POLA ORBIS
HOLDINGS

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.

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

THREE

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.

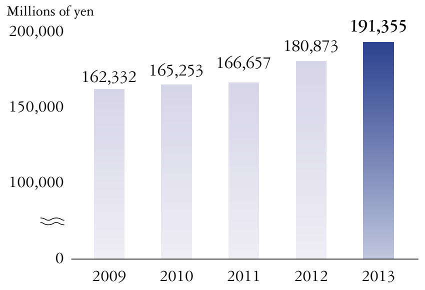
Contents

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.

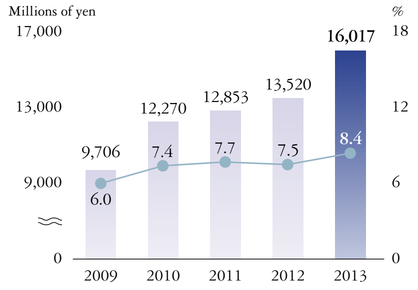
Financial Highlights

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

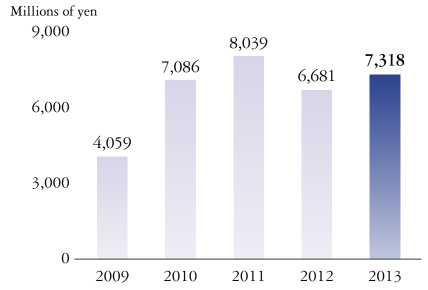
Net Sales



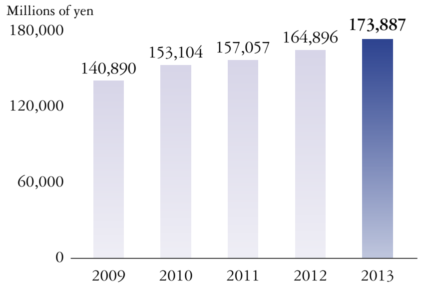
Operating Income and Operating Margin



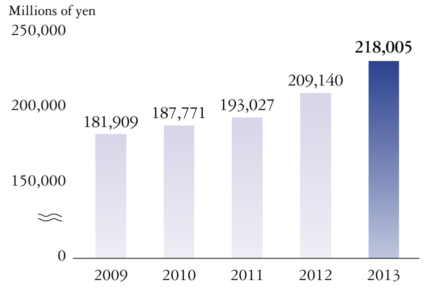
Net Income



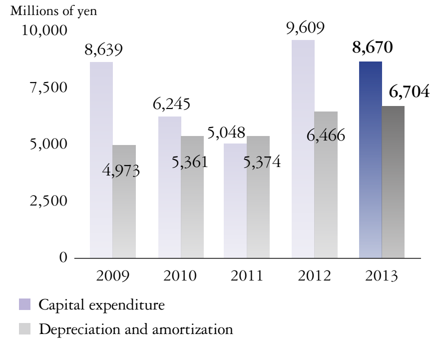
Net Assets



Total Assets

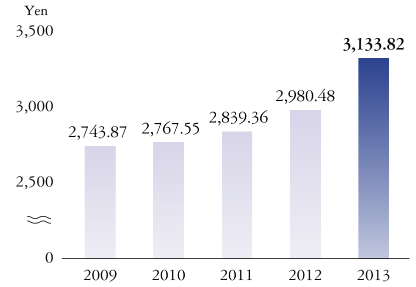


Capital Expenditure and Depreciation and Amortization



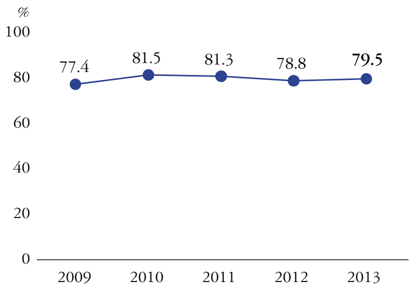
Net Income per Share

Net Assets per Share

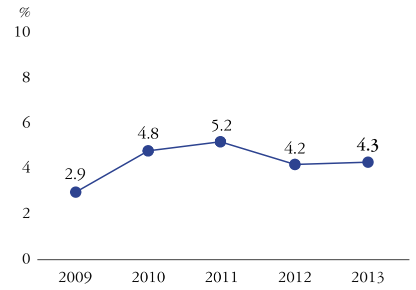


Cash Dividends per Share

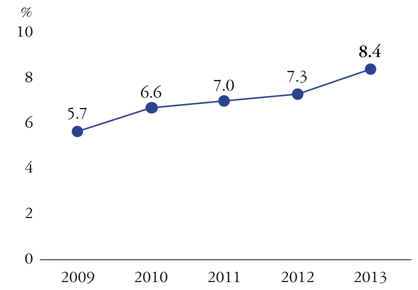
Equity Ratio



Return on Equity



Return on Assets

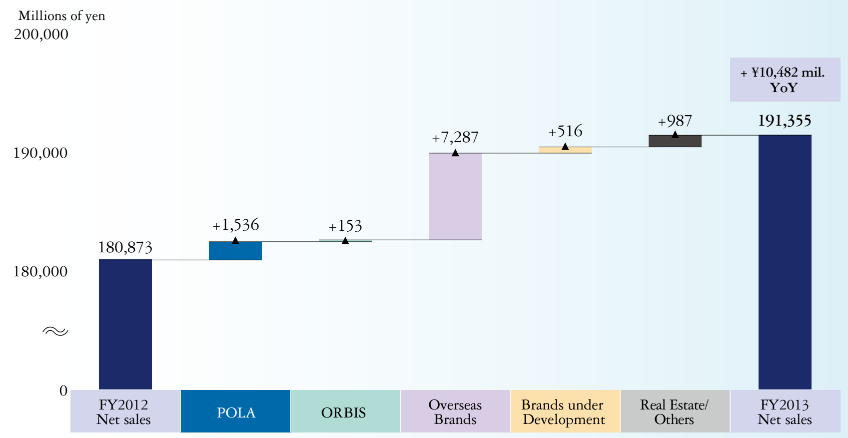


Five-Year Summary of Selected Financial Data

Years ended December 31	2009	2010	2011	2012	2013	2013
	Millions of yen (Except per share data)					Thousands of U.S. dollars*1 (Except per share data)
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.

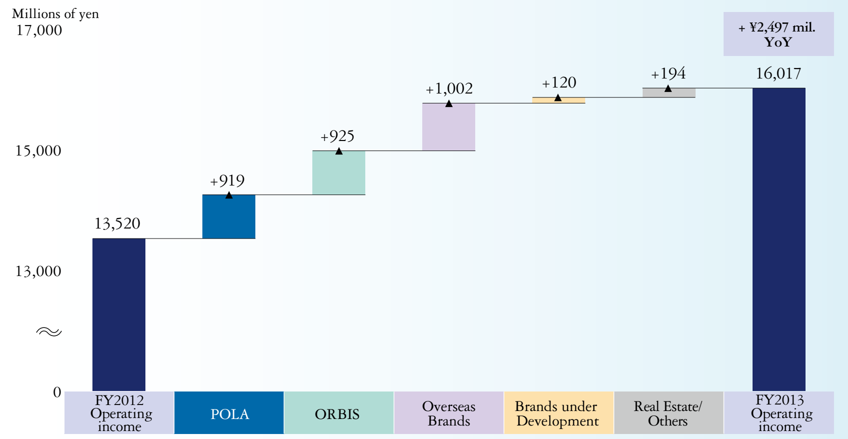
Factors Impacting Net Sales



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

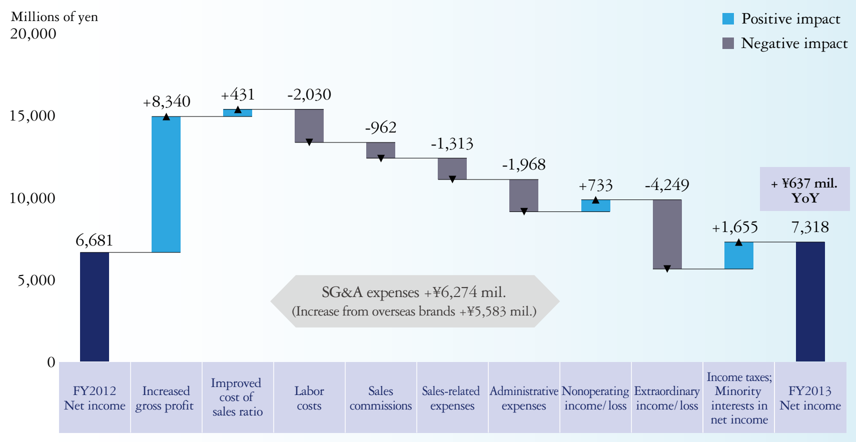


Note: The year-on-year change of ¥(664) million in reconciliations is not shown.

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.

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

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.

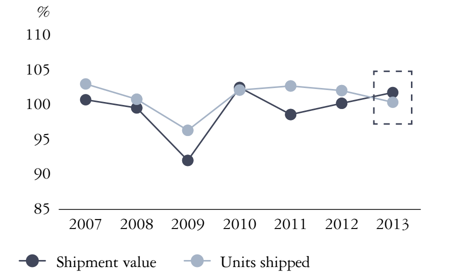
Domestic Operations In the cosmetics industry, the year was marked by a steady stream of striking developments. Most notably, the cosmetics market showed signs of regaining ground, which paralleled recovery in the domestic economy, while spending per customer, which had been sluggish ever since the financial 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.

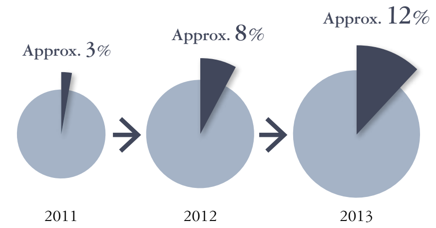
Despite steady progress, overseas operations did not reach the stated profit target. One reason tracks back to H2O PLUS. The company has pursued aggressive expansion since joining the Group, highlighted by rebranding efforts, a change in agent in China, and the establishment of a joint venture. In spite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

Future Study 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.

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?

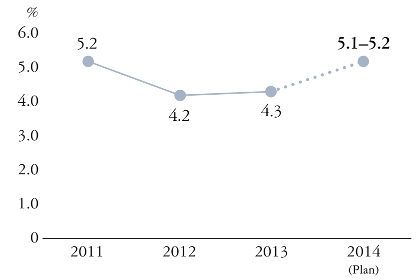
A We seek to be a truly global company, and toward this end we will emphasize three key issues: profitable growth in overseas operations, higher capital efficiency, and enhanced shareholder return.

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.

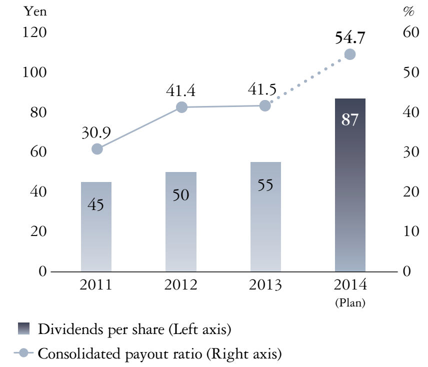
Profitable growth is a critically important issue to the Group as a whole but particularly so as it pertains to our overseas brands Jurlique and H2O PLUS. To date, the emphasis has been on improving brand recognition and boosting sales, primarily through aggressive store openings. Going forward, though, 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."

Return on Equity



Annual Dividend and Payout Ratio



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

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

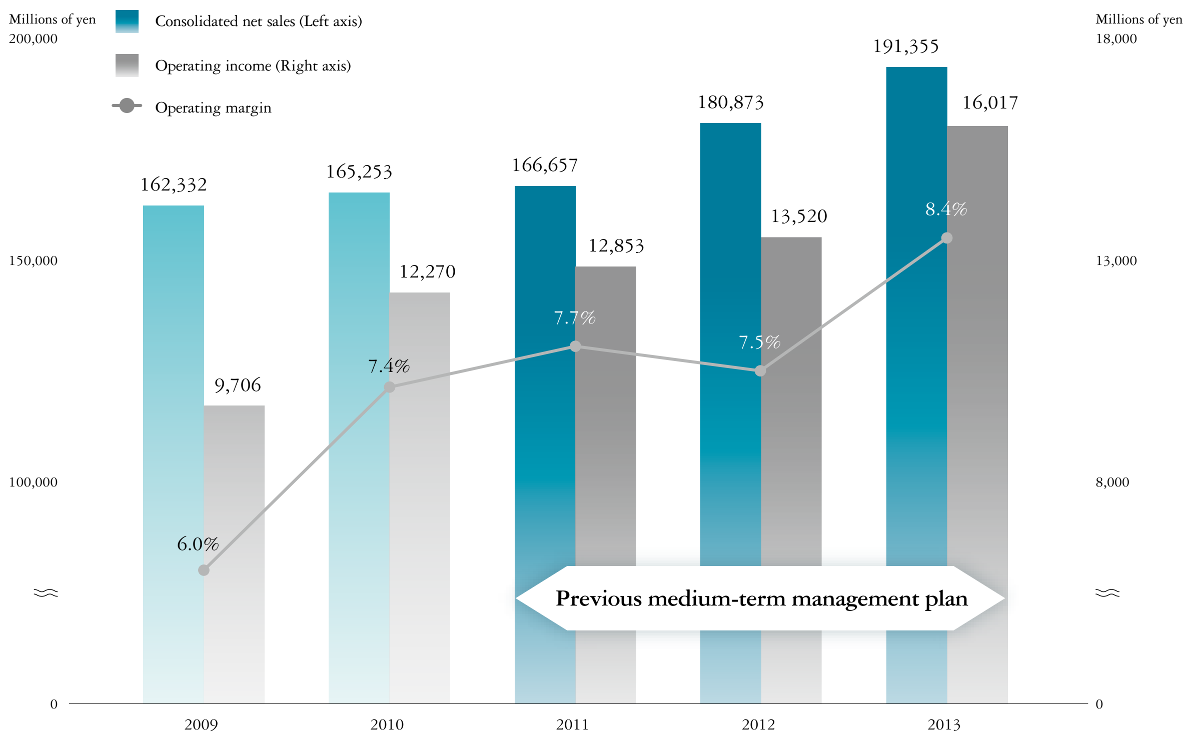
		Goal		Result	Evaluation
Management indicators	Consolidated net sales	CAGR* 2%–3%	▶	CAGR 5.0%	Excelled
	Operating income	CAGR 10%	▶	CAGR 9.3%	Fell short
	Operating margin	9% (10% for domestic business)	▶	8.4% (11.4% for domestic business)	Fell short

* Compound annual growth rate

		Strategy	Evaluation
Growth strategies	Strategy 1	Generate stable profits with flagship brands	Excelled
	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

	2010		2013
Overseas sales ratio	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.

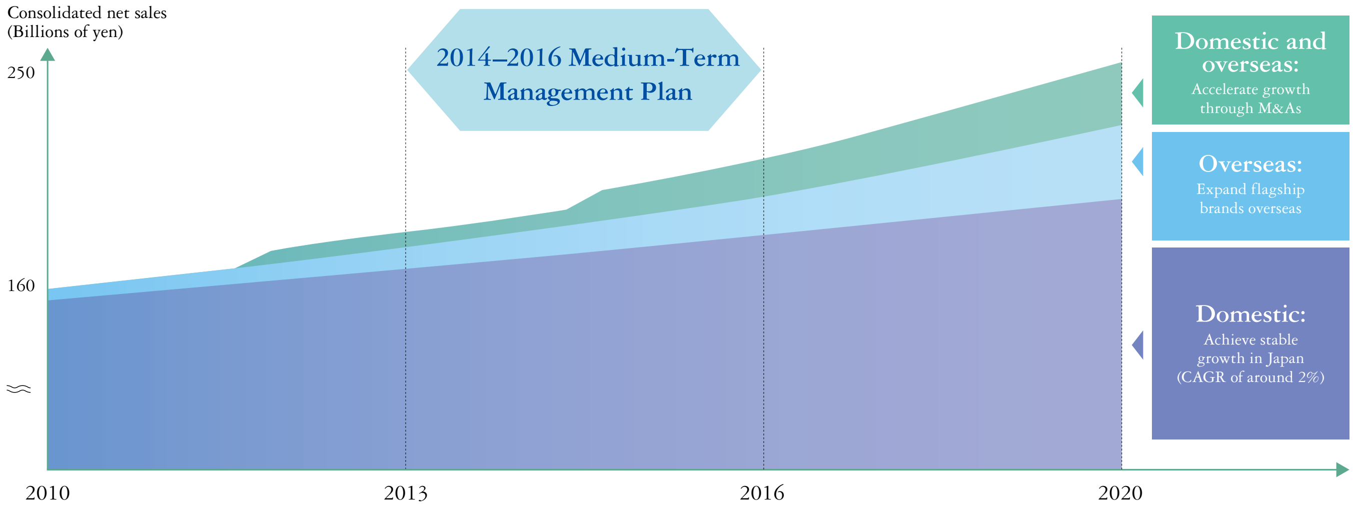
In the second stage of our transformation, we will strive to raise corporate value even higher and we will work to achieve our new targets.

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



1st STAGE	2nd STAGE	3rd STAGE
Generate stable domestic profits and create a successful business model overseas	Further strengthen domestic earnings structure and accelerate overseas expansion	Become a "highly profitable global company"
FY2013 Results	**Goals for FY2016**	**Goals for FY2020**
Net sales ¥191.3 billion	Net sales ¥210.0 billion	Net sales ¥250.0 billion or higher
Overseas sales ratio 12.2%	Overseas sales ratio 15% or higher	Overseas sales ratio 20% or higher
Operating margin 8.4%	Operating margin 11% 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

- Consolidated net sales ▶ CAGR 3%–4% (¥210.0 billion in FY2016)
- Overseas sales ratio ▶ 15% or higher in FY2016

Capital efficiency

- Target for ROE ▶ 8% or higher in FY2016

Operating income

- Operating income ▶ CAGR 15% or higher
- Operating margin ▶ 11% or higher in FY2016

Shareholder return

- Consolidated payout ratio ▶ 50% or higher from FY2014

Domestic

- Strategy 1: Sustain stable growth of flagship brands to lead Group earnings → P22
- Strategy 2: Sales growth and monetization of brands under development → P23

Overseas

- Strategy 3: Overseas brands contributing to profitability through high sales growth → P24
- Strategy 4: Restructure overseas expansion of flagship brands → P25

- Strategy 5: Strengthen operations (Human resources, R&D, and production) → P26
- Strategy 6: Improve capital efficiency and shareholder return → P27

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.

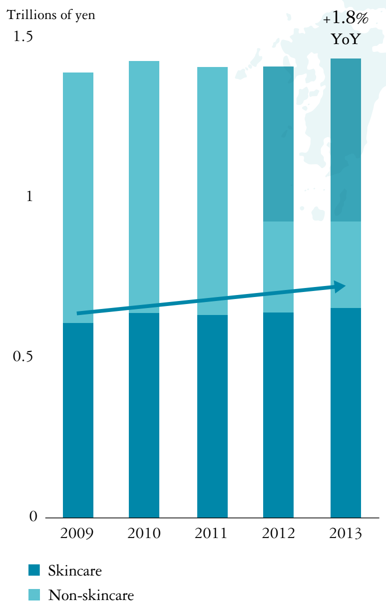
Trends in the Cosmetics Market

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.

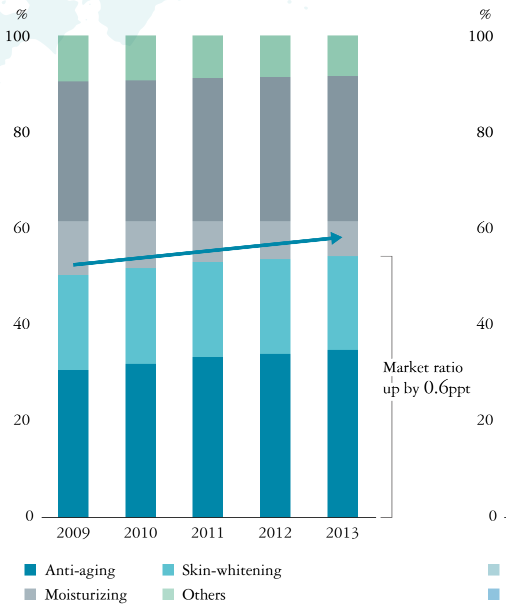
We can expect results exceeding the market growth rate in our areas of expertise—skincare, performance cosmetics, and high-priced prestige products.

Domestic Cosmetics Shipments



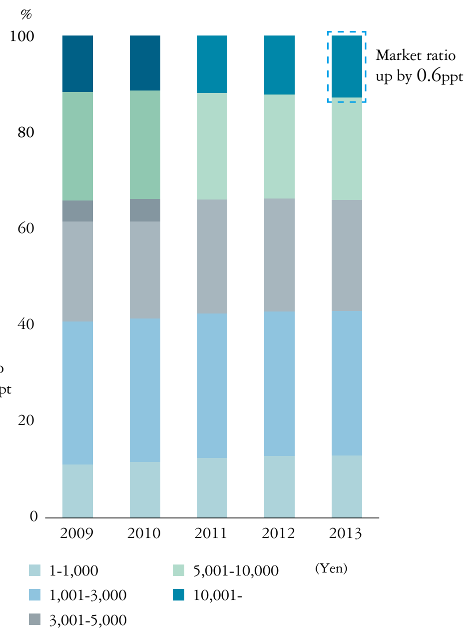
Source: Current Survey of Production, Ministry of Economy, Trade and Industry

Skincare Market by Product Function



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

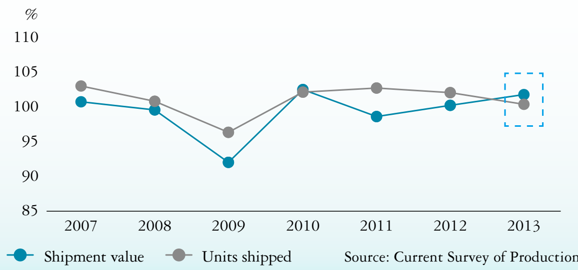
Skincare Market by Price Range



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%	● 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%	● 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%	● 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%	● 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%	● 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	• 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	• 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	• 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	• Launch *ORBIS=U* as the symbol of a revitalized brand and thereby generate renewed interest in the OIL-FREE concept to strengthen brand image ▸ Reach out to a new customer segment by promoting *ORBIS=U* 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	• Increase online sales ratio to achieve greater cost efficiency
Communication with Customers	• 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

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.

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

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

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.

Yasushi Ishibashi
President of ACRO INC.

About the Plan

Overseas Strategies

Strategy 3 Overseas brands contributing to profitability through high sales growth

Realize profitable expansion centered in Asia

Jurlique

Forecast

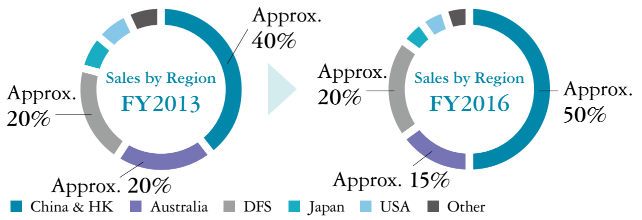
(Millions of AUD)

Net Sales		Operating Margin	
FY2013 Result	FY2016 Goal (CAGR)	FY2013 Result	FY2016 Goal
157	+15%	–*1	8% or higher*2

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

Growth Strategy

	CAGR	Key Agenda
China	+30%	• Continue to open approx. 20 stores per year • Reinvigorate existing stores and increase repeat customers ▸ Implement CRM tool ▸ Introduce new products (anti-aging and skin-whitening) • Seek new sales channels (wholesale and online)
Hong Kong	+5%	• Open 1 to 2 stores per year, mainly in high-end shopping malls
Australia	+5%	• Reconsider distributions to aim for higher brand stage and profitability
Duty Free Shops (DFS)	+15%	• Open approx. 10 stores per year in Asia, EU, etc. • Increase sales by raising brand presence in China and Hong Kong



H2O+

Forecast

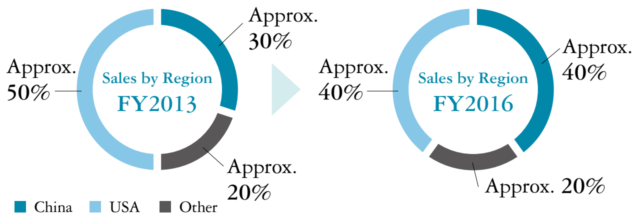
(Millions of USD)

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

Growth Strategy

	CAGR	Key Agenda
China	+30%	• 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%	• Increase shipments to stores specializing in cosmetics (perfumery chains) in Russia • Enter new markets in Asia and South America
North America	+5%	• 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

• 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

Key Regions	China	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
	Russia	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)

POLA store in China

ORBIS

• 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	Anticipate increase in online sales, fueled by sustained interest in skincare
	ASEAN	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

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

About the Plan

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.

Fukuroi Factory in Shizuoka Prefecture

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

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%

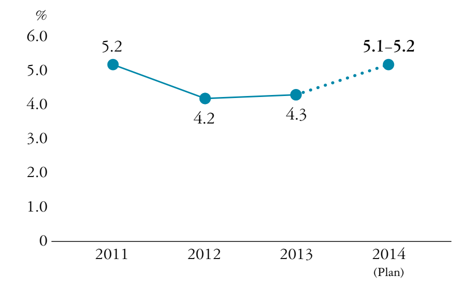
EPS
Earnings per share

- 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

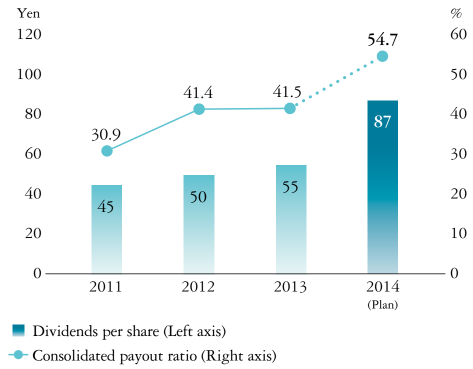
Dividends per Share for Fiscal 2014 (Plan)

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

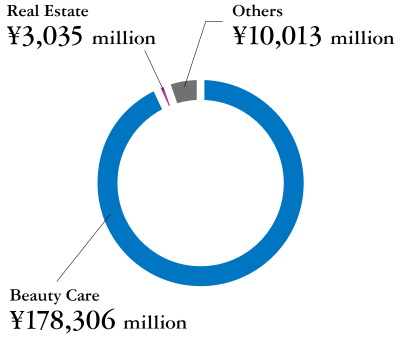
Consolidated Net Sales

¥191,355 million

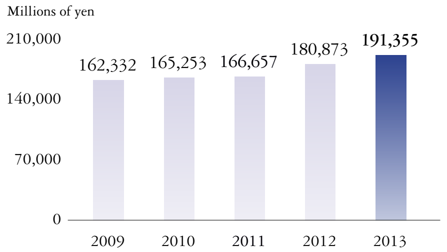
Consolidated Operating Income

¥16,017 million

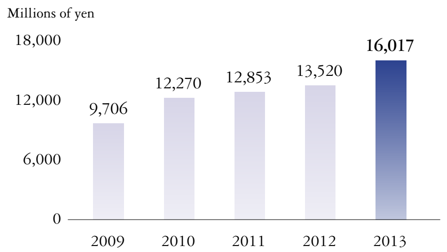
Net Sales Breakdown by Business Segment



Consolidated Net Sales



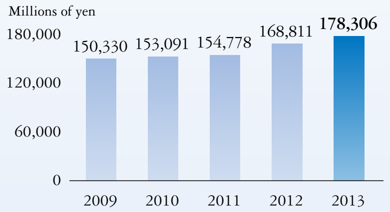
Consolidated Operating Income



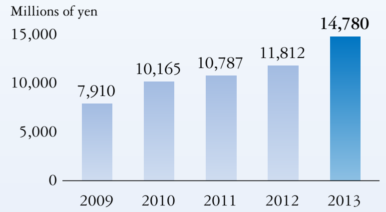
Beauty Care

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

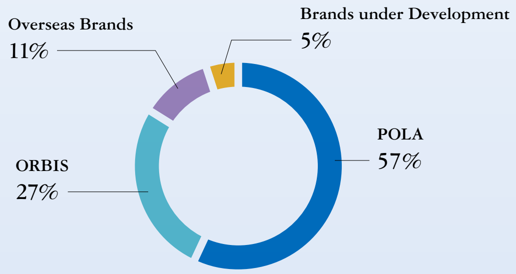
Net Sales



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.

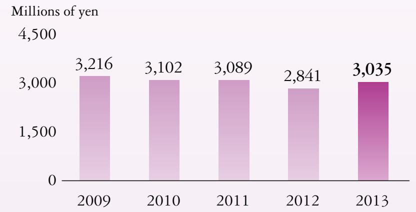
Operating income jumped 25.1%, to ¥14,780 million. The significant increase reflects a lower cost of sales ratio and greater cost-efficiency at POLA and ORBIS, as well as narrowing losses for overseas brands.

P30 POLA
P32 ORBIS
P34 Overseas Brands
Jurlique
h2O+
P35 Brands under Development
THREE
FUTURE LABO
ORLANE PARIS
pdc
decencia

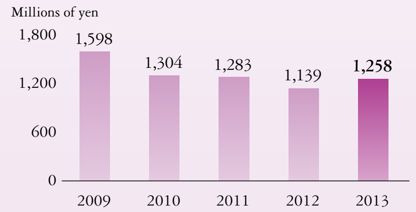
Real Estate

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.

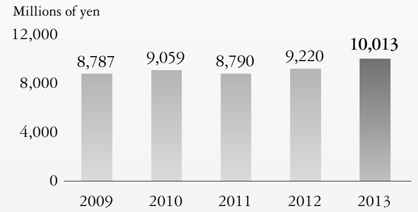
In the end, occupancy rates rose and net sales and operating income grew over the previous fiscal year.

Brote Ookurayama in Kanagawa Prefecture

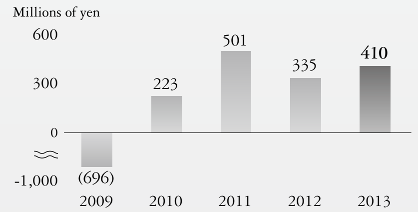
Others

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

Strengths

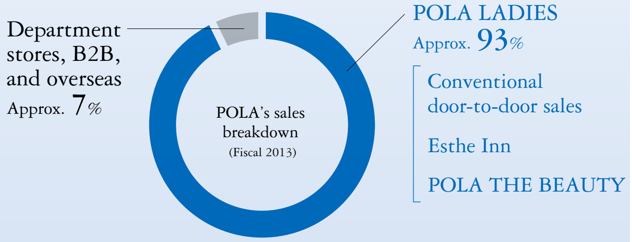
Approximately 14 million skin analysis data entries

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

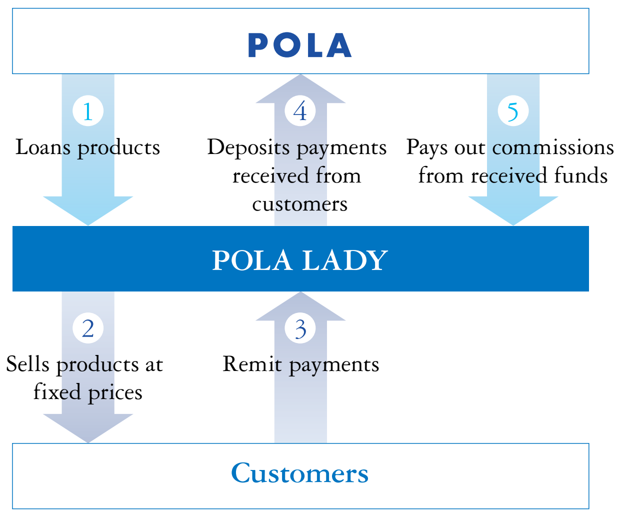
Consulting-based sales activities by a nationwide network of 150,000 exclusive sales representatives—POLA LADIES—underpin solid customer relationships that generate steady sales regardless of downturns in the external environment.

Sales Channels



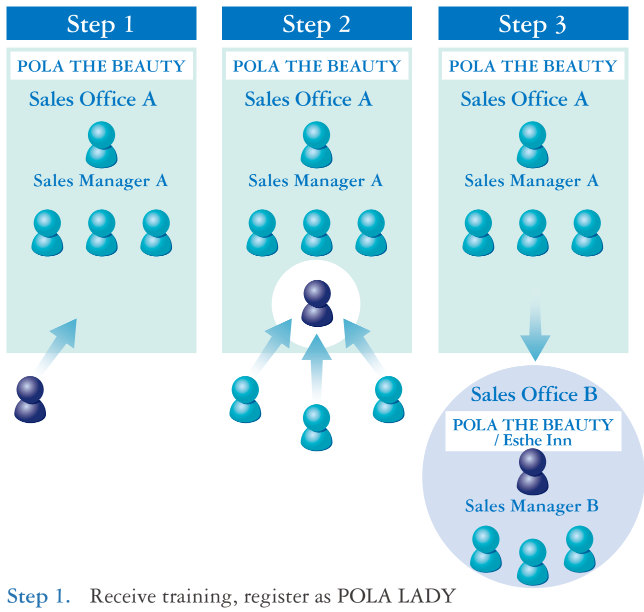
(Overseas development includes market presence in China, Thailand, Taiwan, and Russia)

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



Step 1. Receive training, register as POLA LADY

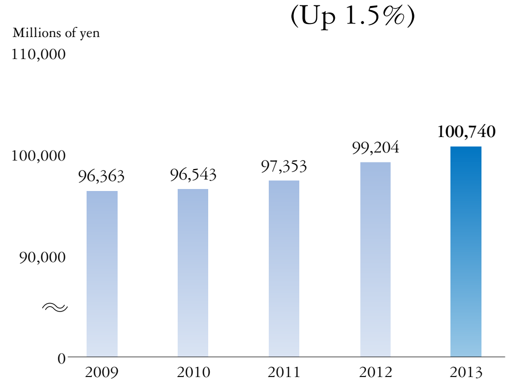
Step 2. Recruit new POLA LADIES while securing new customers

Step 3. 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)

Net Sales

¥100,740 million

(Up 1.5%)

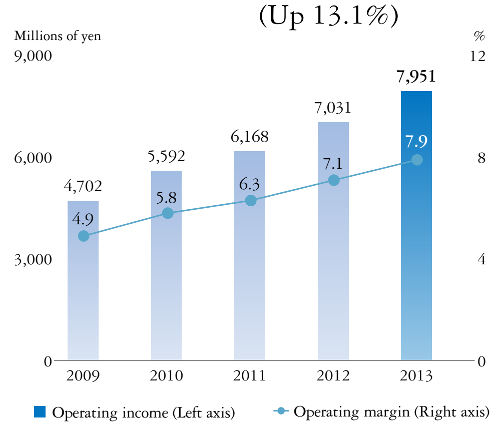


Note: Consolidated basis

Operating Income and Operating Margin

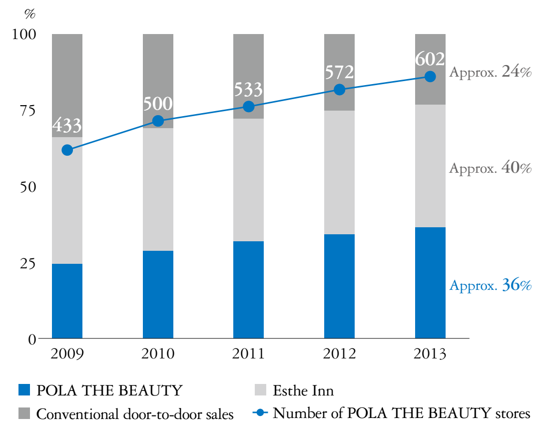
¥7,951 million

(Up 13.1%)



Note: Consolidated basis

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



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%

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%.

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.

Business Overview

ORBIS

Skincare brand based on original OIL-FREE concept

AQUA FORCE series

Strengths

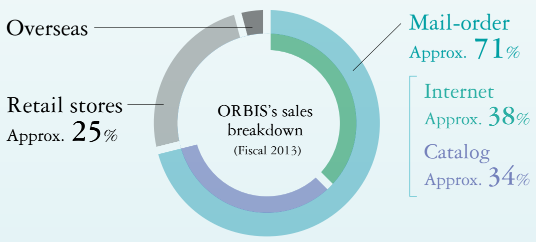
Original OIL-FREE skincare

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.

Sales Channels



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

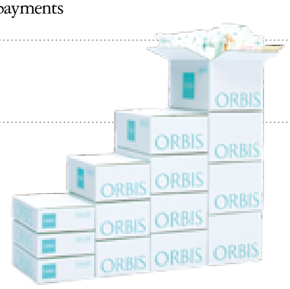
Fulfillment System

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 Convenience store pickup service	Next-day delivery nationwide (same-day delivery in some areas) 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

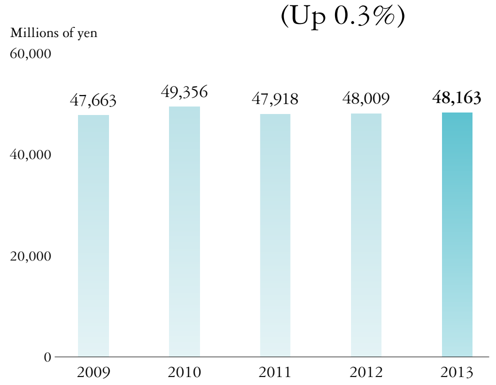
3. Services
- Realize two-point distribution center—east and west
- Ensure next-day delivery nationwide (same-day delivery in some areas)
- Reduce fixed costs and delivery expenses

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

Customers

Sales per customer	Repeat rate
Up 3.0%	Up 1.1ppt

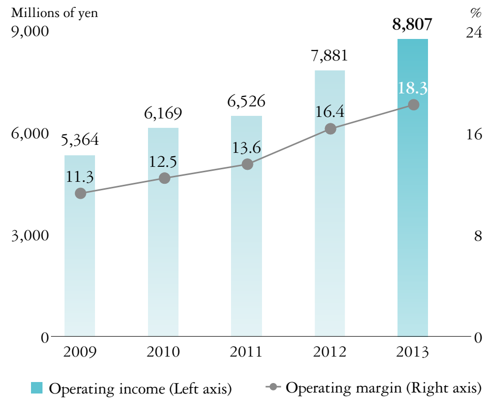
Sales Channels

Ratio of online sales to total sales

Up 0.8ppt

Operating Income and Operating Margin

¥8,807 million
(Up 11.7%)

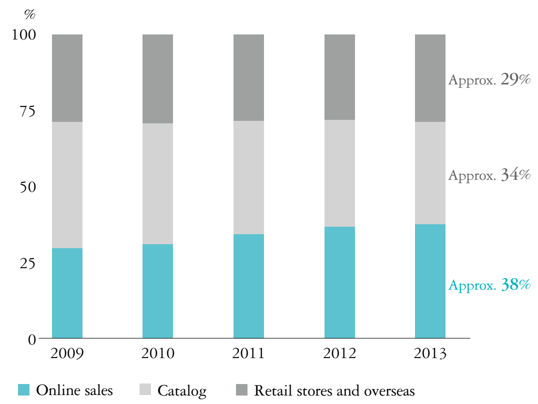


Note: Consolidated basis

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.

Sales Breakdown by Sales Channel



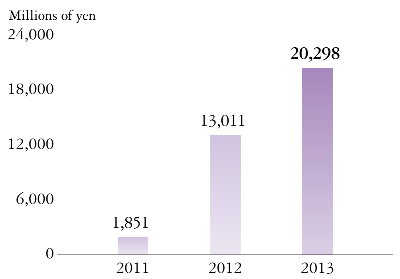
ORBIS, which had developed a market presence mainly through mail-order sales, changed its approach in 1999 with the launch of online sales activities, blazing the trail in Japan's cosmetics industry. A low fixed cost mail-order business to begin with, ORBIS has been able to whittle down its catalog-related 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

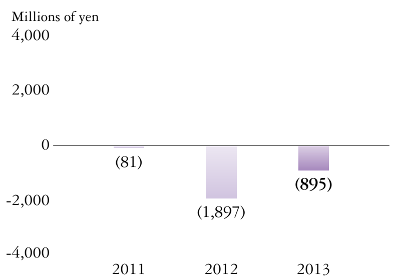
Net Sales

¥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.

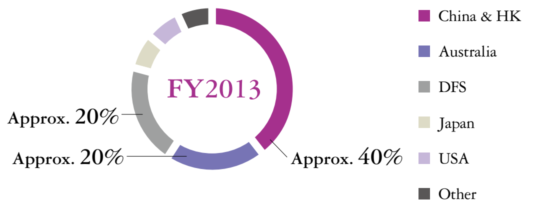
The loss situation should be resolved through further reevaluation of the company's structure, with an emphasis on sales promotions at stores and new product introductions through a joint venture in China.

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

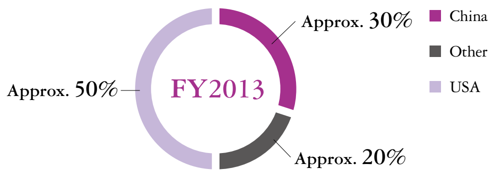


H2O+

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

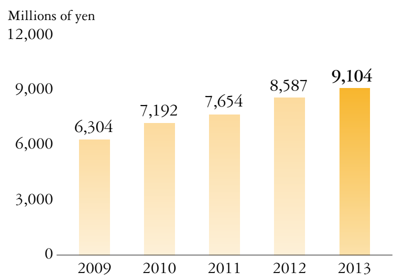
Sales by Region



Brands under Development

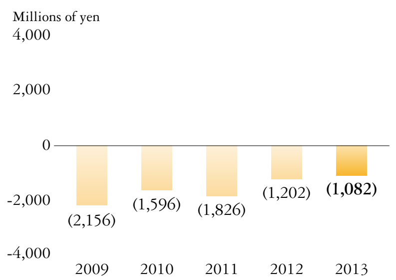
Net Sales

¥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.


Winning Poster Award at 27th IFSCC Congress

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.





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.



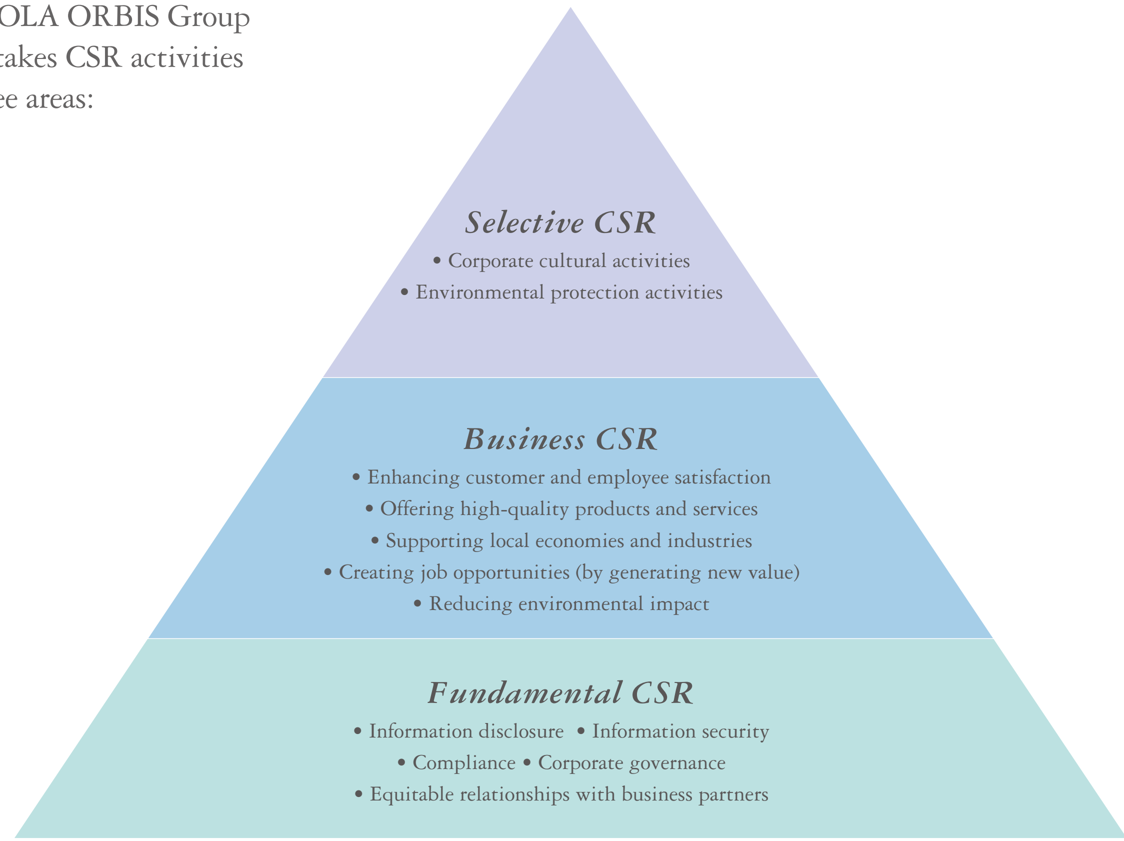


Corporate Social Responsibility

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:



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

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	
			Promoted understanding and awareness of risks hidden in social media	
			Prevented relations with antisocial forces	
		Continuation of CSR Education	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	
			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	
	Achieving Further Progress in Collaboration with Suppliers	Strengthening Links with Suppliers and Business Partners	Supported development of next generation of female entrepreneurs and leaders	★★★
			Worked with stores to better deal with customers and enhance service	
			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	
		Working with Business Partners to Support Women's Lifestyles	Initiated the AAA Award as an element in activities to support women's lifestyles	★★★
	Enhancing Employee Satisfaction	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	
			Held joint Family Day events at four Group companies to help employees' families understand the work environment	
		Developing an Environment That Supports Women	Actively supported female employees in their career advancement	★★★
			Made ongoing efforts to support child-rearing and obtained the "Kurumin" certification label	
		Developing Human Resources for the Future	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	
	Working with Communities	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	Contribution to Society	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 "ITSUMO – 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	
			Undertook support activities to develop beautiful forest trail at Mt. Gwanak, at ORBIS subsidiary in South Korea	
		Activities to Support Art and Culture	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 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.

Corporate Social Responsibility

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	• Management basics • Leadership and competency development • Business planning	• Managerial problem solving • Drafting proposals for new businesses	• 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 Ishioka
Coach
Dream Incubator Inc.
Organization & Leadership Development Practice Group
Manager

Environmental Activities

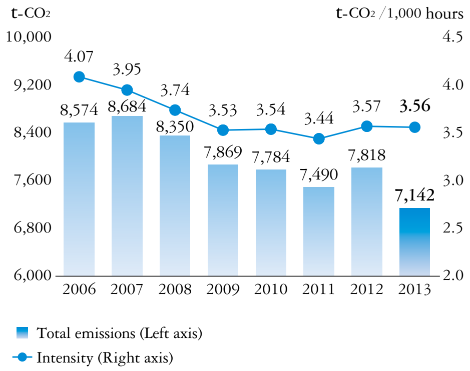
Operate production facilities with conscious approach to maintain harmony with environment

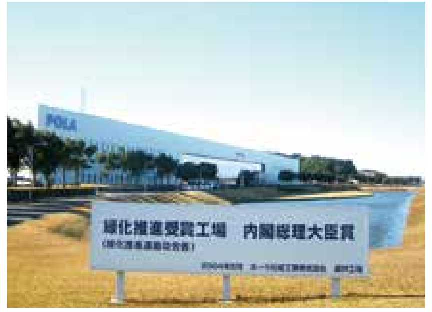
POLA CHEMICAL INDUSTRIES, which handles production for the POLA ORBIS Group, acquired ISO 14001 environmental management system certification in 2000 and has maintained a steadfast approach to addressing environmental issues since then. The company pinpoints the status of environmental impact, based 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 CO_2 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.

Changes in Production-Generated CO_2 Emissions





Fukuroi Factory in Shizuoka Prefecture

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

Menu for beautiful skin featuring local ingredients from Shimane Prefecture

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.

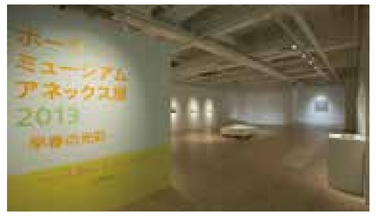
* Fungal infections of the skin: Ailments caused by yeasts or molds that infect the skin or live on the skin (e.g., Athlete's foot)

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.



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

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.

Toiletries on display

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 *hagiyaki*, a type of Japanese pottery most identifiable for its humble forms and use of translucent white glaze.

33rd POLA Traditional Culture Awards presentation ceremony

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.

"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.

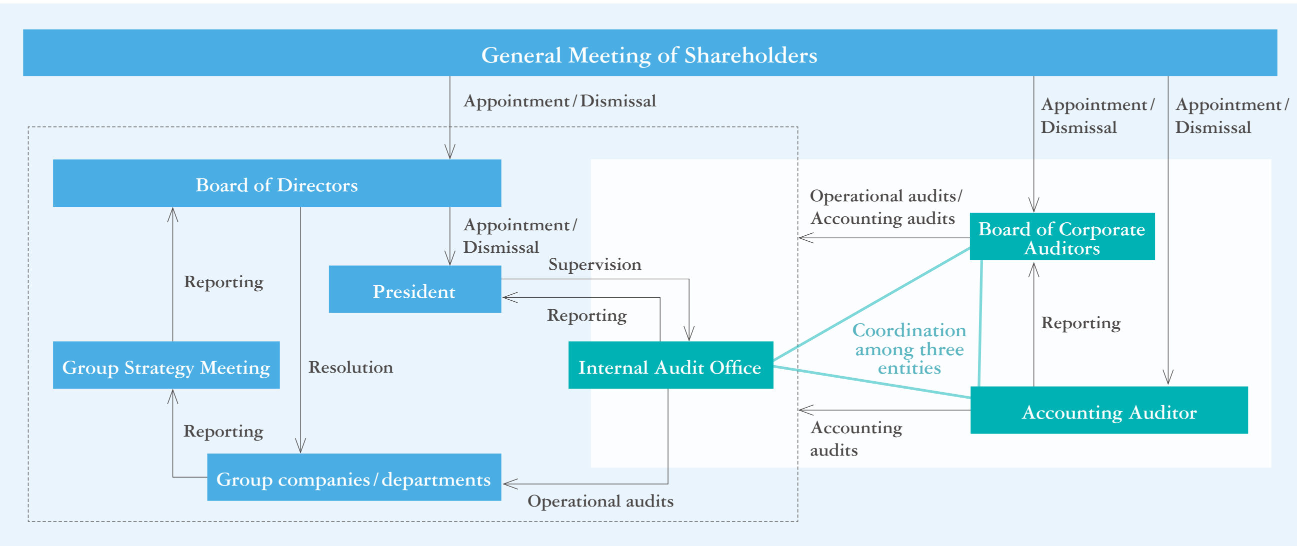
Structural overview

Functional structure	Company with a Board of Corporate Auditors
Number of directors/ term of office	7 directors/2 years 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.
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

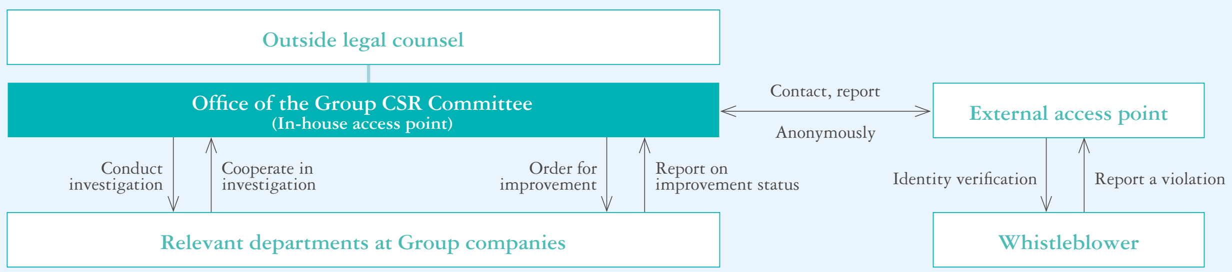
The Group CSR Committee is positioned directly below the Board of Directors to coordinate a compliance system across the Group. This system is further complemented at Group companies by the establishment of a CSR Office or the assignment of someone to the role of Chief CSR Officer, depending on corporate 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

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 and Corporate Auditors

Directors

Satoshi 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)

Motohiko 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 Motohiko 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.

Financial Section

Contents

Management's Discussion and Analysis

Summary of Business Results

In fiscal 2013, ended December 31, 2013, the domestic cosmetics market showed a favorable shift in demand on the whole, buoyed by signs of economic recovery. In overseas markets, specifically China and other parts of Asia, gradual growth was maintained overall despite a slowdown in consumer spending in China.

Against this market backdrop, the Group maintained the strategic perspective laid out by the Company in the medium-term management plan launched in 2011. Measures were directed toward reinforcing the profitability of domestic flagship brands and raising the profile of brands under development while building a stronger presence overseas, primarily through the Group's two overseas brands. The three-year plan concluded on a positive note, as the Company marked increases in consolidated net sales and operating income for fiscal 2013.

Analysis of Operating Results: Comparison of Fiscal 2013 and Fiscal 2012

Net sales

Net sales rose 5.8% year on year, to ¥191,355 million, primarily due to a dramatic improvement in overseas net sales coupled with the impact of a weaker yen against other currencies.

Cost of sales, and selling, general and administrative expenses

Cost of sales increased 4.6% year on year, to ¥38,655 million, due to higher net sales. The cost of sales ratio—cost of sales as a percentage of net sales—improved 0.2 percentage point, to 20.2%, primarily reflecting a lower cost ratio on flagship brands and the elimination of temporary expenses associated with the acquisition of Jurlique.

Selling, general and administrative expenses rose 4.8%, to ¥136,682 million, mainly owing to higher personnel costs and other administrative expenses associated with the expanding business scope of overseas brands. The ratio of selling, general and administrative expenses to net sales dropped 0.7 percentage point, to 71.4%, largely thanks to an aggressive Groupwide effort to cut costs through enhanced operating efficiency.

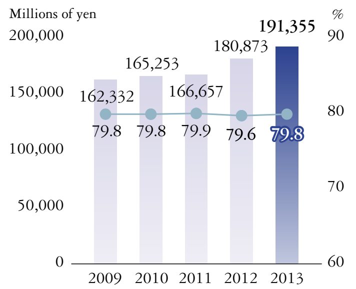
Operating income

Operating income jumped 18.5% year on year, to ¥16,017 million, fueled by better results from domestic brands and positive steps toward profitability for overseas brands. The operating margin rebounded 0.9 percentage point, to 8.4%.

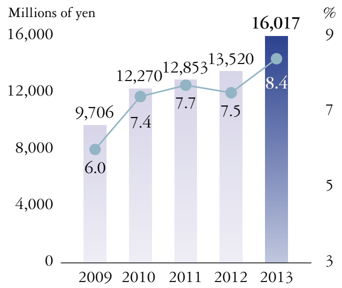
Income before income taxes and minority interests

Income before income taxes and minority interests fell 7.1% year on year, to ¥13,293 million. Other income from a gain on sales of non-current assets and a gain on sales of investment securities totaling ¥909 million was offset by other expenses, comprising an impairment

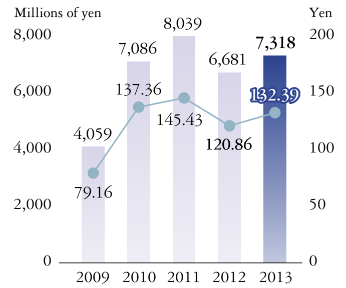
Net Sales and Gross Margin



Operating Income and Operating Margin



Net Income and Net Income per Share



loss of ¥3,057 million, mainly attributed to H2O PLUS; ¥1,030 million in loss on business liquidation associated with the withdrawal of the POLA brand from the U.S. market; and ¥931 million in business structure improvement expenses paralleling integration of the Shizuoka Factory under a single-facility structure.

Net income

Despite slower-than-anticipated improvement in H2O PLUS's earnings and an impairment loss on goodwill booked under other expenses, the Company still managed to post a 9.5% increase in net income, at ¥7,318 million.

Net income per share reached ¥132.39 in fiscal 2013, up from ¥120.86 in fiscal 2012. Return on equity also rose, moving from 4.2% to 4.3%.

Business Segment Performance

Beauty Care

The Beauty Care segment covers the flagship brands POLA and ORBIS, brands under development—pdc, FUTURE LABO, ORLANE, decencia, and THREE—and the overseas brands Jurlique and H2O PLUS.

POLA aggressively promoted its namesake brand at department store counters and through POLA THE BEAUTY stores, which integrate cosmetics, consulting, and facial esthetic treatments, and also took steps to elevate customer satisfaction, including increased contact with customers through expansion of the frontline door-to-door sales network and through better sales practices and consulting techniques. In Japan, POLA debuted *White Shot Clear Serum SX* in February 2013. This product made headlines as the first cosmetic product in the world targeting "aggressive lipidized melanin." In September, POLA added *B.A GRANDLUXE II* to its high-prestige *B.A* series as an evolution in anti-aging skincare for older women. Overseas, POLA marked favorable growth in sales at department stores in China, a key market for the brand, while continuing to build a larger network of stores handling its products in Russia, another key market. As a result, POLA posted year-on-year growth in net sales.

ORBIS continued with its brand-rebuilding efforts, focusing on measures to boost the ratio of customers who purchase products on a regular basis, enriching the lineup of skincare products, and reinforcing online sales. These efforts led to higher profitability. In the domestic market, the number of new customers dropped temporarily because the practice of discounting was curbed. But successful promotions spotlighting products with seasonal features, such as ultraviolet protection, and cleansing products prompted an increase in the number of items in each order and led to higher sales per customer, compared with fiscal 2012 results. On the profit front, the shift to a two-point logistics structure in the second half of fiscal 2012 contributed to perceptible cost-efficiency in fiscal 2013. Another noteworthy development for ORBIS was the August 2013 announcement that the company had secured No. 1 ranking in 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—in the mail-order sales category for the third consecutive year. Overseas, ORBIS continued to implement steps to raise brand recognition. To accelerate growth in the ASEAN region, the company established an office in strategically located Singapore in July. These various measures and results led to higher net sales for ORBIS in fiscal 2013.

Brands under development delivered another year-on-year improvement in sales, sustained by favorable demand for THREE, pdc, and decencia products.

In the overseas brands segment, Jurlique—acquired in February 2012—contributed a full year of results in fiscal 2013. Also of note, the company made further progress in China. H2O PLUS also raised its profile in China with the establishment of a joint venture in April 2013. These factors, along with the merits of a weaker yen against other currencies, helped boost yen-translated sales above the level recorded in fiscal 2012. Profit, however, fell below expectations, due to the impact of prior investments in China.

All told, Beauty Care net sales—sales to external customers—in fiscal 2013 rose 5.6% over fiscal 2012, to ¥178,306 million, and operating income jumped 25.1%, to ¥14,780 million.

Real Estate

In the Real Estate segment, the main objectives are to at least maintain but ideally raise rent levels and to shrink vacancy rates by creating attractive office environments, with a focus on office buildings in urban areas. The segment also promotes rental residential properties under a new business model targeting families with young children. Through marketing approaches designed to sustain rents and appeal to tenants, the segment achieved higher sales.

As a result, segment sales—sales to external customers—rose 6.8% over fiscal 2012, to ¥3,035 million, and operating income climbed 10.5%, to ¥1,258 million.

Others

The Others segment comprises the pharmaceuticals and building maintenance businesses.

The pharmaceuticals business draws on results accumulated by Group companies in research related to cosmetics and quasi-pharmaceuticals to develop and sell new drugs. Thus far, two products—*Lulicon*, an antifungal agent for topical application, and *DIVIGEL*, a treatment for menopausal symptoms—have successfully been brought to market. In addition, existing ethical pharmaceuticals, such as the laxative *Alosenn* and dermatological drugs, have been supplied to medical institutions including university hospitals throughout Japan. In fiscal 2013, the pharmaceuticals business continued its efforts in concentrating resources in the key dermatology field. The emphasis was rewarded with the launch of a new formulation of *Lulicon*, which fueled further growth in market share of this product. Demand for dermatological drugs also rose, with sales surpassing the level attained in fiscal 2012.

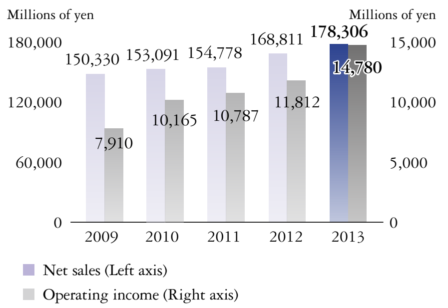
The building maintenance business caters primarily to the needs of Group companies. To attract more orders from outside the Group, the business emphasized marketing activities to sign up new customers for its services. Unfortunately, however, sales slipped below the fiscal 2012 level, due to falling unit prices on orders.

Overall, sales—sales to external customers—by businesses in the Others segment grew 8.6%, to ¥10,013 million, and operating income jumped 22.4%, to ¥410 million.

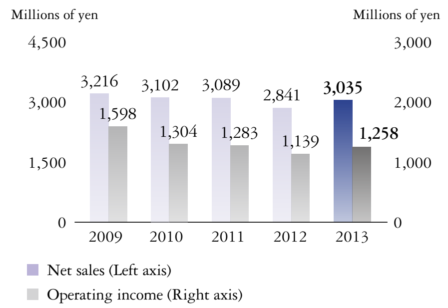
Key Financial Indicators

	2011	2012	2013
Cost of Sales Ratio	20.1%	20.4%	20.2%
Gross Margin Ratio	79.9%	79.6%	79.8%
SG&A Ratio	72.2%	72.1%	71.4%
Personnel expenses	14.3%	14.9%	15.1%
Sales commissions	26.1%	25.0%	24.1%
Sales-related expenses	19.7%	18.8%	18.5%
Administrative and other expenses	12.1%	13.4%	13.7%
Operating Margin	7.7%	7.5%	8.4%
Net Income Margin	4.8%	3.7%	3.8%

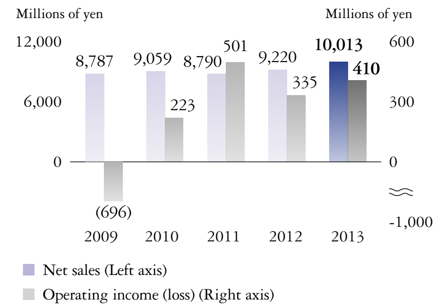
Beauty Care



Real Estate



Others



Analysis of Financial Position

Assets, Liabilities, and Net Assets

Assets

As of December 31, 2013, total assets stood at ¥218,005 million, up 4.2% from a year earlier. This change reflects increases of ¥11,941 million in cash and deposits, ¥1,338 million in notes and accounts receivable–trade, ¥1,215 million in merchandise and finished goods, and a net ¥1,037 million in buildings and structures associated with the completion of the Totsuka Warehouse, and decreases of ¥2,399 million in impairment loss on goodwill in H2O PLUS, ¥2,193 million in short-term investments in securities through redemption, and ¥4,449 million in investments in securities through sale.

Liabilities

Total liabilities edged down 0.3% from December 31, 2012, to ¥44,117 million.

Of this, total current liabilities accounted for ¥30,640 million, down 1.4%. The main components of this change were increases of ¥822 million in provision for business structure improvement associated with the integration of the Shizuoka Plant, ¥474 million in notes and accounts payable–trade, and ¥353 million in accounts payable–other, which were offset by a decrease of ¥2,714 million in income taxes payable.

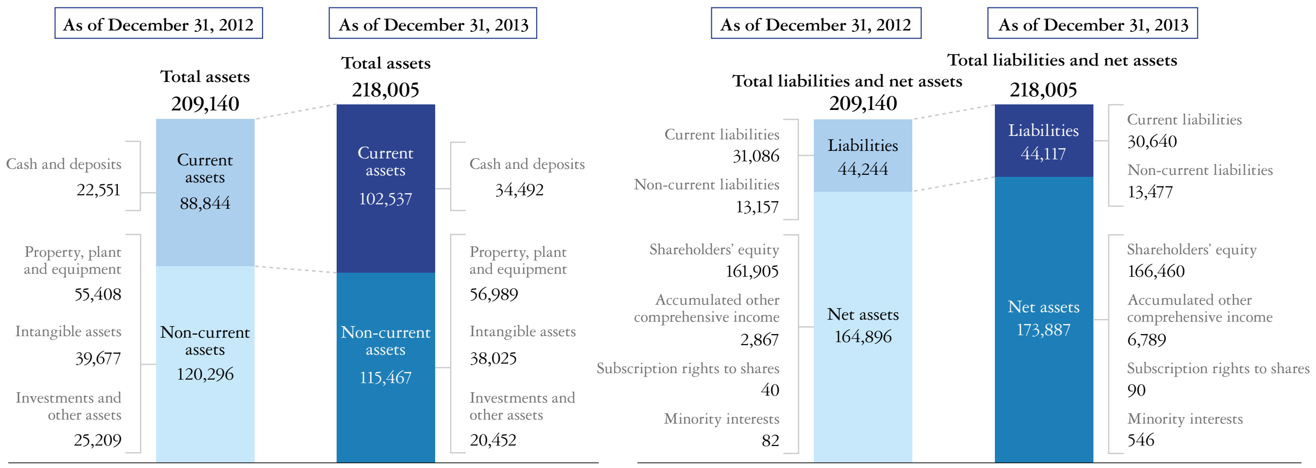
Total non-current liabilities grew 2.4% from a year earlier, to ¥13,477 million.

Net assets

Total net assets rose 5.5% from December 31, 2012, to ¥173,887 million. The primary factors contributing to this change were net income of ¥7,318 million and an increase of ¥3,799 million in foreign currency translation adjustments due to yen depreciation, which were partly offset by ¥2,764 million in dividends from retained earnings.

Consequently, net assets per share grew ¥153.34 from December 31, 2012 to ¥3,133.82 as of December 31, 2013. The equity ratio rebounded 0.7 percentage point, to 79.5%.

Overview of Consolidated Balance Sheets (Millions of yen)



Cash Flows

The balance of cash and cash equivalents at end of year was ¥34,137 million, up ¥9,031 million from the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities in fiscal 2013 amounted to ¥13,500 million, down 23.3% from the previous fiscal year. The primary components of inflow were ¥13,293 million in income before income taxes and minority interests, ¥6,704 million in depreciation and amortization, and a much higher level of impairment loss, at ¥3,057 million. This was offset by ¥9,838 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥2,452 million, down 93.8% from the previous fiscal year. This sizable decrease reflects the impact of ¥20,501 million in proceeds from sales and redemption of short-term investments in securities, which nearly fully offset outflow comprising ¥8,695 million in purchase of short-term investments in securities for investing surplus capital in line with investment plans, ¥9,200 million in purchase of investments in securities, and ¥5,707 million in purchase of property, plant and equipment associated with construction of residential properties for lease.

Cash flows from financing activities

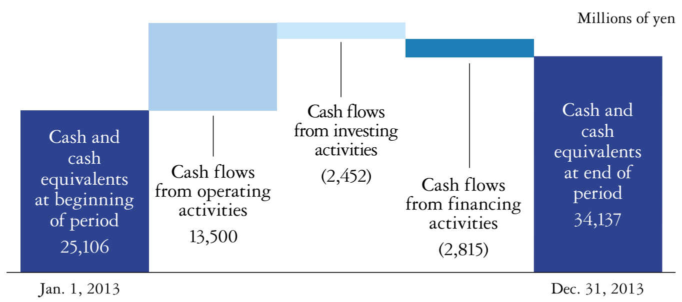
Net cash used in financing activities came to ¥2,815 million, down 14.2% from the previous fiscal year. The primary factor of this decrease was the application of ¥2,750 million in cash dividends paid.

Sources of funds and policy on fund liquidity

Working capital and investment capital for Group operations are sourced from internal funds and bank loans. Of funds raised from external sources, interest-bearing debt remained largely unchanged, at ¥3,483 million as of December 31, 2013, or ¥2 million higher than a year earlier. The change is due to a ¥1,000 million increase in long-term loans payable, which slightly outweighed a ¥698 million decrease in short-term loans payable, mainly by rolling over the short-term loans into long-term loans, and also due to a decrease of ¥298 million in lease obligations. Note that the Company strives to facilitate greater efficiency for the whole Group in the application of funds, through a cash management system that centralizes subsidiaries' cash operations under Company oversight.

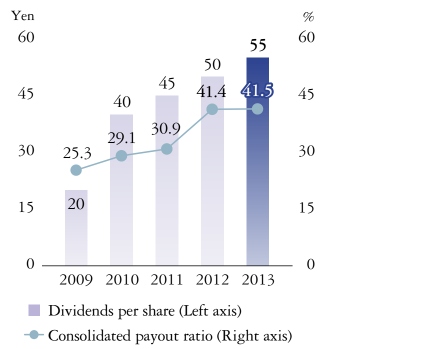
The Company adheres to fund management regulations and standards to ensure appropriate application of operating funds and surplus funds, respectively. The balance of cash and deposits stood at ¥34,492 million as of December 31, 2013, up ¥11,941 million from a year earlier. The change is mainly due to higher income obtained through operating activities.

Overview of Consolidated Statement of Cash Flows



Note: The effect of exchange rate change on cash and cash equivalents is omitted. Any discrepancies due to this omission have been adjusted accordingly.

Annual Dividend and Payout Ratio



Financial Section

Basic Policy on Profit Distribution and Dividends for Fiscal Years 2013 and 2014

Management sees the return of profit to shareholders as one of its top priorities and strives to enrich shareholder returns through stable profit growth. Going forward, the basic policy on profit distribution will be to maintain stable cash dividends, based on a consolidated payout ratio of at least 50%.

The Company distributes retained earnings twice a year, through an interim dividend and a year-end dividend. Article 454, Paragraph 5 of Japan's Companies Act and the Company's own Articles of Incorporation stipulate that the year-end dividend is to be approved at the general meeting of shareholders, while the interim dividend is to be set by the Board of Directors.

Based on the aforementioned policy, the dividend for fiscal 2013 was calculated at ¥55.00 per share, comprising an interim dividend of ¥25.00 and a year-end dividend of ¥30.00. The Company will allocate internal reserves as necessary to reinforce its operating structure and support future business development.

Business Risks

Risks affecting business activities and other aspects of the POLA ORBIS Group that are considered crucial to the investment decisions of investors are described below. Unless otherwise noted, forward-looking statements in this discussion are assumptions and judgments made by management within the Group as of December 31, 2013.

1) Damage to brand value

The Group offers multiple brands, notably POLA and ORBIS. Through conscientious business management and the supply of products and services designed to elicit customers' trust, each company responsible for a particular brand strives to maintain and enhance the respective brand's image. However, the operating results and financial position of the Group may be adversely affected in the event that negative opinions and rumors about the Group's products and services are spread, trust is lost, and brand value is impaired.

2) Competition within the Group

The Group adheres to a multi-brand, multi-channel sales strategy wherein new and existing brands are promoted according to target customer segment (demographic base), price bracket, and sales channel, thereby precluding direct competition between brands under the Group umbrella. However, competition within the Group may arise in the course of promoting Group strategies to maximize the value of existing brands and accelerate the process of multi-brand development, and such competition could adversely impact the operating results and financial position of the Group.

3) Securing sales partners (Sales managers and POLA LADIES)

POLA INC., the core of the Group's Beauty Care segment, develops its business through door-to-door sales based on consignment sales agreements. Securing sales partners based on consignment sales agreements is an important activity for business expansion and is something POLA constantly works on. However, if regulations under the Act on Specified Commercial Transactions are tightened or the labor environment changes, sufficient human resources may not be available because measures for securing them may become difficult to implement and the number of POLA LADY applicants may then decrease. Should this occur, the operating results and financial position of the Group may be adversely affected.

4) Strategic investment activities

The Company oversees the execution of strategic investments within the Group for overseas expansion concentrated in China, M&As, and new businesses. Information necessary for making decisions on strategic investment activities is collected and examined. However, the operating results and financial position of the Group could be adversely affected in the event that results initially intended are not achieved due to unexpected situations, such as unforeseen changes in the operating environment.

Operating assets and assets such as goodwill booked in line with M&As may end up as impairment losses on the books, if anticipated cash flow fails to appear due to poor performances or a drop in market value.

5) Cosmetics market environment

The domestic cosmetics market has reached maturity. Against this backdrop, competition has intensified, largely due to the reorganization of corporate groups through M&A deals, the entry of new competitors from different industries, and the rising influence of distributors and retailers through alliances and integration. Consequently, the operating results and financial position of the Group could be adversely affected in the event that the Group cannot properly respond to unforeseen changes in the competitive environment.

6) Research & development

R&D is one source of the Group's competitive strength, and the Company intends to maintain investment in this area. Activities are undertaken in accordance with an annual plan to ensure efficient and effective application of resources, but if the development of a new product is a long-term effort, the results may not be seen until subsequent years. In some cases, when anticipated results cannot be achieved, the development period may need to be extended or an increase in investment may be required, and in the end a product might not reach the commercialization stage. Furthermore, even after commercialization, the product may not necessarily be accepted by customers because various factors could create uncertainty.

If the initially intended results of R&D cannot be achieved as such, the operating results and financial position of the Group could be adversely affected.

7) Manufacturing and quality assurance

Efforts are made to consistently secure at appropriate prices the necessary volume of raw materials required to manufacture products by using diversified sources of supply and by maintaining favorable relations with suppliers, based on overall supervision by divisions within the Group responsible for procuring raw materials. However, if an unexpected situation arises due to circumstances not of the Group's doing, the procurement of necessary raw materials could be disrupted.

The Group's cosmetics are manufactured at four locations: in Japan, at POLA CHEMICAL INDUSTRIES INC.'s Fukuroi Factory and Shizuoka Factory, both in Shizuoka Prefecture; in Australia, at Jurlique's Mount Barker Factory, in South Australia; and in the United States at H2O PLUS's Chicago Factory, in Illinois. Pharmaceutical products are made at two locations: in Japan, at KAYAKU CO., LTD.'s Saitama Factory and Tokorozawa Factory, both in Saitama Prefecture. Steps are taken to verify quality control practices and maintain quality. However, should any problems arise in product quality, the operating results and financial position of the Group could be adversely affected.

8) Overseas business activities

The Group's main sales points are in Japan, but Group companies have expanded into Asia, particularly China, as well as the BRICS (Brazil, Russia, India, China, and South Africa), where market expansion is expected. The Group currently subscribes to a policy of further development overseas.

Business activities in these overseas markets inherently carry the risk of social upheaval caused by economic instability, political unrest, labor problems, the outbreak of war, terrorist attacks, and the spread of infectious diseases. The manifestation of such risk could adversely affect the operating results and financial position of the Group.

9) Currency exchange

Paralleling an increase in import/export transactions due to the Group's expansion overseas, foreign currency-denominated settlements as well as loans extended to overseas subsidiaries carry the risk of exchange rate fluctuation from a monetary materiality perspective. Additionally, since the local currency-denominated amounts reported by foreign consolidated subsidiaries are converted into yen when consolidated financial statements are prepared, changes in associated exchange rates may influence the operating results and financial position of the Group.

10) Limit of protection for intellectual property rights

Although the Company ensures that members of the Group take steps to protect respective intellectual property rights, third parties may infringe upon such rights through means beyond expectation. Consequently, the business activities of the Group could be adversely affected by the misappropriation of technologies and the creation of counterfeit goods.

11) Information security

All members of the Group carefully manage the handling of confidential information, including personal information and R&D information, through the implementation of internal audits, the use of an information security system, the establishment of internal codes of conduct, and education initiatives by the section in charge of CSR and various committees. However, if such information were leaked for any reason, a claim for damage could be filed against the Company and/or Group companies and the reputation of the Company or the Group as a whole could be tarnished. As a result, the businesses of the Group could be adversely affected.

12) Material litigation

Although no lawsuits that could seriously affect the Group were filed in fiscal 2013, the operating results and financial position of the Group could be adversely affected in the event that material lawsuits are brought against a member, or members, of the Group in the future with judgments handed down that are disadvantageous to the Group.

13) Disasters

The major production bases of the Group are the Fukuroi Factory and Shizuoka Factory of POLA CHEMICAL INDUSTRIES. Separate production lines have been installed for manufacturing different products at these factories, and backup manufacturing capacities between the factories are limited. Therefore, product supply could be affected in the event that manufacturing is disrupted or production capacity drops at either of these factories as a result of a natural disaster or other unforeseen event.

In addition, since both factories are close to each other, product supply could be interrupted for a long period in the event of a large-scale earthquake in the Tokai region.

Similarly, pharmaceutical products are produced at the Saitama Factory and Tokorozawa Factory of KAYAKU. Since both factories are close to each other, product supply could be interrupted for a long period in the event of a large-scale earthquake in the Kanto region.

Furthermore, unprecedented large-scale earthquakes as well as other natural disasters or accidents could occur in areas other than these two locations and interrupt the procurement of materials and components and the supply and sale of products, which could have an adverse effect on the operating results of the Group.

14) Spread of infectious diseases

As face-to-face contact between customers and business partners is characteristic of daily business activities within the Group, the spread of infectious diseases with significant social impact would necessitate voluntary suspension of service and sales activities and the closure of sales offices. In such a scenario, the operating results and financial position of the Group could be adversely affected not only in Japan but also overseas.

15) Risks in the pharmaceuticals business

In the pharmaceuticals business, an enormous investment in R&D is needed before a new pharmaceutical product can get to market. With this in mind, efforts have been made to enhance efficiency in the investment process itself, mainly through joint development efforts with other companies on the new drug frontier. The Company aims to maintain segment profitability and increase profits still further. However, a variety of potentially problematic risks could arise, such as a sudden change in the business environment, a delay in new pharmaceutical product development, and a shift in the management direction of partner companies involved in joint development with the Group's pharmaceuticals business. Such situations could return the business to an operating loss position, and if the loss expanded or persisted long term, it could adversely affect the operating results and financial position of the Group.

Financial Section

Fiscal 2014 Forecast

The Group's activities are guided by a long-term vision for 2020, and the medium-term management plan launched in 2014 is the second stage of this corporate journey. The goals of the new medium-term management plan are to further strengthen the domestic earnings structure and accelerate overseas expansion, while maintaining efforts to enhance corporate value by improving capital efficiency.

For the fiscal year ending December 31, 2014, the Group forecasts, on a consolidated basis, net sales of ¥198,000 million, up 3.5% year on year; operating income of ¥17,650 million, up 10.2%; ordinary income of ¥17,900 million, up 0.4%; and net income of ¥8,800 million, up 20.2%.

Significant Accounting Policies and Assumptions

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan (Japanese GAAP). The preparation of consolidated financial statements requires management to select and apply certain accounting policies and make assumptions that affect the reported amounts and disclosure of assets and liabilities and of revenues and expenses. These assumptions are based on reasonable judgments taking into account historical performance and other factors. However, actual results could differ from these assumptions due to inherent uncertainties.

Fiscal 2014 Forecast

(Consolidated)

(Millions of yen)	FY2014 Full Year	YoY Change Amount	YoY Change %
Net Sales	198,000	6,644	3.5%
Beauty Care	184,700	6,393	3.6%
Real Estate	3,100	64	2.1%
Others	10,200	186	1.9%
Operating Income	17,650	1,632	10.2%
Beauty Care	16,450	1,669	11.3%
Real Estate	1,250	(8)	(0.7%)
Others	350	(60)	(14.7%)
Reconciliations	(400)	31	—
Net Income	8,800	1,481	20.2%

Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
Assets			
Current assets			
Cash and deposits (Notes 4, 6 and 19)	¥ 34,492	¥ 22,551	$ 327,287
Notes and accounts receivable – trade (Note 19)	24,023	22,684	227,950
Short-term investments in securities (Notes 4, 19 and 20)	17,608	19,801	167,075
Merchandise and finished goods	12,099	10,883	114,810
Work in process	1,699	1,493	16,125
Raw materials and supplies	4,983	4,901	47,289
Deferred tax assets (Note 16)	4,675	3,579	44,367
Other	3,104	3,073	29,453
Allowance for doubtful accounts	(150)	(125)	(1,426)
Total current assets	102,537	88,844	972,930
Property, plant and equipment (Note 14)			
Buildings and structures	61,726	59,680	585,695
Machinery, equipment and vehicles	12,503	12,449	118,645
Land	22,380	22,448	212,357
Leased assets	4,754	4,303	45,117
Construction in progress	2,999	2,328	28,464
Other	19,752	19,636	187,425
Total property, plant and equipment	124,118	120,846	1,177,702
Accumulated depreciation	(67,128)	(65,437)	(636,956)
Net property, plant and equipment	56,989	55,408	540,746
Intangible assets			
Goodwill, net (Notes 14 and 21)	15,856	18,256	150,453
Right of trademark (Note 14)	12,327	11,841	116,972
Other intangible assets, net (Note 14)	9,842	9,579	93,387
Net intangible assets	38,025	39,677	360,812
Investments and other assets			
Investments in securities (Notes 5, 19 and 20)	14,122	18,572	134,005
Long-term loans receivable	60	60	574
Deferred tax assets (Note 16)	2,712	3,137	25,738
Other	3,677	3,603	34,897
Allowance for doubtful accounts	(120)	(163)	(1,147)
Total investments and other assets	20,452	25,209	194,067
Total non-current assets	115,467	120,296	1,095,625
Total assets	¥218,005	¥209,140	$2,068,555

See notes to consolidated financial statements.

December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 19)	¥ 4,105	¥ 3,630	$ 38,951
Short-term loans payable (Notes 7 and 19)	1,034	1,733	9,819
Lease obligations (Note 7)	617	676	5,857
Accounts payable – other (Note 19)	12,431	12,077	117,953
Income taxes payable	3,568	6,282	33,858
Provision for bonuses	1,731	1,504	16,425
Provision for directors' bonuses	40	42	381
Provision for sales returns	85	76	814
Provision for point program	1,783	1,629	16,920
Provision for business structure improvement	822	—	7,802
Other	4,422	3,432	41,959
Total current liabilities	30,640	31,086	290,738
Non-current liabilities			
Long-term loans payable (Notes 7 and 19)	1,000	—	9,489
Lease obligations (Note 7)	831	1,071	7,893
Provision for retirement benefits (Note 9)	5,908	6,394	56,065
Provision for environmental measures	67	133	640
Deferred tax liabilities (Note 16)	1,066	1,305	10,116
Other	4,602	4,253	43,675
Total non-current liabilities	13,477	13,157	127,878
Total liabilities	44,117	44,244	418,616
Contingent liabilities (Note 8)			
Net assets (Note 10)			
Shareholders' equity			
Common stock			
Authorized: 200,000,000 shares			
Issued: 57,284,039 shares at December 31, 2013 and 57,284,039 shares at December 31, 2012	10,000	10,000	94,886
Capital surplus	90,718	90,718	860,786
Retained earnings	67,941	63,386	644,666
Treasury stock, at cost			
(2,000,000 shares at December 31, 2013 and 2,000,000 shares at December 31, 2012)	(2,199)	(2,199)	(20,867)
Total shareholders' equity	166,460	161,905	1,579,471
Accumulated other comprehensive income (Note 15)			
Unrealized gain (loss) on available-for-sale securities	454	331	4,311
Foreign currency translation adjustments	6,335	2,535	60,113
Total accumulated other comprehensive income	6,789	2,867	64,424
Subscription rights to shares (Notes 10 and 24)	90	40	863
Minority interests	546	82	5,181
Total net assets	173,887	164,896	1,649,939
Total liabilities and net assets	¥218,005	¥209,140	$2,068,555

See notes to consolidated financial statements.

Consolidated Statements of Income

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
Net sales (Note 21)	¥191,355	¥180,873	$1,815,692
Cost of sales (Notes 11, 12 and 21)	38,655	36,946	366,785
Gross profit	152,700	143,927	1,448,908
Selling, general and administrative expenses (Notes 11, 13 and 21)	136,682	130,407	1,296,920
Operating income	16,017	13,520	151,987
Other income (expenses) (Note 14)			
Interest and dividend income	454	510	4,313
Interest expense	(94)	(73)	(896)
Foreign exchange gain (loss)	1,282	544	12,169
Equity in losses of affiliates	(16)	(38)	(161)
Gain on sales of non-current assets	468	3	4,445
Gain on sales of investment securities	441	—	4,186
Reversal of provision for directors' retirement benefits	—	119	—
Loss on disposal of non-current assets	(391)	(222)	(3,713)
Impairment loss	(3,057)	(194)	(29,012)
Loss on business liquidation	(1,030)	—	(9,778)
Business structure improvement expenses	(931)	—	(8,839)
Other, net	151	143	1,438
	(2,724)	791	(25,848)
Income before income taxes and minority interests	13,293	14,311	126,139
Income taxes (Note 16)			
Current	7,122	7,358	67,579
Deferred	(1,084)	287	(10,289)
	6,037	7,646	57,290
Income before minority interests	7,256	6,665	68,849
Minority interests in net loss of consolidated subsidiaries	(62)	(16)	(597)
Net income	¥ 7,318	¥ 6,681	$ 69,446

Per share information (Note 22)	Yen		U.S. dollars (Note 3)
Basic net income per common share	¥132.39	¥120.86	$1.26
Diluted net income per common share	¥132.29	¥120.82	$1.26
Weighted average common shares outstanding	55,284,039	55,284,039	—
Cash dividends declared per common share	¥ 55.00	¥ 50.00	$0.52

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
Income before minority interests	¥ 7,256	¥ 6,665	$ 68,849
Other comprehensive income (Note 15)			
Unrealized gain on available-for-sale securities	122	367	1,166
Deferred loss on hedges	—	(9)	—
Foreign currency translation adjustments	3,785	3,540	35,919
Share of other comprehensive income of associates accounted for using the equity method	6	(1)	65
Total other comprehensive income (Note 15)	3,915	3,896	37,150
Comprehensive income	¥11,171	¥10,561	$105,999
Comprehensive income attributable to:			
Owners of the parent	¥11,241	¥10,565	$106,663
Minority interests	¥ (69)	¥ (4)	$ (663)

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

		Millions of yen							
	Common shares (Thousands) (Note 10)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 15)	Subscription rights to shares (Notes 10 and 24)	Minority interests	Total net assets
Balance at January 1, 2012	57,284	¥10,000	¥90,718	¥59,469	¥(2,199)	¥(1,017)	—	¥ 86	¥157,057
Dividends from retained earnings				(2,764)					(2,764)
Net income				6,681					6,681
Change in unrealized gain (loss) on available-for-sale securities						367			367
Deferred gain (loss) on hedges						(9)			(9)
Foreign currency translation adjustments						3,526			3,526
Subscription rights to shares							¥40		40
Minority interests								(4)	(4)
Balance at January 1, 2013	57,284	10,000	90,718	63,386	(2,199)	2,867	40	82	164,896
Dividends from retained earnings				(2,764)					(2,764)
Net income				7,318					7,318
Change in unrealized gain (loss) on available-for-sale securities						122			122
Foreign currency translation adjustments						3,799			3,799
Subscription rights to shares							50		50
Minority interests								463	463
Balance at December 31, 2013	57,284	¥10,000	¥90,718	¥67,941	¥(2,199)	¥ 6,789	¥90	¥546	¥173,887

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 15)	Subscription rights to shares (Notes 10 and 24)	Minority interests	Total net assets
Balance at January 1, 2013	$94,886	$860,786	$601,448	$(20,867)	$27,207	$387	$ 783	$1,564,631
Dividends from retained earnings			(26,228)					(26,228)
Net income			69,446					69,446
Change in unrealized gain (loss) on available-for-sale securities					1,166			1,166
Foreign currency translation adjustments					36,051			36,051
Subscription rights to shares						475		475
Minority interests							4,398	4,398
Balance at December 31, 2013	$94,886	$860,786	$644,666	$(20,867)	$64,424	$863	$5,181	$1,649,939

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
Cash flows from operating activities			
Income before income taxes and minority interests	¥13,293	¥14,311	$126,139
Adjustments to reconcile income before income taxes and minority interests to net cash flows from operating activities:			
Depreciation and amortization	6,704	6,466	63,621
Impairment loss	3,057	194	29,012
Amortization of goodwill	1,061	829	10,068
Increase (decrease) in allowance for doubtful accounts	26	15	256
Increase (decrease) in provision for retirement benefits	(487)	(402)	(4,627)
Increase (decrease) in other provisions	304	(413)	2,887
Interest and dividend income	(454)	(510)	(4,313)
Interest expense	94	73	896
Foreign exchange loss (gain)	(1,221)	(660)	(11,592)
Equity in losses of affiliates	16	38	161
Gain on sales of non-current assets	(460)	(2)	(4,368)
Loss on disposal of non-current assets	391	222	3,713
Gain on sales of investment securities	(441)	—	(4,186)
Loss on business liquidation	1,030	—	9,778
Business structure improvement expenses	931	—	8,839
Changes in operating assets and liabilities			
Decrease (increase) in notes and accounts receivable – trade	(1,059)	(1,007)	(10,053)
Decrease (increase) in inventories	(1,166)	571	(11,067)
Increase (decrease) in notes and accounts payable – trade	268	359	2,544
Increase (decrease) in consumption taxes payable	311	(78)	2,954
Decrease (increase) in other assets	(219)	184	(2,081)
Increase (decrease) in other liabilities	892	471	8,471
Other	203	132	1,934
Subtotal	23,078	20,796	218,986
Interest and dividends received	529	565	5,028
Interest paid	(98)	(81)	(933)
Income taxes paid	(9,838)	(3,687)	(93,357)
Other	(171)	—	(1,623)
Net cash provided by operating activities	¥13,500	¥17,592	$128,101

See notes to consolidated financial statements.

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
Cash flows from investing activities			
Payments into time deposits	¥ (651)	¥ (2,231)	$ (6,181)
Proceeds from withdrawal of time deposits	991	2,415	9,407
Purchase of short-term investments in securities	(8,695)	(15,707)	(82,505)
Proceeds from sales and redemption of short-term investments in securities	20,501	28,224	194,531
Purchase of property, plant and equipment	(5,707)	(6,742)	(54,156)
Proceeds from sales of property, plant and equipment	723	34	6,862
Purchase of intangible assets	(1,666)	(1,785)	(15,812)
Payments for disposal of non-current assets	(81)	(191)	(774)
Purchase of investments in securities	(9,200)	(15,565)	(87,295)
Proceeds from sales of investments in securities	1,624	17	15,417
Purchase of long-term prepaid expenses	(64)	(77)	(608)
Payments for lease and guarantee deposits	(235)	(226)	(2,238)
Proceeds from collection of lease and guarantee deposits	137	198	1,307
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 4)	—	(27,952)	—
Other	(128)	(35)	(1,224)
Net cash used in investing activities	(2,452)	(39,625)	(23,268)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	(723)	215	(6,864)
Net increase (decrease) in long-term loans payable	1,000	—	9,489
Repayments of lease obligations	(787)	(746)	(7,472)
Cash dividends paid	(2,750)	(2,749)	(26,098)
Proceeds from stock issuance to minority shareholders	483	—	4,584
Repayments to minority shareholders	(36)	—	(351)
Net cash used in financing activities	(2,815)	(3,280)	(26,713)
Effect of exchange rate changes on cash and cash equivalents	798	172	7,573
Net increase (decrease) in cash and cash equivalents	9,031	(25,140)	85,694
Cash and cash equivalents at beginning of year (Note 4)	25,106	50,246	238,224
Cash and cash equivalents at end of year (Note 4)	¥34,137	¥25,106	$323,918

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Note 1 Summary of Significant Accounting Policies

1.1. Basis of presentation

The accompanying consolidated financial statements of POLA ORBIS HOLDINGS INC. (the “Company”) and its consolidated subsidiaries (collectively, the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards – (“IFRS”).

Certain amounts in the consolidated financial statements of the prior years have been reclassified to conform to the current year’s presentation for comparative purposes. For the convenience of readers outside Japan, certain presentations in the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau in Japan have been reclassified and rearranged.

1.2. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All companies included in the scope of consolidation have a fiscal year ending December 31.

Under the control or influence concept, those companies in which the Company, directly or indirectly, can control over their operations are consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for using the equity method. All significant inter-company balances, transactions and material unrealized profit included in assets resulting from the inter-company transactions have been eliminated in consolidation.

44 subsidiaries were included in the scope of consolidation at December 31, 2013 (43 at December 31, 2012). One affiliated company was accounted for using the equity method at December 31, 2013 and 2012.

Changes in significant subsidiaries in fiscal 2013 compared to fiscal 2012 are as follows:
(Newly included: 3)
In fiscal 2013, C2O Plus Asia Limited, its subsidiary Ningbo Marine Beauty Trading Co., Ltd., and ORBIS ASIA PACIFIC Headquarters PTE. LTD. were newly established and included in the scope of consolidation.
(Excluded: 2)
In fiscal 2013, CSW H2O Holdings Inc. was dissolved and subsequently excluded from the scope of consolidation after its merger with H2O PLUS HOLDINGS INC.

POLA U.S.A., INC. is in the process of liquidation. Considering the decrease in significance, the subsidiary was excluded from the scope of consolidation and also not accounted for by the equity method due to its insignificance.

1.3. Unification of accounting policies applied to foreign subsidiaries

In accordance with Practical Issues Task Force (PITF) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements” (Issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006), the Company and its consolidated subsidiaries use uniform accounting policies and procedures for like transactions and other events in similar circumstances in preparing consolidated financial statements. Financial statements of foreign consolidated subsidiaries prepared in accordance with either IFRS or accounting principles generally accepted in the United States (“U.S. GAAP”) are accepted except for certain items, which are adjusted to comply with Japanese GAAP. The adjustments include the following:

1. Amortization of goodwill
2. Scheduled amortization of unrecognized actuarial gains or losses of pensions directly recorded in shareholders’ equity
3. Expensing capitalized development cost of R&D
4. Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
5. Exclusion of minority interests from net income, if contained

1.4. Business combinations

The purchase method of accounting is used to account for acquired businesses. Assets and liabilities of consolidated subsidiaries are evaluated using the full fair value method at the acquisition date. The difference between the cost of purchased businesses and the fair value of their net assets is recorded as goodwill or negative goodwill (i.e. bargain purchase) after the purchased businesses’ identifiable assets and liabilities are measured at their fair value at the acquisition date. Goodwill is amortized using the

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straight-line method over 20 years. Negative goodwill is recognized in profit or loss in the period in which the business combination took place.

1.5. Scope of cash and cash equivalents on consolidated statements of cash flows

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risks of changes in value.

1.6. Inventories

Inventories held for sale in the ordinary course of business are stated at cost. The cost of merchandise, finished goods, work in process and raw materials is determined on the monthly moving average method, and the cost of supplies is determined on the last purchase price method.

The carrying amount of inventories on the balance sheets is written down to net realizable value if it is lower than the carrying amount.

1.7. Investments in securities

Securities are classified into held-to-maturity or available-for-sale securities depending on management's intent. Held-to-maturity securities are recorded at amortized cost using the straight-line method.

Marketable securities classified as available-for-sale securities are recorded at fair value. Unrealized holding gains or losses on available-for-sale securities are reported as a component of net assets. Cost of securities sold is determined using the moving average method.

Non-marketable securities classified as available-for-sale securities are recorded at cost which is determined using the moving average method. Investments in limited partnerships (investments defined as securities under Article 2.2 of the Financial Instruments and Exchange Law of Japan) are recorded at net equity based on the most recently available financial statements to the reporting date specified in the partnership agreement.

1.8. Property, plant and equipment, excluding leased assets

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated using the declining balance method, except for buildings (excluding building fixtures) acquired after April 1, 1998, for which depreciation is calculated using the straight-line method. Depreciation of property, plant and equipment of the foreign consolidated subsidiaries is calculated using the straight-line method based on the local accounting standards of each country.

The primary useful lives are as follows:

Buildings and structures	10–50 years
Machinery, equipment and vehicles	7–15 years

Property, plant and equipment with acquisition cost greater than ¥100,000 and less than ¥200,000 are depreciated by the straight-line method over 3 years.

1.9. Intangible assets, excluding leased assets

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over its estimated useful life of 5 years.

1.10. Leases

Finance leases that do not transfer ownership are capitalized and depreciated using the straight-line method over the lease term with zero residual value. However, finance leases entered into on or prior to December 31, 2008 are not capitalized but accounted for using a method similar to that for operating lease transactions, and corresponding information is provided in the notes to the accompanying consolidated financial statements.

Lease transactions other than finance lease transactions are accounted for as operating leases and the related payments are charged to income as they incurred.

1.11. Impairment on non-current assets

The Group reviews non-current assets for impairment whenever events or changes in circumstances based on external or internal sources of information indicate that the carrying amount may not be recoverable. When such events or changes in circumstances occur, a recoverability test is required to be performed. An individual asset or asset group is impaired if its carrying amount exceeds the amount to be recovered through use or sale of such asset or asset group.

1.12. Retirement benefits

The Company and its domestic consolidated subsidiaries have defined benefit plans including a cash balance plan, lump sum retirement payment plan to cover the majority of their employees (including corporate officers).

For the employees (including corporate officers) of certain foreign consolidated subsidiaries, defined contribution pension plans and lump sum retirement payment plans are provided.

Certain subsidiaries may make an additional lump sum retirement payment, which is expensed as incurred.

The retirement benefit attributable to each year is calculated by assigning the same amount of pension benefits to each year of service. Provision for retirement benefits, accrued as the future payments of pension benefits to employees (including corporate officers), is stated based on the estimated amount of projected benefit obligation and the pension plan assets at the fiscal year end. Prior service cost is amortized by the straight-line method over a certain period (10 years), within the average remaining service period of the employees. Unrecognized actuarial gains or losses are amortized from the following year after the recognition by the straight-line method over a certain period (10–14 years), within the average remaining service period of the employees.

1.13. Allowance for doubtful accounts

The Company and its domestic consolidated subsidiaries record allowance for doubtful accounts based on historical loss ratio for general receivables, and based on individual assessment of uncollectible amounts for certain receivables. Foreign consolidated subsidiaries mainly estimate unrecoverable amounts on an individual basis.

1.14. Provisions

Provisions for directors' and employees' bonuses

Provisions for directors' and employees' bonuses are stated at the estimated amounts of the bonuses to be paid to directors and employees, in accordance with their services provided during the fiscal year.

Provision for sales returns

Provisions are set up to cover future losses arising from sales returns based on the past return ratios.

Provision for point program

Provisions are set up to cover future discounts and commemorative gifts under point program plans based on the estimated future outflows.

Provision for business structure improvement expenses

Provisions are set up to cover estimated future losses arising from additional payments and re-employment support costs related to the early retirement incentives program, which was adopted by certain consolidated subsidiaries, accompanying the plant consolidation.

Provision for environmental measures

Provisions are set up to cover the estimated charges for disposal of waste (polychlorinated biphenyl (PCB)).

1.15. Research and development costs

The costs for research and development are charged to income as incurred.

1.16. Income taxes

Income taxes are accounted for using the asset and liability approach. Deferred tax assets and liabilities are recognized in the accompanying consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

1.17. Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average common shares outstanding during the period. The number of shares used in the computations was 55,284 thousand shares for fiscal 2013 (55,284 thousand shares for fiscal 2012). Diluted net income per share is computed for fiscal 2013 and fiscal 2012 due to the dilutive effect of subscription rights to shares arising from stock options.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after year-end.

1.18. Foreign currency translation

Receivables and payables of the domestic consolidated subsidiaries denominated in foreign currencies are translated into yen at year-end exchange rates, and differences arising from the translation are included in the accompanying consolidated statements of income.

All assets and liabilities of the foreign consolidated subsidiaries are translated into yen at year-end exchange rates, while revenue and expenses are translated at the average exchange rate for the year. Adjustments to translate those accounts into Japanese yen are presented as foreign currency translation adjustments and minority interests in net assets of the accompanying consolidated balance sheets.

1.19. Amortization method and period of goodwill

Goodwill is amortized using the straight-line method over 20 years.

1.20. Other important items related to the preparation of the consolidated financial statements

1.20.1. Accounting method for consumption tax and local consumption tax

The tax-exclusion accounting method is applied for consumption tax and local consumption tax.

1.20.2. Application of consolidated tax system

The consolidated tax system is applied.

Note 2 Changes in Accounting Policies and Presentation Method

2.1. Changes in accounting policies

Changes in accounting policies that are difficult to distinguish from changes in accounting estimates Following the revision of the Corporation Tax Act of Japan, from the first quarter of the fiscal year ended December 31, 2013, for property, plant and equipment acquired on or after January 1, 2013, the Company and its domestic consolidated subsidiaries have adopted the depreciation method based on the revised Corporation Tax Act.

The impact on operating income and income before income taxes and minority interests as a result of this change is minor.

2.2. Accounting standards issued but not yet adopted

From the viewpoint of improvements to financial reporting and international convergence, the ASBJ has been deliberating the establishment of a revised accounting standard for retirement benefits, "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012), which mainly focus on (a) how actuarial gains and losses and prior service cost should be accounted for, (b) how projected benefit obligations and current service costs should be determined and (c) enhancement of disclosures.

This revised accounting standard, though not yet adopted by the Group, will be introduced and made effective from the end of fiscal 2014, while the revision to the calculation method of projected benefit obligations and current service costs will be made effective from the beginning of fiscal 2015. The resulting impacts on future consolidated financial statements are being examined.

2.3. Changes in presentation method

Consolidated Statements of Income

In fiscal 2012, "Gain on sales of non-current assets" was included in "Other, net" under "Other income (expenses)." In fiscal 2013, however, it is newly presented as a separate item due to an increase in materiality. As a result, ¥147 million previously recorded in "Other, net" under "Other income (expenses)" in fiscal 2012 was reclassified as ¥3 million in "Gain on sales of non-current assets" and ¥143 million in "Other, net" to conform to the presentation used in fiscal 2013.

Note 3 U.S. Dollar Amounts

The accompanying consolidated financial statements are presented in yen, and solely for the convenience of readers outside Japan, certain amounts have been translated into U.S. dollars at the rate of U.S.$1 = ¥105.39, the approximate rate of exchange prevailing at December 31, 2013. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such a rate.

Note 4 Cash Flow Information

4.1. Cash and cash equivalents consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2013	2012	2013
Cash and deposits	¥34,492	¥22,551	$327,287
Short-term investments in securities	17,608	19,801	167,075
Less:			
Time deposits with maturities exceeding three months	(1,355)	(1,445)	(12,858)
Stocks and bonds with maturities exceeding three months	(16,608)	(15,801)	(157,586)
Cash and cash equivalents	¥34,137	¥25,106	$323,918

4.2. Cash flows from business combinations

There was no applicable information on business combinations in fiscal 2013 to be disclosed.

In fiscal 2012, the Company acquired all outstanding shares in Jurlique. The assets and liabilities at the acquisition date, reconciliation from acquisition cost to net cash used for the purchase of investment in subsidiary are as follows:

	Millions of yen
Current assets	¥ 2,927
Non-current assets	27,651
Current liabilities	(3,285)
Non-current liabilities	(2,809)
Acquisition cost	¥24,484
Accounts payable – other associated with the acquisition of shares in Jurlique	(183)
Repayments of loans payable of Jurlique	3,694
Cash and cash equivalents of Jurlique	(43)
Net cash used for purchase of investment in Jurlique	¥27,952

4.3. Significant non-cash transactions

Assets and liabilities related to finance lease transactions newly recorded are ¥488 million (U.S.$4,639 thousand) in fiscal 2013 (¥892 million in fiscal 2012).

Asset retirement obligations newly recorded were ¥233 million (U.S.$2,216 thousand) in fiscal 2013 (¥438 million in fiscal 2012).

Note 5 Items Related to Affiliated Companies

Items related to affiliated companies are as follows, except for those stated separately:

	Millions of yen		Thousands of U.S. dollars
December 31	2013	2012	2013
Investments in securities (stock)	¥6	¥20	$58
(Of which, investments in joint ventures)	¥6	¥20	$58

Note 6 Pledged Assets

Assets pledged as collateral for operating transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
December 31	2013	2012	2013
Cash and deposits	¥40	¥33	$387

Note 7 Short-term and Long-term Debt

Short-term and long-term debt consists of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2013	2012	2013
Short-term loans payable	¥1,034	¥1,733	$9,819
Lease obligations – current portion	617	676	5,857
Long-term loans payable	1,000	—	9,489
Lease obligations – long term	831	1,071	7,893

There was no applicable information to be disclosed for bonds in fiscal 2013 and 2012.

The details of asset retirement obligations are omitted and not included in the above table, because the balances at the beginning and at the end of fiscal 2013 are less than 1% of the total liabilities and net assets at the beginning and at the end of fiscal 2013, respectively.

The weighted average interest rates of loans payable and lease obligations are as follows:

December 31	2013	2012
Short-term loans payable	4.34%	0.62%
Lease obligations – current portion	2.13%	2.41%
Long-term loans payable	0.69%	—
Lease obligations – long term	2.54%	2.57%

At December 31, 2013, the annual maturities of loans payable and lease obligations for the subsequent 5 years are as follows:

	Loans payable		Lease obligations	
Years ending December 31	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2014	¥1,034	$9,819	¥617	$5,857
2015	—	—	403	3,831
2016	—	—	249	2,370
2017	—	—	127	1,209
2018	1,000	9,489	43	414

Note 8 Contingent Liabilities

Contingent liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2013	2012	2013
Guarantees of loans			
Employees' mortgages	¥201	¥253	$1,911
Total	¥201	¥253	$1,911

Note 9 Retirement Benefits

9.1. Provision for retirement benefits consists of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2013	2012	2013
Projected benefit obligation	¥11,984	¥12,120	$113,714
Fair value of plan assets	(6,384)	(5,694)	(60,578)
Unfunded retirement benefit obligation	5,600	6,425	53,137
Unrecognized prior service cost	199	288	1,891
Unrecognized actuarial losses	109	(320)	1,037
Provision for retirement benefits	¥ 5,908	¥ 6,394	$ 56,065

9.2. Components of net periodic retirement benefit costs are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2013	2012	2013
Service cost	¥ 778	¥741	$ 7,388
Interest cost	168	174	1,600
Expected return on plan assets	(85)	(79)	(810)
Amortization of prior service cost	(89)	(89)	(848)
Amortization of actuarial losses	(7)	74	(69)
Additional lump-sum payment	745	4	7,077
Net periodic retirement benefit costs	¥1,511	¥826	$14,339

Retirement benefit costs of certain consolidated subsidiaries which apply the simplified method were included in "Service cost."

9.3. Assumptions used in accounting for the above plans are as follows:

Years ended December 31	2013	2012
Discount rate	1.50%	1.50%
Expected rate of return on plan assets	1.50%	1.50%

Note 10 Net Assets

Information regarding changes in net assets is summarized as follows:

10.1. Shares issued and outstanding / Treasury stock

	Common stock	
Thousands of shares	Shares issued	Treasury stock
Balance at January 1, 2012	57,284	2,000
Increase	—	—
Decrease	—	—
Balance at January 1, 2013	57,284	2,000
Increase	—	—
Decrease	—	—
Balance at December 31, 2013	57,284	2,000

10.2. Subscription rights to shares

Year ended December 31, 2013

			Number of shares issued				Millions of yen	Thousands of U.S. dollars
Name of company	Details of subscription rights to shares	Type of shares issued	At beginning of fiscal 2013	Increase	Decrease	At end of fiscal 2013	Balance at December 31, 2013	
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥90	$863
	Total		—	—	—	—	¥90	$863

Year ended December 31, 2012

			Number of shares issued				Millions of yen
Name of company	Details of subscription rights to shares	Type of shares issued	At beginning of fiscal 2012	Increase	Decrease	At end of fiscal 2012	Balance at December 31, 2012
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥40
	Total		—	—	—	—	¥40

10.3. Dividends

Dividends paid

Year ended December 31, 2013

Resolution	Type of shares	Millions of yen Total dividends	Thousands of U.S. dollars Total dividends	Yen Dividends per share	U.S. dollars Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 28, 2013	Common stock	¥1,382	$13,114	¥25.00	$0.24	December 31, 2012	March 29, 2013
Board of Directors' Meeting on July 30, 2013	Common stock	¥1,382	$13,114	¥25.00	$0.24	June 30, 2013	September 13, 2013

Year ended December 31, 2012

Resolution	Type of shares	Millions of yen Total dividends	Yen Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 29, 2012	Common stock	¥1,382	¥25.00	December 31, 2011	March 30, 2012
Board of Directors' Meeting on July 30, 2012	Common stock	¥1,382	¥25.00	June 30, 2012	September 13, 2012

Dividends with the record date in fiscal 2013 and the effective date in fiscal 2014

Year ended December 31, 2013

Resolution	Type of shares	Source of dividends	Millions of yen Total dividends	Thousands of U.S. dollars Total dividends	Yen Dividends per share	U.S. dollars Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 27, 2014	Common stock	Retained earnings	¥1,658	$15,737	¥30.00	$0.28	December 31, 2013	March 28, 2014

Dividends with the record date in fiscal 2012 and the effective date in fiscal 2013

Year ended December 31, 2012

Resolution	Type of shares	Source of dividends	Millions of yen Total dividends	Yen Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 28, 2013	Common stock	Retained earnings	¥1,382	¥25.00	December 31, 2012	March 29, 2013

Note 11 Research and Development Costs

Research and development costs of ¥3,772 million (U.S.$35,800 thousand) and ¥3,747 million were expensed for fiscal 2013 and 2012, respectively, as incurred, and included in selling, general and administrative expenses and cost of sales.

Note 12 Cost of Sales

Provision for sales returns included in cost of sales consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2013	2012	2013
Reversal of provision for sales returns	¥76	¥76	$723
Provision for sales returns	¥85	¥76	$814

Note 13 Selling, General and Administrative Expenses

Selling, general and administrative expenses mainly consist of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2013	2012	2013
Sales commission	¥ 46,202	¥ 45,240	$ 438,396
Promotion expenses	18,767	17,491	178,081
Advertising expenses	7,145	7,293	67,799
Packing and transportation expenses	4,853	4,845	46,057
Salaries, allowances and bonuses	22,167	20,763	210,337
Welfare expenses	3,684	3,220	34,963
Retirement benefit expenses	660	692	6,266
Provision for bonuses	1,602	1,306	15,205
Provision for point program	1,771	1,622	16,808
Depreciation and amortization	4,796	4,546	45,511
Amortization of goodwill	1,061	829	10,068
Other	23,968	22,554	227,428
Total	¥136,682	¥130,407	$1,296,920

Note 14 Other Income (Expenses)

14.1. Gain on sales of non-current assets mainly consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2013	2012	2013
Buildings and structures	¥146	¥0	$1,387
Land	259	—	2,458
Others	63	3	600
Total	¥468	¥3	$4,445

14.2. Loss on disposal of non-current assets mainly consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2013	2012	2013
Buildings and structures	¥132	¥71	$1,261
Machinery, equipment and vehicles	123	10	1,176
Removal and demolition	28	81	270
Others	106	58	1,006
Total	¥391	¥222	$3,713

14.3. Impairment loss consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2013	2012	2013
Domestic			
Stores	¥44	¥44	$425
Offices	23	8	221
Overseas			
Stores	47	6	450
Offices	79	—	758
Agency contracts (Other intangible assets)	—	133	—
Business assets (Goodwill and right of trademark)	2,862	—	27,157
Total	¥3,057	¥194	$29,012

(1) Background of recognizing impairment loss

Among stores and offices, if any asset groups have been continuously recording impairment losses or the net amount of estimated future cash flows falls short of their book value, impairment losses are recognized under "Other expenses" by reducing their book value to the amount that is recoverable.

Under the situation that the operating results of H2O PLUS fell below the original projections at acquisition, an impairment test was conducted based on U.S. GAAP. As a result, impairment losses on goodwill and right of trademark were recognized and recorded under "Other expenses" in fiscal 2013, after excluding the amount of accumulated amortization already recognized under Japanese GAAP.

In fiscal 2012, impairment losses on agency contracts arising from the decision to terminate contracts with agents were recorded under "Other expenses" by reducing the book value to the recoverable value.

(2) Grouping method of assets

Stores and offices are grouped separately, mainly on a business department basis, whereby income and expenditures are continually being examined.

Goodwill and right of trademark are grouped by company unit.

Agency contracts are grouped by agent.

(3) Calculation methods of recoverable value

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

The value-in-use of goodwill and right of trademark is calculated by using a discount rate of 13%.

The value-in-use of stores, offices and agency contracts is assessed at zero because the future cash flows cannot be expected.

14.4. Loss on business liquidation:

The loss arising from the withdrawing from the United States operations of POLA brand, resolved by the Board of Directors' Meeting on April 18, 2013, was accounted for as "Loss on business liquidation" in fiscal 2013.

14.5. Business structure improvement expenses:

Accompanying the plant consolidation, the additional payments, the re-employment support costs and other expenses related to the early retirement incentives program, introduced by certain consolidated subsidiaries on April 1, 2013, were accounted for as "Business structure improvement expenses" in fiscal 2013.

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Note 15 Information on Consolidated Statements of Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2013	2012	2013
Unrealized gain or loss on available-for-sale securities			
Amount arising during the year	¥642	¥381	$6,096
Reclassification adjustment	(451)	5	(4,284)
Amount before tax effect	190	386	1,812
Tax effect	(68)	(19)	(646)
Unrealized gain or loss on available-for-sale securities, net of tax	¥122	¥367	$1,166
Deferred gain or loss on hedges			
Amount arising during the year	—	¥(15)	—
Amount before tax effect	—	(15)	—
Tax effect	—	6	—
Deferred gain or loss on hedges, net of tax	—	¥(9)	—
Foreign currency translation adjustments			
Amount arising during the year	¥2,879	¥3,540	$27,325
Reclassification adjustment	905	—	8,594
Foreign currency translation adjustments	¥3,785	¥3,540	$35,919
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	¥6	¥(1)	$65
Total other comprehensive income	¥3,915	¥3,896	$37,150

Note 16 Income Taxes

16.1. Deferred tax assets and liabilities consist of the following:

December 31	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Deferred tax assets:			
Provision for bonuses	¥534	¥ 562	$ 5,070
Provision for retirement benefits	2,087	2,260	19,809
Loss on valuation of inventories	509	604	4,831
Impairment loss	14,395	14,370	136,595
Loss on valuation of investments in securities	0	302	1
Provision for point program	654	601	6,209
Unrealized inter-company profit	1,160	1,222	11,012
Tax loss carry-forwards	5,382	8,227	51,074
Tax loss carry-forwards on liquidation of subsidiary	1,004	—	9,529
Enterprise tax payable	303	373	2,881
Asset retirement obligations	716	667	6,796
Other	1,263	1,065	11,992
Less valuation allowance	(19,613)	(22,750)	(186,106)
Total deferred tax assets	¥8,398	¥7,507	$79,693
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥(251)	¥ (183)	$ (2,388)
Restoration cost for asset retirement obligations	(245)	(263)	(2,331)
Goodwill, right of trademark and other intangible assets	(1,506)	(1,627)	(14,299)
Other	(72)	(21)	(686)
Total deferred tax liabilities	¥(2,076)	¥(2,096)	$(19,704)
Deferred tax assets, net	¥6,322	¥5,411	$59,989

16.2. The reconciliations between the statutory tax rate and the effective tax rate are as follows:

Years ended December 31	2013	2012
Statutory income tax rate	38.0%	40.7%
Expenditure not allowable for income tax purposes (Entertainment expense, etc.)	1.0	1.5
Per capita inhabitants' tax	0.3	0.3
Increase (decrease) in valuation allowance	(4.2)	9.4
Amortization of goodwill	3.0	2.4
Impairment loss	5.9	—
Loss on business liquidation	2.6	—
Tax credits for research and development costs	(2.0)	(1.8)
Reduction in deferred tax assets at reporting date due to revision of tax law	—	1.0
Other	0.8	(0.1)
Effective income tax rate	45.4%	53.4%

Note 17 Leases

(As a lessee)

17.1. Finance leases that do not transfer ownership

17.1.1. Accounting treatment for the finance leases entered into on or after January 1, 2009

The finance leases entered into on or after January 1, 2009 are capitalized. They primarily consist of interior furniture and fixtures for retail stores included in buildings and structures or other property, plant and equipment, and are depreciated using the straight-line method over the lease term with zero residual value. Interest expense is calculated as the difference between the aggregate lease payments and the acquisition cost of leased assets, allocated over the lease term using the effective interest method.

17.1.2. Accounting treatment for the finance leases entered into on or prior to December 31, 2008

The finance leases entered into on or prior to December 31, 2008 are not capitalized but accounted for using a method similar to that applicable to operating lease transactions.

If such leases were capitalized, their depreciation or amortization would be determined on the straight-line method over the lease term with zero residual value and interest expense would be calculated as the difference between the aggregate lease payments and the acquisition cost of leased assets, allocated over the lease term using the effective interest method.

Acquisition cost, accumulated depreciation or amortization and net book value of such leases would be as follows:

December 31	Millions of yen 2013 Acquisition cost	2013 Accumulated depreciation/ amortization	2013 Net book value	2012 Acquisition cost	2012 Accumulated depreciation/ amortization	2012 Net book value
Other property, plant and equipment, including tools, furniture and fixtures	¥153	¥132	¥21	¥209	¥159	¥50
Total	¥153	¥132	¥21	¥209	¥159	¥50

December 31	Thousands of U.S. dollars 2013 Acquisition cost	2013 Accumulated depreciation/ amortization	2013 Net book value
Other property, plant and equipment, including tools, furniture and fixtures	$1,460	$1,257	$203
Total	$1,460	$1,257	$203

Future lease payments are as follows:

December 31	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Due within 1 year	¥23	¥28	$221
Due after 1 year	6	38	58
Total	¥29	¥66	$279

Lease payments, reversal of impairment loss on leased assets, depreciation and amortization, interest expense and impairment loss are as follows:

Years ended December 31	Millions of yen 2013	Millions of yen 2012	Thousands of U.S. dollars 2013
Lease payments	¥25	¥215	$245
Reversal of impairment loss on leased assets	—	5	—
Depreciation and amortization	17	191	169
Interest expense	3	9	35
Impairment loss	—	0	—

17.2. Operating lease transactions

Future lease payments under non-cancelable operating lease arrangements are as follows:

	Millions of yen		Thousands of U.S. dollars
December 31	2013	2012	2013
Due within 1 year	¥ 7	¥14	$ 72
Due after 1 year	12	19	116
Total	¥19	¥33	$187

Note 18 Investment and Rental Property

18.1. Overview

The Group owns office buildings and residential properties for lease in Tokyo and other areas. Net rental income was ¥1,559 million (U.S.$14,800 thousand) in fiscal 2013, (¥1,377 million in fiscal 2012) (rental income is recorded under sales and other income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and other expenses).

18.2. Fair value of investment properties

The carrying amount on the consolidated balance sheets, net changes, the fair value of these properties, and the method used for calculating the fair value of investment and rental properties are as follows:

December 31, 2013	Millions of yen		
Carrying amount			Fair value
Balance at January 1, 2013	Net increase	Balance at December 31, 2013	At December 31, 2013
¥25,299	¥1,064	¥26,364	¥45,875

December 31, 2012	Millions of yen		
Carrying amount			Fair value
Balance at January 1, 2012	Net increase	Balance at December 31, 2012	At December 31, 2012
¥21,980	¥3,319	¥25,299	¥42,812

December 31, 2013	Thousands of U.S. dollars		
Carrying amount			Fair value
Balance at January 1, 2013	Net increase	Balance at December 31, 2013	At December 31, 2013
$240,058	$10,105	$250,163	$435,295

1. The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.
2. Components of change

Increase:
In fiscal 2013: Acquisition of residential properties for lease: ¥1,695 million (U.S.$16,090 thousand)
Refurbishment of office buildings for lease: ¥241 million (U.S.$2,295 thousand)
In fiscal 2012: Acquisition of office buildings and residential properties for lease: ¥3,355 million
Refurbishment of office buildings for lease: ¥277 million

Decrease:
In fiscal 2013: Depreciation on office buildings and residential properties and other properties for lease: ¥549 million (U.S.$5,211 thousand)
Sale of office buildings for lease and idle property: ¥139 million (U.S.$1,324 thousand)
In fiscal 2012: Depreciation on office buildings and residential properties and other properties for lease: ¥438 million

3. Method for calculating fair values

The fair values of major properties are determined by the amounts using appraisal certificates provided by independent real estate assessors. For other properties, however, the fair value of land is determined by the amount adjusted using the indices considered to properly reflecting market price, and the fair values of depreciable assets such as buildings are determined by the carrying amounts on the consolidated balance sheets. For the properties acquired in fiscal 2013, the fair values are determined at the carrying amounts due to minimal fluctuation on fair values.

Financial Section

Note 19 Financial Instruments

19.1. Overview of financial instruments

19.1.1. Policies on financial instruments

The Group only utilizes low risk, short-term financial instruments for cash management, and it raises funds through borrowings from banks and by issuing corporate bonds in the capital market.

19.1.2. Description of financial instruments, risks and risk management policy

Trade receivables such as notes and accounts are exposed to customers' credit risk. In order to manage such risk, the Group manages payment dates and outstanding balances by individual customer and review customers' credit status on a regular basis in accordance with credit management policy.

Investments in securities consist of financial instruments with low risk such as held-to-maturity debt securities, but some of them are exposed to the risk of fluctuations in market price. The Group reviews the prices on a quarterly basis in order to manage such risk.

Notes and accounts payable – trade and accounts payable – other are due within one year.

The interest-bearing liabilities mainly include loans payable and lease obligations. Loans payable are mainly funding for operating transactions, and lease obligations are mainly funding for capital investments. Loans payable with floating interest rates are exposed to the risk of interest rate fluctuations, while long-term loans payable are borrowed by fixed interest rates to restrain such risks.

Furthermore, trade payables and interest-bearing liabilities are exposed to liquidity risk, but the Group manages such risk by, for example, preparing the cash management schedule on a monthly basis.

19.1.3. Supplementary information on fair value of financial instruments

Fair value of financial instruments is based on the quoted price in the active market. A reasonable valuation technique is used if a quoted price is not available. The values may change under different assumptions as such calculation incorporates variable factors.

19.2. Fair value of financial instruments

The carrying amount, fair value of financial instruments and the difference between them consist of the following. This does not include the financial instruments for which fair values are not readily available. (refer to "2. Financial instruments for which fair values are not readily available" for details)

	Millions of yen		
	2013		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥34,492	¥34,492	—
(ii) Notes and accounts receivable – trade (*1)	23,873	23,873	—
(iii) Investments in securities:			
Held-to-maturity securities	29,734	29,829	¥94
Available-for-sale securities	1,821	1,821	—
Total assets	¥89,922	¥90,017	¥94
Liabilities			
(i) Notes and accounts payable – trade	¥4,105	¥4,105	—
(ii) Short-term loans payable	1,034	1,034	—
(iii) Accounts payable – other	12,431	12,431	—
(iv) Long-term loans payable	1,000	1,005	¥5
Total liabilities	¥18,570	¥18,576	¥5

December 31	Millions of yen 2012 Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥22,551	¥22,551	—
(ii) Notes and accounts receivable – trade (*1)	22,559	22,559	—
(iii) Investments in securities:			
Held-to-maturity securities	35,363	35,366	¥3
Available-for-sale securities	2,817	2,817	—
Total assets	¥83,292	¥83,295	¥3
Liabilities			
(i) Notes and accounts payable – trade	¥3,630	¥3,630	—
(ii) Short-term loans payable	1,733	1,733	—
(iii) Accounts payable – other	12,077	12,077	—
Total liabilities	¥17,441	¥17,441	—

December 31	Thousands of U.S. dollars 2013 Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	$327,287	$327,287	—
(ii) Notes and accounts receivable – trade (*1)	226,524	226,524	—
(iii) Investments in securities:			
Held-to-maturity securities	282,142	283,035	$892
Available-for-sale securities	17,287	17,287	—
Total assets	$853,240	$854,133	$892
Liabilities			
(i) Notes and accounts payable – trade	$ 38,951	$ 38,951	—
(ii) Short-term loans payable	9,819	9,819	—
(iii) Accounts payable – other	117,953	117,953	—
(iv) Long-term loans payable	9,489	9,539	$50
Total liabilities	$176,211	$176,262	$50

(*1) Notes and accounts receivable – trade are presented net of allowance for doubtful accounts.

1. Calculation method of fair value of financial instruments and information about securities

Assets

(i) Cash and deposits and (ii) Notes and accounts receivable – trade
Carrying value is used for fair value as they are short term in nature; the fair value approximates the carrying value.
(iii) Investments in securities
The fair value of stock is determined on the quoted price on stock exchanges and the fair value of debt securities is determined on the quoted prices provided by financial institutions. For the short-term investments in securities, their fair values approximate carrying value.

For notes related to securities by holding purpose, refer to Note 20 "Investments in securities."

Liabilities

(i) Notes and accounts payable – trade, (ii) Short-term loans payable and (iii) Accounts payable – other
Carrying value is used for fair value as they are short term in nature; the fair value approximates the carrying value.
(iv) Long-term loans payable
The fair value of long-term loans payable is calculated by discounting the total amount of principal and interest, using the interest rate assumed in the case of an equivalent new loan.

2. Financial instruments for which fair values are not readily available consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
December 31	Carrying amount	Carrying amount	Carrying amount
Unlisted stock	¥8	¥23	$ 82
Capital contribution to investment in a limited partnership	165	168	1,569
Total	¥174	¥192	$1,651

These financial instruments are not included in "(iii) Investments in securities" as their fair values are unavailable and future cash flows are not determinable.

3. Redemption schedule of monetary receivables and investments in securities with maturities at December 31, 2013 and 2012 are as follows:

December 31	Millions of yen 2013 Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥34,492	—	—	—
Notes and accounts receivable – trade	23,873	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	16,608	¥13,126	—	—
Available-for-sale securities with maturities (other)	1,006	159	—	—
Total	¥75,980	¥13,286	—	—

December 31	Millions of yen 2012 Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥22,551	—	—	—
Notes and accounts receivable – trade	22,559	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	1,000	—	—	—
Held-to-maturity debt securities (other)	17,800	¥16,500	—	—
Available-for-sale securities with maturities (other)	1,003	165	—	—
Total	¥64,914	¥16,665	—	—

December 31	Thousands of U.S. dollars 2013 Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	$327,287	—	—	—
Notes and accounts receivable – trade	226,524	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	157,586	$124,556	—	—
Available-for-sale securities with maturities (other)	9,546	1,512	—	—
Total	$720,944	$126,068	—	—

4. Repayment schedule of long-term loans payable and other interest-bearing liabilities at December 31, 2013 and 2012 are as follows:

	Millions of yen					
	2013					
December 31	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term loans payable	¥1,034	—	—	—	—	—
Long-term loans payable	—	—	—	—	¥1,000	—
Total	¥1,034	—	—	—	¥1,000	—

	Millions of yen					
	2012					
December 31	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term loans payable	¥1,733	—	—	—	—	—
Total	¥1,733	—	—	—	—	—

	Thousands of U.S. dollars					
	2013					
December 31	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term loans payable	$9,819	—	—	—	—	—
Long-term loans payable	—	—	—	—	$9,489	—
Total	$9,819	—	—	—	$9,489	—

Note 20 Investments in Securities

20.1. Marketable securities classified as held-to-maturity securities consist of the following:

	Millions of yen					
	2013			2012		
December 31	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount						
Corporate bonds	—	—	—	¥1,000	¥1,002	¥2
Other	¥17,729	¥17,853	¥123	16,104	16,182	77
Subtotal	17,729	17,853	123	17,104	17,184	79
Securities with carrying amount exceeding fair value						
Corporate bonds	—	—	—	—	—	—
Other	12,005	11,975	(29)	18,259	18,182	(76)
Subtotal	12,005	11,975	(29)	18,259	18,182	(76)
Total	¥29,734	¥29,829	¥94	¥35,363	¥35,366	¥3

	Thousands of U.S. dollars		
	2013		
December 31	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount			
Corporate bonds	—	—	—
Other	$168,229	$169,400	$1,171
Subtotal	168,229	169,400	1,171
Securities with carrying amount exceeding fair value			
Corporate bonds	—	—	—
Other	113,913	113,634	(279)
Subtotal	113,913	113,634	(279)
Total	$282,142	$283,035	$ 892

20.2. Marketable securities classified as available-for-sale securities consist of the following:

	Millions of yen					
	2013			2012		
December 31	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost						
Stock	¥821	¥134	¥687	¥1,817	¥1,312	¥505
Other	—	—	—	—	—	—
Subtotal	821	134	687	1,817	1,312	505
Securities with acquisition cost exceeding carrying amount						
Stock	—	—	—	0	0	(0)
Other	1,000	1,000	—	1,000	1,000	—
Subtotal	1,000	1,000	—	1,000	1,000	(0)
Total	¥1,821	¥1,134	¥687	¥2,817	¥2,312	¥505

	Thousands of U.S. dollars		
	2013		
December 31	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost			
Stock	$ 7,798	$ 1,273	$6,525
Other	—	—	—
Subtotal	7,798	1,273	6,525
Securities with acquisition cost exceeding carrying amount			
Stock	—	—	—
Other	9,489	9,489	—
Subtotal	9,489	9,489	—
Total	$17,287	$10,762	$6,525

Unlisted stock of ¥8 million (U.S.$82 thousand) at December 31, 2013 (¥23 million at December 31, 2012) and capital contribution to investment in a limited partnership of ¥165 million (U.S.$1,569 thousand) at December 31, 2013 (¥168 million at December 31, 2012) were carried in the accompanying consolidated balance sheets. They are not included in "available-for-sale securities" in the above table as quoted price is unavailable and their fair value is not readily determinable. Refer to "2. Financial instruments for which fair values are not readily available" in Note 19 "Financial Instruments."

20.3. Available-for-sale securities sold during fiscal 2013 and 2012 consist of the following:

	Millions of yen					
	2013			2012		
Years ended December 31	Amount sold	Aggregate gains on sales of securities	Aggregate losses on sales of securities	Amount sold	Aggregate gains on sales of securities	Aggregate losses on sales of securities
Stock	¥1,619	¥441	¥0	—	—	—
Other	—	—	—	—	—	—
Total	¥1,619	¥441	¥0	—	—	—

No available-for-sale securities were sold in fiscal 2012.

	Thousands of U.S. dollars		
	2013		
Year ended December 31	Amount sold	Aggregate gains on sales of securities	Aggregate losses on sales of securities
Stock	$15,371	$4,186	$4
Other	—	—	—
Total	$15,371	$4,186	$4

Note 21 Segment Information

21.1. General information about reportable segments

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

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

Therefore, reportable segments consist of the Beauty Care business, the Group's core business, and the Real Estate business, which indirectly supports the Group's core business. The Beauty Care business manufactures and markets cosmetics and health foods and sells fashion items (women's underwear, women's apparel and jewelry) under the following brand names: POLA, ORBIS, pdc, FUTURE LABO, ORLANE, decencia, THREE, H2O PLUS and Jurlique. The Real Estate business is engaged in the leasing of office buildings and residential properties.

21.2. Calculation method for net sales, income (loss), assets, liabilities and other items by reportable segment

The accounting policies and measures for the Group's reportable business segments are generally the same as described in Note 1 "Summary of Significant Accounting Policies." Segment income is based on operating income. The amounts of inter-segment unrealized profit and transfer are calculated based on prevailing market prices.

Changes in accounting policies that are difficult to distinguish from changes in accounting estimates

Following the revision of the Corporation Tax Act of Japan, from the first quarter of the fiscal year ended December 31, 2013, for property, plant and equipment acquired on or after January 1, 2013, the Company and its domestic consolidated subsidiaries have adopted the depreciation method based on the revised Corporation Tax Act.

The impact on segment income as a result of this change is minor.

21.3. Information about net sales and income (loss) by reportable segment

	Millions of yen						
	2013						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	¥178,306	¥3,035	¥181,342	¥10,013	¥191,355	—	¥191,355
Inter-segment sales or transfers	73	647	720	3,262	3,983	¥(3,983)	—
Total	178,380	3,682	182,063	13,276	195,339	(3,983)	191,355
Segment income	14,780	1,258	16,039	410	16,449	(431)	16,017
Segment assets	172,972	30,731	203,703	11,582	215,286	2,718	218,005
Other items							
Depreciation and amortization	5,658	613	6,271	262	6,534	170	6,704
Amortization of goodwill	1,061	—	1,061	—	1,061	—	1,061
Increase in property, plant and equipment and intangible assets	¥5,855	¥2,107	¥7,962	¥800	¥8,762	¥(92)	¥8,670

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥(431) million (U.S.$(4,096) thousand) includes intersegment transaction eliminations of ¥1,940 million (U.S.$18,410 thousand) minus corporate expenses of ¥2,372 million (U.S.$22,507 thousand), not allocated to each segment. Corporate expenses are primarily the Company's administrative expenses not allocated to reportable segments.
(2) The segment assets reconciliation of ¥2,718 million (U.S.$25,794 thousand) includes corporate assets of ¥63,460 million (U.S.$602,150 thousand), not allocated to each segment, minus intersegment eliminations of ¥60,742 million (U.S.$576,356 thousand). Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment, and intangible assets are those related to corporate assets and intersegment eliminations.
3. Segment income is adjusted for operating income reported in the consolidated statements of income.
4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment, and intangible assets, respectively.

	Millions of yen						
	2012						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	¥168,811	¥2,841	¥171,653	¥9,220	¥180,873	—	¥180,873
Inter-segment sales or transfers	76	628	705	3,277	3,983	(3,983)	—
Total	168,888	3,470	172,358	12,498	184,857	(3,983)	180,873
Segment income	11,812	1,139	12,952	335	13,287	232	13,520
Segment assets	163,165	29,838	193,003	10,742	203,746	5,393	209,140
Other items							
Depreciation and amortization	5,364	593	5,957	265	6,223	242	6,466
Amortization of goodwill	829	—	829	—	829	—	829
Increase in property, plant and equipment and intangible assets	¥5,683	¥3,736	¥9,419	¥228	¥9,648	¥(38)	¥9,609

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥232 million includes intersegment transaction eliminations of ¥2,378 million minus corporate expenses of ¥2,145 million, not allocated to each segment. Corporate expenses are primarily the Company's administrative expenses not allocated to reportable segments.
(2) The segment assets reconciliation of ¥5,393 million includes corporate assets of ¥56,666 million, not allocated to each segment, minus intersegment eliminations of ¥51,272 million. Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment, and intangible assets are those related to corporate assets and intersegment eliminations.
3. Segment income is adjusted for operating income reported in the consolidated statements of income.
4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment, and intangible assets, respectively.

	Thousands of U.S. dollars						
	2013						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	$1,691,876	$28,804	$1,720,680	$95,013	$1,815,692	—	$1,815,692
Inter-segment sales or transfers	697	6,141	6,838	30,961	37,799	$(37,799)	—
Total	1,692,572	34,946	1,727,518	125,973	1,853,491	(37,799)	1,815,692
Segment income	140,247	11,943	152,190	3,894	156,084	(4,096)	151,987
Segment assets	1,641,264	291,593	1,932,857	109,904	2,042,761	25,794	2,068,555
Other items							
Depreciation and amortization	53,687	5,821	59,508	2,493	62,001	1,620	63,621
Amortization of goodwill	10,068	—	10,068	—	10,068	—	10,068
Increase in property, plant and equipment and intangible assets	$55,556	$19,994	$75,550	$7,593	$83,143	$(875)	$82,268

21.4. Related information

21.4.1. Sales information by product and service

	Millions of yen			
	2013			
Year ended December 31	Cosmetics	Fashion	Others	Total
Sales to external customers	¥165,508	¥12,798	¥13,049	¥191,355

	Millions of yen			
	2012			
Year ended December 31	Cosmetics	Fashion	Others	Total
Sales to external customers	¥155,849	¥12,962	¥12,061	¥180,873

	Thousands of U.S. dollars			
	2013			
Year ended December 31	Cosmetics	Fashion	Others	Total
Sales to external customers	$1,570,436	$ 121,439	$ 123,817	$1,815,692

21.4.2. Information by geographical area

a. Sales

Year ended December 31	Millions of yen 2013	Thousands of U.S. dollars 2013
Japan	¥167,982	$1,593,909
Overseas	23,373	221,784
Total	¥191,355	$1,815,692

Notes: Sales are classified by country or region based on the locations of customers.
Information by geographical area is omitted for fiscal 2012, as sales of the domestic segment account for more than 90% of the total sales of all segments.

b. Property, plant and equipment

Information by geographical area is omitted, as property, plant and equipment of the domestic segment account for more than 90% of the total property, plant and equipment of all segments for fiscal 2013 and 2012.

21.4.3. Information by customer

Information by customer is omitted, as there are no external customers for which sales account for more than 10% of net sales presented in consolidated statements of income for fiscal 2013 and 2012.

21.5. Information about impairment loss of non-current assets by reportable segment

	Millions of yen					
	2013					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥3,057	—	¥3,057	—	—	¥3,057

The amount in "Beauty Care" mainly arises from the impairment loss of goodwill at a subsidiary in the United States.

	Millions of yen					
	2012					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥194	—	¥194	—	—	¥194

	Thousands of U.S. dollars					
	2013					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	$29,012	—	$29,012	—	—	$29,012

21.6. Information about amortization and balance of goodwill by reportable segment

	Millions of yen					
	2013					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥1,061	—	¥1,061	—	—	¥1,061
Goodwill	¥15,856	—	¥15,856	—	—	¥15,856

	Millions of yen					
	2012					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥829	—	¥829	—	—	¥829
Goodwill	¥18,256	—	¥18,256	—	—	¥18,256

Financial Section

	Thousands of U.S. dollars					
	2013					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	$ 10,068	—	$ 10,068	—	—	$10,068
Goodwill	$150,453	—	$150,453	—	—	$150,453

No gains arising from negative goodwill were recognized in fiscal 2013 and 2012.

Note 22 Per Share Information

For fiscal 2013 and 2012, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average common shares outstanding. Diluted net income per share is computed for fiscal 2013 and 2012 due to the dilutive effect of subscription rights to shares arising from stock options, which were issued by the Group in the fiscal year ended December 31, 2012.

Net assets per share are computed based on the net assets excluding subscription rights to shares and minority interests, and common shares outstanding at year-end.

22.1. Net income per share and assumptions used for calculations are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2013	2012	2013
Numerator:			
Net income attributable to common stock	¥7,318	¥6,681	$69,446
Denominator:			
Weighted average number of common stock outstanding (thousands of shares)	55,284	55,284	55,284
	Yen		U.S. dollars
Basic net income per share	¥132.39	¥120.86	$1.26
	Millions of yen		Thousands of U.S. dollars
Adjustment for Numerator:			
Adjustment of net income	—	—	—
Adjustment for Denominator:			
Increase in the number of common stock (thousands of shares)	40	16	40
[Of which, subscription rights to shares]	(40)	(16)	(40)
	Yen		U.S. dollars
Diluted net income per share	¥132.29	¥120.82	$1.26

22.2. Net assets per share and assumptions used for calculations are as follows:

	Millions of yen		Thousands of U.S. dollars
At December 31	2013	2012	2013
Numerator:			
Total net assets:	¥173,887	¥164,896	$1,649,939
Amount deducted from total net assets	636	123	6,044
[Of which, subscription rights to shares]	(90)	(40)	(863)
[Of which, minority interests]	(546)	(82)	(5,181)
Net assets attributable to common stock	¥173,250	¥164,773	$1,643,895
Denominator:			
Common shares issued (thousands of shares)	57,284	57,284	57,284
Treasury stock (thousands of shares)	2,000	2,000	2,000
Common shares outstanding used in the calculation of net assets per share (thousands of shares)	55,284	55,284	55,284
	Yen		U.S. dollars
Net assets per share	¥3,133.82	¥2,980.48	$29.74

Note 23 Related Party Transactions

There was no applicable information on related party transactions involving the Company or significant affiliates in fiscal 2013 and 2012 to be disclosed.

Note 24 Stock Options

On February 28, 2012, the Company's Board of Directors approved a resolution under which the directors' retirement benefit plan was terminated and a stock-based compensation plan to the directors of the Company and its subsidiaries was introduced. This resolution was also approved at the Annual Meeting of Shareholders on March 29, 2012.

24.1. Share-based compensation expenses of ¥50 million (U.S.$475 thousand) arising from stock options are included in selling, general and administrative expenses in fiscal 2013 and ¥40 million in fiscal 2012.

24.2. Details of the stock options

24.2.1. Information on the stock options

	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
Date of approval	March 29, 2013	March 30, 2012
Grantees	7 directors of the Company and 6 directors of subsidiaries	7 directors of the Company and 7 directors of subsidiaries
Type and number of shares granted	Common stock: 19,700 shares	Common stock: 29,700 shares
Grant date	April 15, 2013	April 16, 2012
Preconditions to exercising rights	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries
Service period required	Not specified	Not specified
Exercisable period	April 16, 2013 –April 15, 2043	April 17, 2012 –April 16, 2042

24.2.2. Information on and changes to the stock options

The number of existing stock options, translated into shares at the end of fiscal 2013 (December 31, 2013), is presented below.

a. Number of stock options

	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
Date of approval	March 29, 2013	March 30, 2012
Non-vested	(shares)	(shares)
Outstanding as of December 31, 2012	—	28,850
Granted	19,700	—
Forfeited	—	—
Vested	—	—
Outstanding as of December 31, 2013	19,700	28,850
Vested	(shares)	(shares)
Outstanding as of December 31, 2012	—	—
Vested	—	—
Exercised	—	—
Forfeited	—	—
Outstanding as of December 31, 2013	—	—

b. Price information

	Subscription rights to shares issued in fiscal 2013		Subscription rights to shares issued in fiscal 2012
Date of approval	March 29, 2013		March 30, 2012
	Yen	U.S. dollars	Yen
Exercise price	¥ 1	$ 0.01	¥ 1
Average stock price at the time of exercise	—	—	—
Fair value of stock options on the grant date	¥2,564	$24.33	¥1,832

24.3. Method used for estimating the fair value of stock options

The Company uses the Black-Scholes model for estimating the fair value of stock options.
Main basic assumptions used in the estimation are as follows:

	Subscription rights to shares issued in fiscal 2013
Volatility (*1)	24.722%
Estimated remaining period (*2)	15 years
Estimated dividend (*3)	¥50.00 per share
Risk-free rate (*4)	1.098%

(*1) Volatility is calculated using weekly stock prices during the period (2.35 years) from the listing date to the calculation reference date.

(*2) As making a reasonable estimation is difficult due to insufficient data available, the estimated remaining period is measured based on the assumption that the subscription rights to shares would be exercised in the middle of the exercisable period.

(*3) The amount of the estimated dividend is based on the actual dividends in fiscal 2012.

(*4) The risk-free rate is calculated based on the yield of Japanese government bonds corresponding to the estimated remaining period.

24.4. Method used for estimating the exercise of stock options

As it is difficult to make a reasonable estimation for the future forfeited shares, the Company adopted the method of reflecting the actual number of forfeited shares only.

Note 25 Significant Subsequent Events

There was no applicable information on significant subsequent events for fiscal 2013 to be disclosed.

Independent Auditor's Report

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Building a better working world

Independent Auditor's Report

The Board of Directors
Pola Orbis Holdings Inc.

We have audited the accompanying consolidated financial statements of Pola Orbis Holdings Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pola Orbis Holdings Inc. and its consolidated subsidiaries as at December 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

March 20, 2014
Tokyo, Japan

A member firm of Ernst & Young Global Limited

History

1929	Shinobu Suzuki founds the business in Shizuoka Prefecture.
1940	POLA CHEMICAL INDUSTRIES INC. is established (incorporated).
1946	POLA Cosmetics, Inc. is established (incorporated).
1954	The Shizuoka Factory is completed.
1961	The Yokohama Factory is completed. Fuji Printing, Ltd. is established.
1964	The Yokohama R&D Center is completed.
1971	POLA Real Estate Inc. is established and the real estate business is launched.
1976	The POLA Research Institute of Beauty & Culture is established.
1977	The Fukuroi Factory is completed.
1979	The POLA Foundation for the Promotion of Traditional Japanese Culture is established.
1983	POLA CHEMICAL becomes a major investor in KAYAKU CO., LTD. and enters the pharmaceuticals business.
1984	ORBIS Inc. is established and the mail-order sales business is launched.
1986	POLA GTS Inc. (currently P.O. TECHNO SERVICE INC.) is established and the building maintenance business is launched. POLA CHEMICAL wins an award at the 14th IFSCC (International Federation of Societies of Cosmetic Chemists) Congress held in Barcelona, Spain.
1987	ORBIS starts full-fledged business activities (in the Tokyo metropolitan area).
1988	ORBIS first publishes its nationwide catalog.
1992	POLA Daily Cosme Inc. (currently pdc INC.) is established and retail sales of cosmetics business are launched.
1994	POLA CHEMICAL wins the highest award at the 18th IFSCC Congress held in Venice, Italy.
1996	POLA CHEMICAL wins an award at the 19th IFSCC Congress held in Sydney, Australia. The POLA Art Foundation is established.
1997	ORBIS receives ISO 9001 certification. The Shizuoka and Fukuroi factories receive ISO 9002 certification.
1998	POLA wins the highest award at the 20th IFSCC Congress held in Cannes, France. The Shizuoka and Fukuroi factories receive ISO 9001 certification.
1999	ORBIS The Net (online store) opens.
2000	POLA's corporate message, "Consulting First," is delivered. The first retail store "ORBIS THE SHOP" at Marui department store, in Ikebukuro, Tokyo opens. The Shizuoka and Fukuroi factories receive ISO 14001 certification.
2002	New business announcement by POLA, aimed at "A thorough commitment to customer first," "Selection and concentration of businesses," and "Reform of corporate culture and management." The POLA Museum of Art opens at Sengokuhara in Hakone, and the POLA Museum Annex opens in Ginza.
2004	The Fukuroi Factory receives the Prime Minister's Award, recognizing it as an Outstanding Green Plant.
2005	POLA THE BEAUTY premium esthetic salons are launched. ORBIS acquires the Privacy Mark, certifying the proper handling of personal information.
2006	POLA ORBIS HOLDINGS INC. is established and the Group transitions to a pure holding company system. P.O. REAL ESTATE INC. is established and carries on the real estate business. The Group becomes a major investor in the FUTURE LABO group, and the TV mail-order sales business is launched.
2007	POLA Cosmetics, Inc. is renamed POLA INC. The pharmaceutical company POLA PHARMA INC. is established. ORLANE JAPON INC. is established through a joint venture with Orlane S.A. of France. decencia INC. is established.
2008	ACRO INC. is established. POLA CHEMICAL wins the highest award at the 25th IFSCC Congress held in Barcelona, Spain.
2010	POLA ORBIS HOLDINGS INC. is listed on the Tokyo Stock Exchange First Section.
2011	The Group acquires H2O PLUS HOLDINGS INC. P.O. MEDIA SERVICE INC. (formerly Fuji Printing, Ltd.) is sold to an outside party.
2012	The Group acquires Jurlique International Pty Ltd. POLA CHEMICAL wins the Poster Award at the 27th IFSCC Congress held in Johannesburg, South Africa.
2014	The Shizuoka Factory and the Fukuroi Factory are integrated.

Corporate Information *(As of December 31, 2013)*

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	4,178 (for the Group); 77 (for the Company) Full-time employees (Excluding those on loan to other companies, including those on loan from other companies)
Fiscal year-end	December 31
General meeting of shareholders	March
Business description	Business management of the entire Group
Head office	2-2-3 Nishigotanda, Shinagawa-ku, Tokyo 141-0031, Japan (Business activities conducted at 1-7-7 Ginza, Chuo-ku, Tokyo)
Stock listing	Tokyo Stock Exchange, First Section
TSE code	4927
Share register	1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation

Major Group companies (As of March 31, 2014)

Beauty Care business

- POLA INC.
- ORBIS Inc.
- POLA CHEMICAL INDUSTRIES INC.
- Jurlique International Pty Ltd
- H2O PLUS HOLDINGS INC.
- pdc INC.
- FUTURE LABO INC.
- MEDI LABO INC.
- ORLANE JAPON INC.
- decencia INC.
- ACRO INC.

Real Estate business

- P.O. REAL ESTATE INC.

Other businesses

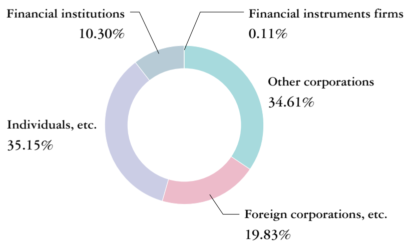
- POLA PHARMA INC.
- KAYAKU CO., LTD.
- P.O. TECHNO SERVICE INC.

Stock Information *(As of December 31, 2013)*

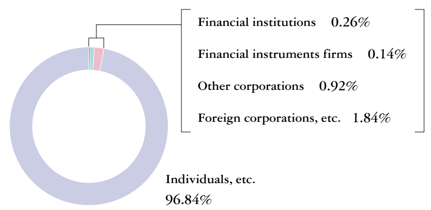
Total number of authorized shares	200,000,000 shares
Total number of issued shares	57,284,039 shares
Number of shareholders	12,088

Composition of shareholders

By number of shares



By number of shareholders



Principal shareholders

Shareholders	Number of shares held (Thousands)	Percentage of shareholding (%)
The POLA Art Foundation	19,654	35.6
Satoshi Suzuki	12,736	23.0
Japan Trustee Services Bank, Ltd. (Trust Account)	2,101	3.8
Northern Trust Co. (AVFC) Sub A/C British Clients	1,542	2.8
Naoko Nakamura	1,192	2.2
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	1,187	2.1
The Bank of New York Mellon SA/NV10	1,084	2.0
The Master Trust Bank of Japan, Ltd. (Trust Account)	977	1.8
POLA ORBIS HOLDINGS Employees' Stockholding	870	1.6
State Street Bank and Trust Company	586	1.1

Notes: 1. The number of shares is rounded down to the nearest thousand shares.
2. In addition to the above, the Company holds 2,000 thousand shares of treasury stock.
3. The percentage of shareholding is calculated by deducting shares of treasury stock.

POLA ORBIS HOLDINGS

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