Financial Section

Contents

Management's Discussion and Analysis

Summary of Business Results

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

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

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

Net sales

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

Cost of sales, and selling, general and administrative expenses

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

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

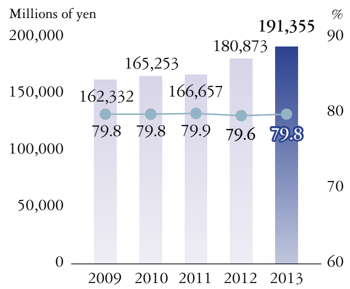
Operating income

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

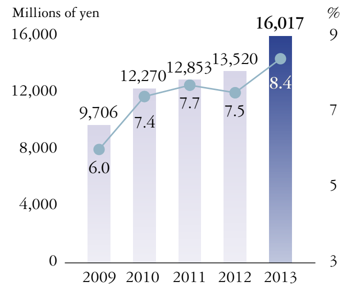
Income before income taxes and minority interests

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

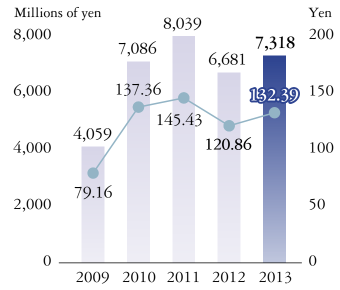
Net Sales and Gross Margin



Operating Income and Operating Margin



Net Income and Net Income per Share



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

Net income

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

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

Business Segment Performance

Beauty Care

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

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

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

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

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

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

Real Estate

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

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

Others

The Others segment comprises the pharmaceuticals and building maintenance businesses.

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

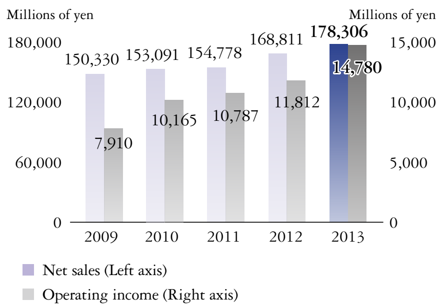
The building maintenance business caters primarily to the needs of Group companies. To attract more orders from outside the Group, the business emphasized marketing activities to sign up new customers for its services. Unfortunately, however, sales slipped below the fiscal 2012 level, due to falling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

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

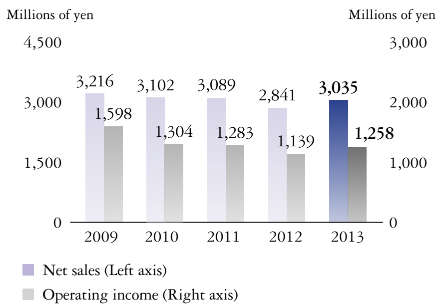
Key Financial Indicators

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

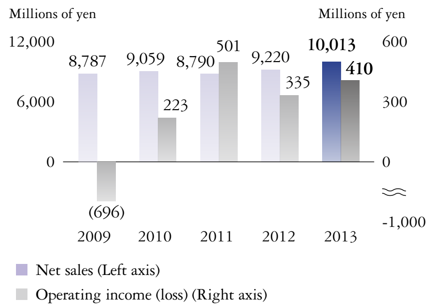
Beauty Care



Real Estate



Others



Analysis of Financial Position

Assets, Liabilities, and Net Assets

Assets

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

Liabilities

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

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

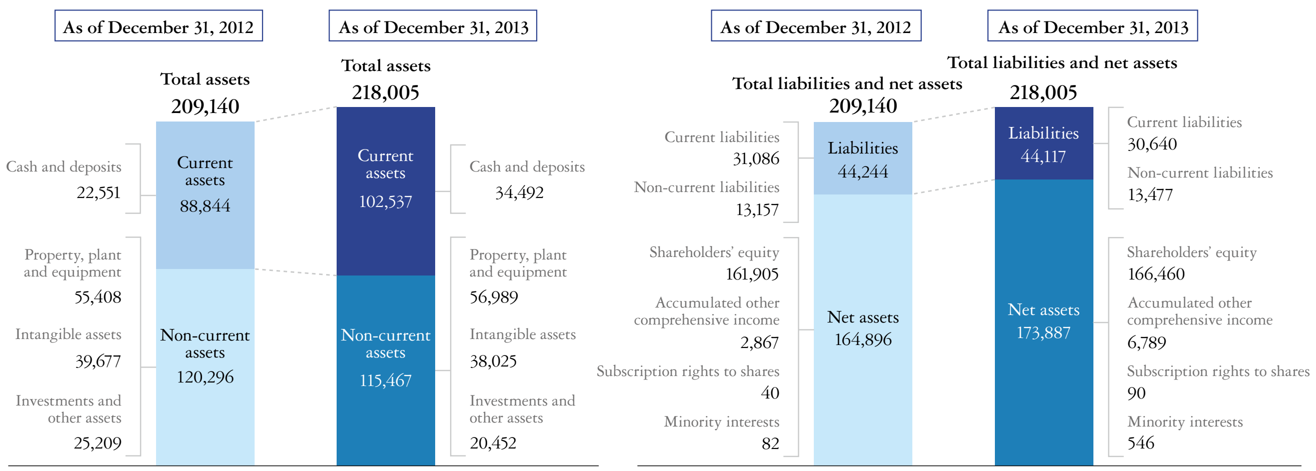
Total non-current liabilities grew 2.4% from a year earlier, to ¥13,477 million.

Net assets

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

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

Overview of Consolidated Balance Sheets (Millions of yen)



Financial Section

Cash Flows

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

Cash flows from operating activities

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

Cash flows from investing activities

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

Cash flows from financing activities

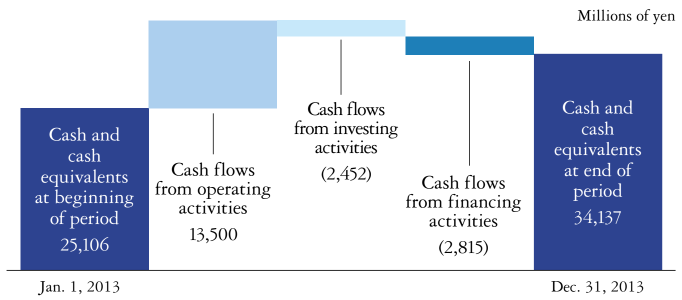
Net cash used in financing activities came to ¥2,815 million, down 14.2% from the previous fiscal year. The primary factor of this decrease was the application of ¥2,750 million in cash dividends paid.

Sources of funds and policy on fund liquidity

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

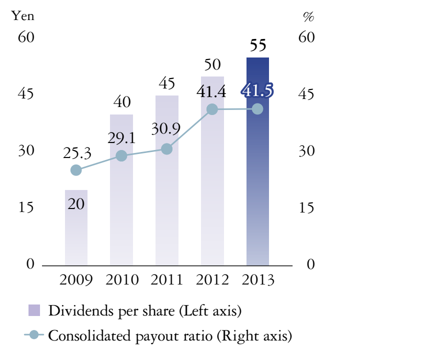
The Company adheres to fund management regulations and standards to ensure appropriate application of operating funds and surplus funds, respectively. The balance of cash and deposits stood at ¥34,492 million as of December 31, 2013, up ¥11,941 million from a year earlier. The change is mainly due to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

Overview of Consolidated Statement of Cash Flows



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

Annual Dividend and Payout Ratio



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

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

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

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

Business Risks

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

1) Damage to brand value

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

2) Competition within the Group

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

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

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

4) Strategic investment activities

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

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

5) Cosmetics market environment

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

6) Research & development

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

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

7) Manufacturing and quality assurance

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

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

8) Overseas business activities

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

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

9) Currency exchange

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

10) Limit of protection for intellectual property rights

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

11) Information security

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

12) Material litigation

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

13) Disasters

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

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

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

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

14) Spread of infectious diseases

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

15) Risks in the pharmaceuticals business

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

Fiscal 2014 Forecast

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

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

Significant Accounting Policies and Assumptions

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

Fiscal 2014 Forecast

(Consolidated)

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

Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

December 31

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

See notes to consolidated financial statements.

December 31

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

See notes to consolidated financial statements.

Consolidated Statements of Income

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

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

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

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

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

See notes to consolidated financial statements.

Financial Section

Consolidated Statements of Changes in Net Assets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

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

See notes to consolidated financial statements.

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

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	2012	2013
Cash flows from operating activities			
Income before income taxes and minority interests	¥13,293	¥14,311	$126,139
Adjustments to reconcile income before income taxes and minority interests to net cash flows from operating activities:			
Depreciation and amortization	6,704	6,466	63,621
Impairment loss	3,057	194	29,012
Amortization of goodwill	1,061	829	10,068
Increase (decrease) in allowance for doubtful accounts	26	15	256
Increase (decrease) in provision for retirement benefits	(487)	(402)	(4,627)
Increase (decrease) in other provisions	304	(413)	2,887
Interest and dividend income	(454)	(510)	(4,313)
Interest expense	94	73	896
Foreign exchange loss (gain)	(1,221)	(660)	(11,592)
Equity in losses of affiliates	16	38	161
Gain on sales of non-current assets	(460)	(2)	(4,368)
Loss on disposal of non-current assets	391	222	3,713
Gain on sales of investment securities	(441)	—	(4,186)
Loss on business liquidation	1,030	—	9,778
Business structure improvement expenses	931	—	8,839
Changes in operating assets and liabilities			
Decrease (increase) in notes and accounts receivable – trade	(1,059)	(1,007)	(10,053)
Decrease (increase) in inventories	(1,166)	571	(11,067)
Increase (decrease) in notes and accounts payable – trade	268	359	2,544
Increase (decrease) in consumption taxes payable	311	(78)	2,954
Decrease (increase) in other assets	(219)	184	(2,081)
Increase (decrease) in other liabilities	892	471	8,471
Other	203	132	1,934
Subtotal	23,078	20,796	218,986
Interest and dividends received	529	565	5,028
Interest paid	(98)	(81)	(933)
Income taxes paid	(9,838)	(3,687)	(93,357)
Other	(171)	—	(1,623)
Net cash provided by operating activities	¥13,500	¥17,592	$128,101

See notes to consolidated financial statements.

Years ended December 31

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

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Note 1 Summary of Significant Accounting Policies

1.1. Basis of presentation

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

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

1.2. Principles of consolidation

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

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

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

Changes in significant subsidiaries in fiscal 2013 compared to fiscal 2012 are as follows:

(Newly included: 3)

In fiscal 2013, C2O Plus Asia Limited, its subsidiary Ningbo Marine Beauty Trading Co., Ltd., and ORBIS ASIA PACIFIC Headquarters PTE. LTD. were newly established and included in the scope of consolidation.

(Excluded: 2)

In fiscal 2013, CSW H2O Holdings Inc. was dissolved and subsequently excluded from the scope of consolidation after its merger with H2O PLUS HOLDINGS INC.

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

1.3. Unification of accounting policies applied to foreign subsidiaries

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

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

1.4. Business combinations

The purchase method of accounting is used to account for acquired businesses. Assets and liabilities of consolidated subsidiaries are evaluated using the full fair value method at the acquisition date. The difference between the cost of purchased businesses and the fair value of their net assets is recorded as goodwill or negative goodwill (i.e. bargain purchase) after the purchased businesses' identifiable assets and liabilities are measured at their fair value at the acquisition date. Goodwill is amortized using the straight-line method over 20 years. Negative goodwill is recognized in profit or loss in the period in which the business combination took place.

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

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

1.6. Inventories

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

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

1.7. Investments in securities

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

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

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

1.8. Property, plant and equipment, excluding leased assets

Property, plant and equipment are stated at cost.

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

The primary useful lives are as follows:

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

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

1.9. Intangible assets, excluding leased assets

Intangible assets are amortized using the straight-line method.

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

1.10. Leases

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

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

1.11. Impairment on non-current assets

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

1.12. Retirement benefits

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

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

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

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

1.13. Allowance for doubtful accounts

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

1.14. Provisions

Provisions for directors' and employees' bonuses

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

Provision for sales returns

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

Provision for point program

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

Provision for business structure improvement expenses

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

Provision for environmental measures

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

1.15. Research and development costs

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

1.16. Income taxes

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

1.17. Per share information

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

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

1.18. Foreign currency translation

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

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

1.19. Amortization method and period of goodwill

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

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

1.20.1. Accounting method for consumption tax and local consumption tax

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

1.20.2. Application of consolidated tax system

The consolidated tax system is applied.

Note 2 Changes in Accounting Policies and Presentation Method

2.1. Changes in accounting policies

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

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

2.2. Accounting standards issued but not yet adopted

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

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

2.3. Changes in presentation method

Consolidated Statements of Income

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

Note 3 U.S. Dollar Amounts

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

Note 4 Cash Flow Information

4.1. Cash and cash equivalents consist of the following:

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

4.2. Cash flows from business combinations

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

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

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

4.3. Significant non-cash transactions

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

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

Note 5 Items Related to Affiliated Companies

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

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

Note 6 Pledged Assets

Assets pledged as collateral for operating transactions are as follows:

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

Note 7 Short-term and Long-term Debt

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

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

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

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

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

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

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

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

Note 8 Contingent Liabilities

Contingent liabilities consist of the following:

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

Note 9 Retirement Benefits

9.1. Provision for retirement benefits consists of the following:

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

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

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

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

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

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

Note 10 Net Assets

Information regarding changes in net assets is summarized as follows:

10.1. Shares issued and outstanding / Treasury stock

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

10.2. Subscription rights to shares

Year ended December 31, 2013

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

Year ended December 31, 2012

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

10.3. Dividends

Dividends paid

Year ended December 31, 2013

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

Year ended December 31, 2012

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

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

Year ended December 31, 2013

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

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

Year ended December 31, 2012

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

Note 11 Research and Development Costs

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

Note 12 Cost of Sales

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

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

Note 13 Selling, General and Administrative Expenses

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

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

Note 14 Other Income (Expenses)

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

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

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

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

14.3. Impairment loss consists of the following:

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

(1) Background of recognizing impairment loss

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

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

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

(2) Grouping method of assets

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

Goodwill and right of trademark are grouped by company unit.

Agency contracts are grouped by agent.

(3) Calculation methods of recoverable value

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

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

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

14.4. Loss on business liquidation:

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

14.5. Business structure improvement expenses:

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

Note 15 Information on Consolidated Statements of Comprehensive Income

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

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

Note 16 Income Taxes

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

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

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

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

Note 17 Leases

(As a lessee)

17.1. Finance leases that do not transfer ownership

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

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

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

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

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

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

	Millions of yen					
	2013			2012		
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	¥132	¥21	¥209	¥159	¥50
Total	¥153	¥132	¥21	¥209	¥159	¥50

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

Future lease payments are as follows:

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

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

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

17.2. Operating lease transactions

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

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

Note 18 Investment and Rental Property

18.1. Overview

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

18.2. Fair value of investment properties

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

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

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

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

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

Increase:

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

In fiscal 2012: Acquisition of office buildings and residential properties for lease: ¥3,355 million
Refurbishment of office buildings for lease: ¥277 million

Decrease:

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

In fiscal 2012: Depreciation on office buildings and residential properties and other properties for lease: ¥438 million

3. Method for calculating fair values

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

Note 19 Financial Instruments

19.1. Overview of financial instruments

19.1.1. Policies on financial instruments

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

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

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

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

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

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

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

19.1.3. Supplementary information on fair value of financial instruments

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

19.2. Fair value of financial instruments

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

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

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

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

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

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

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

Assets

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

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:

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

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

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

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

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

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

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

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

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

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

Note 20 Investments in Securities

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

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

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

Financial Section

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

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

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

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

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

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

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

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

Financial Section

Note 21 Segment Information

21.1. General information about reportable segments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

21.4. Related information

21.4.1. Sales information by product and service

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

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

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

21.4.2. Information by geographical area

a. Sales

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

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

b. Property, plant and equipment

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

21.4.3. Information by customer

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

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

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

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

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

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

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

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

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

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

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

Note 22 Per Share Information

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

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

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

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

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

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

Note 23 Related Party Transactions

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

Note 24 Stock Options

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

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

24.2. Details of the stock options

24.2.1. Information on the stock options

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

24.2.2. Information on and changes to the stock options

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

a. Number of stock options

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

b. Price information

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

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

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

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

(*1) Volatility is calculated using weekly stock prices during the period (2.35 years) from the listing date to the calculation reference date.
(*2) As making a reasonable estimation is difficult due to insufficient data available, the estimated remaining period is measured based on the assumption that the subscription rights to shares would be exercised in the middle of the exercisable period.
(*3) The amount of the estimated dividend is based on the actual dividends in fiscal 2012.
(*4) The risk-free rate is calculated based on the yield of Japanese government bonds corresponding to the estimated remaining period.

24.4. Method used for estimating the exercise of stock options

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

Note 25 Significant Subsequent Events

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

Independent Auditor's Report

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011
Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

Building a better working world

Independent Auditor's Report

The Board of Directors
Pola Orbis Holdings Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

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

Ernst & Young ShinNihon LLC

March 20, 2014
Tokyo, Japan

A member firm of Ernst & Young Global Limited

History

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

Corporate Information (As of December 31, 2013)

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

Major Group companies (As of March 31, 2014)

Beauty Care business

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

Real Estate business

- P.O. REAL ESTATE INC.

Other businesses

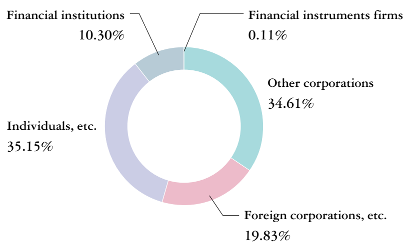
- POLA PHARMA INC.
- KAYAKU CO., LTD.
- P.O. TECHNO SERVICE INC.

Stock Information (As of December 31, 2013)

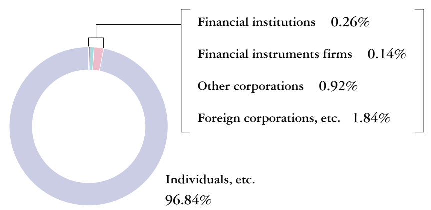
Total number of authorized shares	200,000,000 shares
Total number of issued shares	57,284,039 shares
Number of shareholders	12,088

Composition of shareholders

By number of shares



By number of shareholders



Principal shareholders

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

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

POLA ORBIS HOLDINGS

POLA ORBIS HOLDINGS INC.
POLA GINZA BUILDING 1-7-7 Ginza,
Chuo-ku, TOKYO 104-0061, JAPAN
Tel.: +81-3-3563-5517
www.po-holdings.co.jp/en/

VEGETABLE OIL INK
FSC www.fsc.org MIX Paper from responsible sources FSC™ C002194