Corporate Report 2014

Editorial Policy

This report, incorporating non-financial information such as management's policies, strategies, and the underlying basis for these decisions in addition to financial information, is intended to give stakeholders greater insight into our activities.

The information has been compiled with reference to the International Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC).

Timeframe

This report focuses on activities and results achieved in fiscal 2014—the 12 months from January 1, 2014 to December 31, 2014—but some fiscal 2015 content is also included.

Scope

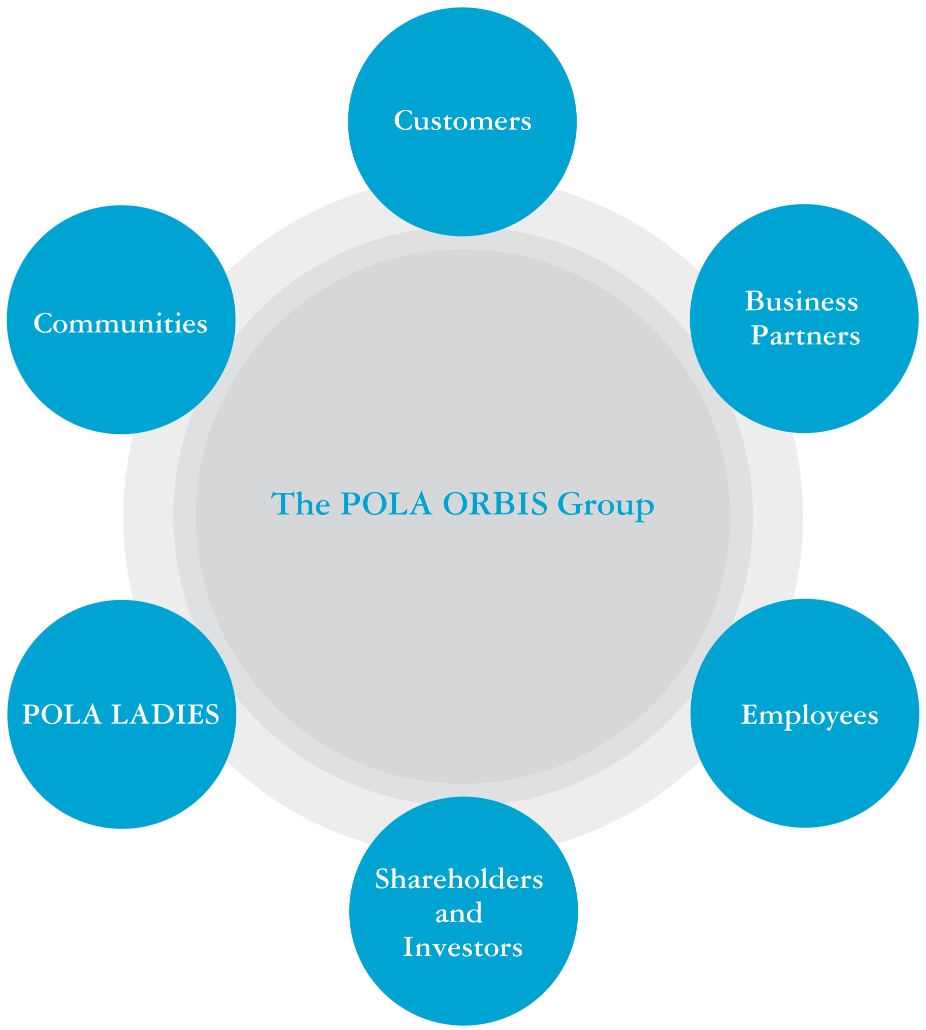
POLA ORBIS HOLDINGS INC. and consolidated subsidiaries

Disclaimer

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, 2015.

The POLA ORBIS Group's Stakeholders



Contents

Inspire all people and touch their hearts.

Satoshi Suzuki

鈴木郷史

President

The POLA ORBIS Group Philosophy

Inspire all people and touch their hearts.

The POLA ORBIS Group is committed to providing distinctly unique products and services to you, the customer, backed with the assurance of solid scientific testing.

We make every effort to contribute to improving the global cosmetics culture as well as preserving the global environment in the name of beauty and health.

We aim to build a brand that will be forever admired and trusted in every corner of the globe.

Achieving this requires us to approach each and every challenge with humility, and to always strive to find happiness in giving happiness. With this in mind, we, the POLA ORBIS Group, spend our days at work and at home full of vitality and with a smile on our faces.

A cream made for just one person became the starting point of a company—and by extension, a corporate group—that seeks to inspire all people and touch their hearts.

Our starting point was a cream for just one person. More than 80 years ago, the founder of POLA formulated a cream on his own for his wife whose hands were dry and rough. He loaded up his bicycle and went door-to-door to show and explain how to use the cream. This was the beginning of POLA and, by extension, the POLA ORBIS Group.

The commitment to make and market products in-house has been maintained since those early days and is today, like corporate DNA, an integral component of the Group's operations. At the same time, the Group has evolved, sharpening its awareness of changing market and customer needs and implementing reforms, geared to the times, to meet these needs. To respond to emerging lifestyles, which accompanied the empowerment of women, POLA expanded beyond its traditional door-to-door sales channel to a store-based approach, while ORBIS began online sales, kick-starting this route to customers in the cosmetics industry. To address increasingly diversified and differentiating customer needs, POLA ORBIS HOLDINGS has emphasized a multi-brand strategy to promote several brands under different concepts, pricing, and sales channels.

POLA ORBIS HOLDINGS has continued to grow for more than 80 years, providing its many customers with value that is based on three strengths—direct selling, a focus on skincare, and a strong multi-brand strategy.

Today, having resolutely embarked on an overseas expansion strategy, POLA ORBIS HOLDINGS guides the Group's business development to a new stage. Efforts to raise brand value overseas will accelerate the process of overseas expansion.

Going forward, the Company and the Group it leads will spare no effort to improve corporate value and inspire all people and touch their hearts.

Looking Back on 2014

To realize our long-term vision for 2020—to become a highly profitable global company in the field of beauty and health—we divided the road toward that destination into three stages. Currently, we are in stage two, with the medium-term management plan for the years from 2014 through 2016 guiding our progress.

Fiscal 2014, the first year of our three-year medium-term management plan, saw steady progress toward performance targets, with net sales edging up 3.5% over fiscal 2013, to ¥198.0 billion, and operating income rising 10.4%, to ¥17.6 billion, on a consolidated basis.

In domestic operations, ORBIS played a pivotal role. The launch of *ORBIS=U*—a skincare line and new symbol of the brand—was well received, and various approaches, including the use of social media and the introduction of a new point system to provide a higher level of service to loyal customers, were successful, underpinning favorable demand throughout the year and spurring a huge improvement in sales and income.

POLA worked to attract new customers by reinforcing the consulting aspect of its products through the *APEX* series, a semi-customized skincare and foundation makeup line tailored to each customer according to personal skin analysis, and by introducing new products, such as *RED B.A.* Unfortunately, the consumption tax increase dampened consumer enthusiasm for products with a high price tag even more than the company had predicted, causing sales to slip 1.2% from fiscal 2013. Operating income, however, climbed 7.9%, as efforts to improve the profit structure—an issue the company continues to tackle—yielded positive results.

In overseas operations, Jurlique battled for position, especially in China. But through new product launches and enhanced customer relationship management practices, the company marked commendable progress—up 5% year on year—in sales at existing locations in department stores in China, where competition is increasingly fierce, and steadily expanded sales in Hong Kong and Australia and at duty-free shops as well.

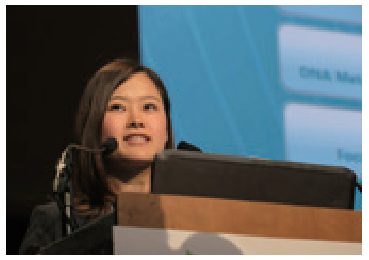
H2O PLUS did not fare so well, struggling with poor sales in China and challenges caused by a change in distribution strategy for the North American market. The company posted lower sales and lower income. Given these circumstances, management undertook a review of the company's business targets and future cash flow, which led to the booking of ¥6,061 million in impairment losses and left a number of issues to resolve, with an emphasis on brand image, distribution processes, and sales structure.

For brands under development, THREE and decencia delivered particularly good sales and put the category on a favorable path toward the fiscal 2016 goal of becoming a profitable segment of operations.

In research and development pursuits, POLA CHEMICAL INDUSTRIES, which carries the R&D torch for the Group, won the highest award at the 2014 International Federation of Societies of Cosmetic Chemists (IFSCC) Congress in Paris. In March 2015, the Group debuted products featuring globally substantiated top-level research results.

ORBIS' *ORBIS=U* series

Jurlique store in China


IFSCC Congress in Paris

Fiscal 2015 Forecast

Fiscal 2015 will be a watershed moment in the success of our medium-term management plan, and we know that stable growth of our flagship brands and better profit structures for overseas brands and brands under development are issues requiring particular attention.

At POLA, with an eye toward long-term growth, management has decided on a shift in strategy, favoring quality over quantity, which includes efforts to reinforce the consulting capabilities of POLA LADIES. In addition, management seeks to make the brand more appealing to customers through the launch of new and desirable products. At ORBIS, the emphasis is to strengthen relationships with our customers and build on the solid business platform achieved through successful brand restructuring measures by creating one-to-one marketing opportunities utilizing the point system revamped in 2014 and the widespread appeal of social media.

At Jurlique, China remains a key market, but the company has taken steps to cultivate new sales channels, such as the wholesale route in regional cities as well as online sales, which will complement the core department store route. An improved profit structure, paralleling higher revenue, will contribute to enhanced profitability.

At H2O PLUS, efforts will be directed toward building consistency in products, prices, and brand image in China and North America, supported by a basic strategy designed to build a business platform primed for a return to growth.

The priority for brands under development, as well, is to establish a better profit structure in line with higher sales. This segment will push steadily ahead toward the objective of turning a profit by fiscal 2016.


POLA's *WHITE SHOT* series

ORBIS' *CLEAR* series

Sustainable Growth for the Group

The words—"Find happiness in giving happiness"—of the man who established POLA, infuse the business activities of the POLA ORBIS Group. The spirit of this saying is etched into the minds of each and every employee even today so many years later. Taking payment for cosmetics and handing over products is, in and of itself, far removed from "giving happiness." Inspiring people and touching their hearts—going beyond the expectations of customers—is what really gives happiness. Through this, we help realize the wishes of society and stakeholders to develop and grow, and in doing so, we too are able to develop and grow. The wisdom in fulfilling the wishes of others is a perfect match to the concept of ESG* as part of a CSR management approach. The POLA ORBIS Group will contribute to solutions that ameliorate social concerns and, by distinguishing itself from other corporate groups, achieve sustainable growth.

On the environment front, we seek to reduce factory-linked environmental impact, aiming for zero emission status, and even at the cosmetics planning stage, consideration is given to the use of ingredients that have no impact on the environment and the choice of easy-to-recycle shapes and materials for containers and packaging. Meanwhile, acknowledging heightened awareness of eco-diversity and animal welfare issues, POLA CHEMICAL INDUSTRIES began exploring alternatives to animal testing in the early 1990s, and in 2014, paralleling improvements in practical alternative techniques, POLA ORBIS HOLDINGS was able to announce a Groupwide policy ending the practice of animal testing in cosmetics R&D.

Where society is concerned, POLA helps create employment opportunities for women through the POLA LADY network, and has for many years continued to build good relationships with local communities by supporting entrepreneurs. In addition, POLA strives to address expectations and needs at the local level through its business pursuits, including efforts to invigorate local industry by designing products with local residents and utilizing locally produced ingredients or materials and application techniques.

As part of governance, POLA ORBIS HOLDINGS welcomed its first outside directors in March 2015. The selection of candidates for this position naturally had to do with securing the Company's defensive position—through enhanced governance practices—and management searched for individuals with sophisticated knowledge in corporate management. The appointment of outside directors is also a vital offensive move to ensure growth of the POLA ORBIS Group overall. Management expects Kazuyoshi Komiya to be an active participant at Board of Directors' meetings, providing comments from his perspective as a management consultant. Expectations are particularly high for Yumiko Kamada, who brings expertise and experience mastered as a female manager in the customer service sector.

* ESG: Environment, Society, Governance

Fukuroi Factory

POLA LADIES engaging with local residents

Executive Focus

Top Management Development Program

I have always believed that people—human resources—are a well-spring of limitless possibilities that drive the development of a company forward. In employee training sessions, learning is based on the idea that it is better to make decisions from the perspective of an individual rather than from that of an organization. Why? Because, I feel, employees should think beyond the confines of the organization when they come up against an issue, and they should consider possible solutions from a personal standpoint, because it is decisions by people that enable a company to continually move in a positive direction. The perfect corporate activities, in my mind, revolve around each and every employee demonstrating personality and people skills to constantly improve the organization and thereby perpetuate the image of a brand capable of delivering value. I do realize, however, that companies with history typically have a corporate culture that shuns change. Consequently, at POLA ORBIS HOLDINGS, we conduct in-house programs, such as the Future Study Program for young employees, to develop future members of management, and the Top Management Development Program, to enhance the capabilities of upper management, and I personally am involved in the planning of these programs. Current members of management at operating companies have actually been through these programs. I, myself, spend a minimum of three days each month, between April and November, in the program. I am keen to get involved each time because polishing inherent capabilities reveals gleaming treasures (human resources).

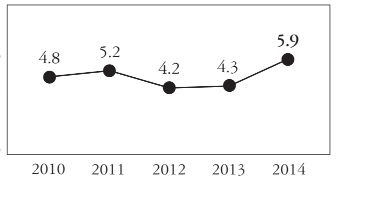
To Our Stakeholders

POLA ORBIS HOLDINGS is working toward sharper management capabilities and improved corporate value on a consolidated basis. Through this process, the Company should be able to return profits to shareholders, as results allow, for their support.

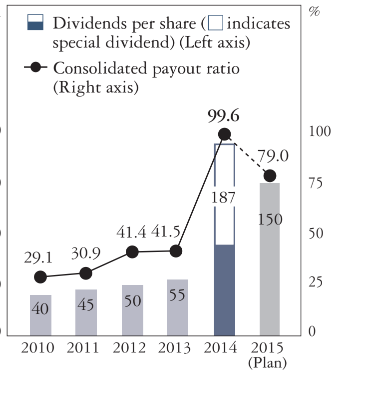
In the medium-term management plan recently kicked off, we are directing particular attention to enhanced capital efficiency and a better return to shareholders. We have stated quantitative targets of 8% for return on equity and at least 50% for the consolidated payout ratio, and we made steady progress toward these goals in fiscal 2014.

POLA ORBIS HOLDINGS and the rest of the POLA ORBIS Group will strive to make 2015 a year of further growth, by leaps and bounds, toward objectives laid out in the medium-term management plan. The support and encouragement of our stakeholders will, as always, be integral to our success.

Return on Equity



Annual Dividend and Payout Ratio



Progress to Date

Ability to respond to change, evolving along with the changing times

POLA ORBIS Group companies expedite responses to evolving market and customer needs and facilitate swift innovations matched to the changing times. The ability to respond as prevailing conditions require is a corporate strength, and with this in mind, Group companies will continue to take full advantage of excellent capabilities in R&D and direct marketing to fuel growth into the future.

1929 ▸▸ 1979
Growth of the door-to-door sales channel

Active participation of women in society

As Japan welcomes more active participation of women in society, POLA embarks on what is now an 85-year history in the cosmetics business with expansion of door-to-door sales.

1980 ▸▸ 1999
Business diversification

Diversifying lifestyles

New lifestyles emerge paralleling greater participation of women in society.

POLA diversifies business content to match evolving trends.

ORBIS is established and will later develop into a flagship brand.

2000 ▸▸ 2004
More sales channel variety

Fragmentation of needs

New ways to shop appear with advances in information technology.

Sales channels expand in response to changes in society.

ORBIS expands retail store network and promotes sales overseas.

2005 ▸▸ 2010
Multi-brand strategy

Multi-brand emphasis

Begins promoting brands under development to fuel future growth.

Sets up decencia through in-house venture.

THREE debuts as department store brand.

2011 ▸▸ 2013
Accelerated growth through stock listing

Stronger domestic platform

Drafts long-term vision and medium-term management plan, prompted by stock listing.

Acquires H2O PLUS and Jurlique brands.

Enters new stage of growth.

2014 ▸▸ 2020
Seeking to be a highly profitable global company

Acceleration of overseas expansion

Overseas expansion to further accelerate, especially in China and other parts of Asia.

Positioned to achieve remarkable progress toward becoming a highly profitable global company.

POLA

1929	Shinobu Suzuki founds the business in Shizuoka Prefecture.
1940	POLA CHEMICAL INDUSTRIES INC. is established.
1946	The current POLA INC. is established.

Mortar used by the Company's founder

1981	Fashion business is launched.
1989	Department store business is launched.

2000	Begins steps to transform door-to-door sales approach.
2004	POLA enters the Chinese market.

2006	POLA ORBIS HOLDINGS INC. is established and the Group transitions to a pure holding company system in September.

POLA ORBIS HOLDINGS

2010	POLA ORBIS HOLDINGS INC. is listed on the Tokyo Stock Exchange, First Section in December.

2005	POLA THE BEAUTY stores are launched.

2007	POLA enters the Russian market.

ORBIS

1984	ORBIS Inc. is established.
1988	Mail-order sales business is launched.
1999	Internet order system is launched.

ORBIS first generation 100% OIL-FREE series

2000	ORBIS THE SHOP is launched.

2001	International sales commence.

2005	ORBIS enters the Hong Kong market.
2006	ORBIS enters the Taiwanese market.
2008	ORBIS enters the Chinese market.

Brands under Development

1992	The current pdc INC. is established.
2006–2008	The Group becomes a major investor in the FUTURE LABO group. decencia INC. is established. ORLANE JAPON INC. is established. ACRO INC. is established.

FUTURE LABO / decencia / ORLANE PARIS / THREE

Overseas Brands

2011	The Group acquires H2O PLUS HOLDINGS INC. in July.
2012	The Group acquires Jurlique International Pty Ltd in February.

h2o+ / Jurlique

Environment/Society/Governance Efforts

1937	POLA hires its first female sales representatives.
1979	The current POLA Foundation for the Promotion of Traditional Japanese Culture is established.
1985	POLA introduces product refills.
1990	ORBIS introduces simplified packaging.
1996	The current POLA Art Foundation is established.
1998	The Shizuoka and Fukuroi factories obtain ISO 9001 certification (quality-related).
2000	The Shizuoka and Fukuroi factories obtain ISO 14001 certification (environment-related).
2002	POLA dubs 2002 "Year of Re-Establishment." Formulates corporate philosophy "POLA VALUE."
2008	Appoints outside corporate auditor.
2009	Seeking to energize local industry, POLA initiates the "3-9 Project."
2009	Creates Groupwide risk management structure.
2010	POLA obtains "Kurumin" certification mark from Japan's Ministry of Health, Labour and Welfare for efforts supporting development of the next generation.
2011	Group companies embark on activities to support reconstruction in areas affected by the Great East Japan Earthquake.
2011	Opens stakeholder dialogue.
2012	ORBIS introduces employee code of conduct, dubbed "ORBIS STYLE."
2015	Appoints outside director.

2011–2013 Medium-Term Management Plan

Management Indicators (Results)

Consolidated net sales growth rate	CAGR 5.0%
Higher operating income paralleling higher net sales	CAGR 9.3%
Industry-leading profitability	Operating margin 8.4% (11.4% for domestic business) (FY2013)

Growth Strategies

1. Generate stable profits with flagship brands
2. Accelerate growth of the portfolio of brands under development
3. Develop the Group's presence overseas by leveraging its strengths
4. Reinforce R&D capabilities
5. Reinforce the operating base

2014–2016 Medium-Term Management Plan

Management Indicators (Plan)

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

Growth Strategies

1. Sustain stable growth of flagship brands to lead Group earnings
2. Sales growth and monetization of brands under development
3. Overseas brands contributing to profitability through high sales growth
4. Restructure overseas expansion of flagship brands
5. Strengthen operations (human resources, R&D, and production)
6. Improve capital efficiency and shareholder return

Long-Term Vision for 2020

Management Indicators (Plan)

Consolidated net sales	¥250.0 billion or higher
Operating margin	13%–15% (Industry-leading profitability)
Overseas sales ratio	20% or higher

Basic Policy

Becoming a global enterprise in the field of "beauty and health," based on the Group's philosophy: "Inspire all people and touch their hearts."

Snapshot—The POLA ORBIS Group Today

Strengths of the POLA ORBIS Group

Sources of strength come from making and marketing products in-house and an ability to respond to change

The POLA ORBIS Group adheres to a business model emphasizing in-house production and sales. Efforts are made to pinpoint even the slightest change in customer lifestyles and beauty care needs, including preference for cosmetics, and then anticipating market conditions and social trends, operations evolve to meet changing times and consumer preferences. The spirit of this evolution infuses the Group like DNA—a quality that runs through its generations—all the way back to POLA's establishment in 1929.

1 Direct selling provides a direct connection to customers

At POLA ORBIS, we believe that a direct connection to customers is the Group's most important business resource. With this in mind, POLA and ORBIS, our flagship brands, promote respective namesake brands to customers through specific sales channels appropriate to each brand concept.

POLA draws on its cross-country network of POLA LADIES—about 150,000 of them—to deepen communication with customers through face-to-face meetings and consultation opportunities.

ORBIS, while focused on mail-order sales, reinforces its connection to customers through one-to-one communication over the Internet. As a result, ORBIS can receive customer comments in real time.

These direct-selling channels enable each company to manage information on nearly all respective customers in-house. With this information, the companies have built a database of more than 15 million entries on the condition of Japanese women's skin and collected other useful information, such as customers' product preferences, purchasing history, and profiles. This diverse information is analyzed and pertinent results are used in R&D, product planning, and marketing activities, allowing POLA and ORBIS to build strong, trusting relationships with customers and to secure extremely high rates of repeat purchases not only from an in-house perspective but also from an industry perspective, achievements that are impossible for other companies to attain.

2 R&D structure centers on concentration of corporate resources into skincare

Skincare products are now seen by women as a necessity, which underpins demand stability. Against this backdrop, the POLA ORBIS Group's biggest strength from an R&D point of view is the concentration of corporate resources into products that fight the two biggest skincare concerns of women—dark spots and wrinkles. Basic research into anti-aging and skin-whitening and the development of new materials have generated uniquely original ingredients, which extend the range of innovative materials and patents in possession for application in the development of new products. Of notable achievements, POLA pioneered the world's first application of hyaluronic acid in cosmetics products and brought these products to market.

In addition, the skincare market is stable and has been for some time, based on past statistics. Efforts to refine skincare-oriented research and technology development capabilities underpin the competitiveness and excellence of each Group brand and fuel high rates of repeat purchases and enhanced profitability overall.

3 Multi-brand strategy attracts customers from wide consumer demographic

Today, with customer perceptions and lifestyles becoming increasingly diversified, a single-brand approach to attract many customers dilutes brand concept and damages image cohesiveness. That's why POLA ORBIS HOLDINGS stresses a different approach.

Women's lifestyles and value perceptions change with the times. To better address trends whenever they may appear, POLA ORBIS HOLDINGS oversees a portfolio of nine cosmetics brands, each with its own concept, sales channels, and price range. In this way, each brand is distinct and facilitates targeted brand identity through independent management to expand respective shares of the cosmetics market.

Snapshot—The POLA ORBIS Group Today

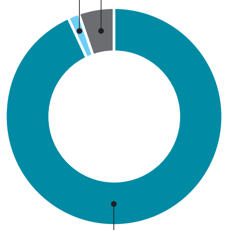
Business Structure and Brand Portfolio

Business Structure

Net Sales Breakdown by Business Segment

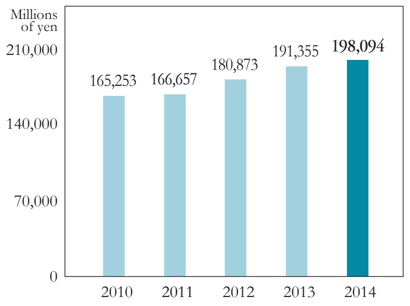
Real Estate
¥3,179 million
Business focus on leasing office space

Others
¥10,440 million
Pharmaceuticals and building maintenance businesses, etc.

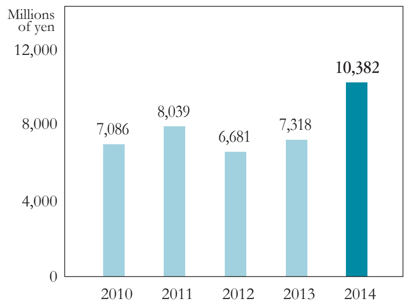


Beauty Care
¥184,475 million
Core business built on nine cosmetics brands, with emphasis on POLA and ORBIS

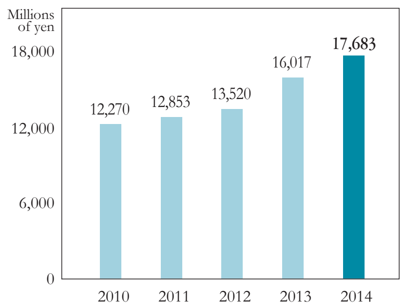
Net Sales



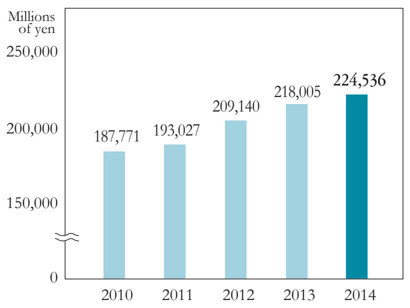
Net Income



Operating Income



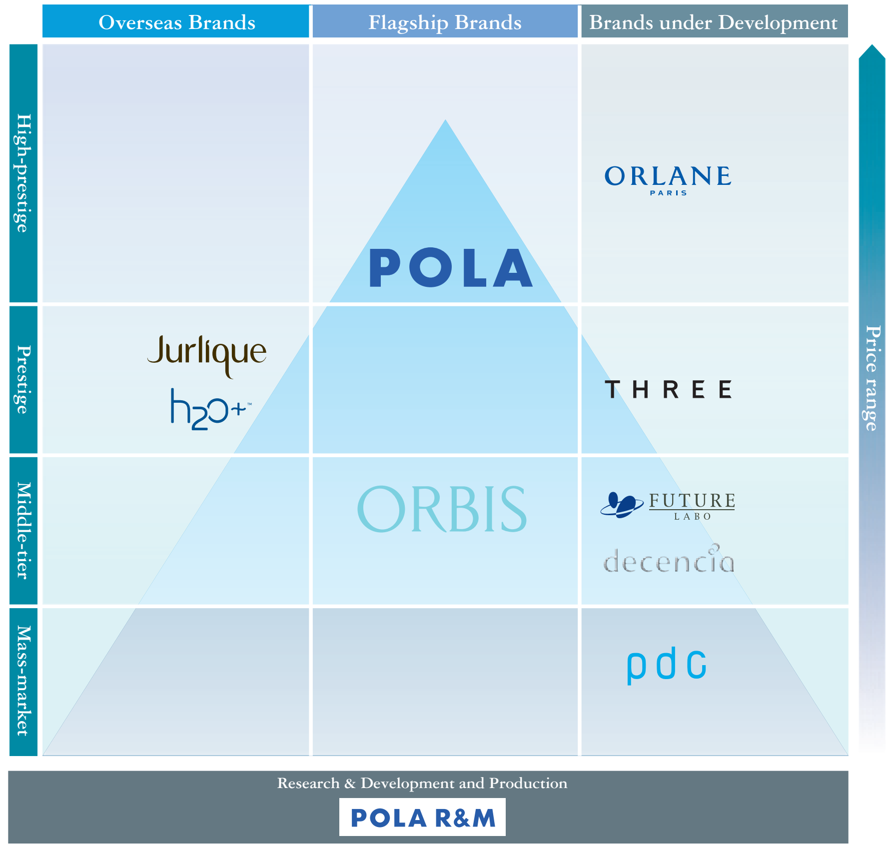
Total Assets



Brand Portfolio

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.

Currently, the Group's cosmetics portfolio centers on POLA and ORBIS but comprises nine brands in total, each with its own concept, sales channels, price range, and distinctive appeal matched to diversifying customer lifestyles and needs.



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, *Herbal Recovery*, and *Nutri-Define*

Sales Channels
Sold at department stores and shopping malls in approximately 20 countries and regions, including China, Hong Kong, and Australia

H2O+

Concept
A skincare brand based on marine science, 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 approximately 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

Distinctive Product Series
Balancing, *Conditioning*, and *Concentrate*

Sales Channels
Directly operated stores and department stores

decencia

Concept
Skincare products for dry, sensitive skin

Distinctive Product Series
ayanasu, *saeru*, and *tsutsumu*

Sales Channels
Mail-order (catalog and Internet)

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

pdc

Concept
Affordably priced cosmetics with a skincare focus

Distinctive Product Series
Pure Natural, *1 de Bijin*, *Naturina*, and *Love fille*

Sales Channels
Drugstores, supermarkets, and general retail outlets

Special Feature: Evolving the ORBIS Brand

Since 2000, flagship brand ORBIS has expanded its assortment of products and collaborated with different media properties, including women's magazines, to raise its profile. As a result, the brand has garnered enthusiastic interest from young women in their late-teens and 20s, leading to a dramatically larger customer base. The downside to this, however, is that some of these loyal customers are outgrowing the image of ORBIS as a young woman's brand and others are distancing themselves from the brand because the products no longer deliver the moisturizing effect they need as they get older.

Sensing an impending crisis of sorts, in 2008 ORBIS embarked on brand restructuring to lift the brand to a higher stage of development. Through a grass-roots review focusing on the value provided by ORBIS products and services, the company began the process of repositioning ORBIS into a brand that appeals to customers throughout their lives.

Three Goals

Clarify Value Provided by Brand

1. Redefine targets, promote progressive brand concept
2. Revamp skincare series
3. Introduce series that symbolizes the new ORBIS

KPI Targets

Improved brand image survey[*1] results, higher sales ratio of skincare products, and higher spending per customer

Rethink Sales Channels

1. Shift from catalogs to the Internet
2. Shorten lead-time by revamping logistics structure
3. Shift from mass promotion to online one-to-one marketing

KPI Targets

Increase number of active customers and online shoppers and retention rate of customers

Reinforce Profit Structure

1. Reduce cost of sales through product strategy
2. Derive greater efficiency from catalog costs and advertising expenses through sales channel strategy
3. Break away from discounting

KPI Targets

Reduce cost of sales and rationalize sales-related costs

[*1] In-house brand image survey

Solid Steps Toward Brand Restructuring

Debut of *ORBIS=U*

To transform ORBIS into a brand that attracts and keeps customers for life, the company worked to enhance its line of skincare products, with a particular focus on anti-aging products. *ORBIS=U*, which debuted in February 2014, symbolizes the progress made so far in brand restructuring. This series adheres to the OIL-FREE skincare concept of the brand but utilizes innovative technology to provide greater hydration. The company expects *ORBIS=U* to boost the retention rate of existing customers in their 30s and 40s and increase spending per customer.

ORBIS=U series

One-to-One Marketing Approach

Long-term loyalty to the ORBIS brand requires one-to-one marketing and good communication practices, not a blanket approach, to deliver real-time responses to whatever each individual needs. With this in mind, the company configured a platform system designed to coordinate channels customers use to connect with the company, including e-commerce, retail stores, call centers, and fax, in real time and then integrate customer information to ensure fast and flexible responses to customer requests.

Also, to reinforce the connection to customers, ORBIS uses social media to achieve two-way communication with a personal touch even online. For example, the company takes an active support approach to address problems or complaints about ORBIS products or services on Twitter. Someone at ORBIS will establish contact with whoever made the tweet, respond constructively to the comments, and work to resolve the issue. Other approaches include sales promotions linked to brand concept through LINE, a popular messaging service in Japan.

In-House Awareness Reforms

Successful brand restructuring centers on efforts to promote awareness among employees and new patterns of behavior. With this in mind, ORBIS formulated a new employee code of conduct, "ORBIS STYLE." This is a principle that guides all ORBIS employees in the same direction. With a shared understanding that the pursuit of change is nothing to be afraid of, the company tackled challenging organizational reforms and established a structure under which everyone, regardless of position, can demonstrate good leadership.

No. 1 in Customer Satisfaction, Mail-Order Category

With an outstanding fulfillment system, far and away the best in the industry, ORBIS secured the No. 1 spot in the mail-order category of the Japanese Customer Satisfaction Index survey.[*2]

Enhanced logistics control: Two distribution centers—eastern Japan and western Japan

Ordering: No-cost ordering methods (phone, postcard, fax, online). Free samples available for almost all products

Shipping: Free shipping even if order contains only one item, next-day delivery nationwide (same-day delivery in some areas), convenience store pickup service, eco-friendly, simplified packaging

Payment: No service charges

Returns and exchanges: 30-day free returns

[*2] Captured the No. 1 spot for four consecutive years (2011–2014) in the mail-order category of 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 will continue to grow, supported by a business platform made more resilient through successful brand restructuring efforts. Embracing a new corporate message, "Change is beautiful," the company will be more proactive in its approach to branding, forge stronger ties with customers, and work to make customers even more comfortable with the ORBIS brand.

Global Expansion

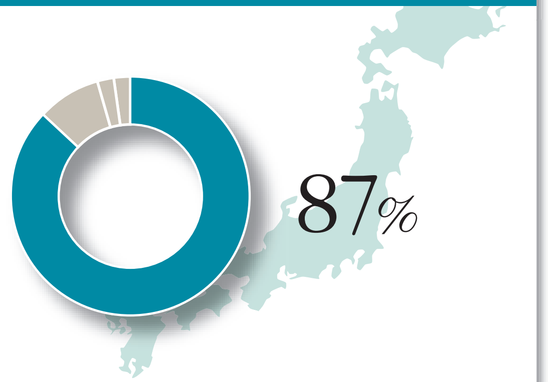
Within the POLA ORBIS Group, an emphasis is placed on promoting domestic flagship brands POLA and ORBIS as well as THREE, one of the brands under development, as overseas brands from Japan.

In addition, POLA ORBIS HOLDINGS is keen to follow the acquisitions of Jurlique and H2O PLUS and accelerate growth of the Group through more M&A activity.

Guided by the corporate philosophy "Inspire all people and touch their hearts," the Group will accelerate the pace of overseas expansion, with a priority on Asia, where demand for skincare is high and local markets present obvious growth potential.

Percentage of Sales by Region

Japan

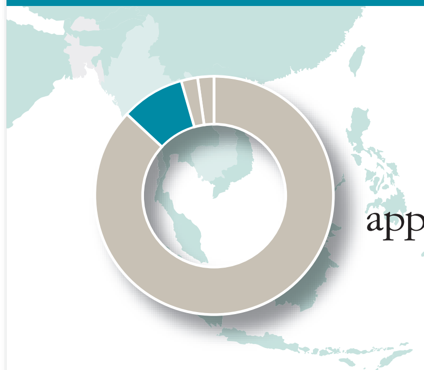


87%

Brands

POLA, ORBIS, Jurlique, THREE, decencia, ORLANE PARIS, FUTURE LABO, pdc

Rest of Asia



approx. 9%

Brands

POLA, ORBIS, Jurlique, h2o+, THREE

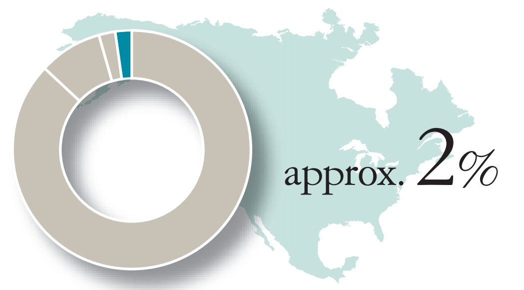
Oceania

approx. 2%

Brands

Jurlique

North America



approx. 2%

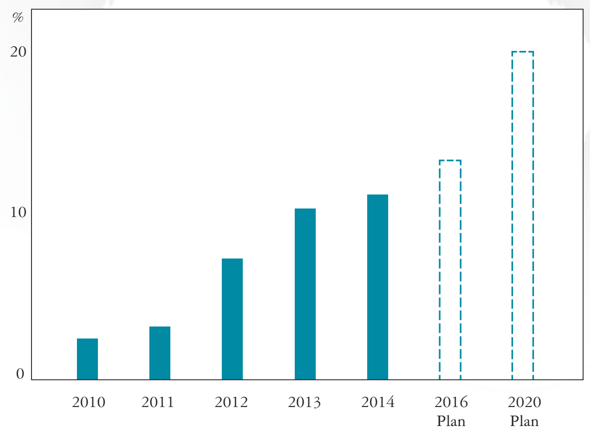
Brands

Jurlique, h2o+

Group Overseas Development

China is a key market in the overseas development strategies of all brands, but efforts are also directed toward building a higher profile in neighboring ASEAN markets. Another market of interest is Australia—the home territory of Jurlique. The Group overseas sales ratio, which hovered around 3% in 2011, expanded to about 13% in 2014. The goal for 2020 is 20%, and concerted efforts are under way to speed the Group's journey toward this goal.

Long-Term Vision for 2020: Group Overseas Sales Ratio



POLA
- Presence in 13 countries
- Key markets are China (department stores), Russia (perfumeries), and Thailand (door-to-door sales)
- Sales emphasizing *B.A* series, as well as limited editions overseas

ORBIS
- Presence in five countries
- Full-scale entry into China's mail-order market; opened stores strategically located in Singapore in advance of anticipated ASEAN expansion
- Sales emphasizing skincare and health foods

Jurlique
- Presence in approximately 20 countries, mainly in department stores
- Focus on China, Hong Kong, Australia, and duty-free shops
- Founded in Adelaide, Australia
- Pioneer organic skincare brand featuring ingredients made from plants grown on the company's own farm

h2o+
- Presence in approximately 23 countries, mainly in department stores
- Focus on China, Russia, and North America
- Founded in Chicago, Illinois, in the United States
- Cosmetics based on marine science, featuring sea-derived ingredients

Original Value Chain

The POLA ORBIS Group has created an original value chain that integrates all product stages, from research through marketing.

Direct marketing provides a direct connection to customers, which makes it possible to collect various information, including real-time sales data and customer comments. This information is applied to R&D, product development, and production and is used in marketing approaches.

The capacity to support brand value creation is an engine that drives business operation. Measures in each link of the value chain and tangible results are described below.

Six Key Types of Invested Capital

1. Funds
2. Human resources
3. Technologies
4. Infrastructure
5. Society
6. Energy

Value Creation Process (Value Chain)

Created Value

1 Financial Capital

- Sound financial status
- Creation of free cash flow to facilitate growth investment

2 Human Capital

- Brand management
- Opportunities that allow diverse human resources to be active
- Opportunities that allow women to be active

3 Intellectual Capital

- Research papers, patents
- Customer data (Big Data)
- Design capabilities, creative capabilities
- Spreading sense of beauty through cultural activities

4 Manufactured Capital

- Integrated manufacturing and sales supply chain defined by "customer first" concept
- Ingredients research specific to skincare and skin-analysis technology

5 Social and Relationship Capital

- Job opportunities for women
- Encouraging female entrepreneurs
- Cooperative product planning utilizing local products and traditional techniques
- Good relationships with customers

6 Natural Capital

- Fewer natural resources used in production activities and lower environmental impact
- Environment-friendly products

The POLA ORBIS Group's Value Creation Process (Value Chain)

Group Strengths Maximizing Value Creation

Direct marketing provides a direct connection to customers

R&D structure centers on concentration of corporate resources into skincare

Multi-brand strategy

POLA ORBIS Jurlique THREE H2O+

P.22-27

Concept Design/R&D/Product Development

R&D activities draw on original resources, such as customer comments and a database of more than 15 million entries on the skin condition of women, and yield numerous products realizing innovation in beauty. The development of Japan's first skin-whitening cosmetics—products that minimize hyperpigmentation and brighten and even overall skin tone—and cosmetics technology spotlighting saccharification of the skin exemplify noteworthy results achieved through leading-edge development that transcends conventional perceptions about cosmetics. POLA CHEMICAL INDUSTRIES, which carries the R&D torch for the Group, won the highest award at the 2014 International Federation of Societies of Cosmetic Chemists (IFSCC) Congress. The IFSCC Congress is one of the world's most prestigious conferences in the field of cosmetic science, offering researchers an opportunity to present scholarly papers and share knowledge with their peers. POLA CHEMICAL INDUSTRIES has also earned other awards for many products developed with a particular emphasis on design and perceived quality.

P.28-29

Production System/Quality Control

As a maker of cosmetics specializing in skincare and foundation makeup the POLA ORBIS Group has built a production system covering all stages, from ingredient development to production, and executes operations with absolute confidence and tried-and-true capabilities. In 2014, the Group switched to a single-facility production system, as two factories were integrated into one, and aggressively employed strategic original equipment manufacturing to make the best use of resources and boost production efficiency.

As a production site supporting the Group's multi-brand strategy, the Fukuroi Factory aims to boost production capacity through the application of robotics and is also tackling QC* circle initiatives, targeting prevention of unforeseen events, to improve quality on the production floor.

* Quality control

P.22-25

Marketing/Sales/After-Service

An emphasis on direct marketing, utilizing original business models and sales channels for each brand, allows POLA and ORBIS to really engage their customers. At POLA, an original business model combining esthetic services with sales and distribution has fostered strong bonds between customers and POLA LADIES. At ORBIS, a fulfillment system far and away better than anything offered by other companies has earned the company the No. 1 spot for customer satisfaction in the mail-order industry. In addition, the collection of various data, such as the condition of skin, customer pastimes and preferences, and purchasing history, provides useful information for future R&D and product planning.

Financial and Non-Financial Highlights

1 Financial Capital

Years ended December 31	2010	2011	2012	2013	2014	2014
	Millions of yen (Except per share data)					Thousands of U.S. dollars*1 (Except per share data)
Operating Results						
Net sales*2	¥165,253	¥166,657	¥180,873	¥191,355	¥198,094	$1,643,257
Beauty Care	153,091	154,778	168,811	178,306	184,475	1,530,278
POLA	96,543	97,353	99,204	100,740	99,571	825,979
ORBIS	49,356	47,918	48,009	48,163	52,302	433,866
Overseas Brands	—	1,851	13,011	20,298	22,476	186,454
Brands under Development	7,192	7,654	8,587	9,104	10,123	83,980
Real Estate	3,102	3,089	2,841	3,035	3,179	26,371
Others	9,059	8,790	9,220	10,013	10,440	86,607
Operating income	12,270	12,853	13,520	16,017	17,683	146,693
Beauty Care	10,165	10,787	11,812	14,780	16,535	137,171
POLA	5,592	6,168	7,031	7,951	8,583	71,201
ORBIS	6,169	6,526	7,881	8,807	10,792	89,530
Overseas Brands	—	(81)	(1,897)	(895)	(1,881)	(15,609)
Brands under Development	(1,596)	(1,826)	(1,202)	(1,082)	(958)	(7,951)
Real Estate	1,304	1,283	1,139	1,258	1,227	10,181
Others	223	501	335	410	472	3,917
Operating margin (%)	7.4	7.7	7.5	8.4	8.9	
Net income	7,086	8,039	6,681	7,318	10,382	86,128
Financial Position						
Net assets	153,104	157,057	164,896	173,887	180,793	1,499,737
Total assets	187,771	193,027	209,140	218,005	224,536	1,862,598
Cash Flows						
Cash flows from operating activities	17,906	14,401	17,592	13,500	16,643	138,061
Cash flows from investing activities	(40,367)	(3,444)	(39,625)	(2,452)	(8,391)	(69,614)
Cash flows from financing activities	(2,789)	(4,093)	(3,280)	(2,815)	(3,661)	(30,376)
Cash and cash equivalents at end of year	43,507	50,246	25,106	34,137	39,111	324,440
Depreciation and amortization	5,361	5,374	6,466	6,704	6,948	57,639
Capital expenditure	6,245	5,048	9,609	8,670	8,257	68,494
Financial Indicators						
Equity ratio (%)	81.5	81.3	78.8	79.5	80.4	
Return on equity (%)	4.8	5.2	4.2	4.3	5.9	
Return on assets (%)	6.6	7.0	7.3	8.4	8.6	
Price-earnings ratio (times)	12.3	14.3	20.5	28.4	25.9	
Per Share Data						
Net income per share (¥/$)	137.36	145.43	120.86	132.39	187.81	1.56
Net assets per share (¥/$)	2,767.55	2,839.36	2,980.48	3,133.82	3,264.13	27.08
Cash dividends per share (¥/$)	40	45	50	55	187	1.55

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1=¥120.55 as of December 31, 2014.
*2 Net sales do not include consumption tax.

Non-Financial Capital

2 Human Capital

Training with an emphasis on practice and performance is offered across the POLA ORBIS Group to develop a new generation of human resources with management capabilities. POLA introduced a brand manager system and fast-tracked female managers with a keen marketing sense to a higher rank. These women take a composite approach to brand management, covering everything from product planning to public relations and sales, and undertake efforts to introduce skincare products with a competitive edge via an expedited decision-making process. Women have also taken the spotlight in research, taking to the stage at the IFSCC Congress, which was held in Paris in 2014. A female researcher from POLA CHEMICAL INDUSTRIES presented an academic paper on premenstrual skin problems as only a woman would know and received the highest award in the Basic Research category.

Ratio of women in management positions in the Group

37.3%

3 Intellectual Capital

In R&D pursuits, POLA CHEMICAL INDUSTRIES specializes in skincare. In 2014, the company presented 24 papers at academic meetings and filed 60 patent applications, supporting development of products with distinctive qualities. With regard to animal testing, the company began exploring alternatives in the early 1990s, and as of 2014, alternative methods have nearly been established. On the marketing front, the POLA ORBIS Group utilizes customer relationship management data. POLA gathers data through its own system, dubbed "Slim." ORBIS uses customer information obtained through mail-order sales, and this is what underpinned development of *ORBIS=U*.

In product design activities, the emphasis is on not only the effect, or effectiveness, but also a creative element that impacts the five senses. Of note, POLA's *EAU DE FLEUR* packaging earned high marks for its illustrative expression and won the Grand Prix at Japan Package Design Awards 2015 for the mood-conveying illustrations on its boxes. In cultural activities, the POLA Museum Annex and the POLA Research Institute of Beauty & Culture promote aesthetic appreciation.

Number of patent applications filed in 2014

60

Number of academic papers presented in 2014

24

B.A named best cosmetic by Japanese magazines from 2009 to 2014

109 times

4 Manufactured Capital

By consolidating the operations of the two factories that handled domestic production into one factory, POLA CHEMICAL INDUSTRIES established a production structure that focuses on its specialized fields of skincare and base makeup and underpins more efficient merchandise production. The Fukuroi Factory is also home to the Skin Analysis Center, which supports production of the POLA series *APEX*. Access to integrated management of skin data enables POLA's sales and marketing professionals to individualize a regime of products from 2.56 million different possible combinations of skincare for each customer.

Consolidated cost of sales ratio

[2013] 20.20%

[2014] 19.85%

5 Social and Relationship Capital

POLA provides some 150,000 POLA LADIES with opportunities for work and personal growth. POLA LADIES build close relationships with their customers and their communities, primarily through 4,799 sales offices, including 622 POLA THE BEAUTY stores.

In 2009, POLA kicked off the "3-9 Project," an initiative to energize local industry through corporate activities. The project name plays on the Japanese reading of "3-9"—*san kyu*—which sounds like "thank you." In 2014, the project had a long, *habutae* silk scarf made, drawing on traditional techniques handed down from one generation to the next in the town of Kawamata, in Fukushima Prefecture.

ORBIS works to improve operations by incorporating suggestions from customers, which fuels a high level of customer satisfaction. This reputation is substantiated by four consecutive years as No. 1 in the mail-order category of the JCSI Customer Satisfaction Index survey. In addition, the company has built new customer contact points, typified by the use of social media and 13.73 million friends (subscribers) on LINE, a popular messaging service in Japan.

POLA sales offices

4,799

POLA THE BEAUTY locations

622

ORBIS' customer satisfaction rating

No. 1 for four consecutive years

ORBIS' friends on LINE

13.73 million

6 Natural Capital

Aware of environmental impact from product containers, POLA was the first in the industry to introduce refills while still maintaining the prestige of its products. ORBIS has pursued pillow packaging for its containers and a non-pillow-packaging option for refills. Jurlique designs containers based on life-cycle assessment, which evaluates the environmental impact of all product-related criteria, from planning through disposal. In other areas, Group companies have implemented measures to reduce the amount of paper used in office activities through the introduction of paperless meetings for management.

CO_2 emissions from domestic cosmetics factory

85.1%

(Fiscal 2013 = 100%)

As of December 31, 2014

The POLA ORBIS Group's Value Creation Process

Value Creation Process (POLA)

POLA's Strength—Strong Customer Relationships

Guided by a philosophy to provide customers with the best products in the best way possible, POLA helps customers stay beautiful and healthy throughout their lives and builds enduring bonds of trust with its customers through door-to-door sales conducted by its nationwide network of about 150,000 POLA LADIES.

1. Strong Partnerships with POLA LADIES

New business model heralded new career opportunity—POLA LADY—for women

In 1937, when female sales associates were still a rarity, POLA embarked on a strategy to establish women in the sales profession. From the debut of the POLA LADY until today, POLA has created earning opportunities for several million women, contributing to social development.

Through its business activities, POLA supports a wonderful way of life for women.

Diverse stages of professional activity support women in business

To enable women to confidently pursue a career in business even if they lack funds or work experience, POLA runs seminars and training programs on such topics as esthetics and skincare to expand practical skills and knowledge and supports the career development of POLA LADIES.

This approach has resonated with many women. In fact, some POLA LADIES worked diligently to boost sales to the level required for shop ownership while still relatively young and others, some 60 years old and older, are still active on the sales frontline. As of December 31, 2014, the POLA LADY network included about 700 women in their 90s and about 6,000 women in their 80s.

Through sales office expansion, some shop owners have generated ¥100 million in monthly sales. Strong, long-standing relationships with POLA LADIES allow the company to simultaneously enhance customer satisfaction and strengthen business activities.

Support for POLA LADIES Leads to Higher Customer Satisfaction

Customers

POLA LADIES

Building Close Relationships
- Customers receive esthetic treatments by the same POLA LADIES every time
- Consultation that goes beyond skin concerns, with advice taking into account the seasons and each customer's health status

Head Office Support

High-Prestige Products
Provide products that POLA LADIES can suggest to customers with confidence

Support Structure
National network of 138 field supervisors who provide instruction and confirm direction of sales activities and progress toward goals

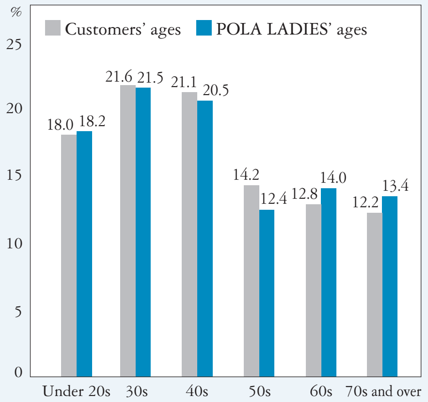
Customer Management System
Customer information, such as purchasing frequency, number of items used, and amount spent, is consolidated and analyzed at the head office to assist POLA LADIES in creating sales campaigns that anticipate customer needs and in establishing sales targets

2. POLA THE BEAUTY—An Evolution in Business Format Prompted by Changing Social Trends

POLA THE BEAUTY retail stores, which integrate sales, consulting, and facial esthetic treatments, are run by POLA LADIES. The company began developing its retail presence in 2005 in response to changes in society, namely, a drop in the number of women at home due to more women in the workforce. POLA THE BEAUTY stores have opened in front of busy train stations, in shopping districts, and in other favorably located areas with customer-drawing power. Also, store development designed to foster a more cohesive image of the POLA brand in the market has attracted women in their 20s and 30s, not only as customers but also as prospective POLA LADIES.

Success Through Development of POLA THE BEAUTY Network
- Established new business model
- Accelerated growth in the number of sales offices
- Rejuvenated customer base, with about 60% of new customers in their 20s and 30s

Distribution of Customers and POLA LADIES by Age



3. Close Relationships with Customers

Relationships between POLA and its customers are kindled when women connect with a sales office, that is, a POLA LADY. POLA LADIES take a holistic approach to customer care, subscribing to the idea that beautiful skin starts with a healthy body and mind. When gathering information from customers, POLA LADIES go beyond skin concerns, identifying issues related to general well-being, lifestyle, and habits, and even the kind of stress the customers are under. They offer advice in line with the customers' responses, check the condition of their skin, and conscientiously support their customers with the intention of maintaining a good relationship over the long term.

Another approach that deepens the relationship with customers is *APEX*, a semi-customized skincare and foundation makeup line tailored to each customer according to personal skin analysis, and esthetic treatments. *APEX* facilitates analysis of skin at the cellular level and provides verification for POLA LADIES to suggest customer-specific skincare options that bring the condition of the skin closer to its ideal. While using the suggested products at home, customers come back once a month for follow-up esthetic treatments. The condition of the skin changes with the seasons, and skin checks are performed every season so that customers can see for themselves the changes that occur in each season.

By maintaining regular contact through consultation and esthetic treatments, POLA LADIES build closer relationships with their customers.

Advice sheet and *APEX* series


Esthetic treatment

4. Product Development Through Brand Manager System

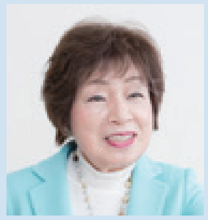
At POLA, product development naturally emphasizes quality, as in excellent effect and effectiveness, but POLA also persistently seeks to provide quality from a five-senses perspective, including sight (design), smell (scent), and touch (texture).

To carry this emphasis through, POLA promotes women who relate closely with the target customer group to the position of brand manager. These women guide product development from the perspective of customer perceptions and needs based on lifestyle. Brand managers have control over more than product development, with the authority to guide product design, advertising, and sales promotions. In the past, POLA CHEMICAL INDUSTRIES handled design, but in April 2013 the responsibility was redirected to each brand-assigned company to be handled by a design specialist. Under this format, the packaging design for *B.A GRANDLUXE II* earned high marks, substantiated by a Red Dot Award in 2014 in the Communication Design category.


B.A GRANDLUXE II

VOICE

POLA LADIES are the face of the brand



Sayaka Honjo
Sales Branch Manager, Matsuzuka Sales Branch, Kyoto area

In 1973, I got my own sales office, gradually expanded coverage, and finally in January 2014 my office network generated the ¥100 million in monthly sales that I had worked tirelessly to achieve. My dream now is to see POLA become a sought-after brand, one that attracts interest from people all over the world. Turning POLA into a world-class brand requires help from each and every POLA LADY. If we POLA LADIES project a good image, the brand's image will improve. The opposite of course is also a possibility. The company makes the products. Our job, then, is to add a little something extra when we provide these products to our customers. The unique value of the POLA brand that only POLA LADIES can provide is a ready smile and dedication to the concept of *omotenashi* (a level of customer-oriented politeness and genuine warmth that makes customers feel welcome, valued, and respected). My goal is to build a network of offices generating monthly sales of ¥200 million and repay the kindness of everyone.

Concept Design/R&D/ Product Development → Production System/ Quality Control → Marketing/Sales/ After-Service

Value Creation Process (ORBIS)

ORBIS' Strength—Evolving Pursuit of Customer Perspective

ORBIS started as a mail-order business, convinced that it could provide products directly to customers with the promise of effectiveness and safety. Direct-selling techniques generate customer comments and requests, which are naturally used to develop products and improve services. The company's pursuit of a customer perspective continues to evolve based on this input.

The POLA ORBIS Group's Value Creation Process

1. Sincere Services as Defined by ORBIS

In its efforts to address customers' requests more sincerely, ORBIS eliminated the potential for uncertainty and complaints that had arisen in the past from its mail-order sales channel. Faced with comments such as "Hard to gauge the feel of a product on my skin or the coloring when ordering" and "Worry that product might not be suitable for my skin," ORBIS introduced services truly designed from the customer's perspective, overcoming any negative perceptions that may have been associated with its services. Responding to customer requests sincerely is a given, as is providing services that exceed customer expectations. This is how ORBIS defines the meaning of sincere services.

About 80,000 customer comments received annually

ORBIS' Sales Service Shaped by the Customer's Perspective

- No shipping charges, no service charges
- 30-day returns and exchanges
- Free samples
- Next-day delivery nationwide
- Convenience store pickup

ORBIS call center

2. Utilizing Customer Comments to Create Innovative Products and Services

Customer comments, numbering about 80,000 a year, are received through various channels, including the ORBIS website, e-mail, phone, and postcard. These comments are made available to all employees and provide a basis for product and service enhancements. In fact, product pickup at convenience stores and same-day delivery (in some areas only) were introduced at the suggestion of customers.*1 Another constructive comment led to a change in the type of envelopes used for deliveries. The company used ready-made padded envelopes to protect contents during delivery, but customers had difficulty removing the cushioning material from the paper for appropriate disposal. ORBIS responded by replacing the ready-made padded envelopes with its own envelope that features an easy-to-separate, two-layer structure.

ORBIS recently kicked off a proactive approach that goes beyond simply responding to customer requests. The company utilizes questionnaires and its customer community site, Kikulabo,*2 among other means, to collect latent observations indicative of customer demand. A meticulous approach helps to identify what women want from cosmetics, which can lead to the development of revolutionary products. A perfect example is the non-foaming facial wash in the *ORBIS=U* series that debuted in 2014.

Original delivery-use envelope easily separated for material-specific trash collection

At its call centers, as well, ORBIS is working to enhance the skills of operators so that they are better able to pinpoint potential demand from conversations with customers. The company introduced a novel sister system, and each month, teams of three or four women set targets and then repeatedly monitor progress and discuss results. This system has sharpened operators' communication skills and improved the quality of customer care.

*1 As of September 2012
*2 The name "Kikulabo" is a combination of "kiku" (to hear or ask) and "labo" (laboratory).

Non-foaming *ORBIS=U* facial wash

3. Revamped "Connection" to Customers Through Point Program

As part of the one-to-one marketing approach designed to elicit greater customer loyalty, ORBIS ended the immediate volume discount system that had been geared to spending amount and introduced a point program instead in September 2014.

This program is built on stages, which reflect purchase amounts over a year, and the higher the stage, the bigger the redemption rate. By providing a bigger redemption the longer a customer uses ORBIS products, the company shifts from a price connection to a value connection, and aims to boost purchasing power at the same time as it rewires the customer connection to raise the retention rate.

The objective of this program is to convey our appreciation to customers and raise loyalty to the brand, which ultimately leads to higher brand value.

No. 1 for four consecutive years in mail-order category of Japanese Customer Satisfaction Index, one of Japan's biggest customer satisfaction survey

Mail-order industry | Four consecutive years No. 1 | Fiscal 2014 survey

Activities executed from a customer perspective permeating the entire company have earned the highest award.

ORBIS captured the highest award in the mail-order category in the 2014 JCSI survey of customer satisfaction conducted by Service Productivity & Innovation for Growth on behalf of Japan's Ministry of Economy, Trade and Industry. This marked the fourth consecutive year in the No. 1 spot.

VOICE

Eriko Wada
Manager, Customer Information Management, CRM Promotion Department, ORBIS Inc.

Serving as a bridge between customers and ORBIS

Since ORBIS' earliest days, comments from customers have been a key asset. To forge a better relationship with customers, we stress communication through such channels as phone, e-mail, and letter as the cornerstone of daily customer response activities. Recently, we have received lots of opinions and impressions through new media tools, such as Twitter and Facebook, as well. As a corporate contact point for customers, we share the comments received in-house, as appropriate, and will strive to build more bridges within the company to promote communication.

R&D Focusing on Skincare

Drawing on Strengths to Create New Value

POLA CHEMICAL INDUSTRIES is responsible for the R&D and manufacturing of products for POLA ORBIS Group companies. The Yokohama R&D Center is involved in various pursuits, from basic research focusing on skincare through product development. Of note, with strengths in the fields of anti-aging and skin-whitening, the company creates new value through such achievements as the development of original ingredients transcending pre-existing concepts. These research results and technological capabilities have earned high praise.

1. Market-Leading R&D Capabilities Always

To raise the value of the POLA ORBIS Group's products as prestige cosmetics, POLA CHEMICAL INDUSTRIES pursues development of materials and formulations from a variety of aspects, such as skin finish, texture, long-lasting cosmetic film, and protection from UV rays, and promotes improvement in formulation technology cultivated over a long corporate history. The company emphasizes research on dark spots and wrinkles—the two biggest skin concerns of women—and has always been a market leader, substantiated by such successes as Japan's first skin-whitening product and the world's first skincare product containing hyaluronic acid.

2. Basic Research to Boldly Address Solutions to Skin Concerns

POLA CHEMICAL INDUSTRIES conducts basic research at the cellular and genetic levels, with a focus on anti-aging and skin-whitening skincare. Rucinol, a skin-whitening active ingredient that typifies POLA's industry-leading reputation, was approved by Japan's Ministry of Health and Welfare in 1998 as an active ingredient for quasi-drug products and is regarded as a highly safe and highly effective ingredient. In recent years, glycation has emerged as a new enemy to youthful-looking skin, and the idea is now well entrenched that the glycation of proteins due mainly to advancing age causes skin to lose its luster. Another concern that many women have these days is the impact of stress on skin health, and POLA CHEMICAL INDUSTRIES delves into this issue as well. Researchers pinpointed a "substance P" (acting as a neurotransmitter) released within the dermal matrix in response to stress that causes a decrease in the production of collagen, and they discovered an ingredient to inhibit the release of this substance. Recognizing that cosmetics and skincare do more than just make the skin beautiful—they act on mood and well-being, as well—POLA CHEMICAL INDUSTRIES conducts research from two perspectives, looking for effects that work directly on the skin as well as effects that influence a better physical or emotional state.

3. Evolution of Formulation Technology

In 2014, POLA CHEMICAL INDUSTRIES developed a new formulation that promotes the penetration of effective ingredients into cells in the basal layer of the epidermis where they stay. This formulation promotes absorption of effective ingredients from the skin surface into the deepest part of the epidermis, the basal layer, through the stratum corneum. The company is pushing forward on formulation research to achieve maximum penetration of effective ingredients into all layers of the skin.

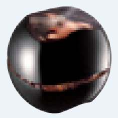
History of Innovative Products

1951
POLA
Japan first
Skin-whitening
Peculiar Cold Cream, the first product in Japan to coin the term "skin-whitening"

1982
POLA
World first
Hyaluronic acid
Perbona, the world's first cosmetic product to contain hyaluronic acid

1987
ORBIS
Industry first
OIL FREE
ORBIS, the first 100% oil-free skincare brand in the cosmetics industry

2009
POLA
New concept
Anti-glycation
New anti-aging series *B.A* targeting glycation

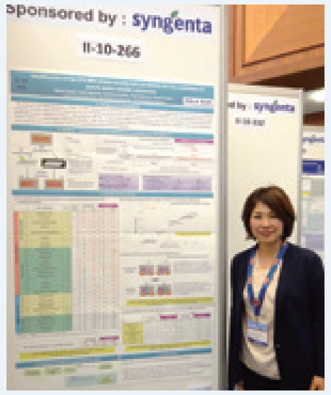


At first, POLA CHEMICAL INDUSTRIES had not really considered formulation appearance and customers' expectations of performance in its research on skincare. Researchers realized, however, that there was indeed a correlation and designed a formulation that would elicit expectations of glowing skin just from the appearance of the lotion. Along with an emphasis on cutting-edge technologies, the company will continue to shine a spotlight on product design for women that appeals to the five senses.

4. Quality Assurance Research Promotes Trust and Peace of Mind

To give customers peace of mind whenever they use products made by POLA CHEMICAL INDUSTRIES, the company sets strict standards to establish quality. Such standards include formulation stability until the last drop of product usage and preservative ability that prevents the proliferation of germs.

However, each ingredient used must be safe for application to the body, and thus requires testing. Seeking to end the practice of testing on animals, POLA CHEMICAL INDUSTRIES began searching for alternative approaches in the early 1990s. In 2014, the company greatly improved quality research and technology through alternative testing methods, substantiated by a poster award at the 27th annual meeting of the Japanese Society for Alternatives to Animal Experiments.



Alternative approach to animal testing announced at world congress in Prague, Czech Republic

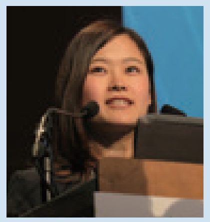
Highest Award at Most Authoritative Academic Conference

The International Federation of Societies of Cosmetic Chemists (IFSCC) comprises more than 15,000 members from 47 countries, and its world congress is the most authoritative meeting for cosmetic chemists and researchers. At the 28th congress, held in Paris in 2014, Haruka Goto's oral presentation—"Antimicrobial Peptide Human Beta Defensin-3 (hBD-3) As a Key Factor for Acne Flare-up During the Premenstrual Stage"—was selected for the Best Basic Research Award. Premenstrual acne flare-up is a concern shared by women all over the world, not just in Asia, but research into the cause had not been pursued until now. POLA CHEMICAL INDUSTRIES figured out that a female hormone, which increases before menstruation, reduces the anti-bacterial peptides that suppress acne bacteria. This finding will underpin development of products on a global basis to address an issue that troubles women everywhere.

IFSCC Award-Winning History

2014	Paris	Highest award (best oral presentation in basic research category)
2012	Johannesburg	Highest award (best poster presentation category)
2008	Barcelona	Highest award (best oral presentation in basic research category)
1998	Cannes	Highest award
1996	Sydney	Award for excellence
1994	Venice	Highest award
1986	Barcelona	Award for excellence

VOICE



Haruka Goto
Researcher, POLA CHEMICAL INDUSTRIES, Inc.

Persistent approach to research finds resolution to issue troubling women around the world

Many women, including myself, are troubled by premenstrual acne. I wondered if there was something I could do to find a solution. The way of thinking was narrow and, initially, progress was rather disappointing. But on the advice of those around me, I totally revised my approach, which led to this breakthrough discovery. I am delighted that the results of persistent and tireless research will lead to better ways of treating an issue affecting women around the world and that my efforts were recognized with the Best Basic Research Award. I will continue to pursue research that generates results with even higher added value.

The POLA ORBIS Group's Value Creation Process

Particular Focus on *Monozukuri** Concept of Manufacturing

The POLA ORBIS Group's domestic production activities were centralized at the Fukuroi Factory, operated by POLA CHEMICAL INDUSTRIES, in September 2014, with an emphasis on skincare and foundation makeup. Society increasingly demands that companies ensure product safety, efficient production processes, and stable product quality, and the POLA ORBIS Group addresses these requirements primarily through original development of manufacturing equipment and application of advanced robotics technology.

* Manufacturing from a product creation perspective

1. Production Structure Dedicated to Skincare and Foundation Makeup

Effective production through centralized facility and outsourcing

To further reinforce the production system—a wide variety of products made in small quantities—that comes with the Group's multi-brand portfolio, management decided to concentrate on the Group's specialized fields of skincare and foundation makeup and tapped the Fukuroi Factory to handle production. Going forward, management resources will be channeled specifically into this facility.

Other products, such as perfume and lipstick, which had been manufactured at the facility that was closed in August 2014, will be produced through open outsourcing to achieve greater cost-efficiency. Over the three years from 2015, this approach should squeeze production costs by as much as ¥1.5 billion.

These structures should also promote price competitiveness on a global basis and boost asset efficiency.

2. Improve Production Efficiency

Developing POLA original manufacturing equipment

In machine-driven manufacturing, mass production is the standard approach, and skincare products and cosmetics always had to be made in larger quantities than required because it was difficult to produce only small quantities and still ensure consistent quality. This situation prompted efforts to come up with different designs, such as pot-shaped machines, which were more suited to volume requirements, and led to the development of POLA original manufacturing equipment with capacity perfectly suited to the required amount of product when it was needed.

To unfailingly maintain a consistent level of quality regardless of who operates the equipment, POLA CHEMICAL INDUSTRIES made improvements in such areas as temperature control and stirring frequency and developed a manufacturing support system to audibly guide operators to the next step.

Evolution in robotic technology

Automated container feeding was introduced into the stage where containers are filled with product contents, through the integration of robotic technology and image analysis technology. Efficiency was raised through labor-saving measures, and production capacity expanded. At the same time, digital production control was adopted, contributing to enhanced data management, and, as a result, shortages and irregularities are now preventable. Traceability has been reinforced, making it possible to verify everything from customer purchasing history to when and at which facility a product was produced and from where it was shipped.


POLA original manufacturing equipment for extremely small quantities


POLA original manufacturing equipment for small to medium-sized quantities


Filling equipment featuring robotics technology

3. Approaches to Quality Assurance

Quality control

POLA CHEMICAL INDUSTRIES promotes QC circles—small groups of workers who meet regularly to identify, analyze, and solve work-related problems—as a voluntary initiative to ensure that the products provided to customers are of high quality. Employees on the production frontline watch for situations from a 3F/3H* perspective and describe their observations at evening factory meetings or other discussion opportunities to prevent possible mistakes through human error. The spread of activities that improve situations inevitably leads to better product quality.

In 2014, the company lowered its manufacturing rejection rate through an analysis of the mechanism that caused substandard quality at the production stage. The company also implemented around 200 improvement suggestions, including one to boost order response to 9,000 per day through smoother final processing of shipments—the stage where products are personalized to the results of customer skin analysis.

In addition, a group of experts in quality control makes regular rounds on the factory floor and promotes initiatives from a third-party perspective to prevent issues that adversely affect quality not only on the factory floor but in other aspects of factory operations as well.


Group of experts in quality control that conducts inspections

* 3F/3H: Six Japanese words, three beginning with "f" (*fuan* (uneasiness), *fuman* (dissatisfaction), *futan* (liability)) and three beginning with "h" (*hisashiburi* (first time in ages), *hajimete* (first time ever), *henko* (change)), that represent observations most likely indicating a problem with quality.

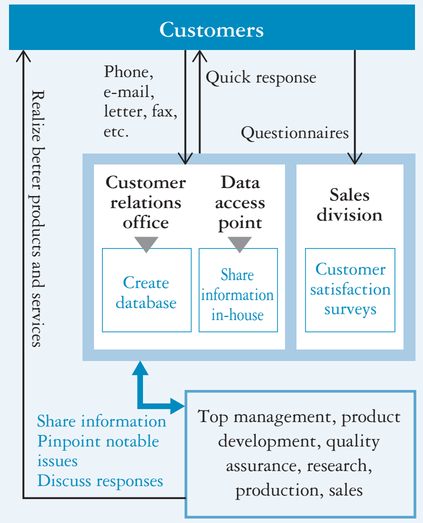
Features of the POLA ORBIS Group's quality assurance

POLA ORBIS HOLDINGS relies on quality assurance managers at all Group companies, not just production-based POLA CHEMICAL INDUSTRIES, to identify issues affecting quality and to track the results of monitoring activities and progress on improvement plans, in line with basic policy on quality assurance.

Of note, to reflect customer opinions and requests related to products and services in future offerings, quality assurance managers at each company comment on the content of customer inquiries received by their respective companies on a weekly basis, and give updates at monthly management meetings. They also quickly pass on information to relevant divisions, including product planning, R&D, production, and sales, where the input can be used to enhance quality.

As a specific example, a container featuring a plug to prevent leakage was found to be missing that component. An investigation revealed that the sensor checking for plugs did not work properly. To rectify the situation, the sensor was modified, and a new function was added, sounding an alarm and automatically stopping production if a plug is missing.

Framework for Utilizing Customer Comments



VOICE

Katsuyoshi Kato
Corporate Officer, POLA CHEMICAL INDUSTRIES, and Manager, Fukuroi Factory

Working day in and day out to provide products with ever better quality

As the manager at the Fukuroi Factory, I strive to ensure quality control from the perspective that the most important element in *monozukuri* manufacturing is creating and maintaining quality. Every employee on the factory floor takes to heart the idea that "not even the smallest malfunction should be missed because customers deserve the very best," and all personnel dutifully apply this concept as they perform their respective jobs. Day in and day out, we always think about what customers need and what we should do to provide products that they use with a feeling of satisfaction.

Factory workers are the first to notice a variety of situations that occur on the factory floor. These observations are valuable in tracking down problems brought to our attention by customers. We have measures in place to promote timely daily sharing of comments received from customers at evening factory meetings and other opportunities so that we can draw on the input of factory workers to pinpoint the cause of customer complaints or concerns. In addition, daily quality information is compiled into a weekly report, which is sent to each Group company so that the same content is available across the entire organization, including production sites. The structure and its application underpin quick decision making with no errors.

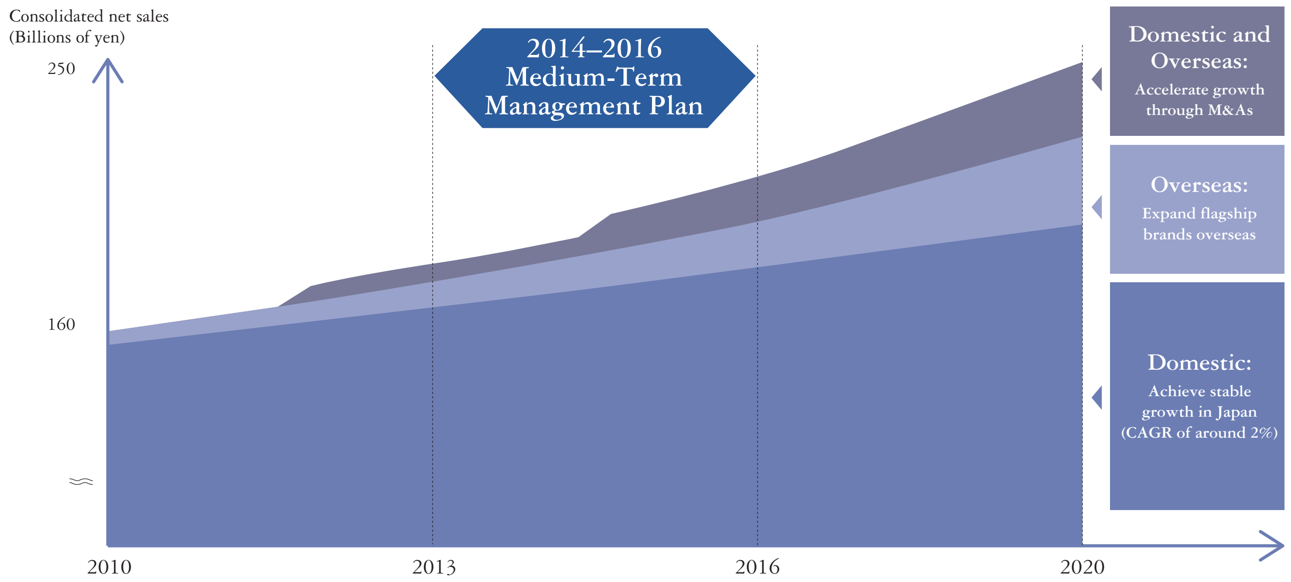
The Group's Growth Strategies

The Second Stage of Our Long-Term Vision: 2014–2016 Medium-Term Management Plan

In 2011, POLA ORBIS HOLDINGS announced a long-term vision with the ultimate objective of becoming a "highly profitable global company" in the beauty and health field by 2020. The current medium-term management plan is the second stage of our long-term journey toward this destination.

The underlying strategies of the current medium-term management plan are to further strengthen the domestic earnings structure and accelerate overseas expansion while improving corporate value though enhanced capital efficiency. We are working steadily toward these targets.

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 approx. ¥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%

Recognizing Opportunities	Knowing Risks	Understanding Issues	Allocating Resources
• Return to growth through ORBIS brand restructuring • Growth in Asia, particularly China, and ASEAN markets • Brands under development with potential to fuel high growth	• A changing market environment (e.g., higher consumption tax) • Heightened governance responsibilities • A quick return to profitability for operations in the red	• Improve capital efficiency • Pinpoint markets for successful overseas brand development and higher earnings • Develop skills of personnel capable of supporting business expansion on a global basis	• Foster stable earnings through flagship brands and invest in overseas brands and brands under development • Concentrate resources into cosmetics business and skincare (anti-aging and skin-whitening) fields by withdrawing from non-core, underperforming businesses or integrating these operations to streamline activities

2014–2016 Medium-Term Management Plan

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

- Strategy 1: Sustain stable growth of flagship brands to lead Group earnings
- Strategy 2: Sales growth and monetization of brands under development
- Strategy 3: Overseas brands contributing to profitability through high sales growth
- Strategy 4: Restructure overseas expansion of flagship brands
- Strategy 5: Reinforce the operating base (Human resources, R&D, and production)
- Strategy 6: Improve capital efficiency and shareholder return

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

FY2014 Results

Consolidated net sales	Operating income	Net income	Overseas sales ratio	ROE	Consolidated payout ratio
¥198,094 million	¥17,683 million	¥10,382 million	12.8%	5.9%	99.6%*
(Up 3.5% yoy)	(Up 10.4% yoy)	(Up 41.9% yoy)	(Up 0.6 ppt yoy)	(Up 1.6 ppt yoy)	(Up 58.1 ppt yoy)

* Including special dividend

Growth Strategy by Brand

POLA

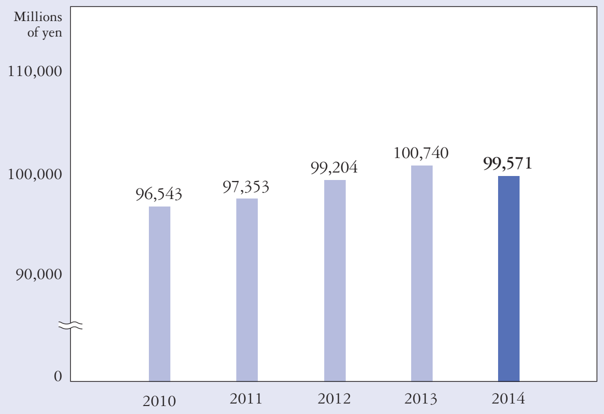
POLA

High-prestige skincare brand specializing in anti-aging and skin-whitening fields

WHITE SHOT series   B.A series

Net Sales

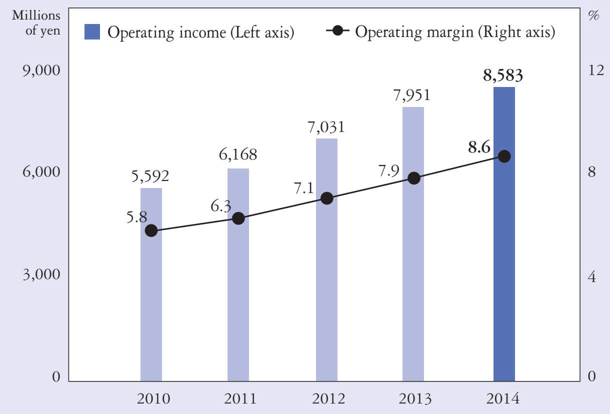
¥99,571 million (Down 1.2%)



Note: Consolidated basis

Operating Income and Operating Margin

¥8,583 million (Up 7.9%)



Note: Consolidated basis

Fiscal 2014 Results

Following the April 2014 implementation of a higher consumption tax, consumer interest in high-end products cooled, impacting our financial results. From a geographical perspective, as well, demand shifted, with a noticeable gap developing between urban and regional sales. Consequently, spending per customer was down among existing customers, leading to a slight drop—1.2%—in sales. Meanwhile, POLA THE BEAUTY remained a productive sales channel, with revitalization of the POLA LADY structure fostering an increase in the number of new customers, which fueled growth. The *APEX* series, launched in July 2014, was well received, and *RED B.A*, released in October 2014, won numerous best cosmetics awards, substantiating POLA's solid reputation in the skincare market.

Operating income grew 7.9% year on year, thanks to a drop in the cost of sales ratio and greater cost efficiency through successful steps to cut costs. As a result, the operating margin improved 0.7 percentage point to 8.6%.

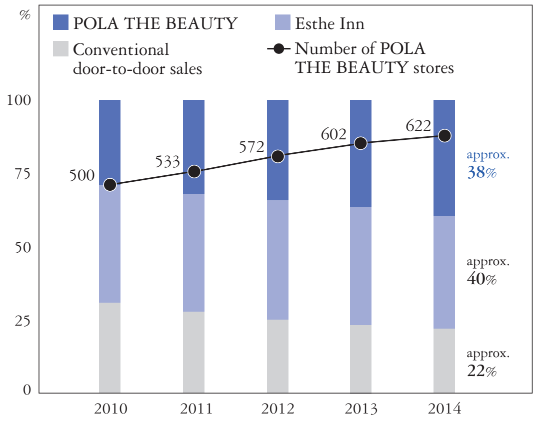
Next-Stage Growth Strategies

Stronger business platform linked to long-term stable growth

On the product front, POLA is directing concerted efforts into the development of next-generation products in the fields of anti-aging and skin-whitening. The company intends to revamp its approach, starting from the product development process, and has introduced a brand manager structure to facilitate branding that integrates product performance, package design, and promotional activities based on new insights, which will ultimately lead to higher added value.

On the sales channel front, the company aims to open 20–30 POLA THE BEAUTY locations a year and realize stable growth at existing stores. In addition, the company seeks to initiate an upturn in spending per customer and boost the repeat ratio for existing customers by encouraging POLA LADIES to offer new treatment services with the potential to attract customers to visit stores, enhance consulting and other beauty-related expertise, and further elevate the POLA LADY reputation for professional skincare services.

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



Successful business model in key markets and higher earnings through enhanced efficiency

POLA has set China as a priority, from an overseas expansion perspective, and will focus its investments into building a presence in department stores and high-end specialty stores, seen as sales channels particularly well suited to high-prestige brands. Another objective is to be more cost-effective with regard to sales-related expenses, especially through reduction of fixed costs.

For Stakeholders

Hiroki Suzuki
Representative Director and President
POLA INC.

Since its establishment, POLA has achieved growth through the conventional door-to-door sales approach. But sales channels have evolved along with changing times, typified by women's changing roles in society. POLA THE BEAUTY is a perfect example. The first store opened in 2005 offering cosmetics, consultations, and facial esthetic treatments under one roof, and today the network stands at 622 stores.

In 2014, the upward revision of the domestic consumption tax elicited a deepening sense of uncertainty about the future. Meanwhile, the diversification of customers continues to advance. For POLA to retain customer loyalty and consistently be the brand of choice among customers—the company must move into its next stage of innovation, another turning point, marked by POLA's 85th anniversary.

Specifically, the company will communicate better with the market, provide POLA LADIES with more support and improve the quality of services provided by POLA LADIES. POLA will take service quality to new heights and reinforce support activities at the head office, including the creation of a division dedicated to training and instruction. An increase in the number of POLA LADIES capable of providing high-quality, professional services and advice will underpin greater customer satisfaction, and this will fuel further expansion of the POLA THE BEAUTY network.

Sustainable Growth Strategies for the Future
Sustainable Growth Strategies for the Future

ORBIS

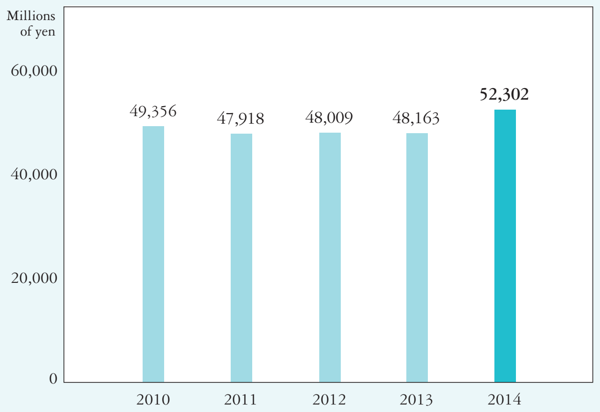
ORBIS

Change is beautiful.
Skincare based on an original oil-free concept

CLEAR series

Net Sales

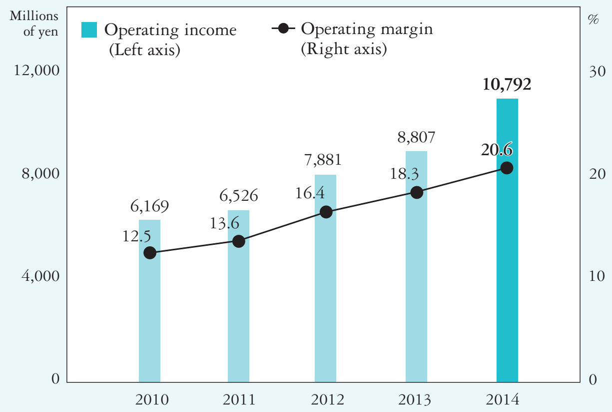
¥52,302 million (Up 8.6%)



Note: Consolidated basis

Operating Income and Operating Margin

¥10,792 million (Up 22.5%)



Note: Consolidated basis

Fiscal 2014 Results

For ORBIS, 2014 was a year of brisk sales, fueled by a rush of purchasing activity ahead of the rise in the consumption tax. Of note, *ORBIS=U*, a new line of skincare products symbolizing the success of ORBIS' brand restructuring strategy, achieved tremendous market reception, far surpassing expectations. The company also marked great results with a new marketing strategy utilizing social media, such as Facebook and LINE, a popular smartphone messaging app in Japan, and saw a significant increase in the number of new customers. In addition, with a focus on skincare and a wider selection of higher-priced items in the lineup, ORBIS was able to boost mail-order spending per customer by about 7%. These efforts underpinned an 8.6% improvement in sales, or about 5% actual growth.*

Operating income, meanwhile, jumped 22.5%. This reflects improvement in the cost of sales ratio, through a focus on skincare products, and expansion in online sales, which led to more effective use of the marketing budget, including fewer expenses allocated toward printed catalogs. The operating margin gained 2.3 percentage points.

* Actual growth rate excludes effect of point system introduced on September 24, 2014.

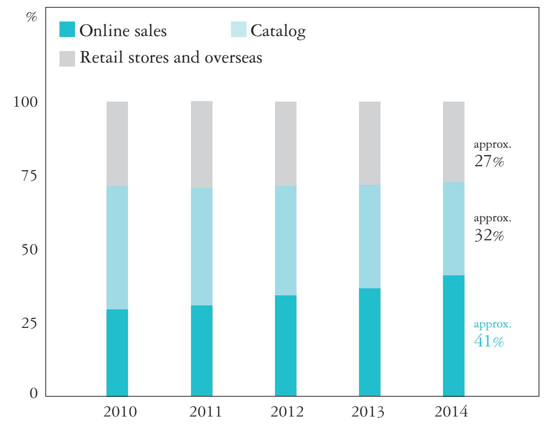
Next-Stage Growth Strategies

Back on a growth track through successful brand restructuring

On the product front, ORBIS will build on the success of *ORBIS=U*, the new anti-aging skincare series, with a more extensive lineup of high-value-added skincare, and strive to raise spending per customer, attract new customers, and boost the repeat ratio on sales to existing customers. A specific step toward this end was already marked with the debut of the *CLEAR* series in March 2015. This series represents the latest in research discoveries and was in fact given the highest award at the 2014 IFSCC Congress, where cosmetic scientists from around the world vied for recognition of their research pursuits.

On the sales channel front, ORBIS will apply approaches to enhance one-to-one communication over the Internet. The company will also utilize social media to promote closer engagement with customers and embrace marketing techniques with higher investment efficiency.

Sales Breakdown by Sales Channel



Building a successful business model in key markets and boosting income through enhanced efficiency

ORBIS will identify priority markets and build a successful business model for overseas operations. The company is particularly keen in China to go beyond its own mail-order channel and set up virtual stores in online malls that show remarkable growth potential, and in April 2015, the company effectively launched an online shopping site dedicated to beauty products. In addition, ORBIS anticipates market growth throughout the ASEAN region, particularly in Malaysia and Indonesia, and intends to build a business platform as quickly as possible, with a hub in Singapore, to take advantage of emerging demand opportunities.

For Stakeholders

ORBIS announced a new corporate message—"Change is beautiful"— at the beginning of 2015. This message carries our wish to support women who take a bold and carefree attitude to change with no fear of failure. At the same time, it represents a promise—a willingness on our part as well—to evolve.

And so we shifted from our previous focus—brand restructuring—to long-term growth. On our new course, we will build on the business platform strengthened through brand restructuring and pursue a major renewal of mainstay skincare products. We will also take services for existing customers to a new level, exemplified by the introduction of a point system, and try out new web-based marketing opportunities, starting with social media.

We will be proactive, unconstrained by conventional practices or fixed concepts, and embrace approaches that further accentuate the distinctiveness of our brand and its intrinsic value. In so doing, we will establish ORBIS as a brand with a standout identity.

Yoshifumi Abe
Representative Director and President
ORBIS Inc.

Sustainable Growth Strategies for the Future

Overseas Brands

Jurlique

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

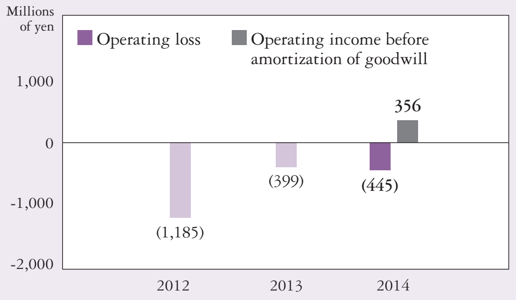
Nutri-Define series

Net Sales

¥17,600 million (Up 18.8%)

Operating Loss

¥445 million (¥46 million deterioration)



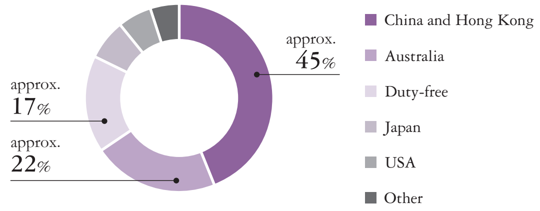
Fiscal 2014 Results and Next-Stage Growth Strategies

At department stores along the coast of China, Jurlique achieved 5% growth on an existing store basis while mega-brands from Europe and the United States trended downward, with decreases of 5%–10% across the board. The company's success reflects tremendous success with major new products, including the *Nutri-Define* series, and enhanced customer relationship management features for existing customers. In the home market of Australia, Jurlique continues to enjoy high growth. As a result, sales climbed 18.8% over the previous fiscal year. The operating loss deepened ever so slightly, owing to skyrocketing expenses, mainly personnel costs and rent, in China and Hong Kong, but strong sales in the second half offset some of the income-squeezing effects, leading to operating income before amortization of goodwill for this period.

Next-Stage Growth Strategies

The goal for fiscal 2015 is to return to the black after amortization of goodwill. In China, a priority market for Jurlique, the introduction of new products, especially skincare, and improved customer service levels from store staff should sustain the growth rate at existing locations inside department stores. The company sees online channels, such as online malls, and duty-free-shops as new demand pools to tap and will work to expand business along these routes. Also, to reinforce profitability and make business operations more efficient, head office functions and back-office activities in Australia and the United States will be integrated.

Sales by Region (2014)



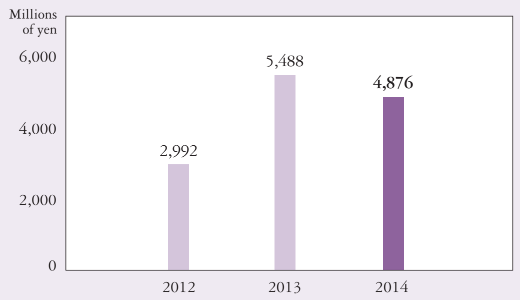
H2O+

Marine science cosmetics featuring sea-derived ingredients

Total Source series

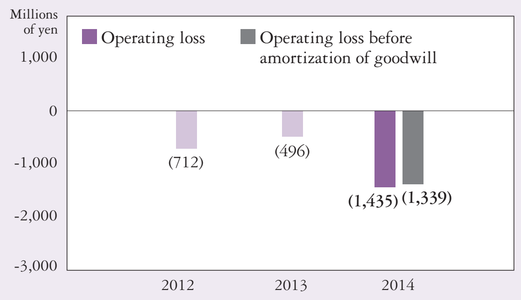
Net Sales

¥4,876 million (Down 11.1%)



Operating Loss

¥1,435 million (¥939 million deterioration)



Fiscal 2014 Results and Next-Stage Growth Strategies

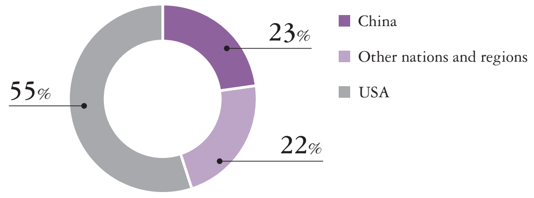
In China, competition is fierce and due to such factors as rising personnel expenses as well as the impact of in-store bartering with customers, which tarnishes the H2O PLUS brand image, H2O PLUS lost some of its competitive edge. The company's response was to withdraw the brand from inefficient, underperforming sales channels and begin steps to emphasize the most efficient sales routes. In the United States, the distribution strategy for the brand was revised, with efforts aimed at narrowing the focus to sales channels that handle skincare. Currently, the company is tackling reforms, including a revised management structure that will underpin brand development over the medium to long term. But it will take some time for results to appear. Consequently, net sales fell 11.1% year on year, and the operating loss deepened.

Next-Stage Growth Strategies

H2O PLUS has set 2015 as the year to lay out a blueprint for a return to growth. The company will strive to achieve consistency in strategies for products, pricing, distribution, and promotions on a global basis and rekindle the appeal of skincare featuring sea-derived ingredients worthy of prestige brand status. The company is also working out a solution to frontline issues, including a training program for sales associates in China.

Meanwhile, the company aims to improve its profit structure, not only by moving away from underperforming stores but also by streamlining head office expenses.

Sales by Region (2014)



Note: H2O PLUS has been slow to achieve the level of earnings initially expected when the company was acquired, and an impairment loss of ¥6.1 billion from fixed assets (goodwill and trademark) was booked under extraordinary loss.

Brands under Development

THREE

A skincare and makeup brand featuring naturally derived ingredients extracted from plants

Balancing series

decencia

Skincare products for dry, sensitive skin

ayanasu series

ORLANE PARIS

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

B21 EXTRAORDINAIRE series

FUTURE LABO

Cosmetics brand with unique features

Derma QII series
Shine Days series

pdc

Affordably priced cosmetics with a skincare focus

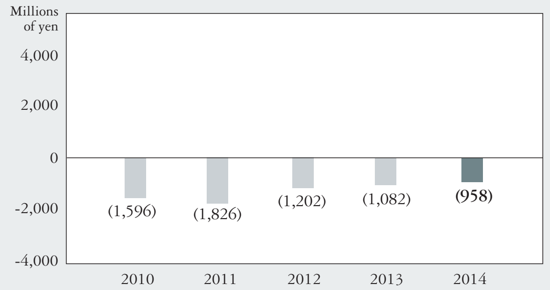
Pure Natural series
Love fille series

Net Sales

¥10,123 million (Up 11.2%)

Operating Loss

¥958 million (¥123 million improvement)



Fiscal 2014 Results and Next-Stage Growth Strategies

THREE

THREE, promoted as an organic brand of prestige cosmetics, continued to post steady sales, particularly at domestic department stores. In addition, market recognition is rising overseas, in Thailand and Taiwan, where the brand has recently established a presence. As a result, sales soared more than 60% year on year, and the company achieved operating income of about ¥200 million.

Next-Stage Growth Strategies

On the sales channel front, the company will continue to open counters in large department stores, mainly in the Tokyo metropolitan area, and start pursuing new sales routes, such as directly operated stores and shops inside commercial buildings with a fashion focus. On the product front, a particular effort will be made to increase business at existing stores by developing hit products and capturing a loyal following that will stick with the brand for a long time. Overseas, the company will emphasize higher sales per store and an improved brand profile through enhanced consultation capabilities, especially in Thailand and Taiwan, where market prospects are good, while kindling a presence in Indonesia through new stores there to fuel network development in the ASEAN region. Efforts will also be directed into trimming the cost of sales ratio by boosting sales and reviewing product design, while accelerating the upswing in profitability.

decencia

Under the concept "Sensitive skin can be beautiful, too," decencia offers products in the fields of anti-aging and skin-whitening suitable for women with dry, sensitive skin. The brand has earned a stellar reputation and enjoys solid customer loyalty, which fueled another year of tremendous growth. A new product, *ayanasu active surge eye cream*, launched in 2014, generated great market response, substantiated by several best cosmetics awards in 2014. In the end, sales zoomed almost two times over the previous fiscal year, lifting decencia about ¥200 million out of last year's operating loss and marking the company's first ever year in the black.

Next-Stage Growth Strategies

Going forward, decencia is determined to bring to market more high-value-added products matched to the needs of customers with very sensitive skin and will strive to establish a stronger presence in the market. The company will also strengthen customer engagement skills to encourage higher spending per customer. To speed up the process of building a bigger customer base, the company intends to vigorously pursue joint activities with other companies. Looking to the future, decencia is keen to broaden its sales channels, including store development beyond the online conduit, but will still utilize cross-media marketing to maximize contact through smart devices.

Capital Efficiency and Shareholder Return

We will steadily improve corporate value by achieving growth in net income that exceeds growth in operating income and by enhancing shareholder returns through a basic policy centering on a consolidated payout ratio of at least 50%.

Improve Capital Efficiency

Toward higher return on equity (ROE) and further improvement in corporate value, we are targeting ROE of 8%, exceeding 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)

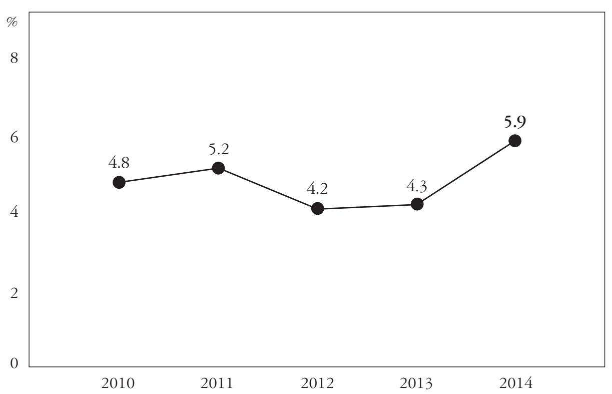
BPS

Book value per share

- Enrich shareholder return
- Growth investments with financial efficiency in mind
- Higher returns from net assets → Average consolidated payout ratio over the past 3 years: 38% ⇒ Aim for 50% or higher

ROE reached 5.9% in fiscal 2014, up 1.6 percentage points year on year. We aim to boost capital efficiency by achieving stable profit growth while maintaining growth investments based on return on investment and enriching shareholder returns.

Return on Equity



Enrich Shareholder Return

Dividend policy: Aim for stable improvement in shareholder return, underpinned by a consolidated payout ratio exceeding 50%

Dividends per Share for Fiscal 2014 (Results)

Annual dividend: ¥187

Comprising ¥40 interim and ¥47 year-end dividends and a special dividend of ¥100

Consolidated payout ratio: 99.6%

Dividends per Share for Fiscal 2015 (Forecast)

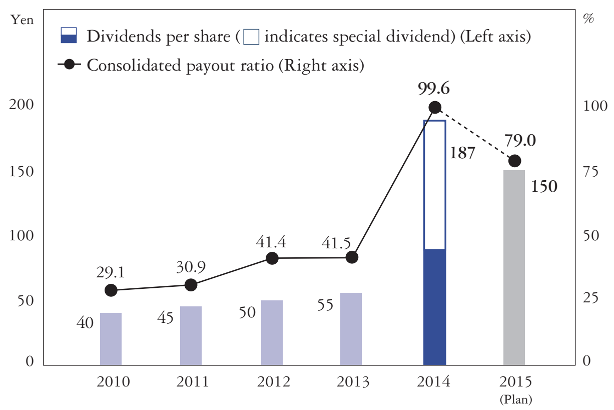
Annual dividend: ¥150

Comprising ¥70 interim and ¥80 year-end dividends

Consolidated payout ratio: 79.0%

We have always provided stable dividends matched to income results. In 2014, the consolidated payout ratio was much higher than usual, owing to the distribution of a special dividend. For ordinary dividends, management intends to maintain a consolidated payout ratio of at least 50%.

Annual Dividend and Payout Ratio



Message from the Director in Charge

For any listed company, it is important to create a level of capital efficiency that exceeds capital costs and to push corporate value higher. At POLA ORBIS HOLDINGS, a specific target is to achieve ROE of 8%, at minimum, by 2016. To raise ROE to this level, the Company will focus on the following two criteria.

The first is to increase net income—the numerator in the ROE formula—by expanding sales in the core segment of cosmetics. The second is to attain higher returns from net assets, the denominator. The key to higher net income is an improvement in operating income.

But this requires more than just a higher net sales starting point and so the Company began taking steps, such as integrating production facilities and reviewing product design—to tighten the cost of sales ratio as well. The Company also seeks to achieve an average annual growth rate of at least 15% for operating income through continued efforts to keep any increase in the selling, general and administrative expenses below that of the net sales increase. A concurrent objective is to realize net income growth exceeding operating income growth, brought about mainly by a lower effective tax rate as overseas operations shift out of the red and by bottom-line-boosting tax system revisions.

With regard to a better return on net assets, the Company changed its dividend policy, effective from the start of the current medium-term management plan, and is keen to enhance shareholder returns. The consolidated payout ratio has to be reviewed each year, based on the status of shareholders' equity, but the basic policy on shareholder returns calls for a consolidated payout ratio of at least 50% for ordinary dividends. Therefore, the annual dividend for fiscal 2014 was set at ¥87 per share, up ¥32 over fiscal 2013. In addition, management decided to distribute cash from the sale of property in 2014 to shareholders in the form of a special dividend of ¥100 per share.

Going forward, we remain committed to the task of raising corporate value by achieving greater capital efficiency and becoming a highly profitable global company.

Naoki Kume
Director and Vice President
POLA ORBIS HOLDINGS INC.

Sustainable Growth Strategies for the Future

Sustainable Growth Strategies for the Future

CSR Activities of the POLA ORBIS Group

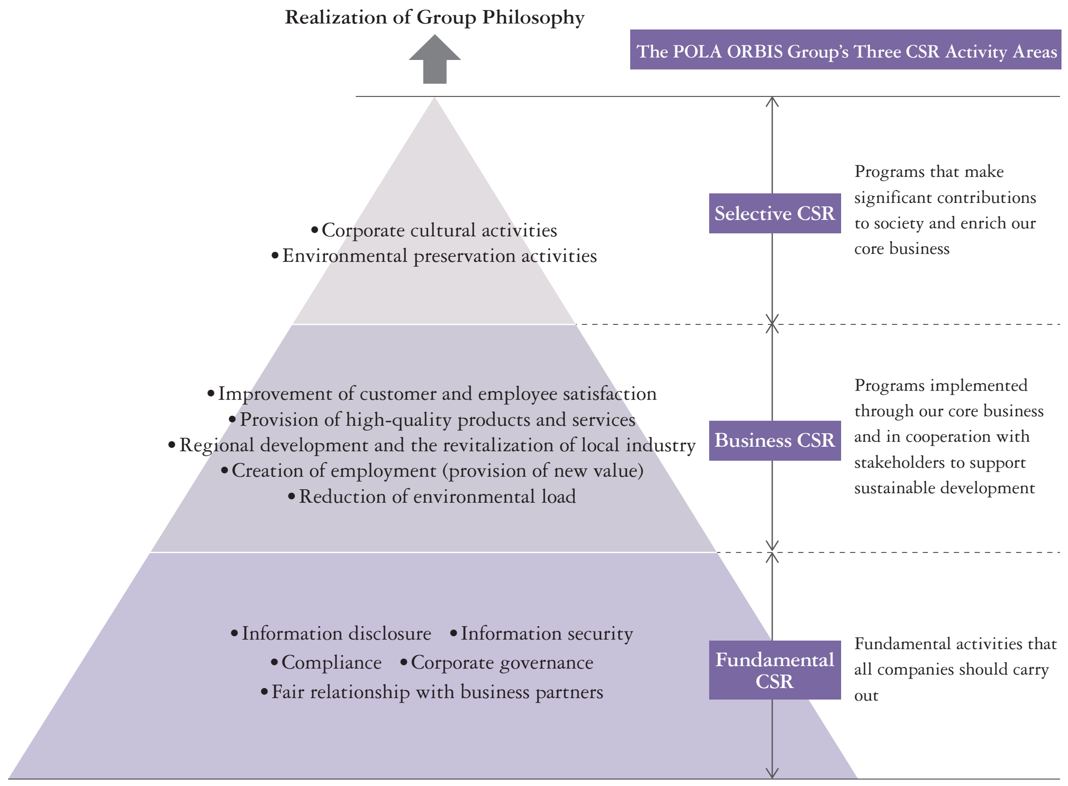
POLA ORBIS Group CSR Charter

Since its foundation, the POLA ORBIS Group remains committed to its long-held spirit to “find happiness in giving happiness” as it strives to build a corporate brand that is loved and trusted by society. The Group’s corporate social responsibility (CSR) activities reflect efforts to cultivate this spirit and to fulfill its responsibilities as a good corporate citizen in contributing to society. To that end, the Group has set forth this CSR Charter to ensure the strict observation of laws and social ethics and to provide its employees with the necessary guidelines in their pursuit of spreading happiness around the world.

In cooperation with our customers	We will bring to fruition beautiful and healthy living through high-quality products founded on science and through services carefully attuned to each individual.
In cooperation with our business partners	We will maintain fair and equitable relationships with all business partners, developing together as good partners.
In cooperation with our employees	We will create workplaces where each employee can work happily and energetically, and where they can fully demonstrate and develop their own abilities.
In cooperation with our shareholders	We will continue to increase our corporate value by globally expanding our health and beauty-related businesses.
In cooperation with the environment	We will strive to build a sustainable global environment by actively engaging in environmental preservation.
In cooperation with society	We will contribute to the development of spiritually rich and beautiful societies and communities through artistic, cultural, and volunteer activities.

Three Areas of CSR Activities

At POLA ORBIS HOLDINGS, we believe that the CSR activities undertaken by the POLA ORBIS Group should deepen mutual understanding with stakeholder groups, facilitate responses to the needs and expectations of society through business activities, enhance corporate resilience and sustainability, and fulfill our chief responsibility to society. Therefore, we have organized CSR activities into three areas—fundamental CSR, business CSR, and selective CSR—and the Group vigorously pursues activities in these areas.

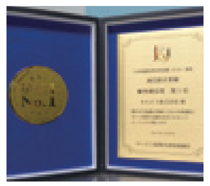
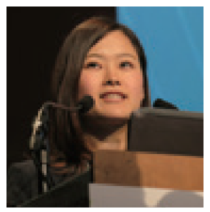


Activities That Instill Deeper Awareness of the CSR Charter Among Employees

—The POLA ORBIS Group CSR Award—

To shine a brighter spotlight on CSR activities among employees of the Group, POLA ORBIS HOLDINGS maintains an in-house commendation system that recognizes the efforts of divisions, groups, and individuals actively pursuing CSR activities.

In fiscal 2014, the President’s Award was given to two recipients, the Effort Award to three recipients, and the Incentive Award to two recipients.

Award	Theme	Charter Section	CSR Area	Reason for Recognition
President’s Award	Realizing high customer satisfaction and reaping the rewards of successful brand restructuring through internal branding by all employees ORBIS Inc. All employees 	With Customers With Employees	Business CSR	Through internal branding efforts, employees gained a different perspective and wholeheartedly embraced brand restructuring measures. This led to the major debut success of *ORBIS=U* in 2014 and earned ORBIS the top spot in the Japanese Customer Satisfaction Index survey for the fourth consecutive year
	Highest award at the Paris Congress of the International Federation of Societies of Cosmetics Chemists (IFSCC) for research addressing a skin concern unique to women POLA CHEMICAL INDUSTRIES Dermatological R&D, Skin Research Department Haruka Goto, Hiroshi Oshima 	With Customers With Society	Business CSR	The research team discovered a correlation between premenstrual acne flare-up and bacteria on the skin, and the findings won best oral presentation in the basic research category at the Paris Congress of the IFSCC in 2014. The research indicated possible solutions to a skin concern that troubles women everywhere, and thereby contributes to society

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.

In addition, Group companies abide by the POLA ORBIS Group Code of Conduct (the “Code of Conduct”), 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 Code of Conduct.

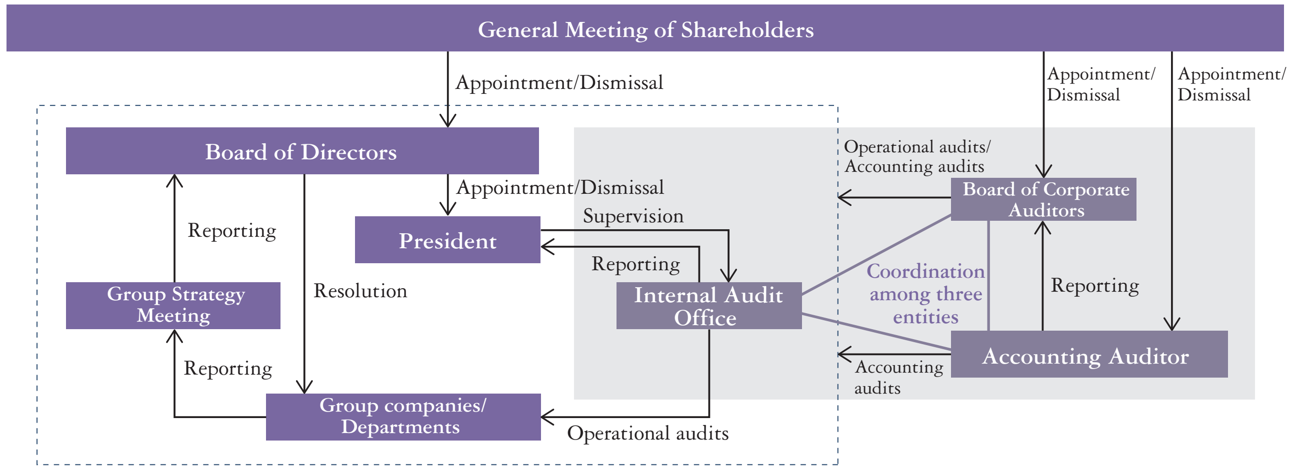
Should the Company consider a transaction with a controlling shareholder, the Board of Directors will, in accordance with the guiding principle in the Code of Conduct, base any decision on careful discussion of such issues as transaction necessity and fair value so as not to impair the interests of minority shareholders.

Structural Overview

Functional Structure	Company with a Board of Corporate Auditors
Number of directors/Term of office	8 directors/2 years
Number of outside directors	2 directors
Number of corporate auditors/Term of office	3 auditors/4 years
Number of outside auditors	2 auditors
Number of outside directors and outside auditors designated as independent officers	4 directors and auditors

As of March 31, 2015

Corporate Governance Structure



Status of Outside Directors and Outside Corporate Auditors

Functions and roles that outside directors and outside corporate auditors fulfill in maintaining standards of corporate governance at POLA ORBIS HOLDINGS

In March 2015, POLA ORBIS HOLDINGS welcomed two outside directors to its Board of Directors. The underlying objective in these appointments was to achieve greater accuracy in management decisions by incorporating the multifaceted, objective perspectives of qualified individuals external to the Group and to strengthen supervision of directors’ execution of business in assigned areas. In the selection of outside directors, management took a strategic approach, setting its sights on individuals possessing sophisticated knowledge of business management, to promote growth of the Group. Management also appointed two outside corporate auditors—individuals who have no business or other interests in the Company and present a high degree of neutrality. The function and role of outside corporate auditors is, as experts presenting diverse perspectives, to further reinforce governance in decision-making processes and in supervising the execution of business activities by directors through timely and appropriate advice from a third-party position.

Overview of Key Corporate Governance Structures

	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	8 directors	At least once a month. In 2014, directors met 26 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 2014, strategy meetings were held 22 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 2014, corporate auditors met 14 times, including extraordinary meetings
4. Internal Audit Office	Evaluate and verify management activities (risk management, internal controls, governance) that will contribute to achievement of management targets at the Company and each Group company, and offer advice, recommendations, and suggestions for improvement	10 members	In 2014, there were 13 audits at 12 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 2014, the Group CSR Committee met three times, and the CSR executive office managers met 12 times

Compensation for Directors and Corporate Auditors

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. Compensation for directors comprises a monthly (fixed) amount corresponding to role and within the aforementioned compensation limit, a bonus (reflecting performance during the fiscal year) as well as stock compensation-type stock options—that is, incentive stock options—with due consideration to each person’s role and level of contribution to business results. Compensation 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.

The Company introduced incentive stock options, with approval granted at the General Shareholders’ Meeting on March 29, 2012, to encourage directors to be more motivated in contributing to better operating results of the Group over the medium to long term and to higher corporate value.

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)	182	138	30	14	7
Corporate auditors (Excluding outside corporate auditors)	18	16	—	1	1
Outside corporate auditors	13	13	—	—	2

Interviews with Outside Directors

Interview with Outside Director

Kazuyoshi Komiya

Representative Director and President at Komiya Consultants, Inc.

Visiting professor at Nagoya University and widely engaged as a management consultant

Author of several books

Q What prompted you to accept appointment as an outside director?

A I have long believed in the idea of lending a hand in the growth of companies that have a management philosophy I can identify with, that contribute to society. The POLA ORBIS Group has for years and years helped women become more beautiful through cosmetics. The brands POLA and ORBIS have built solid positions in the market, and other brands in the portfolio, like Jurlique and H2O PLUS, have huge latent potential in key markets such as Australia and China, but do not compete with existing brands in the portfolio, so there is plenty of room to grow. I believe I can help the Group expand its horizons not only in Japan but on the world stage as well and contribute even more to society, and this is why I welcomed the invitation to be an outside director.

I also happen to be an ardent admirer of the POLA Museum of Art, and I always visit Hakone, where the museum is located, five or six times a year. The POLA ORBIS Group has promoted arts and culture for a very long time, and this is another aspect of the Group's corporate endeavor that appealed to me.

Q What role will you fulfill as an outside director?

A The role of an outside director is not to provide advice on a specific aspect of operations. Rather, it is to look for balance in management overall so that a company and its subsidiaries, as a whole, can achieve better performances or a stronger position.

I subscribe to the philosophy that numbers are just targets, not ultimate objectives. A person I quite respect said, "Do not pursue money. Pursue work." What this means is, companies and individuals alike should do a good job, and if the job is done well, then the financial gains will follow. Numbers, like sales and profit margins, are no more than assessments of how well the job was done. It comes down to this—you provide better services to customers, numbers rise as a result, and the target is met. Customers should always come first, never last.

Of course, failing to meet stated targets is not at all desirable. But when management starts making numbers the objective, the company inevitably loses sight of its customers as well as its employees. As an outside director, I will prudently check on the status of these points, slightly removed from the in-house perspective, as this is another key function of my role.

On the financial front, management has set a target of 8% for ROE. I share management's perception of what this target means, and I intend to offer suggestions on the strategic blueprint for achieving this target as well as peripheral financial strategies.

Boosting ROE is, itself, not a bad idea. However, in doing so, management must consider approaches to strike a good short-term/long-term balance. How will the Company achieve higher corporate value over the medium to long term while ensuring shareholder returns in the short term? The answer to this question is still being written, as all companies in Japan are working to find a good balance point now. POLA ORBIS HOLDINGS sets values for ROE and the payout ratio to protect the rights of minority shareholders. I feel it is my duty to assess the short-term/long-term balance, as I observe actual management of the Company, and give my opinion from a shareholder's standpoint.

Q You have attended meetings of the Board of Directors and the Group Strategy Meeting. What are your impressions?

A Everyone is very committed. I sense that organizational objectives are shared at the management level and everyone is moving along the same track and in the same direction. A lack of open discussion, often seen at owner-based companies, is not at all apparent at POLA ORBIS HOLDINGS. In fact, meetings seem to unfold into lively exchanges of opinion. Going forward, I hope that I can be a catalyst for dialogue and energize meetings by my own presence there.

Right now, business results are positive, but times are always changing, never standing still. It is therefore extremely important to think about how to build the brand portfolio—or adjust the content—and how changes will lead to higher earnings. I believe the POLA ORBIS Group still has considerable room to ramp up its earning power, from an assets perspective. Earning power is measured by the ratio of operating income to net sales and by return on assets. I'm sure I have the requisite know-how and experience to help the Company improve earning power from both directions.

From my involvement at Board of Directors' meetings, I realize that POLA ORBIS HOLDINGS is a company with fundamental capabilities even better than I imagined from the outside, with good performance results as well and a solid base for growth. Enhancing corporate communications capabilities to showcase these strengths is another area to focus on.

Q What does the Group need to achieve further growth?

A There is nothing wrong with management policies and direction, so by going just a step further and being very thorough about it, the Group will enhance its social contribution and this will inevitably lead to higher sales and income.

The underlying robustness of this step may well depend on how fully the Group draws on the expertise of its human resources. Self-realization is an expression used to describe achieving one's full potential. I aspire to this, myself, and I would hope that employees throughout the POLA ORBIS Group strive to this standard as well. In addition, each brand-assigned Group company handles cosmetics and skincare that are intended to make customers look and feel more beautiful. Therefore, these companies have a mission to help customers achieve their full potential, too.

There is a saying in the POLA ORBIS Group, "Find happiness in giving happiness." I would surmise that the man who founded POLA—a pillar company of today's POLA ORBIS Group—had an incredibly good understanding of what running a company is all about. Employees gain a sense of satisfaction in helping customers feel good about themselves—an imperative for business success. "Find happiness in giving happiness" is without a doubt the business objective. By making customers happy, the people who work here become happier, and if this sentiment filters down specifically to products and services, the ultimate result is sales and income. Performance targets are simply numbers and function as tools to check progress toward higher sales and income. When targets are not met, progress toward objectives is impaired, and that is exactly why numbers should never be considered the ultimate objective.

In corporate management, it is really important to stick with a vision and philosophy and drive these elements deep into the corporate consciousness. If the executive team and the people who work in the company earnestly seek to understand the difference between targets and objectives and recognize what keeps their company in business, then success is sure to follow.

The POLA ORBIS Group inherited from POLA a long history of making customers happy, and my role will be to help the Group maintain this track record. I am humbled to be given this very great responsibility.

Activities That Support Sustainable Growth

Interview with Outside Director

Yumiko Kamada

Senior Executive Officer at CALBEE, Inc.

While working at East Japan Railway Company, Ms. Kamada was a central figure in creating the "inside the station" business concept (shops within the ticket gate area) and turned *ecute* "inside the station" shopping zones into a success

Q What prompted you to accept appointment as an outside director?

A Broadly speaking, there were three reasons. First, the fact that the POLA ORBIS Group not only sells products but also makes products within the Group was extremely appealing to me. Moreover, the Group has a wonderful track record in manufacturing and R&D and its portfolio brands have a rock-solid image. I believe these factors fuel the potential to deliver products that make people happy, not only in Japan, not just for women, but around the world and for men, too.

Second, I have been involved in business development and distribution in my career, but the cosmetics industry is new to me. I have never been in a position that puts me between customers and manufacturing, so this is a learning experience for me and I'm keen to take part in management activities.

Third, diversity. I am humbled to hear that I am the first female director at POLA ORBIS HOLDINGS.

In addition, I have been a regular user of the *B.A* series from the beginning, and I am so captivated by the amazing quality that I could never use any other skincare. I really like THREE as well. Even without any tangible explanation, the brand concept comes through as a feeling, and the idea that this brand is well matched to women's lifestyles is very refreshing.

Q You have attended meetings of the Board of Directors and the Group Strategy Meeting. What are your impressions?

A The first thing I noticed when I attended the meetings was that numbers are very specific, down to the last detail. I thought, this is a company that endeavors to be precise. Transparency is high, and discussions are to the point and lively.

But I wonder if it wouldn't be beneficial to go beyond existing defensive strategies and allocate more time to talk about the future—that is, new challenges to embrace. I have only attended a few meetings, so I do not yet have a full grasp of management meetings, but a more future-oriented perspective would certainly make discussions more interesting.

What interests me, personally, is expansion of the skincare market. The POLA ORBIS Group has excelled by specializing in skincare that promotes beauty. But the face is not the only part of the body that needs skincare; hair and nails need pampering, too. Lately, the borders that separate consumer needs related to beauty, medicine, and health are fading, as are the lines between competing companies in these markets. I think there is tremendous potential to be gained by directing resources and results built in the skincare business to non-skincare fields.

Q What are your thoughts on new value creation and in-house encouragement to foster that process?

A I think POLA LADIES represent one of POLA's strengths. Chatting with a POLA LADY is fun, and I can easily envision many customers buying products after conversing with a POLA LADY. It is those conversations that turn into gold mines of future sales opportunities. Japan is already developing into a society with a rapidly increasing number of seniors in a shrinking population. It is therefore vital to establish a structure for the next generation of POLA LADIES who 10 years from now will continue to be a POLA strength even if the number of customers or the number of POLA LADIES declines. Achieving this structure in a society with a smaller population would be ground-breaking and certainly present a new business model with application potential in other countries or regions or even industries.

Another idea is to add some fun to products. The companies assigned to brands in the POLA ORBIS Group are particular about the quality and ingredients that go into respective cosmetics and skincare products and this emphasis underscores unquestionable value. How good would it be to infuse products with something else—something fun? Mr. Suzuki, the POLA ORBIS HOLDINGS president, has complimented me on my corporate enthusiasm, but I believe it is the connections between employees, extending beyond brand boundaries, that move the corporate machine, not my energy per se.

I've thought to myself, "A thinner, lighter compact case would be nice." So if—and I'm just throwing this out as a possibility—an employee were to take an original idea like what I thought to someone in a division dealing with production, the idea would evolve into something more concrete.

The line manager gets on board with the employee's idea, and then the assigned section manager, and once the numbers are crunched, the department store, too. The idea moves up to the Group Strategy Meeting, and approval is given for trial production. Wouldn't it be wonderful if the product actually gets to market? And then, if customers love the product, the employee who came up with the idea would be delighted beyond belief. Other people might be inclined to come up with ideas, too, opening the eyes of all employees. Small successes can turn into big currents with the potential to transform a company. Of course, the process is bound to produce comments, like "There's no time or budget for that" or "The numbers don't add up."

Ideas are what get people moving, not knowledge or experience. People in an organization motivate others, and only then do results happen. Ideas are the driving force—like an engine—and the knowledge and experience of individuals provide the fuel to run. This is the power of an organization, and I believe it is what makes an organization interesting.

Q What does the Group need to achieve further growth?

A I had a hand in several projects to turn transportation junctions—stations—into new markets. Initially, absolutely no tenants signed up because no business operator saw a train station as a place to sell side dishes and other market fare. But when the space was converted, areas that previously had nothing to do with side dishes and sweets became lined with a diverse array of products and people actually made the market a gathering spot. Stations haven't quite come into perspective as a sales channel for cosmetics and skincare, but as soon as companies embrace the idea, I'd bet they will see sufficient potential in these "inside the station" markets. The way cosmetics and skincare are sold will also evolve as companies enter different spaces.

The way things are sold is at a major crossroads, transitioning along with diversification in women's lifestyles. Contact, not only online but also at physical stores, is having a big impact. Time has never been more valuable. Interesting times are at hand, with lots of opportunity to identify factors that elicit new delight for customers. The POLA ORBIS Group, using the foundation built to date as a springboard, could certainly benefit by teaming up with other industry sectors and connecting with new business partners while embarking on new challenges. For myself, I will share my ideas with the executive team and with employees so that we can all prosper together.

Risk Management

Compliance Structure for the POLA ORBIS Group

To promote CSR activities widely throughout the POLA ORBIS Group, POLA ORBIS HOLDINGS established the Group CSR Committee, chaired by the director responsible for CSR at POLA ORBIS HOLDINGS, with participation from those responsible for promoting CSR practices at that Group company. In addition, each company maintains a CSR secretariat and workplace managers to support the efforts of these CSR specialists and to spearhead development of specific CSR activities.

Implementing Internal Audits

Internal audits within the POLA ORBIS Group are a vital part of Group governance, forming a trio with auditors' audits and accounting audits.

Specifically, POLA ORBIS HOLDINGS' Internal Audit Office implements internal audits from an independent and objective position using full-time members with international accreditation. Audits target three areas: (1) compliance (to determine whether corporate activities conform to laws and rules and regulations as well as social standards); (2) governance (to ensure that Group companies have established governance structures and that they are performing effectively); and (3) reliability of financial reports (to confirm that corporate processes are delivering accurate and timely financial information to society and, particularly, investors). The office evaluates status through on-site audits at each company and/or each division, and offers advice on improvements. Issues identified in an audit are circulated to each Group company, which serves to underpin efforts to enhance governance throughout the POLA ORBIS Group.

In 2014, on-site audits were conducted all the way down to the subsidiaries of subsidiaries, including Beijing Jurlique Trading Co., Ltd., and ORBIS ASIA PACIFIC Headquarters PTE. LTD.

Abiding by the Group Philosophy and CSR Charter

The Company formulated the POLA ORBIS Group Code of Conduct (the "Code of Conduct"), which sets a behavioral standard for putting the CSR Charter into practice, and all executives and employees respect laws and ethics and abide by the rules of the Code of Conduct. The Code of Conduct and other CSR-related topics are covered in the POLA ORBIS Group CSR Handbook, which is distributed to all executives and employees. Everyone is asked to submit a written pledge promising to comply with the content, and efforts are made to ensure awareness of and adherence to stated concepts.

The handbook was revised, effective January 1, 2014, to address changes in the operating environment and features four new sections: use of social media, guidelines on gift exchanges and business entertainment, business continuity plan initial response (actions required immediately upon the occurrence of a disaster), and the firm stand against antisocial forces.

In addition, several approaches have been introduced within the Group to promote a fuller understanding of the CSR Handbook, including opportunities for employees to read through the contents together every six months. A checkbox column on the cover is used to record such activities, and division managers keep tabs on progress.

Putting PDCA Cycle to Work to Reduce Risks

For the POLA ORBIS Group, compliance goes beyond simple adherence to rules and regulations and extends to the spirit of the law as well as the corporate philosophy and the Code of Conduct. Each company strives to ensure fair business practices and rotates constantly through a Plan-Do-Check-Act (PDCA) cycle to reduce risks.

Specifically, risks are reviewed every year through several processes, including evaluation of results from surveys on compliance awareness among employees. Risks of particular consequences are given priority, and risk-reduction plans are formulated. CSR executive office managers then gather every quarter to track progress and discuss other developments, perpetuating the PDCA cycle.

In 2014, the Company appointed CSR specialists and executive office managers at overseas subsidiaries as well, and formulated risk reduction plans for each location.

CSR executive office managers' meeting

Implementation of Monitoring Practices

Identifying issues through employee awareness survey and making improvements

To achieve enduring and sustainable development of the Group philosophy and at least maintain but ultimately improve corporate value, POLA ORBIS HOLDINGS implements an employee awareness survey in Japan to determine the status of adherence to compliance practices and to gauge employee motivation and job satisfaction, on a Groupwide basis, as well as to identify issues in need of attention and ways to improve the situation.

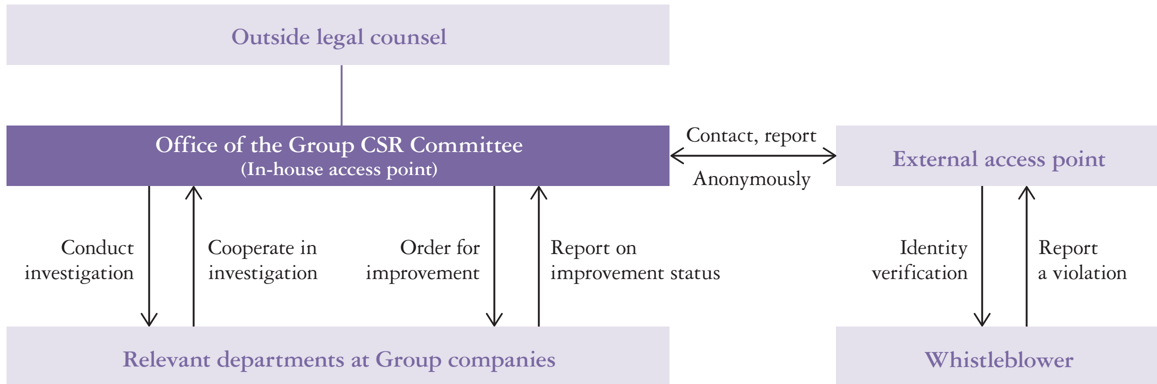
From the 2014 survey results, POLA ORBIS HOLDINGS identified issues of concern among employees in Japan, particularly measures to prevent harassment, efforts to reduce overtime, raise office efficiency, and encourage employees to take paid vacation so as to achieve a better work–life balance, and steps to help employees upgrade their skills and build careers. Input from each company provided the basis for action plans to resolve issues, and progress toward this goal is ongoing.

In addition, to integrate overseas subsidiaries and the subsidiaries of subsidiaries into the employee awareness survey, POLA ORBIS HOLDINGS redesigned the survey and made adjustments for offices outside Japan, creating a new system that is ready for implementation next fiscal year.

Using helpline to reduce risks and prevent compliance violations

POLA ORBIS HOLDINGS established a structure whereby each executive and employee at offices throughout Japan can voice concerns or ask questions, giving the Company direct access to information on internal risks. Awareness leads to steps that can minimize risks and prevent compliance violations. Of reports and requests for advice in 2014, more than 40% had to do with workplace harassment, and most of them referred to incidents that occurred in divisions away from the head office. With this in mind, the Company responded by looking more closely at work environments, including stores, across Japan.

Also, since April, the offices of overseas subsidiaries and their subsidiaries have set up helplines similar to the one used in Japan, which will extend the scope of efforts to reduce risk and prevent compliance violations throughout the Group.



Understanding Compliance and Ensuring Widespread Awareness

To preclude compliance violations, POLA ORBIS HOLDINGS strives to promote understanding and a deeper awareness of compliance among executives and employees.

In 2014, a lecture on proper information management for companies was held 19 times for all executives and employees of Group companies. Any employees who were unable to attend a lecture on the day it was given had the opportunity to watch a video of it later, as the Company is keen to ensure that all employees are familiar with compliance issues and practices. There are four themes covered in e-learnings: CSR activities within the POLA ORBIS Group, recognizable compliance issues, disaster preparedness for everyone, and comfortable workplaces. Employees who do not have access to an online environment can study from a handout version, called CSR Points, which summarizes the e-learning content. In addition, August has been designated as a month for thinking about CSR, and each company spotlights CSR topics, including compliance, and undertakes improvement activities.

Group CSR lecture

Other Activities

Strengthening measures to safeguard personal information

For the POLA ORBIS Group, direct selling is the primary method of sales, which means companies often obtain customers' personal information directly. Therefore, a particularly strict approach is taken with information assets under management. Several policies have been established, including a basic policy, a privacy policy, and an information security policy, and everyone—all executives and employees as well as business partners—adhere to these policies.

Of note, to ensure information security is thoroughly enforced at Group companies, POLA ORBIS HOLDINGS has included details about information security measures in the CSR Handbook, and all executives and employees go through that part of the handbook together whenever an inventory of personal information is performed.

In addition, steps are taken to safeguard personal information by assigning someone at each Group company to promote information security measures, taking inventory of personal information on a Groupwide basis twice a year—May and November—and identifying and organizing information in possession. Since 2009, an emphasis has been placed on information security, including corporate information, and with the introduction of LanScope Cat, every operation on all computers linked to the in-house network is tracked, and output to external memory devices is prohibited.

Furthermore, to control outsourced management of personal information, in 2014 POLA ORBIS HOLDINGS sifted through providers contracted to handle personal information and required some of them to submit to at least one audit. To confirm that proper safeguards are being maintained, two checks will be performed annually.

Groupwide training based on BCP creation

Underpinned by lessons learned from the Great East Japan Earthquake of March 2011, POLA ORBIS HOLDINGS encouraged Group companies to create business continuity plans (BCPs) for initial responses, that is, actions required immediately upon the occurrence of a disaster. As part of this effort, a safety confirmation system was introduced at Group locations to quickly ascertain the well-being of employees at domestic offices. In addition, BCP training sessions were held across Japan to verify the effectiveness of initial response measures. When training took place in 2014, a team practiced setting up a BCP headquarters at POLA ORBIS HOLDINGS and carried out an initial response simulation.

After the training, key issues that surfaced during the program were put onto a list for sharing Groupwide, and progress to resolve outstanding issues is being monitored. For provisional responses, efforts have begun with a careful review of priority operations.

BCP training session

Understanding social media, clarifying unknowns

Given customers' embrace of social networking sites as purchasing points, as well as comments from customers seeking two-way communication with companies and an increase in Internet users due to the rapid spread of smartphones, POLA ORBIS HOLDINGS laid out rules to protect Group companies and employees when using social media and formulated a social media policy and guidelines, effective June 2013. The Company seeks to clarify possible unknowns regarding social media by enabling employees to understand the function of social networking sites. In 2013, the Company invited a guest speaker to talk about hidden risks in social media, and in 2014, the Company held a lecture on proper information management for companies and another on e-learning.

Activities That Support Sustainable Growth

Proactive Communication with Shareholders and Investors

In its approach to investor relations (IR), POLA ORBIS HOLDINGS emphasizes not only performance updates, which guide short-term investment decisions, but also access to a broader spectrum of information, such as Group history, long-term vision, the medium-term management plan, management direction, and key strategies aimed at future growth, which promotes a deeper understanding of business activities and encourages long-term, stable investment. For this purpose, the Company established a division dedicated to IR and adheres to a basic policy stressing timely and accurate IR activities for institutional investors and individual investors.

For Institutional Investors

Top management explains the management vision and medium-term management strategies from medium- and long-term perspectives and provides progress updates each time the books are closed. As a specific example, the medium-term management plan—to achieve our long-term vision by 2020—was divided into three stages, and top management presents a progress report and a prognosis for success every six months.

In addition, our business model centers on direct selling, which allows us to manage specific data, such as key performance indicators, coefficient control, and other details, on our own. Through monthly tracking, we are eager to provide timely, highly transparent disclosure.

Meanwhile, opinions voiced by institutional investors at IR meetings provide a basis for setting management targets and enhancing corporate governance practices. As a specific example, in 2014 we added a capital policy dimension to our ROE target and shareholder return policy. Beginning in 2015, we are reinforcing governance through such steps as the appointment of outside directors. As well, we plan to hold small analyst-oriented meetings with the president and pursue other avenues that enable us to respond to comments and requests from institutional investors.

We also actively disclose information for overseas institutional investors. The representative director or the director responsible for finance and IR participates in overseas roadshows and conferences, mainly in Europe, North America, and Asia, and puts efforts into building trust by explaining corporate results and strategies in their own words. In 2014, nine trips were made overseas and more than 400 meetings took place with institutional investors at home and abroad. Going forward, we will continue to initiate communication on our own to engage as many institutional investors as possible.

For Individual Investors

To increase the number of shareholders who are patrons of the POLA ORBIS Group—that is, love the products and services in the multi-brand portfolio and the way the Group is run—and to boost corporate value, we actively undertake IR activities for individual investors. Since listing on the Tokyo Stock Exchange, POLA ORBIS HOLDINGS has been keen to host IR seminars for female investors, and ladies-only seminars held in 2014 attracted the participation of more than 1,500 women. By incorporating beauty-related subjects, such as skincare and makeup, into the seminar content, we enable female investors to have fun while learning about our brands, and this inevitably encourages them to become users of our products.

The female shareholder ratio stood at 36.6% in 2010, and by June 2014, the ratio had grown to 45.6%, with 11.3% of these women marking their debut as stock investors with an investment in our company. This data is based on a survey taken in September 2014.

We also came up with an ingenious points-based incentive program for shareholders. This program allows shareholders to exchange points for products in our multi-brand portfolio, based on the number of shares held and the number of years these shares have been held. Special perks like this have led to a higher number of individual shareholders, raised the brand value of portfolio brands, and expanded the ratio of long-term shareholders. Our novel approach has been well-received, substantiated by three consecutive years at No. 1 in the "beauty and health shareholder perks that make women happy" category of a survey ranking the popularity of shareholder incentives as selected by readers of *IR Magazine*.*

* *Shitte Tokusuru Kabunushi Yutai 2015 Edition* ("Useful Information on Shareholder Perks"), published by Nomura Investor Relations Co., Ltd.

Points Granted

1 point = ¥100

Number of Shares/Number of Years of Shareholding	Less Than Three Years	Three Years or More
100–299 shares	60 points	80 points
300–499 shares	80 points	100 points
500 or more shares	100 points	120 points

IR seminar exclusively for female shareholders

*Stakeholder Dialogues**

At POLA ORBIS HOLDINGS, we promote dialogue with external stakeholders to confirm that our corporate activities are in line with the expectations and requirements that society places upon the POLA ORBIS Group and to identify the products and services that society wants from our group of companies.

* Stakeholder dialogues: These are opportunities to talk with stakeholders—people whose corporate interests are grounded in different perspectives—and confirm positions that match the corporate stance and understand those that do not and the associated background factors, and then find common ground wherever possible. From a corporate standpoint, such common ground provides a basis for actions that reflect stakeholders' opinions in the business activities of Group companies and promote development of the Group as well as society.

POLA

- Seventh stakeholder dialogue held on August 22, 2014
- Discussion theme: Sustaining new value creation in response to a changing environment. Participants gave their opinions on what POLA needs to do to continue growing amid major changes in the social environment that surrounds business activities.

Comments from Stakeholders

Junko Yatsunami Chief Analyst, Nissay Asset Management Corporation

A wonderful aspect of POLA is its ability to respond to change—going beyond its success in door-to-door sales to meet prevailing needs through such approaches as directly operated stores, like POLA THE BEAUTY, which integrate facial esthetic treatments with sales and consultations, in one location. In addition, the vibrant activity of POLA LADIES—on the frontline of sales—leads to happy customers, which spurs growth. This positive cycle is a huge strength. That said, the underlying value and content of the activity is difficult to grasp from the outside, which is such a shame. It would surely be worthwhile, in striving for continued value creation, to provide more detailed disclosure so that people outside the Group understand how the activities of POLA LADIES—so vital to business—contribute to higher corporate value.

Tomoko Tensho Sales Branch Manager, Ayaka Sales Branch, Osaka area, POLA

I agree with the view that the attraction of POLA—creating places of activity for women—is hard for the ordinary person to see. I started out as a POLA LADY 11 years ago, and now I am a sales branch manager operating a POLA THE BEAUTY store in the Osaka area. POLA THE BEAUTY is a highly original store format incorporating product sales with facial esthetic treatments and makeup services as well as consultations, and I'm so grateful to have been entrusted with such a lovely store. However, recently, I have had some issues in recruiting really excellent POLA LADIES. The biggest reason for this, I feel, is that ordinary women don't see the appeal of this job or appreciate the POLA LADY structure. I feel a radical approach is required, one that includes support from the head office.

Masahiro Tamiya President and Representative Director, AQUANET FRANCHISE MANAGEMENT INSTITUTE, and Chairman, Nippon Franchise Consultant Association

POLA LADIES are vital to your business, as are the right women for the job, so it's absolutely imperative to your future growth that such recruiting mismatches are nipped in the bud. In recent years, big convenience store chains have introduced two-to-three-month internships, which allow candidates for franchises to experience aspects of the business before taking on a permanent position and provide a basis for contracts that both the head office and franchise operators are comfortable with. POLA would also do well to devise a recruitment method that identifies capable people who share the POLA philosophy and possess qualifications well-suited to the role of a POLA LADY. I believe this would enable you to realize even more resilient business development.

POLA's Response

The stakeholders' dialogue really drove home the importance of making it easier for the average person to see the appeal of POLA. Already in 2014, we tied up with a company that supports female entrepreneurs and conducted regional seminars to communicate the value of being a POLA LADY. Going forward, though, we are considering further rebranding to highlight POLA from a market perspective, and will review everything, including tools that assess the brand from a customer perspective. In addition, comments from the experts and a sales manager on the frontline truly underscore the importance of strategic reforms, including a heightened emphasis on IT, personnel training, and information sharing.

Recruiting excellent human resources to fulfill the role of a POLA LADY and cultivating skills ultimately lead to higher customer satisfaction and better corporate value for POLA. Recognizing this, we established a division dedicated to training and education. This division will play a central role in efforts to reinforce the curriculum quality and content of orientation programs for POLA LADIES that the head office is responsible for. Better initial training will foster a higher level of professionalism among POLA LADIES, which will in turn raise customer satisfaction levels and improve corporate value.

Participants (from left): Junko Yatsunami (Chief Analyst, Nissay Asset Management Corporation); Tomoko Tensho (Sales Branch Manager, Ayaka Sales Branch, Osaka area, POLA); Masahiro Tamiya (President and Representative Director, AQUANET FRANCHISE MANAGEMENT INSTITUTE, and Chairman, Nippon Franchise Consultant Association). **Facilitator**: Hiroko Ozawa (International Integrated Reporting Council). **Representing POLA**: Hiroki Suzuki (Representative Director and President, POLA, and Director, POLA ORBIS HOLDINGS INC.); Akira Fujii (Director, POLA, and Director, POLA ORBIS HOLDINGS INC.); Akira Gogo (Corporate Officer and General Manager, Sales Planning Division, POLA); Kyoko Ninomiya (Manager, Beauty Research Division)
Note: The titles of participants reflect positions as of the date the dialogue occurred.

ORBIS

- Eighth stakeholder dialogue held on August 26, 2014
- Discussion theme: Establishing a new ORBIS brand primed for sustainable growth, ORBIS has been engaged in brand restructuring since 2008 aimed at opening a new chapter in its development and has promoted different measures to achieve this goal. Participants commented on issues and expectations regarding the company's next step, specifically, how to highlight unique value and what growth strategies might prove effective.

Comments from Stakeholders

Eiichiro Adachi Counselor, The Japan Research Institute, Limited

For a stronger brand in a new era, I believe you have to realize an intrinsic quality that identifies ORBIS as a corporate brand. Customers' value perceptions and the motivation to buy things are constantly changing, so you really have to think about the best way to establish a corporate brand based on a product brand in the field of cosmetics.

Mariko Yamasaki Executive Officer, UNITED ARROWS LTD.

Given changing consumer sentiment and shifting value perceptions among young people these days, a company or a brand able to make people feel that their purchases are worthwhile will attract new customers.

The method for making a purchase seem worthwhile is shifting—away from the once-popular approach of striking a chord with consumers through advertising toward a process that sparks a sense of support for corporate activities reflecting the corporate philosophy and leads customers to make their purchases. A prime example of this is the shift that occurred after the Great East Japan Earthquake, when purchases were driven not from a self-centered perspective but rather from a more altruistic perspective wherein the purchase would help or support someone else or was for the greater good.

Motoko Matsushita Consultant, Nomura Research Institute, Ltd.

ORBIS builds a close relationship with existing customers, but there are undoubtedly some customers who have yet to form such a bond and customers who themselves don't think they have a relationship with the company.

In thinking about new points of contact with customers, let me draw on the case of Toyota's new hybrid car, Aqua—known as the Prius c outside Japan. Young people are distancing themselves from car ownership, so Toyota rolled out a general participation project to preserve and protect the natural environment, using the theme aqua = water, as a marketing tool to attract everyone with a keen interest in social contribution activities, even those people distancing themselves from cars. The effort garnered the support of young people who want to make a better future.

Perhaps ORBIS, too, might consider different ways to attract customers—customers with no ties to the company as yet—through activities that symbolize the corporate ideal and the company's values.

ORBIS' Response

The comments sparked in the dialogue drove home the idea that we need to establish a new corporate brand, infuse corporate activities with responses to what society needs, and communicate a message to potential customers.

Today, advertising alone will not capture the attention of customers. The value perceptions and lifestyles of women are changing and diversifying, and against this backdrop we will redefine the value we present to society and describe our activities in a new light so that new customers as well as existing customers feel an enduring connection to us.

Honing our communications around these points of contact, and with the whole company organically linked and turning on a single axis, we will draw employees and consumers into our brand story. We will pursue the evolution of a reenergized ORBIS by encouraging employees to embrace new approaches and by welcoming participation by everyone in business activities to create a special presence in society and for our many customers.

Participants (from left): Eiichiro Adachi (Counselor, The Japan Research Institute, Limited); Mariko Yamasaki (Executive Officer, UNITED ARROWS LTD.); Motoko Matsushita (Consultant, Nomura Research Institute, Ltd.). **Facilitator**: Hiroko Ozawa (International Integrated Reporting Council). **Representing ORBIS**: Tsuneo Machida (Representative Director, President); Toshifumi Iwanaga (Director, in charge of Mail Order & Online Business Management); Motoyuki Fukushima (Corporate Officer, in charge of Store Management); Eriko Wada (Manager, Fulfillment CRM Promotion Department)
Note: The titles of participants reflect positions as of the date the dialogue occurred.

Human Resources Diversification Strategy

Utilizing Diversity in Human Resources to Achieve Sustainable Growth As a Group

The POLA ORBIS Group maintains a collection of nine distinct brands of cosmetics, promoted under a multi-brand strategy. POLA ORBIS HOLDINGS supports each brand-assigned company's efforts to provide products matched to diversifying customer needs and lays the foundation for training programs and a workplace environment premised upon the idea that to harness the diverse skills of every individual who works within the Group leads to further growth.

Training Across the Group to Develop Candidates for Management Positions

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.

Discovering and developing talent through training

Personnel development programs that run horizontally through the Group include the Future Study Program, launched in 2005, to cultivate the skills of young employees in their late 20s to early 30s, the Top Management Development Program, introduced in 2007, for employees at the section manager level, and the Coaching Program, added in 2013, for the general manager class and young directors.

These training programs are geared to each progressive level of career advancement, and with a continuity-based, age- and level-specific training structure, the Company can identify and develop those individuals who will become tomorrow's managers.

A major feature of all programs is the emphasis on practice and results. Programs revolve around managerial changes wherein each participant pinpoints actual management concerns at his or her company or regarding a business activity and then works to resolve them. This is not simple knowledge learning. Rather, the aim is to encourage awareness through practical experience, not theory, and promote a change in behavior, which enables participants to acquire a management perspective on the issues. For example, in the Top Management Development Program, participants deal with issues that have a Groupwide impact, such as innovations in product development processes and rebuilding the way frontline marketing processes are managed.

Through these training opportunities, the Top Management Development Program and the Coaching Program led to the debut of three presidents and 10 directors at Group companies.

Top Management Development Program

Personnel development across the 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	• Practice in business improvement methods • Management basics • Business planning	• Practice solving management issues • Acquire management knowledge • Attend joint lectures with other companies	• Implement changes in corporate culture through enhanced ability to interact with others and improved judgment capabilities
Eligibility	Employees in their late 20s to early 30s	Employees in their mid-30s to early 40s Mainly, section manager level	Employees in their mid-40s to early 50s General manager level and young directors
Length	9 months	9 months	6 months

Promoting Diversity

Vigorously supporting active roles for female employees

Since its founding, POLA ORBIS HOLDINGS has been supporting the advancement of women in society in step with changing times through the cosmetics business. The corporate culture that blossomed at POLA in those early days now permeates the POLA ORBIS Group and the stronger corporate support of women in active roles provides a basis for member companies to create environments that enable each and every woman to demonstrate her full potential without gender bias. This includes efforts to expand opportunities for female employees who have the desire and ability to take on work-related responsibility and promote women to management positions.

Efforts like this also help to shape the careers of female employees. The ratio of women in management positions throughout the Group, including overseas offices, reached 37.3% in 2014. Looking only at domestic members of the Group, the ratio is charting a steady upward path, hitting 21.3% in 2014. In an office environment where their opinions are respected, women wield considerable influence, including over product development from a customer perspective and over the implementation of a fuller range of services.

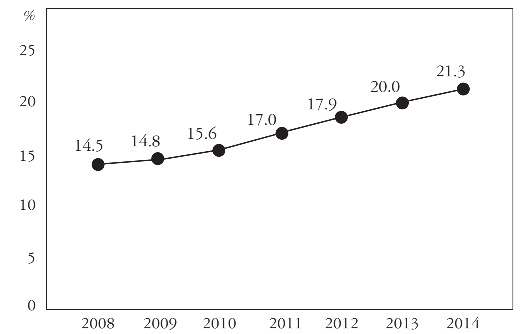
Also of note, POLA has earned high marks for a progressive attitude toward the way women work, matched to changing lifestyles, and was among the winners of the 2015 Diversity Management Selection 100,* as a company that has improved its corporate value through diversity management.

* A project whereby Japan's Ministry of Economy, Trade and Industry gives recognition to companies that have achieved higher corporate value through diversity management. The project was launched in 2013.

DIVERSITY 100 2015

POLA is a winner in the 2015 Diversity Management Selection 100 project

Shift in Ratio of Women in Management Positions at Group Companies in Japan



Robust efforts to support child-rearing earns "Kurumin" certification

POLA ORBIS HOLDINGS is keen to support child-rearing as part of career support measures that acknowledge the stages in a woman's life. Programs are in place that are suitable to different approaches to work, including an extension on maternity leave (up to the month in which the child reaches three years of age), shorter working hours, which women can choose to better manage childcare demands, and flextime (until the child finishes third grade of elementary school).
In addition, POLA takes steps to assist with career building for women with young children and seeks to smooth their return to work after maternity leave by providing opportunities, such as a work–life support program for managers, pre-return meetings with supervisors, and career design seminars for women returning to work after maternity leave. This progressive attitude led to the high post-maternity leave return-to-work ratio of 94.7% in 2014.

Initiatives such as these have resulted in POLA's attainment of the "Kurumin" certification mark from Japan's Ministry of Health, Labour and Welfare in two consecutive allocation years, beginning in 2010. POLA CHEMICAL INDUSTRIES and POLA ORBIS HOLDINGS have also obtained the mark.

子育てサポートしています
2013年認定事業主

Certification from the Ministry of Health, Labour and Welfare given to companies for efforts in fostering the next generation

Creating a workplace where the disabled can work with peace of mind

Throughout the POLA ORBIS Group, efforts are made to create workplaces where all employees, even those with a disability, can work with peace of mind.

POLA CHEMICAL INDUSTRIES has emphasized facility improvements. In 2013, the company switched to wheelchair-accessible vehicles for use at the Fukuroi Factory so that employees in wheelchairs can board while seated, and in 2014, the company installed wheelchair access at four Fukuroi Factory lobby entrances.

POLA and ORBIS promote employment of people with disabilities and strive to create environments in which they can demonstrate their full potential. Both companies have set up satellite offices in the suburbs to make the commute to work less of a burden, while on the facilities front, both companies have opted for barrier-free office layouts and have installed universal design business equipment.

Through these approaches, the disabled employee ratio at POLA, in particular, reached 2.0%, as of December 2014. Going forward, the POLA ORBIS Group as a whole will take steps to create workplaces in which people with disabilities can focus instead on their abilities.

Activities That Support Sustainable Growth

Environmental Initiatives

POLA ORBIS Group Environmental Principles

The following principles guide the POLA ORBIS Group in executing business activities with the environment in mind.

1. **Strive to reduce environmental impact throughout the lifecycle of products.**
2. **Set environmental targets and work toward sustainable improvement of environmental performance and pollution prevention to the extent technologically and economically possible.**
3. **Emphasize environment-friendly product development and, at business sites, promote resource- and energy-saving and waste-reduction measures to protect the global environment and make it better.**
4. **Ensure compliance, including respect for environment-related laws, local regulations, and agreements as well as voluntary standards.**
5. **Strive to coexist with society at the community level and beyond, and promote activities to protect the environment and make it better.**

Policy on Animal Welfare

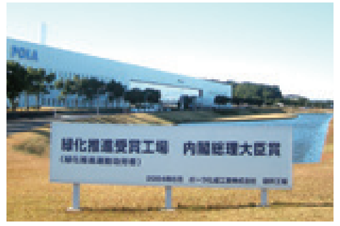
As a policy,* POLA ORBIS HOLDINGS has abolished the practice of animal testing in R&D for cosmetics, including quasi-drugs, throughout the POLA ORBIS Group as well as at its outsourcing companies, in tandem with the establishment of alternative methods and technologies.

* This policy will not apply if, for whatever reason, the company involved in R&D or production is required to be accountable for safety to the public or government in certain countries that demand animal testing of cosmetics, including quasi-drugs.

Activities at POLA CHEMICAL INDUSTRIES

Based on ISO 14001, international certification for environmental management systems, POLA CHEMICAL INDUSTRIES sets targets every year and goes through a PDCA cycle for constant improvement in products and processes to reduce environmental impact. To reduce CO_2 emissions, the company switched to inverters for the west tower filling station cooler at the Fukuroi Factory as well as the large motors in the chilled water production pump, and installed LED factory lighting. In addition, the company maintains campaigns, including one to help people remember to turn out the lights when they are the last to leave an area and another to enforce no-overtime days, when everyone works only normal business hours. Through these approaches, POLA CHEMICAL INDUSTRIES achieved its CO_2 reduction target. In addition, the company endeavors to reduce industrial waste and to sell waste with marketable value. As a specific example, used wooden pallets are turned into fertilizer, and production equipment no longer needed due to the integration of factories was sold as scrap metal, dramatically boosting the ratio of waste that generates income.

The company also conducts clean-up activities around the Fukuroi Factory, with participants going on a "clean walk" to nearby Mt. Hatta, and as part of its environment beautification activities participates in flower replanting along Aino Memorial Road.



Fukuroi Factory, Shizuoka Prefecture

Activities at Jurlique

Jurlique seeks to keep impact on the environment caused by packaging, raw materials, design, delivery, and waste all to a minimum. For 10 years, the company has been a signatory to the Australian Packaging Covenant (APC)* and in 2014 won the APC High Performer Award in the pharmacy and personal care category.

* APC: An agreement between government, industry, and community groups to change to environment-friendly packaging. Currently, over 900 organizations are signatories to the APC.

Winner of High Performer Award

Activities at ORBIS

ORBIS discovered the value in low-cost, environment-friendly pillow packaging and has used this product as protection material for a long time. In June 2013, the company set up a pillow packing reform task force and began working with new partner companies. In 2014, after a rigorous review of the need for pillow packaging, the company decided that the majority of refill products could be shipped without pillow packaging since the quality of the product would not be affected. As a result, the company accelerated progress toward reduced environmental impact, and costs dropped as well.

ORBIS has also been directing efforts into environmental protection activities. Since 2002, the company has been involved in a variety of endeavors, including joint reforestation projects with Yamanashi Prefecture and the Organization for Industrial, Spiritual and Cultural Advancement, an international nonprofit group based in Japan. These activities earned ORBIS an award for service on behalf of the environment from Yamanashi Prefecture.

Pillow packaging

Award for service on behalf of the environment from Yamanashi Prefecture

In Cooperation with Local Communities

Support to Revitalize Areas Affected by the Great East Japan Earthquake

Four years have passed since the Great East Japan Earthquake hit the Tohoku region, but ORBIS continues to support the restoration process. Sustained activities have yielded new connections, leading to extensive support, including, currently, a makeup volunteer project in collaboration with professional photographers. Employees keep coming up with new ideas for projects, including "goodwill futsal"—a variant of soccer—for elementary school students in Soma, Fukushima Prefecture, and donations to animal shelters.

Goodwill futsal

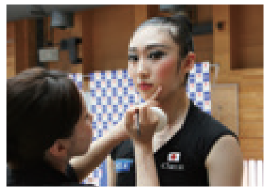
Rebuilding after the Great East Japan Earthquake

Districts near the Fukushima nuclear power plant were designated no-entry zones, forcing POLA sales offices in the access-denied areas to relocate after the Great East Japan Earthquake. Mitsue Shiga, sales manager of the Pegasus Sales Office, traveled several hours by car to maintain contact with customers taking refuge great distances away, though she herself lived in one evacuation center after another. Currently, she has set up a sales office in her home in Minami-Soma, Fukushima Prefecture, and brings smiles to her customers from this location. Kayoko Itakura, sales manager of the RITZ Sales Office, faced a similar situation, as her location was also in the no-entry zone. She went to live with relatives in Tokyo and maintained activities at a sales office in Tokyo while there, but the following year, she opened a sales office in her home in Iwaki, Fukushima Prefecture. With heartfelt appreciation for regional customers, colleagues, and the company and undaunted by the challenge of building a new customer base from scratch, Ms. Itakura continues activities that bring her in contact with many new customers.

Hamadori Sales Branch
Takashi Koyama, Sales Branch Manager (Front row, center)
Pegasus Sales Office
Mitsue Shiga, Sales Manager (Front row, right)
RITZ Sales Office
Kayoko Itakura, Sales Manager (Front row, left)
Hiroki Suzuki, POLA President (Back row, center)

FAIRY JAPAN Beauty Support

Since 2007, POLA has been an official partner of FAIRY JAPAN, a new Japanese national gymnastics team, and provides beauty support to the athletes. Beauty coaches selected in-house offer guidance on skincare, makeup, and hairstyle, fine-tuned to each of the young ladies, and extend advice on diets and good mental health. These efforts help the athletes gain self-confidence and promote gymnastic events.



FAIRY JAPAN beauty support

Volunteer Activities Connected to the Community

POLA encourages POLA LADIES throughout Japan to show their appreciation to everyone in the communities they serve daily by participating in local clean-up campaigns and offering their time as beauty volunteers, performing hand massage and providing makeup advice to ladies in local seniors' homes and hospitals and at community events. All companies in the POLA ORBIS Group run programs for elementary and junior high school students that enable them to visit an office to gain work experience.

POLA LADIES offer their time as beauty volunteers

"3-9 Project"

In 2009, POLA kicked off the "3-9 Project," an initiative to highlight the essence of Japan's proud history of *monozukuri* (manufacturing from a product creation perspective) and to energize local industry through corporate activities. The project name plays on the Japanese reading of "3-9"—*san kyu*—which sounds like "thank you." In 2014, the project spotlighted a long, *habutae* silk scarf, drawing on traditional techniques handed down from one generation to the next in the town of Kawamata, in Fukushima Prefecture. Through this effort, POLA gave new value to Japanese culture, represented here by refined Kawamata silk, in the use of traditional techniques that are still very much worthy of worldwide attention.

Helping to revitalize regional industries not only increases the number of customers who inevitably support POLA but also fuels development of the local economy.

Long, *habutae* silk scarf

Mobile Store Rolls into Areas Where Shopping Is Inconvenient

In October 2011, POLA rolled out its Moving Salon, a department store on wheels that delivers products to customers all over Japan. This novel shopping concept enables customers in sparsely populated communities without easy access to stores, particularly department stores and high-end boutiques, to enjoy an opportunity to make purchases in a luxurious atmosphere.

POLA identifies customer needs in these areas beforehand and supplements the on-board product selection to match local preferences. Such fine-tuned services have been very well received. The outfitted bus made 299 stops in 2014 and welcomed 16,139 people on board over the course of the year.

Moving Salon bus

Activities That Support Sustainable Growth

Support for Culture and Art

POLA's Arts and Culture Activities

As a corporate group providing "beauty," the POLA ORBIS Group supports culture and art as a bridge to inner beauty, from the perspective that outward appearance, no matter how gorgeous, has little value without beauty from within. Spearheaded by POLA, the Group strives to deliver this message throughout Japan and around the world. Support covers a wide spectrum, from traditional Japanese culture to works that should be protected as world heritage and further to financial assistance for young artists who will represent Japan in the art world. These efforts contribute to a rich and peaceful society and improved cultural wealth.

POLA Museum of Art

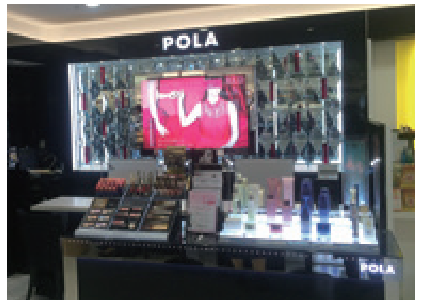
POLA Museum Annex

The POLA Museum Annex hosts 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 and supports associated creative activities. In 2014, the annex held "APEX EXHIBITION—The 'Nine Truths' of Cosmetics" linked to POLA's *APEX* series and "Beautiful Stranger," which tied into *RED B.A*. These exhibitions drew inspiration from the underlying concepts that characterize each cosmetics series to express world perceptions of beauty through art, and added a new dimension to the beauty that customers derive from cosmetics.

"APEX EXHIBITION—The 'Nine Truths' of Cosmetics"

POLA Museum Annex and POLA *RED B.A*

As a new activity, in 2014 the POLA Museum Annex commissioned a work linked to *RED B.A*, the skincare series from POLA. The work, entitled "RED SESSION," was produced by artist Sai Hashizume and portrays an image of *RED B.A* in serene yet vivid red tones that exude stunning sensuality and pulse with the light of inner beauty possessed by modern women. It was displayed at the POLA Museum Annex and also contributed to the series' profile, accentuating brand image, as a visual element in product packaging design and at department stores.



"RED SESSION" visual element at POLA department store corner

Activities of the POLA Research Institute of Beauty & Culture

The POLA Research Institute of Beauty & Culture undertakes a broad array of research pursuits, including studies into the history of cosmetics in the East and West, surveys to gauge women's beauty awareness, and exhibitions highlighting the culture of cosmetics, which contribute to an enhanced culture of cosmetics. Efforts revolve around the catchphrase "Cosmetics, women, and perceptions of beauty." The institute facilitates wide access to the information acquired through these activities, enabling universities and research organizations as well as individuals and companies to utilize the valuable results of its research as scientific materials for their own pursuits.

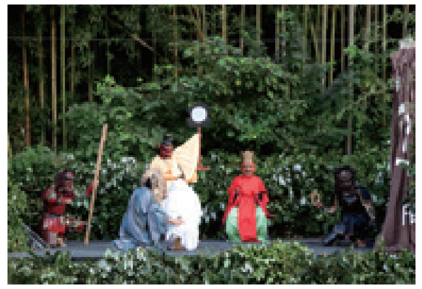
The institute's activities contribute to cultural programs in various communities, while shaping corporate culture and enhancing the value of the POLA brand as well as Group value.

Beniita (old Japanese lip-color compacts)

Supporting the 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.

The archive-creation program documents and films valuable intangible cultural assets of Japan. In 2014, the foundation filmed *Kiraigo*—the dance of ogres—a theatrical tradition said to have started several centuries ago in Musho, Yokoshiba-hikari-machi, Sanbu-gun, Chiba Prefecture, and designated an "Important Intangible Folk Cultural Property." This documentary won five major awards. A screening to commemorate one of the awards—the Award for Excellence in Cultural Documentary Films from Japan's Agency for Cultural Affairs—took place during the Tokyo International Film Festival and raised the profile of the cultural activities undertaken by the POLA Foundation for the Promotion of Traditional Japanese Culture.



Scene from the documentary film *KIRAIGO—The Town Where Ogres and Buddha Live*
© POLA Foundation for the Promotion of Traditional Japanese Culture/ Sakura Motion Picture Co., Ltd.

Support for the POLA Art Foundation

The POLA Art Foundation, which has the overall support of the POLA ORBIS Group, provides financial assistance to young artists studying overseas, for investigative research by art museum staff, and international art-related exchanges.

The POLA Museum of Art, which is run by the foundation, captured the No. 1 spot in the Nandemo ("anything goes") Ranking of Museums Immersed in the Impressionist World, conducted by the *Nihon Keizai Shimbun*.*

In winning awards, the museum has earned high marks for its Impressionist collection, notable in terms of the quality and quantity of works by such artists as Monet, Renoir, and Cézanne, for the building, which disappears into the natural surroundings, and for lighting that accentuates the paintings, as well as for creating paths for strolling through the forest that surrounds the museum, and for the ample additional facilities, such as the museum shop and café-restaurant.

The museum also won an award of excellence in the corporate grand prix category of the 2014 web grand prix for exemplary corporate sites from the Japan Advertisers Association Inc.

* November 22, 2014 issue of *NIKKEI Plus 1*

POLA Museum of Art homepage

VOICE

Masami Shiraishi, Director
Yamanashi Prefectural Museum of Art

The POLA ORBIS Group is involved in cultural activities and vigorously supports such activities. The POLA Art Foundation and the POLA Foundation for the Promotion of Traditional Japanese Culture put tremendous effort into the creation, perpetuation, dissemination, development, and worldwide communication of information on culture. The former has achieved great results through its operation of the POLA Museum of Art as well as financial support for young artists studying overseas, for international exchanges, and for other art-related pursuits. The latter has for many years given recognition and financial assistance to people active in such fields as the traditional arts and folk and traditional industrial arts, and such efforts have earned wide praise. Both foundations carry "POLA" in their names, and respective pursuits are perfectly matched to the brand image of cosmetics as products with considerable cultural influence. I look forward to what these foundations accomplish in the future.

Activities That Support Sustainable Growth

Directors and Corporate Auditors (As of March 27, 2015)

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.)
February 2012	Director, Jurlique International Pty Ltd
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)

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. Director, POLA ORBIS HOLDINGS (current)
June 2013	Managing Director, The POLA Art Foundation (current)
January 2015	Representative Director and President, POLA CHEMICAL INDUSTRIES INC. (current)

Yoshifumi Abe

Director

Motto

Inscrutable are the ways of heaven

April 1980	Joined POLA Cosmetics, Inc. (currently POLA INC.)
February 1998	Representative Director and President, POLA Kita-Kyushu Sales Co., Ltd.
January 2005	POLA Cosmetics, Inc. (currently POLA INC.) Manager, CRM and Customer Call Center
January 2007	General Manager, Management Planning Division, POLA INC.
July 2008	General Manager, Management Planning Division, POLA ORBIS HOLDINGS INC.
January 2012	Director, Vice President, ORBIS Inc.
September 2014	Director, Senior Executive Vice President, ORBIS Inc.
December 2014	Representative Director, President, ORBIS Inc. (current)
March 2015	Director, POLA ORBIS HOLDINGS (current)

Kazuyoshi Komiya

Outside Director

Motto

Be the best you can be

April 1981	Joined The Bank of Tokyo, Ltd. (currently The Bank of Tokyo-Mitsubishi UFJ, Ltd.)
November 1991	Resigned from The Bank of Tokyo, Ltd.
December 1991	Joined Okamoto Associates, Inc.
March 1994	Resigned from Okamoto Associates, Inc.
April 1994	Joined Nippon Fukushi Service K.K. (currently SAINT-CARE HOLDING CORPORATION)
January 1996	Resigned from Nippon Fukushi Service K.K.
January 1996	Representative Director, President, Komiya Consultants, Inc. (current)
June 1997	Outside Corporate Auditor, Sankei Giken Kogyo Co., Ltd. (current)
June 2002	Outside Director, WAO CORPORATION (current)
March 2003	Outside Director, CAS Capital, Inc. (current)
March 2005	Outside Corporate Auditor, Sankei Giken Holdings Co., Ltd. (current)
June 2008	Director, Nippon Fukushi Service K.K. (currently SAINT-CARE HOLDING CORPORATION) (current)
June 2011	Outside Corporate Auditor, APOLLO MEDICAL HOLDINGS Co., Ltd. (current)
May 2012	Outside Director, Kindware Corporation (current)
October 2014	Visiting professor, Nagoya University (current)
March 2015	Outside Director, POLA ORBIS HOLDINGS (current)

Yumiko Kamada

Outside Director

Motto

Through encounters with many good people, positive things happen

April 1989	Joined East Japan Railway Company
December 2001	Deputy Chief, Group Leader of Property Promotion Division, Life-style Business Development Headquarters, East Japan Railway Company
June 2005	Representative Director, President, JR East Station Retailing Co., Ltd.
November 2008	Director General, Life-style Business Development Headquarters, East Japan Railway Company
May 2013	Deputy Manager, Frontier Service Development Laboratory, Research & Development Center of JR East Group, East Japan Railway Company
January 2015	Resigned from East Japan Railway Company
February 2015	Senior Executive Officer, CALBEE, Inc. (current) Part-time Director, LUMINE CO., LTD. (current) Adviser, THE MICHINOKU BANK, LTD. (current)
March 2015	Outside Director, POLA ORBIS HOLDINGS (current)

Corporate Auditors

Hisao Iwabuchi

Corporate Auditor

Motto

One for all, all for one

April 1976	Joined POLA CHEMICAL INDUSTRIES INC.
February 1998	POLA Cosmetics, Inc. (currently POLA INC.) General Manager, Product Planning, Door-to-Door Sales and Planning Division
January 2002	Corporate Officer and General Manager, Research Planning Division, POLA CHEMICAL INDUSTRIES
March 2004	Director and General Manager, Research Planning Division, POLA CHEMICAL INDUSTRIES
January 2007	Director, Vice President, POLA CHEMICAL INDUSTRIES
January 2013	Corporate Auditor, POLA CHEMICAL INDUSTRIES In charge of public relations at POLA INC.
March 2014	Corporate Auditor, POLA CHEMICAL INDUSTRIES (current)
March 2015	Corporate Auditor, POLA ORBIS HOLDINGS (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
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
October 2014	Outside Director, Tokyo TY Financial Group, Inc. (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
July 2003	Resigned from Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)
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)
April 2014	Associate Professor, Graduate School of Accounting & Finance, MBA Program, Chiba University of Commerce (current)

Note: Kazuyoshi Komiya and Yumiko Kamada are Outside Directors as stipulated in Article 2, Paragraph 15 of Japan's Companies Act.
Akio Sato and Motohiko Nakamura are Outside Auditors as stipulated in Article 2, Paragraph 16 of Japan's Companies Act.

Activities That Support Sustainable Growth

Five-Year Summary of Selected Financial Data

Years ended December 31	Millions of yen (Except per share data)					Thousands of U.S. dollars[*1] (Except per share data)
	2010	2011	2012	2013	2014	2014
Operating Results						
Net sales[*2]	¥165,253	¥166,657	¥180,873	¥191,355	¥198,094	$1,643,257
Beauty Care	153,091	154,778	168,811	178,306	184,475	1,530,278
POLA	96,543	97,353	99,204	100,740	99,571	825,979
ORBIS	49,356	47,918	48,009	48,163	52,302	433,866
Overseas Brands	—	1,851	13,011	20,298	22,476	186,454
Brands under Development	7,192	7,654	8,587	9,104	10,123	83,980
Real Estate	3,102	3,089	2,841	3,035	3,179	26,371
Others	9,059	8,790	9,220	10,013	10,440	86,607
Operating income	12,270	12,853	13,520	16,017	17,683	146,693
Beauty Care	10,165	10,787	11,812	14,780	16,535	137,171
POLA	5,592	6,168	7,031	7,951	8,583	71,201
ORBIS	6,169	6,526	7,881	8,807	10,792	89,530
Overseas Brands	—	(81)	(1,897)	(895)	(1,881)	(15,609)
Brands under Development	(1,596)	(1,826)	(1,202)	(1,082)	(958)	(7,951)
Real Estate	1,304	1,283	1,139	1,258	1,227	10,181
Others	223	501	335	410	472	3,917
Operating margin (%)	7.4	7.7	7.5	8.4	8.9	
Net income	7,086	8,039	6,681	7,318	10,382	86,128
Financial Position						
Net assets	153,104	157,057	164,896	173,887	180,793	1,499,737
Total assets	187,771	193,027	209,140	218,005	224,536	1,862,598
Cash Flows						
Cash flows from operating activities	17,906	14,401	17,592	13,500	16,643	138,061
Cash flows from investing activities	(40,367)	(3,444)	(39,625)	(2,452)	(8,391)	(69,614)
Cash flows from financing activities	(2,789)	(4,093)	(3,280)	(2,815)	(3,661)	(30,376)
Cash and cash equivalents at end of year	43,507	50,246	25,106	34,137	39,111	324,440
Depreciation and amortization	5,361	5,374	6,466	6,704	6,948	57,639
Capital expenditure	6,245	5,048	9,609	8,670	8,257	68,494
Financial Indicators						
Equity ratio (%)	81.5	81.3	78.8	79.5	80.4	
Return on equity (%)	4.8	5.2	4.2	4.3	5.9	
Return on assets (%)	6.6	7.0	7.3	8.4	8.6	
Price-earnings ratio (times)	12.3	14.3	20.5	28.4	25.9	
Per Share Data						
Net income per share (¥/$)	137.36	145.43	120.86	132.39	187.81	1.56
Net assets per share (¥/$)	2,767.55	2,839.36	2,980.48	3,133.82	3,264.13	27.08
Cash dividends per share (¥/$)	40	45	50	55	187	1.55

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1=¥120.55 as of December 31, 2014.
*2 Net sales do not include consumption taxes.

Management's Discussion and Analysis

Summary of Business Results

In fiscal 2014, ended December 31, 2014, the domestic cosmetics market showed brisk growth overall but spending per customer continued on a downtrend. Overseas, demand for cosmetics remained fairly steady despite signs that China's economy was slowing.

Against this market backdrop, the POLA ORBIS Group pushed ahead on measures to reinforce the domestic earnings structure, accelerate overseas expansion efforts, and improve corporate value through more efficient use of capital, in line with strategies outlined in the medium-term management plan launched in fiscal 2014. As a result, POLA ORBIS Holdings achieved year-on-year increases in sales and income, on a consolidated basis.

Analysis of Operating Results: Comparison of Fiscal 2014 and Fiscal 2013

Net sales

Net sales rose 3.5% over fiscal 2013, to ¥198,094 million, buoyed mainly by a favorable market reception of new products under the ORBIS brand and growth for the Jurlique brand in China.

Cost of sales, and selling, general and administrative expenses

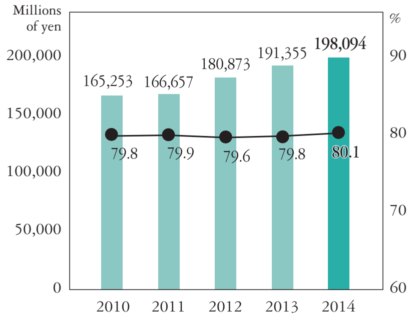
Cost of sales inched up 1.7%, to ¥39,326 million, paralleling higher net sales. The cost of sales ratio—cost of sales as a percentage of net sales—improved 0.4 percentage point, to 19.9%, mainly because of a lower cost of sales ratio caused by a higher ratio of flagship brand skincare sales in the sales mix.

Selling, general and administrative expenses increased 3.2%, to ¥141,083 million, primarily 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 improved 0.2 percentage point, to 71.2%, largely due to successful cost-cutting through enhanced operating efficiency.

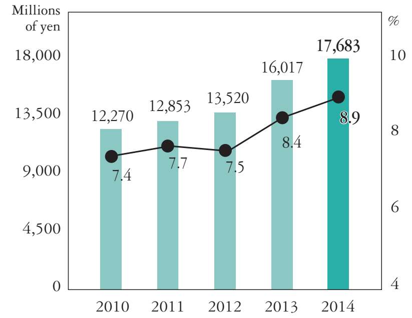
Operating income

Operating income climbed 10.4%, to ¥17,683 million, as the stronger net sales starting point drove gross profit higher. The operating margin maintained an upward perspective, rising 0.5 percentage point over fiscal 2013, to 8.9%.

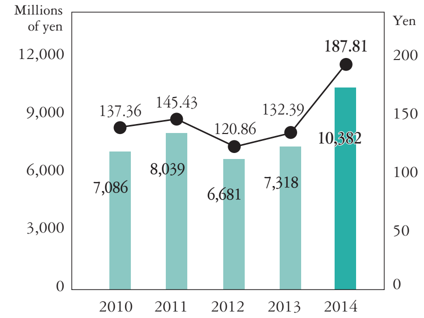
Net Sales and Gross Margin



Operating Income and Operating Margin



Net Income and Net Income per Share



Income before income taxes and minority interests

Income before income taxes and minority interests slipped 2.4% year on year, to ¥12,978 million. The decrease resulted mainly because proceeds from the sale of a rental office building of ¥2,176 million, booked under extraordinary income, along with higher ordinary income, were overshadowed by an impairment loss of ¥6,150 million, mainly attributed to H2O PLUS, booked under extraordinary losses, ¥206 million in loss on business liquidation accompanying the withdrawal of the ORBIS brand from South Korea and the closure of the Hong Kong office, and ¥1,654 million in business structure improvement expenses associated with centralization of production facilities at the Fukuroi Factory.

Net income

Net income soared 41.9% year on year, to ¥10,382 million, owing to a decrease in taxable costs following the sale of a rental office building. Net income per share jumped to ¥187.81, from ¥132.39 in fiscal 2013. Return on equity also rose, moving from 4.3% to 5.9%.

Business Segment Performance

Beauty Care

The Beauty Care business covers flagship brands POLA and ORBIS, overseas brands Jurlique and H2O PLUS, and brands under development (pdc, FUTURE LABO, ORLANE, decencia, and THREE).

At POLA, efforts were directed at boosting customer satisfaction, with an emphasis on developing new products in the anti-aging and skin-whitening fields and improving the quality of sales practices, including better consulting techniques.

Seeking to capture a larger share of the domestic market for high-prestige cosmetics and skincare, POLA energetically debuted new products, including *APEX*, a line of anti-aging cosmetics tailored to each customer according to the results of personal skin analysis, in July, and *RED B.A*, targeting women just beginning to embrace an anti-aging skincare routine, in October. Unfortunately, the domestic market presented challenges, with demand impacted by the higher consumption tax, which dampened consumer interest in high-end products and led to a drop in spending per customer. Overseas, the customer count increased at department stores in China, a key market for POLA, but this positive development did not compensate for sluggish demand in Japan, culminating in lower sales for POLA in fiscal 2014 compared with fiscal 2013.

At ORBIS, the emphasis was on measures to expand the lineup of skincare products, strengthen online sales, leverage a new platform system to achieve better communication with customers, and boost the efficiency of sales promotions.

In Japan, ORBIS was able to increase spending per customer and expand its customer base, thanks to a favorable market reception to *ORBIS=U*, which debuted in February as the centerpiece of the company's brand restructuring efforts from a product strategy perspective. Overseas, the company continued to push sales promotion activities designed to promote brand recognition, especially in China and Singapore. These efforts were rewarded with year-on-year growth in sales.

For overseas brands, the objective was to sustain a high rate of expansion, focusing on Asia as a driver of growth, and to realize a bigger contribution to consolidated earnings. Jurlique steadily increased sales in its largest markets—China and Australia—through measures that included the September launch of *Nutri-Define*, an anti-aging series drawing on the Group's R&D expertise, and realized year-on-year improvement in net sales. At H2O PLUS, sales declined from a year ago, reflecting a change in brand strategy in North America and sluggish sales in China.

Brands under development delivered higher sales year on year, fueled by brisk demand throughout the year for THREE and decencia.

All told, Beauty Care posted segment sales—sales to external customers—of ¥184,475 million in fiscal 2014, up 3.5% over fiscal 2013, and operating income of ¥16,535 million, up 11.9%.

Real Estate

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

As a result, segment sales—sales to external customers—increased 4.7%, to ¥3,179 million, but operating income slipped 2.5%, to ¥1,227 million.

Of note, POLA GOTANDA BUILDING No. 3, a rental office building, was transferred to a third party in December 2014 with a view to concentrating management resources into other pursuits and maximizing the Group's corporate value.

Others

The Others segment covers 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. In fiscal 2014, a sustained approach that channeled resources into dermatology, a field of focus, led to higher sales year on year.

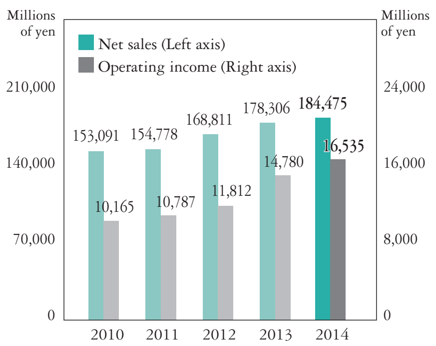
The building maintenance business caters primarily to the needs of Group companies. In fiscal 2014, the business endeavored to capture more orders from outside the Group and therefore emphasized marketing activities to sign up new customers for its services. These efforts were successful, with sales exceeding the level posted in fiscal 2013.

Overall, sales—sales to external customers—by businesses in the Others segment reached ¥10,440 million, up 4.3% year on year, while operating income climbed 15.0%, to ¥472 million.

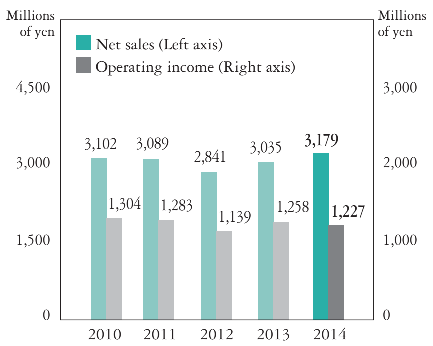
Key Financial Indicators

	2012	2013	2014
Cost of sales ratio	20.4%	20.2%	19.9%
Gross margin ratio	79.6%	79.8%	80.1%
SG&A ratio	72.1%	71.4%	71.2%
Personnel expenses	14.9%	15.1%	15.2%
Sales commissions	25.0%	24.1%	23.2%
Sales-related expenses	18.8%	18.5%	19.1%
Administrative and other expenses	13.4%	13.7%	13.7%
Operating margin	7.5%	8.4%	8.9%
Net income margin	3.7%	3.8%	5.2%

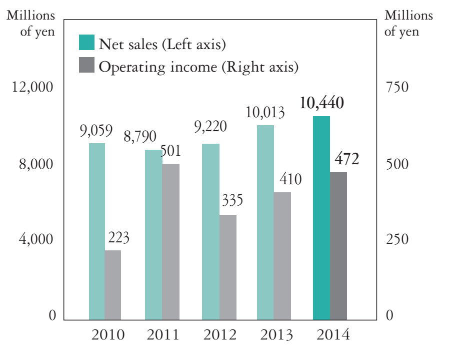
Beauty Care



Real Estate



Others



Analysis of Financial Position

Assets, Liabilities, and Net Assets

Assets

As of December 31, 2014, total assets stood at ¥224,536 million, up 3.0% from a year earlier. This change reflects increases of ¥4,952 million in cash and deposits, ¥5,004 million in short-term investments in securities through application of surplus funds, ¥1,029 million in investments in securities, and ¥1,319 million in merchandise and finished goods, which overshadowed decreases of ¥3,131 million in land from the sale of an office building that brought in rental income, and a net ¥5,894 million in intangible assets associated with the booking of an impairment loss.

Liabilities

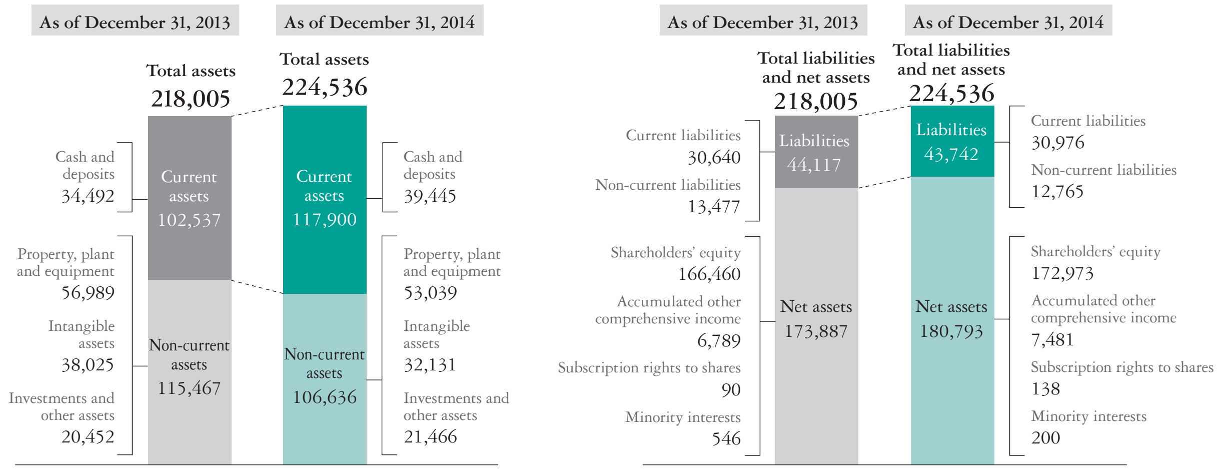
Total liabilities dipped 0.9% from December 31, 2013, to ¥43,742 million, as of December 31, 2014. This change reflects increases of ¥1,063 million in provision for a point-based loyalty program and ¥938 million in short-term loans payable associated with bank borrowings of an overseas subsidiary, which were offset by decreases of ¥2,138 million in income taxes payable and ¥221 million in accounts payable–other due mainly to a drop in sales commissions payable.

Net assets

Total net assets rose 4.0%, to ¥180,793 million, as of December 31, 2014. The primary factors contributing to this change were net income of ¥10,382 million and an increase of ¥1,293 million in foreign currency translation adjustments due to yen depreciation, which were only partly offset by a decrease of ¥3,869 million in dividends from retained earnings.

Overview of Consolidated Balance Sheets

(Millions of yen)



Cash Flows

The balance of cash and cash equivalents as of December 31, 2014 was ¥39,111 million, up ¥4,973 million from the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities in fiscal 2014 amounted to ¥16,643 million, up 23.3% from the previous fiscal year. Primary components bringing cash in were ¥12,978 million in income before income taxes and minority interests, ¥6,948 million in depreciation and amortization, and a considerably higher level of impairment loss, at ¥6,150 million. Primary components that reduced cash were ¥6,699 million in income taxes paid and an increase of ¥1,189 million in inventories.

Cash flows from investing activities

Net cash used in investing activities in fiscal 2014 reached ¥8,391 million, soaring 242.2% over fiscal 2013. Major components of this increase were ¥9,103 million to purchase short-term investments in securities as well as ¥21,702 million to purchase investment securities through application of surplus funds in line with investment plans, ¥6,297 million to purchase property, plant and equipment, and ¥1,834 million to purchase intangible assets, which overshadowed an inflow of ¥24,700 million in proceeds from the sale and redemption of short-term investments in securities and ¥6,184 million in proceeds from the sale of property, plant and equipment.

Cash flows from financing activities

Net cash used in financing activities came to ¥3,661 million, up 30.1% from a year ago. The primary application of cash was ¥3,861 million in cash dividends paid.

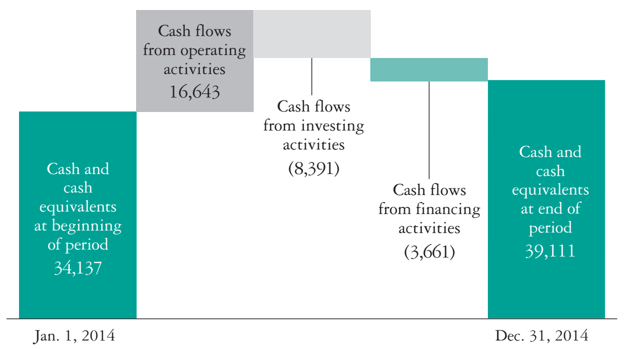
Sources of funds and policy on fund liquidity

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 increased ¥800 million over the amount at December 31, 2013, to ¥4,284 million at December 31, 2014. This reflects an increase of ¥938 million in short-term loans payable associated with bank borrowings of an overseas subsidiary. Note that POLA ORBIS HOLDINGS strives to enhance capital efficiency on a Groupwide basis 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 ¥39,445 million as of December 31, 2014, up ¥4,952 million from a year earlier. The change is mainly due to higher income obtained through operating activities.

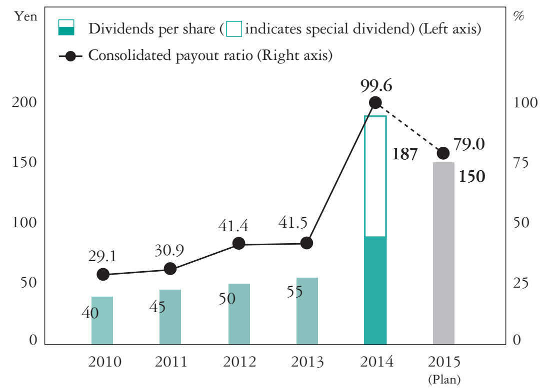
Overview of Consolidated Statement of Cash Flows

(Millions of yen)



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



Basic Policy on Profit Distribution

Management recognizes 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 continues to be to provide stable and continuous 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.

The Company paid a dividend of ¥187.00 per share for fiscal 2014, comprising an interim dividend of ¥40.00, a year-end dividend of ¥47.00, and a special dividend of ¥100.00. The Company will invest internal reserves to reinforce the operating structure and fuel future business pursuits.

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 description of business risks are assumptions and judgments made by management of the Group as of December 31, 2014.

1) Damage to brand value

The Group has multiple brands, most notably POLA and ORBIS. Through conscientious business management and the supply of products and services designed to elicit customers' trust, each Group 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 could be adversely affected if negative opinions and rumors about the Group's products and services were to spread, which could lead to loss of trust and impaired brand value.

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 company of the Group's Beauty Care segment, develops business through door-to-door sales based on consignment sales agreements. Securing sales partners under 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, it may become difficult to implement measures to secure human resources, leading to a decrease in the number of POLA LADY applicants and thus a shortage of sales partners to maintain and grow the door-to-door sales business. Should this occur, the operating results and financial position of the Group could be adversely affected.

4) Strategic investment activities

The Company oversees the execution of strategic investments within the Group to expand operations abroad, particularly in China, as well as M&A activities 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 if results initially expected are not achieved due to unexpected situations, such as unforeseen changes in the operating environment.

Furthermore, operating assets and assets such as goodwill accompanying M&A activity 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, fueled largely by the reorganization of corporate groups through M&As, the entry of new competitors into the market 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 appropriately 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 still might not reach the commercialization stage. Furthermore, even after commercialization, a product may not necessarily find favor with customers because of uncertainties precipitated by a number of possible factors.

If the initially anticipated 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 good relationships with suppliers, under the supervision of 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 the necessary raw materials could be disrupted.

The Group's cosmetics are manufactured at three locations: in Japan, at POLA CHEMICAL INDUSTRIES INC.'s Fukuroi Factory, in Shizuoka Prefecture; in Australia, at Jurlique's Mount Barker Factory, in South Australia; and in the United States at H2O PLUS' 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 demand is expected to continue to grow. The Group currently subscribes to a policy of further development in these markets.

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

Steps have been taken to protect the intellectual property rights of companies under the Group umbrella, but third parties could infringe upon such rights through means beyond what might be anticipated. Consequently, the business activities of the Group could be adversely affected by the misappropriation of technologies and the creation of counterfeit goods, and also, third-party intellectual property rights could be infringed upon by a member, or members, of the Group, albeit unknowingly.

Financial Section

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 an internal code of conduct, and educational initiatives by the section in charge of CSR and various committees. However, if such information were leaked for any reason, the Company could face litigation and the reputation of the Company or the Group as a whole could be tarnished. This in turn could adversely affect the businesses of the Group.

12) Material litigation

Although no lawsuits with the potential to seriously impact the Group were filed in fiscal 2014, 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 Group's primary production base for cosmetics is the Fukuroi Factory operated by POLA CHEMICAL INDUSTRIES. Therefore, product supply could be interrupted for a long period in the event of a large-scale earthquake in the Tokai region or some other major disaster.

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

Given that 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 be brought 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 management direction of partner companies involved in joint development activities. Such situations could return the business to an operating loss position, and if the loss worsened or persisted long term, it could adversely affect the operating results and financial position of the Group.

Fiscal 2015 Forecast

The medium-term management plan running from fiscal 2014 through fiscal 2016 is the second stage of a corporate journey, guided by a long-term vision for 2020 that the Group will follow to further strengthen the domestic earnings structure and accelerate overseas expansion while enhancing corporate value through more efficient use of capital.

For the fiscal year ending December 31, 2015, POLA ORBIS HOLDINGS anticipates consolidated net sales of ¥207,500 million, up 4.7% year on year; operating income of ¥20,000 million, up 13.1%; ordinary income of ¥20,000 million, up 4.9%; and net income of ¥10,500 million, up 1.1%.

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 reported amounts and disclosure of assets and liabilities as well as earnings and expenses. These assumptions are based on reasonable conclusions that take into account historical performance and other factors. However, actual results could differ from stated expectations as they are subject to inherent uncertainties.

Fiscal 2015 Forecast

(Consolidated)

(Millions of yen)	FY2015 Full Year	YoY Change Amount	YoY Change Percentage
Net sales	207,500	9,405	4.7%
Beauty Care	193,600	9,124	4.9%
Real Estate	2,900	(279)	(8.8%)
Others	11,000	559	5.4%
Operating income	20,000	2,316	13.1%
Beauty Care	19,000	2,464	14.9%
Real Estate	1,100	(127)	(10.4%)
Others	350	(122)	(25.9%)
Reconciliations	(450)	101	—
Net income	10,500	117	1.1%

Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	2014
Assets			
Current assets			
Cash and deposits (Notes 4, 6 and 19)	¥ 39,445	¥ 34,492	$ 327,214
Notes and accounts receivable – trade (Note 19)	23,936	24,023	198,563
Short-term investments in securities (Notes 4, 19 and 20)	22,612	17,608	187,578
Merchandise and finished goods	13,419	12,099	111,321
Work in process	1,468	1,699	12,180
Raw materials and supplies	5,172	4,983	42,907
Deferred tax assets (Note 16)	4,457	4,675	36,977
Other	7,550	3,104	62,635
Allowance for doubtful accounts	(163)	(150)	(1,356)
Total current assets	117,900	102,537	978,018
Property, plant and equipment (Note 14)			
Buildings and structures	54,026	61,726	448,163
Machinery, equipment and vehicles	10,238	12,503	84,928
Land	19,248	22,380	159,676
Leased assets	5,239	4,754	43,464
Construction in progress	213	2,999	1,770
Other	20,133	19,752	167,013
Total property, plant and equipment	109,099	124,118	905,014
Accumulated depreciation	(56,060)	(67,128)	(465,038)
Net property, plant and equipment	53,039	56,989	439,976
Intangible assets			
Goodwill, net (Notes 14 and 21)	14,092	15,856	116,906
Right of trademark (Note 14)	10,013	12,327	83,062
Other intangible assets, net (Note 14)	8,024	9,842	66,569
Net intangible assets	32,131	38,025	266,537
Investments and other assets			
Investments in securities (Notes 5, 19 and 20)	15,152	14,122	125,692
Long-term loans receivable	91	60	761
Deferred tax assets (Note 16)	2,561	2,712	21,245
Other	3,713	3,677	30,802
Allowance for doubtful accounts	(52)	(120)	(433)
Total investments and other assets	21,466	20,452	178,068
Total non-current assets	106,636	115,467	884,580
Total assets	¥224,536	¥218,005	$1,862,598

See notes to consolidated financial statements.

December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	2014
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 19)	¥ 4,427	¥ 4,105	$ 36,727
Short-term loans payable (Notes 7 and 19)	1,972	1,034	16,366
Lease obligations (Note 7)	509	617	4,227
Accounts payable – other (Note 19)	12,209	12,431	101,285
Income taxes payable	1,429	3,568	11,861
Provision for bonuses	1,612	1,731	13,377
Provision for directors' bonuses	39	40	325
Provision for sales returns	105	85	871
Provision for point program	2,846	1,783	23,611
Provision for loss on business liquidation	32	—	270
Provision for business structure improvement	368	822	3,058
Other	5,422	4,422	44,985
Total current liabilities	30,976	30,640	256,964
Non-current liabilities			
Long-term loans payable (Notes 7 and 19)	1,000	1,000	8,295
Lease obligations (Note 7)	801	831	6,648
Provision for retirement benefits (Note 9)	—	5,908	—
Net defined benefit liability (Note 9)	5,829	—	48,356
Provision for environmental measures	65	67	546
Deferred tax liabilities (Note 16)	784	1,066	6,506
Other	4,285	4,602	35,546
Total non-current liabilities	12,765	13,477	105,897
Total liabilities	43,742	44,117	362,861
Net assets (Note 10)			
Shareholders' equity			
Common stock			
Authorized: 200,000,000 shares Issued: 57,284,039 shares at December 31, 2014 and 57,284,039 shares at December 31, 2013	10,000	10,000	82,953
Capital surplus	90,718	90,718	752,536
Retained earnings	74,454	67,941	617,620
Treasury stock, at cost			
(2,000,000 shares at December 31, 2014 and 2,000,000 shares at December 31, 2013)	(2,199)	(2,199)	(18,243)
Total shareholders' equity	172,973	166,460	1,434,867
Accumulated other comprehensive income (Note 15)			
Unrealized gain (loss) on available-for-sale securities	448	454	3,722
Foreign currency translation adjustments	7,628	6,335	63,281
Remeasurements of defined benefit plans	(595)	—	(4,944)
Total accumulated other comprehensive income	7,481	6,789	62,060
Subscription rights to shares (Notes 10 and 24)	138	90	1,151
Minority interests	200	546	1,660
Total net assets	180,793	173,887	1,499,737
Total liabilities and net assets	¥224,536	¥218,005	$1,862,598

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)
	2014	2013	2014
Net sales (Note 21)	¥198,094	¥191,355	$1,643,257
Cost of sales (Notes 11, 12 and 21)	39,326	38,655	326,229
Gross profit	158,767	152,700	1,317,028
Selling, general and administrative expenses (Notes 11, 13 and 21)	141,083	136,682	1,170,336
Operating income	17,683	16,017	146,693
Other income (expenses) (Note 14)			
Interest and dividend income	357	454	2,965
Interest expense	(177)	(94)	(1,471)
Foreign exchange gain (loss)	990	1,282	8,216
Gain on sales of non-current assets	2,176	468	18,056
Gain on sales of investment securities	—	441	—
Loss on disposal of non-current assets	(186)	(391)	(1,550)
Impairment loss	(6,150)	(3,057)	(51,021)
Loss on business liquidation	(206)	(1,030)	(1,716)
Business structure improvement expenses	(1,654)	(931)	(13,726)
Other, net	146	134	1,211
	(4,705)	(2,724)	(39,035)
Income before income taxes and minority interests	12,978	13,293	107,657
Income taxes (Note 16)			
Current	2,678	7,122	22,219
Deferred	281	(1,084)	2,336
	2,960	6,037	24,554
Income before minority interests	10,018	7,256	83,103
Minority interests in net loss of consolidated subsidiaries	(364)	(62)	(3,025)
Net income	¥ 10,382	¥ 7,318	$ 86,128

Per share information (Note 22)	Yen		U.S. dollars (Note 3)
Basic net income per common share	¥187.81	¥132.39	$1.56
Diluted net income per common share	¥187.61	¥132.29	$1.56
Weighted average common shares outstanding	55,284,039	55,284,039	—
Cash dividends declared per common share	¥187.00	¥ 55.00	$1.55

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)
	2014	2013	2014
Income before minority interests	¥10,018	¥ 7,256	$83,103
Other comprehensive income (Note 15)			
Unrealized gain on available-for-sale securities	(5)	122	(47)
Foreign currency translation adjustments	1,309	3,785	10,864
Share of other comprehensive income of associates accounted for using the equity method	2	6	18
Total other comprehensive income (Note 15)	1,306	3,915	10,836
Comprehensive income	¥11,324	¥11,171	$93,939
Comprehensive income attributable to:			
Owners of the parent	¥11,670	¥11,241	$96,809
Minority interests	¥ (346)	¥ (69)	$ (2,870)

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, 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 January 1, 2014	57,284	¥10,000	¥90,718	¥67,941	¥(2,199)	¥6,789	¥ 90	¥546	¥173,887
Dividends from retained earnings				(3,869)					(3,869)
Net income				10,382					10,382
Change in unrealized gain (loss) on available-for-sale securities						(5)			(5)
Foreign currency translation adjustments						1,293			1,293
Remeasurements of defined benefit plans						(595)			(595)
Subscription rights to shares							47		47
Minority interests								(346)	(346)
Balance at December 31, 2014	57,284	¥10,000	¥90,718	¥74,454	¥(2,199)	¥7,481	¥138	¥200	¥180,793

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, 2014	$82,953	$752,536	$563,595	$(18,243)	$56,322	$ 754	$4,530	$1,442,447
Dividends from retained earnings			(32,102)					(32,102)
Net income			86,128					86,128
Change in unrealized gain (loss) on available-for-sale securities					(47)			(47)
Foreign currency translation adjustments					10,728			10,728
Remeasurements of defined benefit plans					(4,944)			(4,944)
Subscription rights to shares						397		397
Minority interests							(2,870)	(2,870)
Balance at December 31, 2014	$82,953	$752,536	$617,620	$(18,243)	$62,060	$1,151	$1,660	$1,499,737

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)
	2014	2013	2014
Cash flows from operating activities			
Income before income taxes and minority interests	¥12,978	¥13,293	$107,657
Adjustments to reconcile income before income taxes and minority interests to net cash flows from operating activities:			
Depreciation and amortization	6,948	6,704	57,639
Impairment loss	6,150	3,057	51,021
Amortization of goodwill	898	1,061	7,452
Increase (decrease) in allowance for doubtful accounts	(66)	26	(553)
Increase (decrease) in provision for point program	1,060	143	8,796
Increase (decrease) in provision for retirement benefits	—	(487)	—
Increase (decrease) in net defined benefit liability	(910)	—	(7,550)
Increase (decrease) in other provisions	(116)	160	(968)
Interest and dividend income	(357)	(454)	(2,965)
Interest expense	177	94	1,471
Foreign exchange loss (gain)	(935)	(1,221)	(7,764)
Gain on sales of non-current assets	(2,158)	(460)	(17,905)
Loss on disposal of non-current assets	186	391	1,550
Gain on sales of investment securities	—	(441)	—
Loss on business liquidation	206	1,030	1,716
Business structure improvement expenses	1,654	931	13,726
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	343	(1,059)	2,848
Decrease (increase) in inventories	(1,189)	(1,166)	(9,867)
Increase (decrease) in notes and accounts payable – trade	389	268	3,229
Increase (decrease) in consumption taxes payable	1,301	311	10,794
Decrease (increase) in other assets	(1,152)	(219)	(9,562)
Increase (decrease) in other liabilities	(1,390)	892	(11,533)
Other	84	220	705
Subtotal	24,102	23,078	199,937
Interest and dividends received	414	529	3,434
Interest paid	(164)	(98)	(1,368)
Payments for business structure improvement expenses	(907)	(55)	(7,526)
Income taxes paid	(6,699)	(9,838)	(55,576)
Other	(101)	(115)	(839)
Net cash provided by operating activities	¥16,643	¥13,500	$138,061

See notes to consolidated financial statements.

Financial Section

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2014	2013	2014
Cash flows from investing activities			
Payments into time deposits	¥ (854)	¥ (651)	$ (7,092)
Proceeds from withdrawal of time deposits	998	991	8,284
Purchase of short-term investments in securities	(9,103)	(8,695)	(75,518)
Proceeds from sales and redemption of short-term investments in securities	24,700	20,501	204,901
Purchase of property, plant and equipment	(6,297)	(5,707)	(52,239)
Proceeds from sales of property, plant and equipment	6,184	723	51,305
Purchase of intangible assets	(1,834)	(1,666)	(15,216)
Payments for disposal of non-current assets	(272)	(81)	(2,262)
Purchase of investments in securities	(21,702)	(9,200)	(180,026)
Proceeds from sales of investments in securities	—	1,624	—
Purchase of long-term prepaid expenses	(140)	(64)	(1,168)
Payments for lease and guarantee deposits	(335)	(235)	(2,785)
Proceeds from collection of lease and guarantee deposits	295	137	2,452
Other	(30)	(128)	(249)
Net cash used in investing activities	(8,391)	(2,452)	(69,614)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	890	(723)	7,387
Net increase (decrease) in long-term loans payable	—	1,000	—
Repayments of lease obligations	(690)	(787)	(5,727)
Cash dividends paid	(3,861)	(2,750)	(32,036)
Proceeds from stock issuance to minority shareholders	—	483	—
Repayments to minority shareholders	—	(36)	—
Net cash used in financing activities	(3,661)	(2,815)	(30,376)
Effect of exchange rate changes on cash and cash equivalents	384	798	3,186
Net increase (decrease) in cash and cash equivalents	4,973	9,031	41,257
Cash and cash equivalents at beginning of year (Note 4)	34,137	25,106	283,183
Cash and cash equivalents at end of year (Note 4)	¥39,111	¥34,137	$324,440

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.

47 subsidiaries were included in the scope of consolidation at December 31, 2014 (45 at December 31, 2013). One affiliated company was accounted for using the equity method at December 31, 2014 and 2013.

Changes in significant subsidiaries in fiscal 2014 compared to fiscal 2013 are as follows:
(Newly included: 2)

In fiscal 2014, DomierDECO INC. and EXPRESTIGE, INC. were newly established and included in the scope of consolidation.

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 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 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
a. Periodic allocation method for the estimated retirement benefit

The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount to periods up until the end of fiscal 2014 on a straight-line basis.

b. Amortization of past service cost and actuarial loss (gain)

Past service cost is amortized on a straight-line basis over a certain period (10 years), within the average remaining service period of the employees.

Actuarial loss (gain) is amortized from the following year of occurrence on a straight-line basis 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 bonuses and directors' bonuses

Provisions for bonuses and directors' 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 loss on business liquidation

Provisions are set up to cover estimated future losses accompanying the termination of business.

Provision for business structure improvement expenses

Provisions are set up to cover estimated future expenses and losses 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 2014 (55,284 thousand shares for fiscal 2013). Diluted net income per share is computed for fiscal 2014 and fiscal 2013 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

Adoption of Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, issued on May 17, 2012) and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued on May 17, 2012) were adopted by the Group from the end of fiscal 2014 (Provisions in Article 35 of the Accounting Standard for Retirement Benefits and Article 67 of the Guidance on Accounting Standard for Retirement Benefits were not applied.). Under the new accounting policies, the calculation method has changed to record net defined benefit liability by deducting pension assets from retirement benefit obligations. As a result, unrecognized actuarial gains and losses and unrecognized past service costs are recorded and included in net defined benefit liability.

With the adoption of the Accounting Standard for Retirement Benefits, the amount of the impact arising from the change is included in remeasurements of defined benefit plans under accumulated other comprehensive income ("AOCI") at the end of fiscal 2014, in accordance with the transitional treatment stated in Article 37 of the Accounting Standard.

As a result of the change, net defined benefit liability is recorded in the amount of ¥5,829 million (U.S.$48,356 thousand) and remeasurements of defined benefit plans under AOCI decreased by ¥595 million (U.S.$4,944 thousand) on the consolidated balance sheet for fiscal 2014.

Also, net assets per share at December 31, 2014 decreased by ¥10.78 (U.S.$0.09).

2.2. Accounting standards issued but not yet adopted

- Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, issued on May 17, 2012)
- Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued on May 17, 2012)

1. Outline of accounting standards
   The accounting standard and the guidance were revised from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (a) how actuarial gains and losses and prior service cost should be accounted for, (b) how retirement benefit obligations and current service costs should be determined and (c) enhancement of disclosures.
2. Application date
   The accounting standard and the guidance were adopted by the Group from the end of fiscal 2014. However, the accounting standard regarding how retirement benefit obligations and current service costs should be determined is scheduled to be applied from the beginning of fiscal 2015.
3. Impact of adoption of this accounting standard and related guidance
   The impact of adoption of this accounting standard and related guidance on the consolidated financial statements is currently under consideration.

2.3. Changes in presentation method

Consolidated Statements of Income

In fiscal 2013, "Equity in losses of affiliates" was presented as a separate item under "Other expenses". In fiscal 2014, however, it is included in "Other, net" due to a decrease in materiality. In order to reflect the change in presentation, the consolidated statement of income for fiscal 2013 has been reclassified to reflect a consistent presentation format. As a result, ¥16 million presented as "Equity in losses of affiliates" under "Other expenses" in fiscal 2013 was reclassified and included in ¥134 million in "Other, net" in fiscal 2014.

Consolidated Statements of Cash Flows

In fiscal 2013, "Increase (decrease) in provision for point program" was included in "Increase (decrease) in other provision" under cash flows from operating activities. In fiscal 2014, however, it is newly presented as a separate item due to an increase in materiality. In order to reflect the change in presentation, the consolidated statement of cash flows for fiscal 2013 has been reclassified to reflect a consistent presentation format. As a result, ¥304 million presented as "Increase (decrease) in other provisions" under cash flows from operating activities in fiscal 2013 was reclassified as ¥143 million in "Increase (decrease) in provision for point program" and ¥160 million in "Increase (decrease) in other provision" in fiscal 2014.

In fiscal 2013, "Equity in losses of affiliates" was presented as a separate item under cash flows from operating activities. In fiscal 2014, however, it is included in "Other" due to a decrease in materiality. In order to reflect the change in presentation, the consolidated statement of cash flows for fiscal 2013 has been reclassified to reflect a consistent presentation format. As a result, ¥16 million presented as "Equity in losses of affiliates" under cash flows from operating activities in fiscal 2013 was reclassified and included in ¥220 million in "Other" in fiscal 2014.

In fiscal 2013, "Payments for business structure improvement expenses" was included in "Other" under cash flows from operating activities. In fiscal 2014, however, it is newly presented as a separate item due to an increase in materiality. In order to reflect the change in presentation, the consolidated statement of cash flows for fiscal 2013 has been reclassified to reflect a consistent presentation format. As a result, ¥(171) million recorded in "Other" under cash flows from operating activities in fiscal 2013 was reclassified as ¥(55) million in "Payments for business structure improvement expenses" and ¥(115) million in "Other" in fiscal 2014.

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 = ¥120.55, the approximate rate of exchange prevailing at December 31, 2014. 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	2014	2013	2014
Cash and deposits	¥39,445	¥34,492	$327,214
Short-term investments in securities	22,612	17,608	187,578
Less:			
Time deposits with maturities exceeding three months	(1,334)	(1,355)	(11,069)
Stocks and bonds with maturities exceeding three months	(21,612)	(16,608)	(179,282)
Cash and cash equivalents	¥39,111	¥34,137	$324,440

4.2. Significant non-cash transactions

Assets and liabilities related to finance lease transactions newly recorded are ¥553 million (U.S.$4,593 thousand) in fiscal 2014 (¥488 million in fiscal 2013).

Asset retirement obligations newly recorded were ¥67 million (U.S.$558 thousand) in fiscal 2014 (¥233 million in fiscal 2013).

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	2014	2013	2014
Investments in securities (stock)	¥0	¥6	$0
(Of which, investments in joint ventures)	¥0	¥6	$0

Note 6 Pledged Assets

Assets pledged as collateral for operating transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
December 31	2014	2013	2014
Cash and deposits	¥—	¥40	$—

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	2014	2013	2014
Short-term loans payable	¥1,972	¥1,034	$16,366
Lease obligations – current portion	509	617	4,227
Long-term loans payable	1,000	1,000	8,295
Lease obligations – long term	801	831	6,648

There was no applicable information to be disclosed for bonds in fiscal 2014 and 2013.

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 2014 are less than 1% of the total liabilities and net assets at the beginning and at the end of fiscal 2014, respectively.

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

December 31	2014	2013
Short-term loans payable	2.48%	4.34%
Lease obligations – current portion	2.45%	2.13%
Long-term loans payable	0.69%	0.69%
Lease obligations – long term	2.95%	2.54%

At December 31, 2014, 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
2015	¥1,972	$16,366	¥509	$4,227
2016	—	—	361	2,997
2017	—	—	242	2,007
2018	1,000	8,295	130	1,081
2019	—	—	48	398

Note 8 Contingent Liabilities

Contingent liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2014	2013	2014
Guarantees of loans			
Employees' mortgages	¥132	¥201	$1,097
Total	¥132	¥201	$1,097

Note 9 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). Certain domestic consolidated subsidiaries have joined multi-employer type defined contribution plans.

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.

Certain subsidiaries use the simplified accounting method for the calculation of retirement benefit obligations.

Fiscal Year Ended December 31, 2014 (January 1, 2014–December 31, 2014)

9.1.1. Defined benefit plans (including plans applying the simplified method)

a. Movement in retirement benefit obligations

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at January 1, 2014	¥11,984	$99,414
Service cost	693	5,754
Interest cost	160	1,335
Actuarial loss (gain)	1,028	8,531
Benefits paid	(837)	(6,946)
Payments due to mass retirement	(1,112)	(9,229)
Other	28	236
Balance at December 31, 2014	¥11,945	$99,095

b. Movement in pension assets

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at January 1, 2014	¥6,384	$52,960
Expected return on pension assets	92	770
Actuarial gain (loss)	(36)	(299)
Contribution paid by the employer	795	6,600
Benefits paid	(463)	(3,843)
Payments due to mass retirement	(656)	(5,448)
Balance at December 31, 2014	¥6,116	$50,740

c. Reconciliation of retirement benefit obligations and pension assets to net defined benefit liability recognized in the consolidated balance sheets

	Millions of yen	Thousands of U.S. dollars
December 31	2014	2014
Funded retirement benefit obligations	¥10,995	$91,208
Pension assets	(6,116)	(50,740)
	4,878	40,468
Unfunded retirement benefit obligations	950	7,887
Total net liability for retirement benefits in the consolidated balance sheets	5,829	48,356
Net defined benefit liability	5,829	48,356
Total net liability for retirement benefits in the consolidated balance sheets	¥ 5,829	$48,356

d. Retirement benefit costs

	Millions of yen	Thousands of U.S. dollars
Year ended December 31	2014	2014
Service cost	¥693	$5,754
Interest cost	160	1,335
Expected return on pension assets	(92)	(770)
Amortization of net actuarial loss (gain)	(8)	(67)
Amortization of past service cost	(38)	(318)
Other	149	1,240
Total retirement benefit costs	¥864	$7,175

The expenses calculated under the simplified accounting method were included in "Service cost."

¥139 million (U.S.$1,154 thousand), which exceeds the provisions for additional lump sum retirement payment and lump sum retirement payment, is recorded under "Other".

e. Remeasurements of defined benefit plans:

The details of remeasurements of defined benefit plans (before tax effect) are as below.

	Millions of yen	Thousands of U.S. dollars
December 31	2014	2014
Unrecognized actuarial losses	¥987	$8,195
Unrecognized past service cost	(106)	(881)
Total	¥881	$7,314

f. Items related to pension assets:

(1) Pension assets at December 31, 2014 comprise:

Life insurance general accounts: 100%

(2) Long-term expected rate of return:

The long-term expected rate of return is determined by considering current and anticipated allocations and the portfolio of pension assets.

g. Items related to actuarial assumptions

The principal actuarial assumptions at December 31, 2014 (expressed as weighted averages) are as follows:

Discount rate	0.6%
Long-term expected rate of return	1.5%

9.1.2. Defined contribution pension plans

Foreign consolidated subsidiaries' required contributions to defined contribution pension plans are ¥67 million (U.S.$563 thousand).

Fiscal Year Ended December 31, 2013 (January 1, 2013–December 31, 2013)

9.2.1. Provision for retirement benefits consists of the following:

	Millions of yen
December 31	2013
Projected benefit obligation	¥11,984
Fair value of pension assets	(6,384)
Unfunded retirement benefit obligation	5,600
Unrecognized prior service cost	199
Unrecognized actuarial losses	109
Provision for retirement benefits	¥ 5,908

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

	Millions of yen
Year ended December 31	2013
Service cost	¥ 778
Interest cost	168
Expected return on pension assets	(85)
Amortization of past service cost	(89)
Amortization of actuarial loss (gain)	(7)
Additional lump-sum payment	745
Net periodic retirement benefit costs	¥1,511

The expenses calculated under the simplified accounting method were included in "Service cost."

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

Year ended December 31	2013
Discount rate	1.50%
Expected rate of return on pension assets	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, 2013	57,284	2,000
Increase	—	—
Decrease	—	—
Balance at January 1, 2014	57,284	2,000
Increase	—	—
Decrease	—	—
Balance at December 31, 2014	57,284	2,000

10.2. Subscription rights to shares

Year ended December 31, 2014

Name of company	Details of subscription rights to shares	Type of shares issued	Number of shares issued: At beginning of fiscal 2014	Increase	Decrease	At end of fiscal 2014	Balance at December 31, 2014 (Millions of yen)	Balance at December 31, 2014 (Thousands of U.S. dollars)
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥138	$1,151
	Total		—	—	—	—	¥138	$1,151

Year ended December 31, 2013

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

10.3. Dividends

Dividends paid

Year ended December 31, 2014

		Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Resolution	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 27, 2014	Common stock	¥1,658	$13,758	¥30.00	$0.25	December 31, 2013	March 28, 2014
Board of Directors' Meeting on July 30, 2014	Common stock	¥2,211	$18,344	¥40.00	$0.33	June 30, 2014	September 12, 2014

Year ended December 31, 2013

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

Dividends with the record date in fiscal 2014 and the effective date in fiscal 2015

Year ended December 31, 2014

			Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Resolution	Type of shares	Source of dividends	Total dividends	Total dividends	Dividends per share	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 26, 2015	Common stock	Retained earnings	¥8,126	$67,414	¥147.00	$1.22	December 31, 2014	March 27, 2015

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

Year ended December 31, 2013

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

Note 11 Research and Development Costs

Research and development costs of ¥3,476 million (U.S.$28,839 thousand) and ¥3,772 million were expensed for fiscal 2014 and 2013, 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	2014	2013	2014
Reversal of provision for sales returns	¥109	¥76	$ 909
Provision for sales returns	¥128	¥85	$1,068

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	2014	2013	2014
Sales commission	¥ 45,932	¥ 46,202	$ 381,024
Promotion expenses	20,079	18,767	166,565
Advertising expenses	7,186	7,145	59,611
Packing and transportation expenses	5,135	4,853	42,602
Salaries, allowances and bonuses	22,884	22,167	189,833
Welfare expenses	3,997	3,684	33,158
Retirement benefit expenses	782	660	6,494
Provision for bonuses	1,597	1,602	13,254
Provision for point program	2,831	1,771	23,490
Depreciation and amortization	4,927	4,796	40,875
Amortization of goodwill	898	1,061	7,452
Other	24,830	23,968	205,979
Total	¥141,083	¥136,682	$1,170,336

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	2014	2013	2014
Buildings and structures	¥ 658	¥146	$ 5,461
Land	1,496	259	12,410
Others	22	63	185
Total	¥2,176	¥468	$18,056

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	2014	2013	2014
Buildings and structures	¥121	¥132	$1,006
Machinery, equipment and vehicles	14	123	121
Removal and demolition	21	28	182
Others	28	106	240
Total	¥186	¥391	$1,550

14.3. Impairment loss consists of the following:

Fiscal Year Ended December 31, 2014 (January 1, 2014–December 31, 2014)

Location and Function	Type	Millions of yen 2014	Thousands of U.S. dollars 2014
Domestic			
Stores	Buildings and structures Property, plant and equipment (Other)	¥ 15	$ 127
Offices	Buildings and structures Leased assets Property, plant and equipment (Other)	63	528
Overseas			
Stores	Buildings and structures	62	520
Offices, Factories	Buildings and structures Machinery, equipment and vehicles Property, plant and equipment (Other)	165	1,377
Business assets	Goodwill Right of trademark Intangible assets (Other)	5,842	48,469
Total		¥6,150	$51,021

(1) Background of recognizing impairment loss

Among stores, offices and factories, when any asset groups have been continuously recording operating losses and the total 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.

In the situation where the operating results of H2O PLUS deviated from the original plan, an impairment test was conducted based on U.S. GAAP. As a result, impairment losses on goodwill, right of trademark and intangible assets (other) were accounted for under “Other expenses” by reducing their book value to the amount that is recoverable, after excluding the cumulative amount of amortization already recognized under Japanese GAAP.

(2) Grouping method of assets

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

Goodwill, right of trademark and intangible assets (other) are grouped based on entity level.

(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, right of trademark and intangible assets (other) is calculated by using a discount rate of 22%.

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

Fiscal Year Ended December 31, 2013 (January 1, 2013–December 31, 2013)

Location and Function	Type	Millions of yen 2013
Domestic		
Stores	Property, plant and equipment (Other)	¥ 44
Offices	Property, plant and equipment (Other) Intangible assets (Other)	23
Overseas		
Stores	Buildings and structures	47
Offices	Buildings and structures Property, plant and equipment (Other) Intangible assets (Other)	79
Business assets	Goodwill Right of trademark	2,862
Total		¥3,057

(1) Background of recognizing impairment loss

Among stores and offices, when any asset groups have been continuously recording operating losses and the total 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” by reducing their book value to the amount that is recoverable, after excluding the cumulative amount of amortization already recognized under Japanese GAAP.

(2) Grouping method of assets

Stores and offices are groupeparately, mainly on a business department basis, whereby income and expenditureare continually being examined.

Goodwill and right of trademark are grouped based on entity level.

(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 and offices is assessed at zero because the future cash flows cannot be expected.

14.4. Loss on business liquidation:

The losses arising from the withdrawing from the Korea operations of Orbis brand and the closure of the Hong Kong office, resolved by the Board of Directors’ Meeting on August 21, 2014 and December 12, 2014, respectively, were accounted for as “Loss on business liquidation” in fiscal 2014.

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:

In accordance with the resolution by the Board of Directors’ Meeting on August 21, 2014, the expenses related to the closure and dismantling of the Shizuoka Plant were accounted for as “Loss on business liquidation” in fiscal 2014. The details are as below.

Years ended December 31	Millions of yen 2014	Thousands of U.S. dollars 2014
Dismantling costs and equipment relocation costs	¥ 581	$ 4,824
Loss on disposal of non-current assets	807	6,701
Loss on valuation or abandonment of inventory	265	2,201
Total	¥1,654	$13,726

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.

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	2014	2013	2014
Unrealized gain or loss on available-for-sale securities			
Amount arising during the year	¥ 33	¥ 642	$ 277
Reclassification adjustment	(42)	(451)	(350)
Amount before tax effect	(8)	190	(73)
Tax effect	3	(68)	26
Unrealized gain or loss on available-for-sale securities, net of tax	¥(5)	¥122	$ (47)
Foreign currency translation adjustments			
Amount arising during the year	¥1,381	¥2,879	$11,461
Reclassification adjustment	—	905	—
Amount before tax effect	1,381	3,785	11,461
Tax effect	(71)	—	(596)
Foreign currency translation adjustments	¥1,309	¥3,785	$10,864
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	¥2	¥6	$18
Total other comprehensive income	¥1,306	¥3,915	$10,836

Note 16 Income Taxes

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

	Millions of yen		Thousands of U.S. dollars
December 31	2014	2013	2014
Deferred tax assets:			
Provision for bonuses	¥ 527	¥ 534	$ 4,373
Provision for retirement benefits	—	2,087	—
Net defined benefit liabilities	2,052	—	17,027
Loss on valuation of inventories	514	509	4,270
Impairment loss	9,188	14,395	76,222
Provision for point program	996	654	8,263
Unrealized inter-company profit	535	1,160	4,442
Tax loss carry-forwards	8,581	5,382	71,184
Tax loss carry-forwards on liquidation of subsidiary	1,176	1,004	9,757
Enterprise tax payable	271	303	2,250
Asset retirement obligations	678	716	5,628
Other	1,365	1,263	11,324
Less valuation allowance	(18,142)	(19,613)	(150,501)
Total deferred tax assets	¥ 7,744	¥ 8,398	$ 64,239
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥(248)	¥ (251)	$ (2,065)
Restoration cost for asset retirement obligations	(160)	(245)	(1,328)
Goodwill, right of trademark and other intangible assets	(960)	(1,506)	(7,971)
Other	(139)	(72)	(1,158)
Total deferred tax liabilities	¥(1,509)	¥(2,076)	$(12,523)
Deferred tax assets, net	¥ 6,234	¥ 6,322	$ 51,716

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

Years ended December 31	2014	2013
Statutory income tax rate	38.0%	38.0%
Expenditure not allowable for income tax purposes (Entertainment expense, etc.)	1.7	1.0
Per capita inhabitants' tax	0.3	0.3
Increase (decrease) in valuation allowance	(38.5)	(4.2)
Amortization of goodwill	2.6	3.0
Impairment loss	17.1	5.9
Loss on business liquidation	—	2.6
Tax credits for research and development costs	—	(2.0)
Reduction in deferred tax assets at reporting date due to revision of tax law	1.5	—
Other	0.0	0.8
Effective income tax rate	22.8%	45.4%

16.3. Changes in deferred tax assets and liabilities arising from the change of corporate tax rate:

Following the promulgation of the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 10 of 2014), the "Act for Partial Revision of the Local Tax Act, etc." (Act No. 4 of 2014), and the "Act for Local Corporation Tax" (Act No. 11 of 2014) on March 31, 2014, the corporate tax rate was changed for the fiscal years beginning on or after April 1, 2014. In line with these changes, the statutory income tax rate used to measure deferred tax assets and liabilities was changed from 38.0% for fiscal 2013 to 35.6% for those temporary differences expected to be eliminated in the fiscal year beginning January 1, 2015.

As a result, deferred tax assets (net of deferred tax liabilities) decreased by ¥195 million (U.S.$1,619 thousand) as of December 31, 2014, while income taxes-deferred accounted for fiscal 2014 increased by ¥195 million (U.S.$1,619 thousand).

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:

	Millions of yen					
	2014			2013		
December 31	Acquisition cost	Accumulated depreciation/ amortization	Net book value	Acquisition cost	Accumulated depreciation/ amortization	Net book value
Other property, plant and equipment, including tools, furniture and fixtures	¥153	¥149	¥4	¥153	¥132	¥21
Total	¥153	¥149	¥4	¥153	¥132	¥21

	Thousands of U.S. dollars		
	2014		
December 31	Acquisition cost	Accumulated depreciation/ amortization	Net book value
Other property, plant and equipment, including tools, furniture and fixtures	$1,276	$1,241	$35
Total	$1,276	$1,241	$35

Future lease payments are as follows:

	Millions of yen		Thousands of U.S. dollars
December 31	2014	2013	2014
Due within 1 year	¥6	¥23	$51
Due after 1 year	—	6	—
Total	¥6	¥29	$51

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2014	2013	2014
Lease payments	¥24	¥25	$207
Reversal of impairment loss on leased assets	—	—	—
Depreciation and amortization	17	17	142
Interest expense	1	3	14
Impairment loss	—	—	—

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	2014	2013	2014
Due within 1 year	¥ 8	¥ 7	$ 74
Due after 1 year	13	12	109
Total	¥22	¥19	$183

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 ¥1,599 million (U.S.$13,271 thousand) in fiscal 2014, (¥1,559 million in fiscal 2013) (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, 2014	Millions of yen		
Carrying amount			Fair value
Balance at January 1, 2014	Net increase	Balance at December 31, 2014	At December 31, 2014
¥26,364	¥(1,171)	¥25,193	¥47,624

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, 2014	Thousands of U.S. dollars		
Carrying amount			Fair value
Balance at January 1, 2014	Net increase	Balance at December 31, 2014	At December 31, 2014
$218,703	$(9,717)	$208,985	$395,062

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

Increase:

In fiscal 2014: Acquisition of residential properties for lease: ¥1,079 million (U.S.$8,958 thousand)
Refurbishment of office buildings for lease: ¥216 million (U.S.$1,792 thousand)
Transfer from properties for business use to idle assets: ¥1,073 million (U.S.$8,901 thousand)

In fiscal 2013: Acquisition of residential properties for lease: ¥1,695 million
Refurbishment of office buildings for lease: ¥241 million

Decrease:

In fiscal 2014: Depreciation on office buildings, residential properties and other properties for lease: ¥644 million (U.S.$5,349 thousand)
Sale of office buildings for lease: ¥3,037 million (U.S.$25,197 thousand)

In fiscal 2013: Depreciation on office buildings, residential properties and other properties for lease: ¥549 million
Sale of office buildings for lease and idle property: ¥139 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 reflect market price, and the fair values of depreciable assets such as buildings are determined by the carrying amounts on the consolidated balance sheets.

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		
	2014		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 39,445	¥ 39,445	—
(ii) Notes and accounts receivable – trade (*1)	23,773	23,773	—
(iii) Investments in securities:			
Held-to-maturity securities	35,812	35,827	¥14
Available-for-sale securities	1,811	1,811	—
Total assets	¥100,842	¥100,857	¥14
Liabilities			
(i) Notes and accounts payable – trade	¥ 4,427	¥ 4,427	—
(ii) Short-term loans payable	1,972	1,972	—
(iii) Accounts payable – other	12,209	12,209	—
(iv) Long-term loans payable	1,000	1,009	¥ 9
Total liabilities	¥ 19,610	¥ 19,620	¥ 9

	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

	Thousands of U.S. dollars		
	2014		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	$327,214	$327,214	—
(ii) Notes and accounts receivable – trade (*1)	197,207	197,207	—
(iii) Investments in securities:			
Held-to-maturity securities	297,076	297,197	$122
Available-for-sale securities	15,023	15,023	—
Total assets	$836,520	$836,641	$122
Liabilities			
(i) Notes and accounts payable – trade	$ 36,727	$ 36,727	—
(ii) Short-term loans payable	16,366	16,366	—
(iii) Accounts payable – other	101,285	101,285	—
(iv) Long-term loans payable	8,295	8,375	$ 80
Total liabilities	$162,675	$162,755	$ 80

(*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 based 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 the notes related to securities for holding purpose, please 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
	2014	2013	2014
December 31	Carrying amount	Carrying amount	Carrying amount
Unlisted stock	¥ 2	¥ 8	$ 21
Capital contribution to investment in a limited partnership	138	165	1,150
Total	¥141	¥174	$1,171

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, 2014 and 2013 are as follows:

	Millions of yen			
	2014			
December 31	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	¥39,445	—	—	—
Notes and accounts receivable – trade	23,773	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	21,612	¥14,200	—	—
Available-for-sale securities with maturities (other)	1,000	138	—	—
Total	¥85,831	¥14,338	—	—

	Millions of yen			
	2013			
December 31	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	—	—

	Thousands of U.S. dollars			
	2014			
December 31	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	$327,214	—	—	—
Notes and accounts receivable – trade	197,207	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	179,282	$117,793	—	—
Available-for-sale securities with maturities (other)	8,295	1,150	—	—
Total	$711,999	$118,944	—	—

4. Repayment schedule of long-term loans payable and other interest-bearing liabilities at December 31, 2014 and 2013 are as follows:

	Millions of yen					
	2014					
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	¥1,972	—	—	—	—	—
Long-term loans payable	—	—	—	¥1,000	—	—
Total	¥1,972	—	—	¥1,000	—	—

	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	—

	Thousands of U.S. dollars					
	2014					
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	$16,366	—	—	—	—	—
Long-term loans payable	—	—	—	$8,295	—	—
Total	$16,366	—	—	$8,295	—	—

Note 20 Investments in Securities

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

	Millions of yen					
	2014			2013		
December 31	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount						
Corporate bonds	—	—	—	—	—	—
Other	¥19,612	¥19,686	¥73	¥17,729	¥17,853	¥123
Subtotal	19,612	19,686	73	17,729	17,853	123
Securities with carrying amount exceeding fair value						
Corporate bonds	—	—	—	—	—	—
Other	16,200	16,140	(59)	12,005	11,975	(29)
Subtotal	16,200	16,140	(59)	12,005	11,975	(29)
Total	¥35,812	¥35,827	¥14	¥29,734	¥29,829	¥ 94

	Thousands of U.S. dollars		
	2014		
December 31	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount			
Corporate bonds	—	—	—
Other	$162,692	$163,303	$611
Subtotal	162,692	163,303	611
Securities with carrying amount exceeding fair value			
Corporate bonds	—	—	—
Other	134,384	133,895	(490)
Subtotal	134,384	133,895	(490)
Total	$297,076	$297,197	$122

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

	Millions of yen					
	2014			2013		
December 31	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost						
Stock	¥ 811	¥ 134	¥676	¥ 821	¥ 134	¥687
Other	—	—	—	—	—	—
Subtotal	811	134	676	821	134	687
Securities with acquisition cost exceeding carrying amount						
Stock	—	—	—	—	—	—
Other	1,000	1,000	—	1,000	1,000	—
Subtotal	1,000	1,000	—	1,000	1,000	—
Total	¥1,811	¥1,134	¥676	¥1,821	¥1,134	¥687

	Thousands of U.S. dollars		
	2014		
December 31	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost			
Stock	$ 6,728	$1,113	$5,615
Other	—	—	—
Subtotal	6,728	1,113	5,615
Securities with acquisition cost exceeding carrying amount			
Stock	—	—	—
Other	8,295	8,295	—
Subtotal	8,295	8,295	—
Total	$15,023	$9,408	$5,615

Unlisted stock of ¥2 million (U.S.$21 thousand) at December 31, 2014 (¥8 million at December 31, 2013) and capital contribution to investment in a limited partnership of ¥138 million (U.S.$1,150 thousand) at December 31, 2014 (¥165 million at December 31, 2013) were carried in the accompanying consolidated balance sheets. They are not included in "available-for-sale securities" in the above table as the 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 2014 and 2013 consist of the following:

No available-for-sale securities were sold in fiscal 2014.
Available-for-sale securities sold during fiscal 2013 consist of the following:

	Millions of yen		
	2013		
Year ended December 31	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

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.

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

	Millions of yen						
	2014						
	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	¥184,475	¥3,179	¥187,654	¥10,440	¥198,094	—	¥198,094
Inter-segment sales or transfers	70	589	660	3,278	3,938	¥(3,938)	—
Total	184,545	3,768	188,314	13,719	202,033	(3,938)	198,094
Segment income	16,535	1,227	17,763	472	18,235	(551)	17,683
Segment assets	176,221	33,081	209,303	11,217	220,521	4,015	224,536
Other items							
Depreciation and amortization	5,916	707	6,623	300	6,923	24	6,948
Amortization of goodwill	898	—	898	—	898	—	898
Increase in property, plant and equipment and intangible assets	¥ 6,489	¥1,830	¥ 8,319	¥ 247	¥ 8,566	¥ (309)	¥ 8,257

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 ¥(551) million (U.S.$(4,577) thousand) includes intersegment transaction eliminations of ¥1,740 million (U.S.$14,435 thousand) minus corporate expenses of ¥2,291 million (U.S.$19,011 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 ¥4,015 million (U.S.$33,306 thousand) includes corporate assets of ¥74,417 million (U.S.$617,318 thousand), not allocated to each segment, minus intersegment eliminations of ¥70,402 million (U.S.$584,012 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.

Year ended or at December 31	Millions of yen						
	2013						
	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
	Beauty Care	Real Estate	Subtotal				
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 includes intersegment transaction eliminations of ¥1,940 million minus corporate expenses of ¥2,372 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 ¥2,718 million includes corporate assets of ¥63,460 million, not allocated to each segment, minus intersegment eliminations of ¥60,742 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.

Year ended or at December 31	Thousands of U.S. dollars						
	2014						
	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
	Beauty Care	Real Estate	Subtotal				
Net sales							
Sales to external customers	$1,530,278	$26,371	$1,556,650	$86,607	$1,643,257	—	$1,643,257
Inter-segment sales or transfers	582	4,894	5,475	27,200	32,675	$(32,675)	—
Total	1,530,860	31,265	1,562,125	113,807	1,675,932	(32,675)	1,643,257
Segment income	137,171	10,181	147,352	3,917	151,269	(4,577)	146,693
Segment assets	1,461,814	274,423	1,736,237	93,055	1,829,292	33,306	1,862,598
Other items							
Depreciation and amortization	49,076	5,866	54,942	2,491	57,434	205	57,639
Amortization of goodwill	7,452	—	7,452	—	7,452	—	7,452
Increase in property, plant and equipment and intangible assets	$ 53,831	$15,183	$ 69,014	$ 2,051	$ 71,064	$ (2,569)	$ 68,495

21.4. Related information

21.4.1. Sales information by product and service

Year ended December 31	Millions of yen			
	2014			
	Cosmetics	Fashion	Others	Total
Sales to external customers	¥171,899	¥12,575	¥13,619	¥198,094

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

Year ended December 31	Thousands of U.S. dollars			
	2014			
	Cosmetics	Fashion	Others	Total
Sales to external customers	$1,425,957	$ 104,321	$ 112,979	$1,643,257

21.4.2. Information by geographical area

a. Sales

Years ended December 31	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Japan	¥172,807	¥167,982	$1,433,492
Overseas	25,287	23,373	209,765
Total	¥198,094	¥191,355	$1,643,257

Note: Sales are classified by country or region based on the locations of customers.

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 2014 and 2013.

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 2014 and 2013.

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

Year ended December 31	Millions of yen					
	2014					
	Reportable Segments					
	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥6,150	—	¥6,150	—	—	¥6,150

The amount in "Beauty Care" mainly arises from the impairment losses of goodwill, right of trademark and intangible assets (Other) at a subsidiary in the United States.

Year ended December 31	Millions of yen					
	2013					
	Reportable Segments					
	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.

Year ended December 31	Thousands of U.S. dollars					
	2014					
	Reportable Segments					
	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	$51,021	—	$51,021	—	—	$51,021

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

Year ended or at December 31	Millions of yen					
	2014					
	Reportable Segments					
	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥ 898	—	¥ 898	—	—	¥ 898
Goodwill	¥14,092	—	¥14,092	—	—	¥14,092

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

Year ended or at December 31	Thousands of U.S. dollars					
	2014					
	Reportable Segments					
	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	$ 7,452	—	$ 7,452	—	—	$ 7,452
Goodwill	$116,906	—	$116,906	—	—	$116,906

No gains arising from negative goodwill were recognized in fiscal 2014 and 2013.

Note 22 Per Share Information

For fiscal 2014 and 2013, 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 2014 and 2013 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:

Years ended December 31	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Numerator:			
Net income attributable to common stock	¥10,382	¥ 7,318	$86,128
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	¥187.81	¥132.39	$ 1.56
	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)	57	40	57
[Of which, subscription rights to shares]	(57)	(40)	(57)
	Yen		U.S. dollars
Diluted net income per share	¥187.61	¥132.29	$ 1.56

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

At December 31	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Numerator:			
Total net assets	¥180,793	¥ 173,887	$1,499,737
Amount deducted from total net assets	338	636	2,811
[Of which, subscription rights to shares]	(138)	(90)	(1,151)
[Of which, minority interests]	(200)	(546)	(1,660)
Net assets attributable to common stock	¥180,454	¥ 173,250	$1,496,926
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	¥3,264.13	¥3,133.82	$ 27.08

Note 23 Related Party Transactions

There was no applicable information on related party transactions involving the Company or significant affiliates in fiscal 2014 and 2013 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 ¥47 million (U.S.$397 thousand) arising from stock options are included in selling, general and administrative expenses in fiscal 2014 and ¥50 million in fiscal 2013.

24.2. Details of the stock options

24.2.1 Information on the stock options

	Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
Date of approval	March 28, 2014	March 29, 2013	March 30, 2012
Grantees	7 directors of the Company and 7 directors of subsidiaries	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: 15,670 shares	Common stock: 19,700 shares	Common stock: 29,700 shares
Grant date	April 14, 2014	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	Resignation of the positions as directors in both the Company and the subsidiaries
Service period required	Not specified	Not specified	Not specified
Exercisable period	April 15, 2014 –April 14, 2044	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 2014 (December 31, 2014), is presented below.

a. Number of stock options

	Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
Date of approval	March 28, 2014	March 29, 2013	March 30, 2012
Non-vested	(shares)	(shares)	(shares)
Outstanding as of December 31, 2013	—	19,700	28,850
Granted	15,670	—	—
Forfeited	230	—	—
Vested	720	1,300	4,450
Outstanding as of December 31, 2014	14,720	18,400	24,400
Vested	(shares)	(shares)	(shares)
Outstanding as of December 31, 2013	—	—	—
Vested	720	1,300	4,450
Exercised	—	—	—
Forfeited	—	—	—
Outstanding as of December 31, 2014	720	1,300	4,450

b. Price information

	Subscription rights to shares issued in fiscal 2014		Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2012
Date of approval	March 28, 2014		March 29, 2013	March 30, 2012
	Yen	U.S. dollars	Yen	Yen
Exercise price	¥ 1	$ 0.01	¥ 1	¥ 1
Average stock price at the time of exercise	—	—	—	—
Fair value of stock options on the grant date	¥2,999	$24.88	¥2,564	¥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 2014
Volatility (*1)	26.551%
Estimated remaining period (*2)	15 years
Estimated dividend (*3)	¥55.00 per share
Risk-free rate (*4)	1.035%

(*1) Volatility is calculated using weekly stock prices during the period (3.35 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 2013.
(*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 2014 to be disclosed.

Independent Auditor's Report

EY
Building a better working world

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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, 2014, 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, 2014, 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, 2015
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	A new business announcement by POLA conveys its aim to "Thoroughly commit to customer first," "Focus and deepen the impact of its businesses," and "Reform its 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. POLA CHEMICAL wins the highest award at the 28th IFSCC Congress held in Paris, France.

Corporate Information (As of December 31, 2014)

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	3,944 (for the Group); 76 (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, 2015)

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

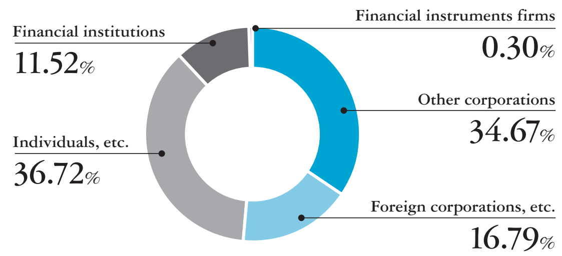
POLA PHARMA INC.
KAYAKU CO., LTD.
P.O. TECHNO SERVICE INC.

Stock Information (As of December 31, 2014)

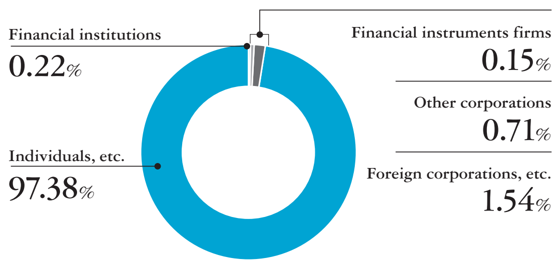
Total number of authorized shares	200,000,000 shares
Total number of issued shares	57,284,039 shares
Number of shareholders	15,622

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	12,720	23.0
Japan Trustee Services Bank, Ltd. (Trust Account)	2,009	3.6
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,752	3.2
Naoko Nakamura	1,192	2.2
Northern Trust Co. (AVFC) Re 15PCT Treaty Account	1,143	2.1
JP MORGAN CHASE BANK 385632	866	1.6
The Bank of New York Mellon SA/NV10	837	1.5
POLA ORBIS HOLDINGS Employees' Stockholding	808	1.5
STATE STREET BANK CLIENT OMNIBUS OM 04	696	1.3

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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