young dermatologists' treatment skills. Acknowledging the situation, in 2013 POLA PHARMA launched a seminar on fungal infections for young dermatologists. In 2014, the company plans to hold 10 seminars in locations all over Japan and expects about 200 doctors to sign up for the program.

* Fungal infections of the skin: Ailments caused by yeasts or molds that infect the skin or live on the skin (e.g., Athlete's foot)



Fukuroi Factory in Shizuoka Prefecture



Menu for beautiful skin featuring local ingredients from Shimane Prefecture



Seminar training

Support for Culture and the Arts

POLA Museum Annex

The POLA Museum Annex shows modern art exhibitions throughout the year, free of charge, thereby promoting accessibility to art. The Annex also provides a venue for young artists to showcase their work in its efforts to support creative activities. In 2013, around 47,000 people visited the Annex.

Activities of the POLA Research Institute of Beauty & Culture

The POLA Research Institute of Beauty & Culture delves into the culture of cosmetics from a variety of cultural and sociological perspectives and facilitates wide access to the information by allowing universities and research organizations as well as individuals and companies utilize the valuable results of its research as scientific materials for their own pursuits. The Institute also assists with displays at art galleries and museums around Japan, which provide wonderful opportunities to announce the results of its research. In 2013, the Institute assisted six facilities, including the National Museum of Nature and Science, in Tokyo, with their presentations.

The history of these activities is as long as that of the Institute, which was established in 1976. Ongoing efforts not only contribute to cultural programs in each community but also underpin corporate culture, enhance brand value, and boost the value of the Group.

Supporting POLA Foundation for the Promotion of Traditional Japanese Culture

The POLA Foundation for the Promotion of Traditional Japanese Culture, which has the overall support of the POLA ORBIS Group, handles four programs—an awards program, an assistance program, an archive creation program, and a program for promoting, collecting, and preserving examples of the traditional arts—designed to keep traditional Japanese culture alive. POLA Traditional Culture Awards recognize the efforts of individuals and organizations who contribute to preserving traditional culture and who can be expected to remain active in the years to come. In 2013, at the 33rd POLA Traditional Culture Awards, one incentive prize and five community prizes were presented. The spotlight shone brightest on Kiyokazu Kanze, who received the grand prize for his efforts to promote the traditions of classical Noh drama, and on Yu Okada, who received an excellence award for his efforts to preserve the traditional craft of *bagiyaki*, a type of Japanese pottery most identifiable for its humble forms and use of translucent white glaze.

Support for POLA Art Foundation

The POLA Art Foundation, which has the overall support of the POLA ORBIS Group, provides financial assistance for young artists studying overseas, investigative research by art museum staff, and international art-related exchanges. In 2013, the Foundation offered funds to 42 individuals. At the POLA Museum of Art in Hakone, the Foundation puts on art exhibitions and presentations for the general public and has also undertaken investigative research on artwork and organized educational programs. Planned exhibitions in 2013 included "Looking for Beauty: Art Collector Tsuneshi Suzuki" to commemorate the 10th anniversary of the Museum's opening and also "Monet: An Eye for Landscapes," a joint effort with The National Museum of Western Art in Tokyo.



POLA Museum Annex Exhibit 2013: *Saibun no Kosai* ("Splendor of Early Spring")



Toiletries on display



33rd POLA Traditional Culture Awards presentation ceremony



"The Pink Skiff," 1890 by Claude Monet
Oil on canvas, 135.3cm x 176.5cm
POLA Museum of Art

Corporate Governance

Basic Stance on Corporate Governance for the Group

Guided by the philosophy “Inspire all people and touch their hearts,” the POLA ORBIS Group pursues a multi-brand strategy designed to enhance the overall corporate value of the Group with several original and distinctive brands within its scope and growing the associated businesses that control these brands. Essentially, each operating company in the Group manages itself autonomously and independently, while POLA ORBIS HOLDINGS INC., as the holding company, retains management control over each operating company with the aim of increasing shareholder value by ensuring sound and efficient management of overall Group operations.

Correspondingly, compliance is a priority for the Group and is an integral part of CSR activities. The Group will achieve enduring success by deepening its relationships with shareholders, business partners, and other stakeholders, fulfilling its corporate responsibilities to these stakeholders, and building bonds of trust with them and the community at large as a good corporate citizen. In addition, Group companies abide by the POLA ORBIS Group Action Platform (the “Action Platform”), which sets out regulations governing legal compliance, environmental protection, investor relations, and other matters. All executives and employees pledge to act in accordance with the Action Platform.

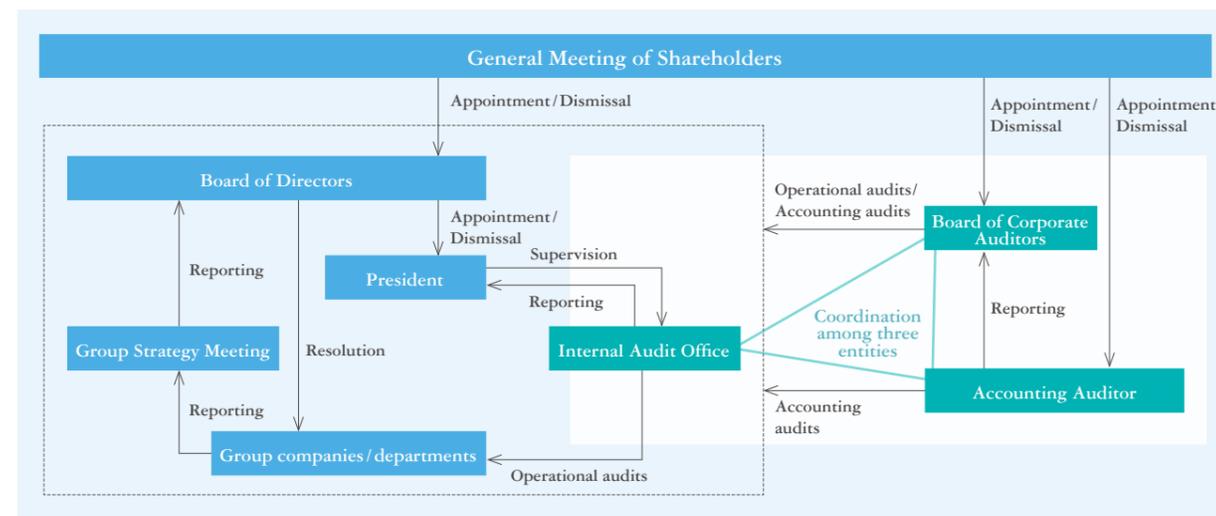
Structural overview

Functional structure	Company with a Board of Corporate Auditors
Number of directors/ term of office	7 directors/2 years <small>At POLA ORBIS HOLDINGS, we seek to enhance the auditing structure through three corporate auditors, of whom two are outside corporate auditors. Management believes that the Board of Corporate Auditors' role to supervise the execution of duties by directors is sufficient, and for that reason no outside directors have been appointed to the Board of Directors.</small>
Number of corporate auditors/ term of office	3 auditors/4 years
Number of outside auditors on Board of Corporate Auditors	2 auditors
Number of outside auditors designated as independent officers	2 auditors

Efforts to strengthen corporate governance to date

January 2007	Established CSR Promotion Division
May 2007	Established Group CSR Committee
January 2009	Introduced Groupwide risk management structure
October 2010	Established Quality Assurance Working Group within Group CSR Committee
November 2011	Implemented information security diagnostic to ascertain compliance status on a Groupwide basis

Corporate Governance Structure



Overview of key meeting groups

	Purpose and Activities	Members	Meeting Schedule
1. Board of Directors	Supervises subsidiaries, makes decisions for the Group regarding important matters, and makes resolutions and reports regarding key management issues	7 directors	At least once a month. In 2013, directors met 23 times, including extraordinary meetings
2. Group Strategy Meeting	Receives reports from the Company and its subsidiaries about important matters and discusses the content to identify steps to promote profitability and support development of the Group as a whole	Mainly directors and full-time corporate auditors of the Company as well as selected subsidiary presidents and directors	Monthly. In 2013, strategy meetings were held 19 times
3. Board of Corporate Auditors	Corporate auditors attend the general shareholders' meetings, Board of Directors' meetings, Group Strategy Meetings, and other important events; gather reports from directors, employees, and accounting auditors; and supervise the execution of duties by directors	One full-time corporate auditor and two independent, part-time outside corporate auditors, as stipulated under Article 2, Paragraph 16 of Japan's Companies Act	At least once a month. In 2013, corporate auditors met 16 times, including extraordinary meetings
4. Internal Audit Division	Assesses whether preparations are sufficient for dealing with risks that could occur in the course of business and offers suggestions for improvement, to underpin sound and appropriate execution of business activities by the Company and each Group company	10 members	In 2013, audits were executed at 14 companies
5. Group CSR Committee	Applies a lateral perspective across the Group to oversee risks associated with corporate activities, primarily from strategic and administrative perspectives, and also tracks the status of compliance practices and important CSR-related issues	Committee chair (the executive responsible for CSR), committee members (Group executives and outside experts), and a committee secretariat	In 2013, secretariat meetings were held 12 times. The committee itself met three times

Implementation Status of Internal Control System

Basically, internal controls are recognized as a process to be executed by all within a corporate organization to achieve four business objectives—effective and efficient operations, reliable financial reporting, activities in compliance with laws and regulations, and the safeguarding of assets—as set forth in “Standards

for Management Assessment and Audit Concerning Internal Control Over Financial Reporting,” issued by the Business Accounting Council. The policies for implementation of internal controls, as determined by the Company’s Board of Directors are described as follows.

System to ensure efficient execution of duties by directors

In accordance with associated rules, the Board of Directors meets at least once a month, with extraordinary meetings held whenever circumstances warrant. The Board executes its duties in accordance with rules defining the scope of official authority and the separation of duties, and carries out appropriate discussions, decision making, and reporting procedures in accordance with these rules as well as other rules, including those governing Group Strategy Meetings, affiliated company administration, budget control, and medium-term management planning and administration. In addition,

Board of Directors’ meetings provide an appropriate venue for discussions and decision making pursuant to important internal controls-related issues. The Group CSR Committee, which comprises a committee chair (the executive responsible for CSR), committee members (Group executives and outside experts), and a committee secretariat, carries out appropriate discussion of important issues related to compliance, risk management, and CSR, and executes decision-making procedures in accordance with rules defining the scope of official authority.

System for storing and managing information related to the execution of duties by directors

In accordance with document management rules, information regarding the execution of duties by directors, such as meeting proceedings and records of other meetings and discussions, are recorded on paper or

electromagnetic media (hereafter “documents, etc.”) and stored appropriately. Requests by a director or corporate auditor to see such documents, etc., are promptly addressed.

Rules for controlling risk of loss, and other regulation systems

The Group CSR Committee is positioned directly below the Board of Directors so that risks related to business activities, from both strategic and operating perspectives, can be coordinated across the Group.

Each department adheres to risk management rules

that keep business-related risks under control and will, should a crisis situation arise, establish a task force in accordance with rules for crisis control to quickly address the issue at hand.

Measures to establish and maintain a compliance system

The Group CSR Committee is positioned directly below the Board of Directors to coordinate a compliance system across the Group. This system is further complemented at Group companies by the establishment of a CSR Office or the assignment of someone to the role of Chief CSR Officer, depending on corporate size, to promote compliance practices within the respective company. Concurrently, efforts are made to deepen understanding of compliance issues through the distribution of a

CSR handbook to all Group executives and employees, and everyone is required to submit a written pledge promising to uphold the Action Platform. A helpline has also been set up to raise awareness throughout the Group regarding compliance practices and to acquire a proper understanding of the related issues and also to encourage executives and employees to report potential violations or concerns.

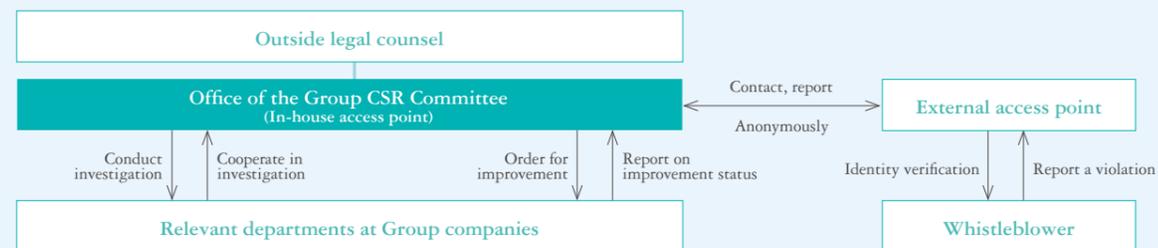
Access to helpline

The helpline was designed to raise awareness among executives and employees throughout the Group and to acquire a proper understanding of the compliance issues and also to encourage executives and employees to report potential violations or concerns in confidence.

By creating a Groupwide structure that allows all executives and employees throughout the Group to voice concerns or ask questions, the Company gains direct access to information on internal risks. This

leads to steps that can minimize risks and prevent the occurrence of legal or regulatory violations.

In accordance with the Whistleblower Protection Act, the person in charge of the helpline as well as any individuals associated with this access point must strive to protect at all costs the privacy of anyone who reports a potential violation or asks for advice.



Measures to ensure proper Group company operations

In accordance with rules governing Group Strategy Meetings, affiliated company administration, budget control and medium-term management planning and administration, preliminary discussions on important matters, budgets, and medium-term management plans for Group companies will take place at Group Strategy

Meetings, and preliminary approval will be obtained from or notice be given to the Company’s Board of Directors. Approaches are also considered at Group Strategy Meetings to ensure that companies are thorough in their efforts to prevent unauthorized disclosure of the aforementioned information.

System for employees to assist corporate auditors with their duties

When a corporate auditor requests an employee to assist with audit duties, a suitable department will be designated as the assisting office. A structure has also been established to complement auditing operations

through enhanced contact with the Internal Audit Office (which serves as the Company’s internal audit department) and the Company’s accounting auditor (Ernst & Young ShinNihon LLC).

System under which directors and employees report to corporate auditors and other systems under which any report is made to corporate auditors

When directors or employees discover that laws and/or regulations have been broken or that the Company may potentially incur appreciable damages, they are expected to report the relevant issue to a corporate auditor without delay. When requested by a corporate auditor to report on the status of operations or assets, directors

and employees must promptly do so. Corporate auditors make a concerted effort to attend meetings of the Board of Directors and other important meetings to learn the status of operations and assets from directors and employees. The Internal Audit Office also reports to the corporate auditors on the results of internal audits.

System to ensure that corporate auditors perform their audits effectively

In accordance with associated rules, the Board of Corporate Auditors meets at least once a month, with extraordinary meetings held whenever circumstances warrant. Corporate auditors make a concerted effort to attend Board of Directors’ meetings and other important meetings to collect information on the status

of operations and assets. They also cooperate closely with the Internal Audit Office to ensure effective audit execution. Corporate auditors exchange opinions with the president, directors, and the accounting auditor periodically or as needed.

Basic approach and measures to exclude anti-social forces

As stated in the Action Platform, the Company is strictly opposed to any association with anti-social forces. In addition to the helpline, which enables anyone in the Group to express concerns in confidence about possible situations involving anti-social forces, Group companies coordinate with local police and gather outside information through membership in organizations, such as the Special Violence Prevention

Association (TOKUBOUREN) and the Special Violence Prevention Council, and actively attend training sessions in an effort to prevent any association with anti-social forces whatsoever and eliminate any such relationships that are discovered to already exist. To complement these measures, a contingency manual has been prepared for Group companies and efforts are made to promote awareness of this reference source.

Basic guidelines for internal controls for financial reporting

- The Company ensures transparency of information and impartiality through the preparation of financial reports based on generally accepted accounting standards and the timely disclosure thereof.
 - The department in charge of financial reporting plays a vital role in the Company, which therefore seeks to improve inherent expertise in accounting and finance, and assign appropriate personnel and implement relevant training programs.
 - All executives and employees are well aware of the important role that internal controls play in financial reporting and strive
- within the scope of individual authority and responsibility to ensure that the following fundamental components of internal controls have been implemented and are operating effectively:
- Control environment
 - Risk assessment and response
 - Control activities
 - Information and communication
 - Monitoring
 - IT support
- Corporate auditors monitor and verify the appropriateness of financial reports as well as the implementation and operation status of internal controls, from an independent perspective.

Risk Management System

To mitigate the various risks that influence the Group's business activities and minimize losses, the Company has established risk management regulations to ensure sustained and stable business development. Risk management under normal conditions is the responsibility of the Board of Directors at each Group company, which discusses and decides on risk management matters, such as basic policy, annual targets, budget allocation, the composition of working groups, progress management, and the development of corrective measures and their follow-up.

Meanwhile, the Company has established crisis control regulations to provide a fundamental framework in the event of major risk events (crises) that have a significant impact on the Group's business and therefore require a prompt response. All executives and employees at Group companies must acknowledge the importance of crisis control in management and business activities when carrying out their duties.

Outside Corporate Auditors

Reasons for appointment and outside corporate auditors' activities

Executive	Category	Description
Akio Sato	Reasons for appointment	Akio Sato has been a member of various committees, including a task force for special research, a corporate lawyer, and an outside corporate auditor for major listed companies, and possesses the abundant experience and deep insights of a legal professional well-acquainted with various corporate issues. Therefore, the Company believes he has the necessary background and knowledge to suitably execute his duties as an outside corporate auditor of the Company.
	Activities	Mr. Sato sees issues from an expert's perspective, and at meetings, particularly those of the Board of Directors of the Company, he points out issues related to risks that may arise in the course of business and makes other remarks that are necessary to promote rational, balanced discussions about pertinent matters.
Motohiko Nakamura	Reasons for appointment	Motohiko Nakamura has been a director at the Japanese Institute of Certified Public Accountants, an expert advisor, and a member of the working group for the corporate IT controls study group formed by the Ministry of Economy, Trade and Industry. Mr. Nakamura possesses the abundant experience and deep insights of an accounting and tax professional well-acquainted with various issues concerning all matters related to corporate accounting, finance, and taxes. Therefore, the Company believes he has the necessary background and knowledge to suitably execute his duties as an outside corporate auditor of the Company.
	Activities	Mr. Nakamura sees issues from a specialized perspective, and at meetings, particularly those of the Board of Directors, he points out possible approaches, especially those that deal with financial risks to the Company, and makes other remarks that are necessary to promote rational, balanced discussions about these matters.

Outside corporate auditor attendance at meetings of the Board of Directors and Board of Corporate Auditors in fiscal 2013

	Board of Directors		Board of Corporate Auditors	
	Meetings attended/ No. of meetings	Attendance rate (%)	Meetings attended/ No. of meetings	Attendance rate (%)
Akio Sato	22/23	95.7	16/16	100
Motohiko Nakamura	21/23	91.3	16/16	100

Compensation for Directors and Corporate Auditors

Policy for Determining Executive Compensation Amounts

Total compensation in each executive category, be it director or corporate auditor, is determined in line with the equity transfer plan drawn up when the Company was established. Remuneration for directors is set by the Board of Directors within the scope of total compensation, as stated above, based on Company regulations, and takes into account such factors as service level and contribution to the Company's business results. Remuneration for corporate auditors is set by the Board of Corporate Auditors within the scope of total compensation, as stated above, and reflects such factors as the job description of the individual

and the responsibilities so carried. With the objective to encourage directors to be more aware of their contributions to the improvement of the Group's business results over the medium to long term as well as enhanced corporate value, the Company introduced a stock-compensation-type stock options program, which was approved by an extraordinary meeting of the Board of Directors on March 30, 2012. The retirement benefits system for directors that preceded the introduction of this program was subsequently abolished.

Total compensation by executive category, total amount by type of compensation, and number of qualifying executives

Executive category	Total compensation (Millions of yen)	Breakdown of compensation by type (Millions of yen)			No. of qualifying executives
		Basic remuneration	Stock options	Bonuses	
Directors (Excluding outside directors)	178	129	33	15	7
Corporate auditors (Excluding outside corporate auditors)	18	16	—	1	1
Outside corporate auditors	13	13	—	—	2

Directors and Corporate Auditors

Directors



Satosbi Suzuki
Representative Director,
President

Motto:

Find happiness in giving happiness

April 1979 Joined Honda R&D Co., Ltd.
May 1986 Joined POLA Cosmetics, Inc. (currently POLA INC.)
Manager, General Coordination Office, POLA Cosmetics
February 1996 Director, POLA Cosmetics
Director, POLA CHEMICAL INDUSTRIES INC.
June 1996 Representative Director, President, POLA CHEMICAL INDUSTRIES
January 2000 Representative Director, President, POLA Cosmetics (currently POLA)
September 2006 Representative Director, President, POLA ORBIS HOLDINGS INC. (current)
April 2010 Representative Director, Chairman, POLA (current)



Naoki Kume
Director, Vice President

Motto:

What doesn't kill you makes you stronger

April 1984 Joined POLA Cosmetics, Inc. (currently POLA INC.)
October 2004 General Manager, Accounting Division, POLA Cosmetics
April 2005 Corporate Officer, POLA Cosmetics
January 2007 Director, POLA Cosmetics
Corporate Officer, POLA ORBIS HOLDINGS INC.
January 2008 Director, POLA ORBIS HOLDINGS
July 2011 Director, H2O PLUS HOLDINGS, LLC (currently H2O PLUS HOLDINGS INC.) (current)
February 2012 Director, Jurlique International Pty Ltd (current)
January 2013 Director, ORLANE JAPON INC. (current)
Director, ACRO INC. (current)
January 2014 Director, Vice President, POLA ORBIS HOLDINGS (current)



Akira Fujii
Director

Motto:

Be yourself

April 1979 Joined POLA Cosmetics, Inc. (currently POLA INC.)
September 2000 General Manager, Fashion Business, Planning and Sales Division, POLA Cosmetics
January 2004 Representative Director, President, Osaka POLA
April 2005 Corporate Officer, POLA Cosmetics (currently POLA)
January 2007 Director, POLA Cosmetics (current)
March 2008 Director, POLA ORBIS HOLDINGS INC. (current)



Hiroki Suzuki
Director

Motto:

He who does not pause to consider what is distant shall find sorrow near at hand

April 1977 Joined POLA Cosmetics, Inc. (currently POLA INC.)
January 2004 Representative Director, President, Nagoya POLA
April 2005 Corporate Officer, POLA Cosmetics (currently POLA)
January 2007 Director, POLA Cosmetics
January 2009 Director, Vice President, POLA
March 2009 Director, POLA ORBIS HOLDINGS INC. (current)
April 2010 Representative Director, President, POLA (current)



Yasuo Iwazaki
Director

Motto:

Creativity opens the door to new worlds

April 1974 Joined POLA CHEMICAL INDUSTRIES INC.
May 1998 Head of R&D Center in production technology, POLA CHEMICAL INDUSTRIES
March 2005 Director, POLA CHEMICAL INDUSTRIES
January 2007 Director, Vice President, POLA CHEMICAL INDUSTRIES
January 2009 Representative Director, President, POLA CHEMICAL INDUSTRIES (current)
March 2009 Director, POLA ORBIS HOLDINGS INC. (current)



Takao Miura
Director

Motto:

Revere heaven, love mankind

April 1984 Joined POLA Cosmetics, Inc. (currently POLA INC.)
March 1994 Head, Secretariat, POLA Cosmetics
January 2002 Corporate Officer, POLA Cosmetics
March 2005 Director, POLA Cosmetics
January 2007 Corporate Officer, POLA ORBIS HOLDINGS INC.
January 2008 Director, POLA ORBIS HOLDINGS
January 2009 Director, Vice President, POLA ORBIS HOLDINGS
January 2013 Director, Senior Executive Vice President, POLA CHEMICAL INDUSTRIES INC. (current)
Director, POLA ORBIS HOLDINGS (current)



Tsuneo Machida
Director

Motto:

Think globally, act locally

April 1978 Joined POLA Cosmetics, Inc. (currently POLA INC.)
March 1997 Representative Director, President, POLA Fukui Sales
July 1998 Representative Director, President, POLA Yamaguchi Sales
January 2005 East Tokyo Area Manager, POLA Sales, Inc.
April 2005 Corporate Officer, POLA Cosmetics (currently POLA)
January 2009 Director, POLA
January 2012 Representative Director, President, ORBIS Inc. (current)
March 2012 Director, POLA ORBIS HOLDINGS INC. (current)

Corporate Auditors



Kuniaki Hoshi
Corporate Auditor

Motto:

Always aspire to something greater

April 1973 Joined POLA Cosmetics, Inc. (currently POLA INC.)
February 1998 Representative Director, President, POLA Shizuoka Sales
January 2002 Representative Director, President, Shikoku POLA
January 2005 Corporate Officer, POLA Cosmetics (currently POLA)
January 2007 Corporate Officer, POLA Cosmetics
January 2009 Director, POLA
March 2011 Corporate Auditor, POLA (current)
March 2012 Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)



Akio Sato
Outside Corporate Auditor

Motto:

Always do your best

April 1997 Registered as an attorney at law (Daini Tokyo Bar Association)
March 2003 Opened Sato Sogo Law Office
April 2005 Concurrent Lecturer, Faculty of Law and Law Research Department, Law School, Surugadai University
June 2005 Auditor (External), AMUSE, Inc.
March 2007 External Auditor, GMO Hosting & Security, Inc. (currently GMO CLOUD K.K.) (current)
June 2007 Outside Corporate Auditor, Infoteria Corporation (current)
March 2008 Outside Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)
December 2008 Outside Director, GMO Payment Gateway, Inc. (current)
January 2012 Outside Director, GMO CLICK Holdings, Inc. (current)
April 2013 Part-time Lecturer, Keio Business School (current)
June 2013 Outside Corporate Auditor, The Tokyo Tomin Bank, Limited (current)



Motobiko Nakamura
Outside Corporate Auditor

Motto:

Cool head, but warm heart

October 1990 Joined Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)
August 1994 Registered as a certified public accountant
August 2003 Opened Certified Public Accountant Nakamura Office
October 2003 Registered as a tax accountant
June 2007 Independent Committee Member, Takachiho Electric Co., Ltd. (currently Elematec Corporation)
July 2007 Partner, Mai Tax Accountant Corporation (current)
October 2008 Outside Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)
July 2010 Council Member, The Japanese Institute of Certified Public Accountants (JICPA)
March 2011 Outside Corporate Auditor, KAYAC Inc. (current)
July 2013 Chief Executive, JICPA (current)

Note: Akio Sato and Motobiko Nakamura are Outside Auditors as stipulated in Article 2, Paragraph 16 of Japan's Companies Act.

Messages from a Director and an Outside Corporate Auditor

A Director's Thoughts



Our focus is on improving governance at overseas subsidiaries and building a shared Groupwide platform

Akira Fujii
Director

At POLA ORBIS HOLDINGS, we adhere to a multi-brand strategy and our approach to business is therefore built upon respect for the independence of each operating company. At the same time, we have established a corporate governance structure that allows the Group to observe shared values and integrate strategies for growth. Specifically, a Group Strategy Meeting is held at least once every month. These meetings are attended by the Company's directors and corporate auditors as well as the top executives of key subsidiaries and provide a venue for tracking progress at each company, discussing issues requiring attention and deciding on investments from the perspective of overall optimization of resources.

In addition, domestic subsidiaries focusing on sales through their own channels have become able to pinpoint the status of their business on a daily basis, and this has enabled each company to fine-tune business practices with extreme precision. However, the situation at Jurlique and H2O PLUS, which form the core of our overseas operations, is different. These subsidiaries were quickly integrated into the Group after acquisition, and the essential aspects of integration have been completed. Both

companies' brands, however, have charted rapid growth over an extensive market landscape through several channels, which requires more attention than domestic subsidiaries need at this time. In our internal auditing activities, Jurlique and H2O PLUS were priorities, and we identified several key issues through the internal auditing process. To resolve these issues, we have increased the frequency of teleconferencing opportunities with local management and have sent head office staff with financial expertise to these subsidiaries to help improve the accuracy of managing budgets and analyzing results. This kind of support will reinforce the business management/information collection structure.

In regard to compliance and risk management, POLA ORBIS HOLDINGS seeks to establish mechanisms to ensure consistency in standards and concepts throughout the Group. This effort includes shared compliance guidelines, employee satisfaction surveys, and an employee helpline.

Through these approaches, we will raise our stature ever closer to that of a global enterprise on many levels, including corporate governance.

An Outside Corporate Auditor's Thoughts



The key is to improve the quality of communication with local staff overseas

Akio Sato
Outside Corporate Auditor

Since I assumed my position as an outside corporate auditor, I have seen the POLA ORBIS Group undergo significant changes. As an outside corporate auditor, I believe my primary function is to apply my external perspective—that is, experience not accessible to people inside the organization—to enhance management decisions on governance, compliance, and other internal controls. I play an active role at Group Strategy Meetings and other executive meetings, enthusiastically offering opinions based on my background as a lawyer and having witnessed various corporate reforms.

Of the major changes that have taken place within the POLA ORBIS Group in the last few years, a particularly noticeable development is the push toward globalization through the acquisition of overseas companies. I have been involved in the overseas expansion of several companies in my career, and I feel the key to successful globalization is the quality of communication with local staff. Good governance and compliance practices at overseas subsidiaries are also the result of positive communication at the local level. That is where it all starts.

POLA ORBIS HOLDINGS brings top management from overseas subsidiaries to Japan several times a year to participate at Group Strategy Meetings. Staff from the Company and domestic subsidiaries are also sent overseas to offer assistance. Going forward, I think the Company should strive to enhance communication practices even more, perhaps through active personnel exchanges at the divisional level and through teleconferencing.