POLA ORBIS HOLDINGS

First Half of Fiscal 2016 Supplementary Material

POLA ORBIS HOLDINGS INC.
President
Satoshi Suzuki

1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts for Fiscal 2016
4. Initiatives for Fiscal 2016 Q3 onward
5. Topics and Appendix

Q2 Key Topics

Cosmetic Market

- Japanese cosmetic market kept strong driven by inbound tourists while pure domestic demand is assumed to be flat or slight decline.*
- Overall China market sustained growth. However, Chinese consumer channel kept scattering from department stores in urban areas towards overseas, rural areas, online, and cross-border EC.

*Source: Ministry of Economy, Japan Department Stores Association Trade and Industry, Ministry of Internal Affairs and Communications, Intage SLI.

Our Group

- Both consolidated sales and operating income were up yoy. Drivers were flagship brand POLA and brands under development.
- POLA has been outperforming as product launches in Q2 went successful together with the existing products of whitening and aging-care which have also been sold well supported by inbound demands.
- ORBIS increased the sales yoy whereas average customer purchase price went below the expectation.
- As for overseas brands, Jurlique and H2O PLUS both struggled.
- From brands under development, THREE and decencia continued to outperform since Q1.
- Inbound ratio of consolidated net sales was approximately 7% (FY2015Q2 approximately 4%) ->See p10

(mil. yen)	FY2015 H1 Results	FY2016 H1 Results	YoY Changes		vs. May 2 Forecast	
			Amount	%	Amount	%
Consol. net sales	99,783	106,957	7,173	7.2%	4,957	4.9%
OP income	9,239	12,150	2,910	31.5%	2,650	27.9%
Ordinary income	9,673	11,258	1,584	16.4%	1,758	18.5%
Profit attributable to owners of parent	6,090	8,264	2,174	35.7%	1,064	14.8%

Analysis of Consolidated P&L Changes
Net Sales to Operating Income

(mil. yen)	FY2015 H1 Results	FY2016 H1 Results	YoY Change Amount	YoY Change %
Consolidated net sales	99,783	106,957	7,173	7.2%
Cost of sales	19,140	20,121	980	5.1%
Gross profit	80,643	86,836	6,193	7.7%
SG&A* expenses	71,403	74,685	3,282	4.6%
Operating income	9,239	12,150	2,910	31.5%

*Selling, General and Administrative Expenses

Key Factors

■ Consol. nets sales: Domestic brands increased sales and operating income because of the inbound benefit at POLA and contribution of brands under development.
As for overseas brands, Jurlique struggled in China and Hong Kong and H2O PLUS started sell-in its products under the new branding to retailers.
Overseas sales ratio: 8.1%

■ Cost of sales: Improved at flagship brands and brands under development.
Cost of sales ratio 2015Q2: 19.18% ⇒ 2016Q2: 18.81%

■ SG&A expenses:
Labor expenses: down ¥537 mil. yoy
-> Due to the change of business model of Jurlique China.
Sales commissions: up ¥501 mil. yoy
Sales related expenses: up ¥2,774 mil. yoy
-> Of which ¥1,245 mil is due to classification change in POLA's commission system.
Administrative expenses: up ¥544 mil. yoy

■ Operating income: Beauty care : up ¥3,404 mil. yoy

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Analysis of Consolidated P&L Changes
Operating Income to Profit Attributable to Owners of Parent

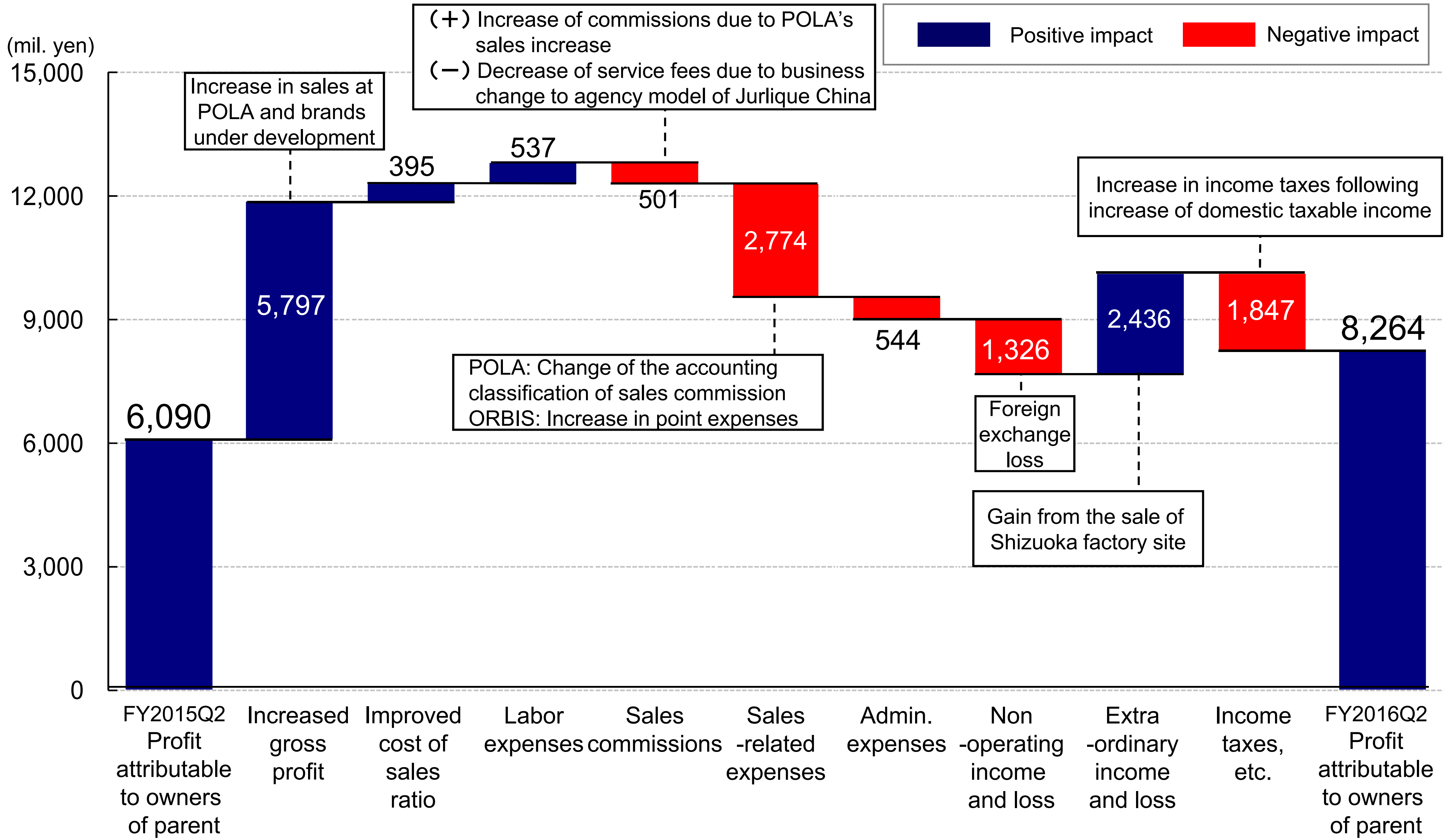
(mil. yen)	FY2015 H1 Results	FY2016 H1 Results	YoY Change Amount	YoY Change %
Operating income	9,239	12,150	2,910	31.5%
Non-operating income	525	229	(296)	(56.3%)
Non-operating expenses	91	1,121	1,029	-
Ordinary income	9,673	11,258	1,584	16.4%
Extraordinary income	545	3,022	2,476	454.1%
Extraordinary loss	119	159	40	33.9%
Profit before income taxes	10,100	14,121	4,021	39.8%
Income taxes	3,994	5,846	1,851	46.4%
Profit (loss) attributable to non-controlling interests	15	10	(4)	(29.9%)
Profit attributable to owners of parent	6,090	8,264	2,174	35.7%

Key Factors

- Non-operating expenses : Loss from unfavorable foreign exchange: ¥1,064 mil.
- Extraordinary income : Gain from sales of the land of former factory site in Shizuoka, as announced on February 15th, 2016 : ¥2,989 mil.
- Income taxes : Increase in income taxes following increase of domestic taxable income: ¥1,826 mil.

Factors Impacting Profit Attributable to Owners of Parent

Profit attributable to owners of parent was up 35.7% yoy. Increases in gross profit and extraordinary income offset non-operating expense from unfavorable currency exchange and increased income tax expenses.



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Segment Results

(mil yen)	FY2015 H1 Results	FY2016 H1 Results	YoY Change Amount	YoY Change %
Consolidated net sales	99,783	106,957	7,173	7.2%
Beauty care	93,133	99,343	6,209	6.7%
Real estate	1,451	1,517	65	4.5%
Others	5,197	6,096	898	17.3%
Operating income	9,239	12,150	2,910	31.5%
Beauty care	8,675	12,080	3,404	39.2%
Real estate	597	797	200	33.5%
Others	72	(335)	(407)	-
Reconciliations	(106)	(392)	(285)	-

Segment Results Summary

- Beauty care: POLA and brands under development contributed to the sales growth. Operating income increased by 39.2% driven by improvements in profitability mainly at POLA.
- Real estate: Maintained high occupancy rate resulted in increased sales and operating income.
- Others: At pharmaceutical business, the launch of Luconac(a medicine against athlete's foot which was launched on April 25th) boosted the sales. On the other hand, a newly-introduced drug incurred initial promotion expenses that resulted in decrease of operating income. At building maintenance business, sales remained flat and operating income increased.

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Beauty Care Business Results by Brands

(mil. yen)	FY2015 H1 Results	FY2016 H1 Results	YoY change Amount	YoY change %
Beauty care net sales	93,133	99,343	6,209	6.7%
POLA	50,110	56,760	6,649	13.3%
ORBIS	27,676	28,215	538	1.9%
Jurlique	7,903	5,914	(1,988)	(25.2%)
H2O PLUS	1,846	1,242	(603)	(32.7%)
Brands under development	5,596	7,210	1,613	28.8%
Beauty care operating income	8,675	12,080	3,404	39.2%
POLA	5,434	8,897	3,463	63.7%
ORBIS	5,425	5,302	(122)	(2.3%)
Jurlique	(1,136)	(1,434)	(297)	-
H2O PLUS	(850)	(1,210)	(359)	-
Brands under development	(196)	524	721	-

Note: Consolidated operating income and loss for each brand are shown for reference purpose only (figures are unaudited)

Brand Analysis (1)

Q2 Result

- POLA recorded significant growth both in sales and profit yoy because inbound ratio was low in 2015Q2 and sales of whitening and aging-care products continued to be strong.
- Growth rate of PB [1] sustained at a high level.
- Overall performance kept going beyond the initial expectation since Q1.

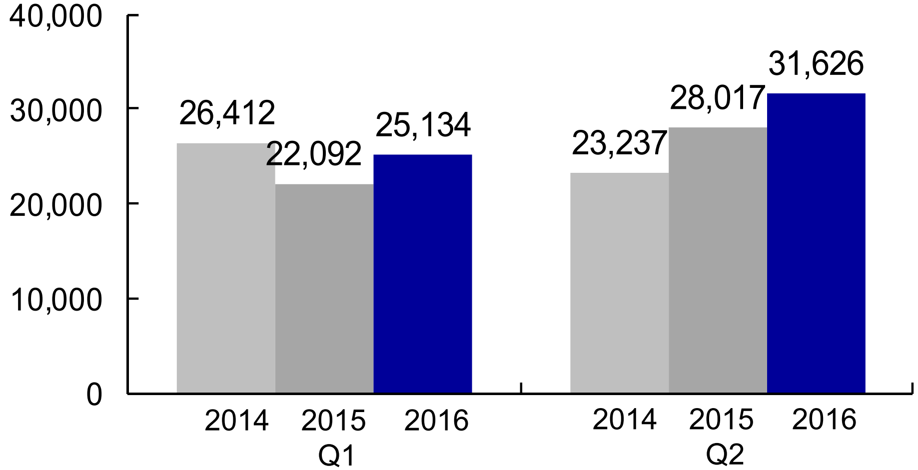
Q2		Results (mil. yen)	YoY change
Net sales		56,760	+13.3%
Operating income		8,897	+63.7%
Key indicators			
Number of sales offices (vs. Dec. 2015)			4,631 (down 139)
Number of PB[1] (vs. Dec. 2015)			630 (±0)
Cosmetic sales ratio	PB[1]		43.4%
	Esthe-inn		41.7%
	D2D[2] and other		14.9%
Sales growth*	PB		up 24.4%
	PB (like-for-like)		up 24.2%
	Esthe-inn		up 12.4%
	D2D		down 9.0%
Purchase per customer*			down 1.4%
Number of new customers*			up 27.6%

(1) PB: POLA THE BEAUTY stores (2) D2D: Conventional door-to-door *YoY

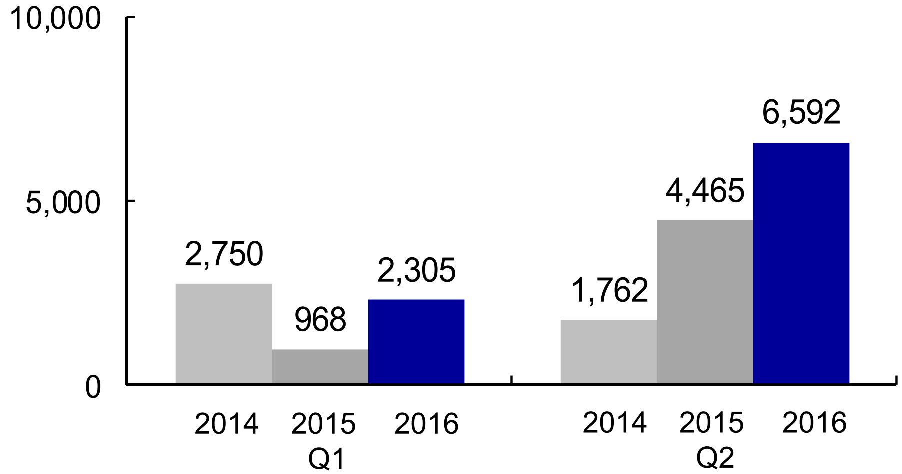
Topics

- Introduced a season-limited special box from Whiteshot series in order to expand the customer base. (May 2nd)

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



POLA

Brand Analysis (1)

Progress of development of professional Beauty Directors

■Forming the organization centralized in professional Beauty Directors (BDs).
- For improvement of "Quality of Sales", development of professional BDs has progressed steadily.
- The number of BD was narrowed down due to the termination of contracts of BDs with no recent sales record. (2015Q2: approx.150,000 BDs → Beginning of July 2016: approximately 50,000 BDs)
- Reduction of the sales commission has progressed as scheduled.

[Structural change with the decreased BDs*]
- Number of registered BDs : - 70% yoy
- Sales efficiency per BD : + 250% yoy
- Total number of sales office: - 2% yoy
- Impact on sales in 2H : - 100~200 mil. yen

*As of beginning of July

Although the number of BDs was largely decreased, the sales impact is limited to minor

Supporting resource from the head office will be rather more concentrated on professional BDs

Forming foundation for changing sales structure and operational efficiency in the next medium term management plan

Updates on inbound sales

■ As of FY2015 Q2: Approximately 7% of POLA's net sales

Inner Lock IX was launched in February and became popular among inbound tourists since April in 2015.

↓

■ As of FY2016 Q2: Approximately 12% of POLA's net sales

Firstly captured by Inner Lock IX (skin whitening beauty food), inbound demands spread out to some of the skincare products such as B.A and other health food.

POLA continues to set limits on excessive volume purchasing that could lead to brand damaging.

↓

■ For the second half of FY2016: Expecting approximately 11% of POLA's net sales (FY 2015 : approx.12%)

WHITE SHOT
Inner Lock IX
(skin whitening beauty food)

Brand Analysis (2)

Q2 Result

- Sales increased due to expansion of the number of customers.
- Operating income dropped by 2% due to a time shift of incurring catalog issuance expenses and weakened efficacy of point expenses.

Q2		Results (mil. yen)	YoY change
Net sales		28,215	+1.9%
Operating income		5,302	down 2.3%
Key indicators			
Sales ratio	Online		45.3%
	Other mail-order		28.7%
	Store and overseas		26.0%
Sales increase*	Online		up 5.1%
	Other mail-order		down 2.0%
	Stores and overseas		up 1.2%
Mail-order(1) purchase per customer*			down 3.0%
Number of mail-order(1) customers*			up 5.4%
Mail-order(1) skincare purchase ratio*			up 0.6%

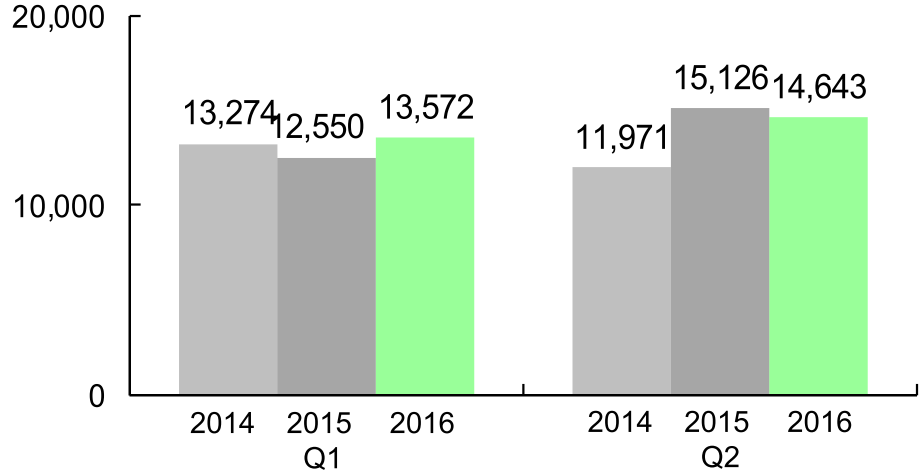
* yoy basis

(1) Mail-order includes online and other mail-order

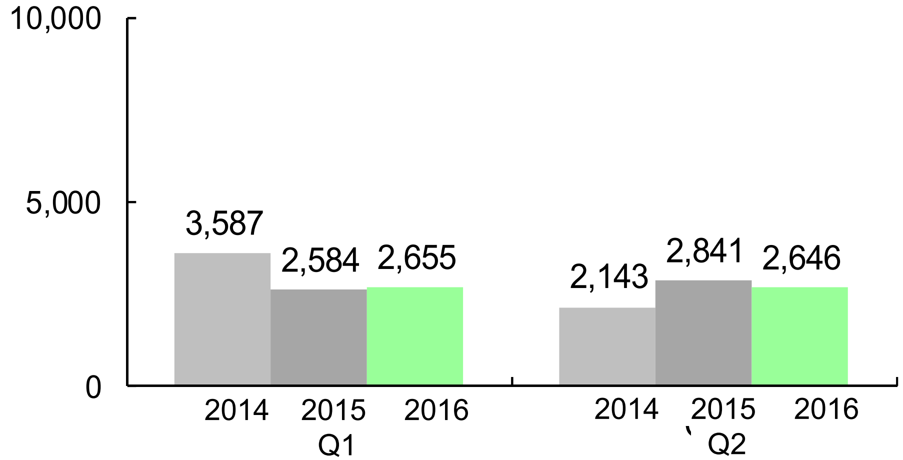
Topics

- Renewed a cleansing liquid which has been a popular item since its initial launch in 1997. (May 23rd)

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Brand Analysis (3)

Q2 Result

- Sales decreased by 14%. (AUD basis)
- In China, sales were down 29% yoy.
  (Changed the business to agency model since March)
- Operating income dropped because of the decrease in sales.

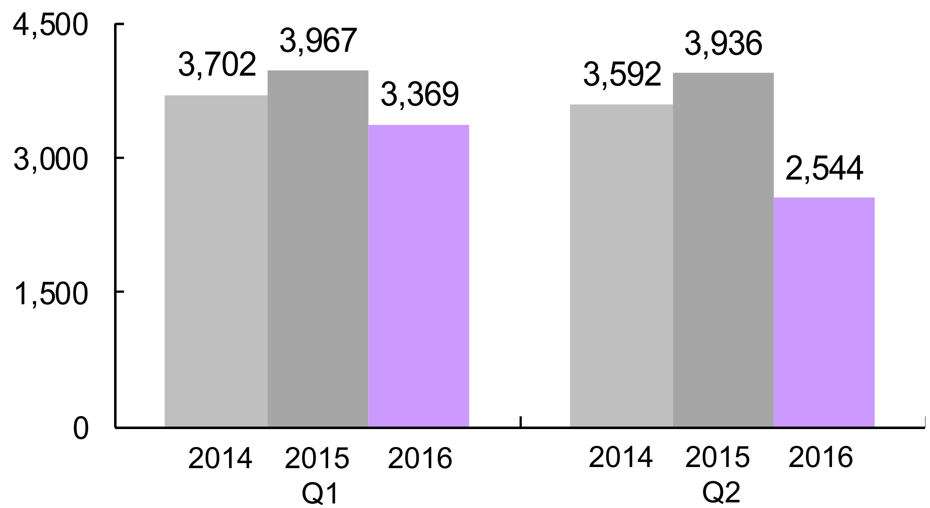
Q2		Results (mil. yen)	YoY change[1]
Net sales		5,914	down 25.2%
Operating income (before goodwill amortization)		(1,090)	down 348
Operating income		(1,434)	down 297
Key indicators			
Number of doors in China (vs. Dec. 2015)			120(up 6)
Sales ratio	China		24%
	Hong Kong		13%
	Duty free stores		17%
	Australia		28%
Sales growth[2]	China		down 29%
	Hong Kong		down 15%
	Duty free stores		down 15%
	Australia		up 2%

(1) For operating income YoY difference is shown in amount (mil. yen).
(2) AUD basis, YoY

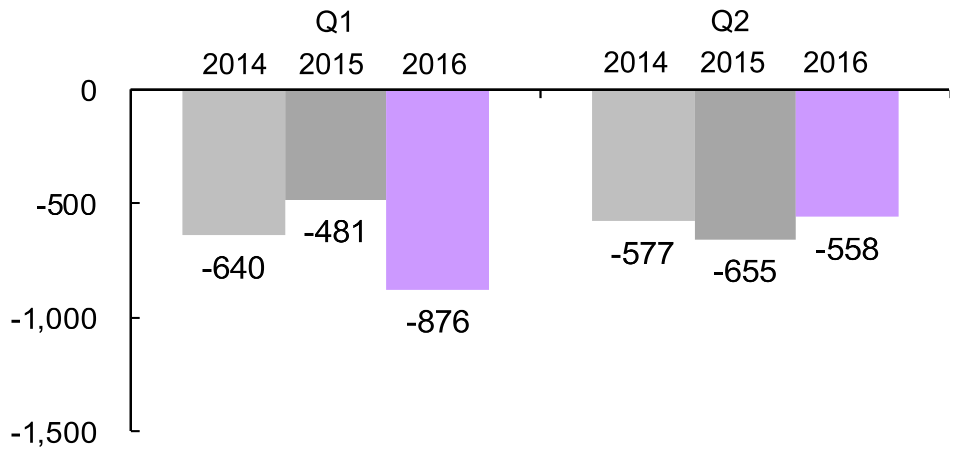
Topics

- Launched Rosewater Balancing Mist Limited Edition (May 12th)

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Brand Analysis (4)

Q2 Result

- In North America, started shipping renewed products to selected channels which is considered to be appropriate for the brand.
- In China, the business has ceased operation in Q2 towards a substantial withdrawal.

Q2		Results (mil. yen)	YoY change[1]
Net sales		1,242	down 32.7%
Operating income		(1,210)	down 359
Key indicators			
Number of doors in China (vs. Dec. 2015)			37 (down 34)
Sales ratio	China		6%
	North America		90%
Sales growth[2]	China		down 80%
	North America		up 3%

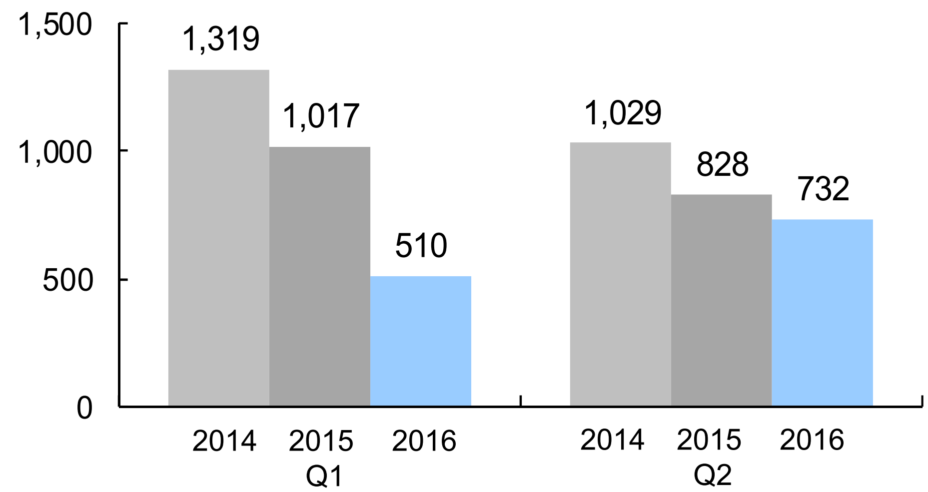
(1) For operating income YoY difference is shown in amount (mil. yen).
(2) USD basis, YoY

OASIS, the main series.

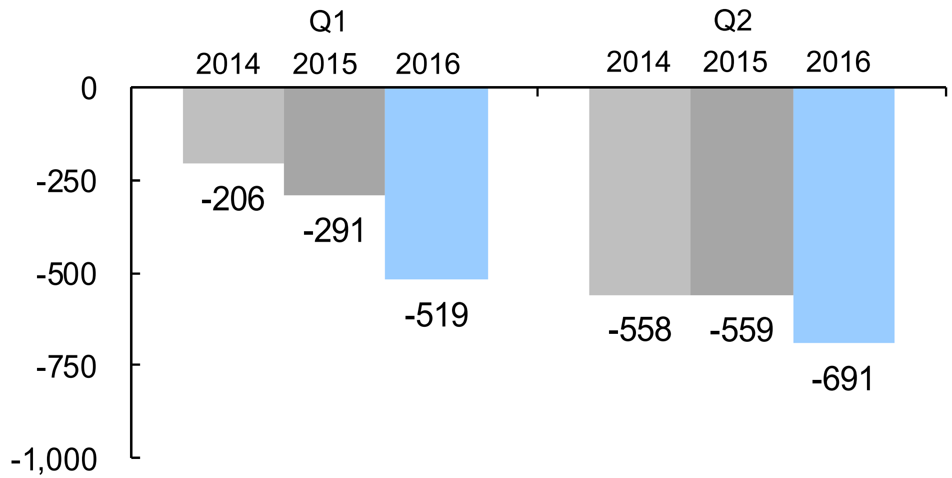
Topics

- Released rebranded new products aiming for brand restaging. (See images at lower left.)

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



Brand Analysis (5) Brands Under Development

Q2 Result

- THREE and decencia were the growth drivers.
- THREE increased its sales by approximately 50% as good performance at both of the existing and new stores.
- decencia increased its sales by approximately 70% as the number of customer has increased steadily.
- The two brands have grown to businesses that can raise double-digit operating margin as of Q2.

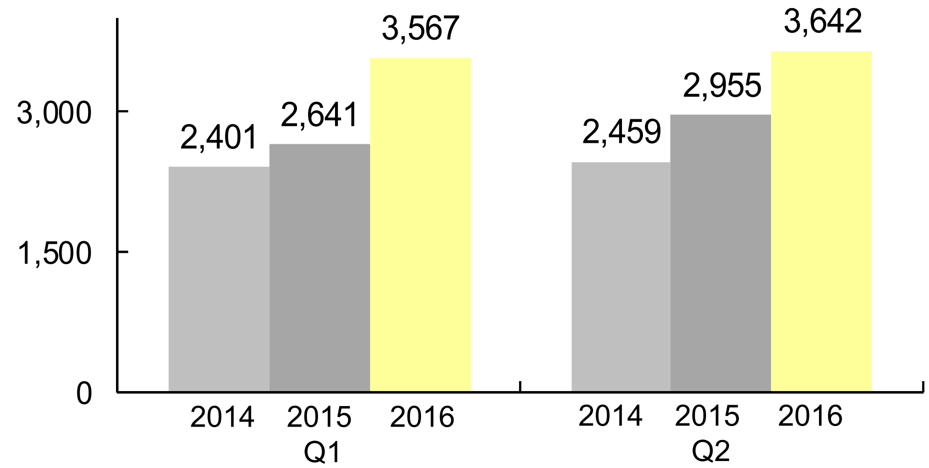
Q2		Results (mil. yen)	YoY change*
Net sales		7,210	up 28.8%
Operating income		524	up 721
Key indicators			
THREE	Dept. store counters in Japan		32
	Other stores in Japan		44
	Overseas stores (Thailand, Taiwan, Indonesia, and Malaysia)		20

*For operating income YoY difference is shown in amount (mil. yen).

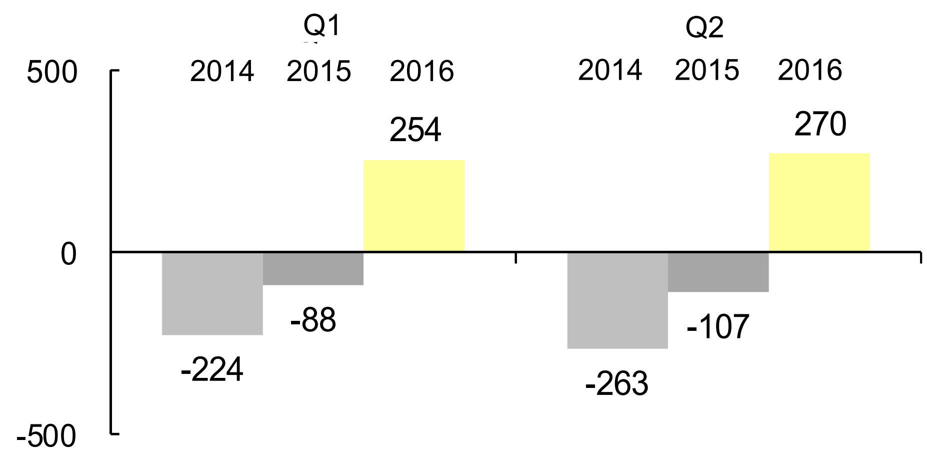
Topics

- THREE won several best cosmetic awards for the first half of 2016.
  (Left) Scalp & Hair Cleansing Oil
  (Right) Cheeky Chic Blush

Quarterly net sales (mil. yen)



Quarterly operating income (mil. yen)



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Forecasts for FY2016 (Revised)

With H2 forecast, upward revisions to consolidated net sales by 4 billion yen and operating income by 1 billion yen.

(mil. yen)	2016 H1 Results	Actual vs. Plan		Revised Full-year Plan As of August 1st (A)	YoY Change		Original Full-year Plan As of May 2nd (B)	Difference (A)−(B)
		Amount	%		Amount	%		
Consol. net sales	106,957	4,957	4.9%	223,000	8,211	3.8%	219,000	4,000
Beauty care	99,343	4,843	5.1%	206,000	5,429	2.7%	202,000	4,000
Real estate	1,517	17	1.2%	2,900	(51)	(1.8%)	2,900	0
Others	6,096	96	1.6%	14,100	2,833	25.2%	14,100	0
OP income	12,150	2,650	27.9%	26,000	3,488	15.5%	25,000	1,000
Beauty care	12,080	2,880	31.3%	24,800	3,509	16.5%	23,800	1,000
Real estate	797	97	14.0%	1,300	34	2.7%	1,300	0
Others	(335)	(235)	–	600	306	104.2%	600	0
Reconciliations	(392)	(92)	–	(700)	(360)	–	(700)	0
Ordinary income	11,258	1,758	18.5%	25,300	2,940	13.2%	25,100	200
Net income attributable to owners of parent	8,264	1,064	14.8%	17,200	3,104	22.0%	17,200	0

【Assumption of the plan】Inbound sales in H2 is approximately 7 billion, a slight decline compared to 2015.
Assumed exchange rates: 1.00 AUD = 82JPY(PY 91.06) 1.00 USD = 112JPY (PY121.04) 1.00 CNY = 17 JPY(PY 19.21)

	FY2015	FY2016 (Plan)
Shareholder returns	Annual ¥150 Consol. payout ratio 58.8%	Annual ¥200 (Interim ¥90, Year-end ¥110) Consol. payout ratio 64.3%
Capital investment Depreciation	¥12,074 million ¥6,528 million	¥8,000 million ¥7,000-8,000 million

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Initiatives from FY2016 Q3 onward

Realizing 2014 - 2016 Medium-term Management Plan

Sustain stable growth of flagship brands to lead Group earnings

POLA

- Launch new products in the second half aiming to boost repeat purchases in domestic market :
  - Add a face cream into WHITE SHOT (whitening) series. (July 1st)
  - Add a serum into the prestige brand B.A series. (August 19th)
- In terms of channel strategy, keep focusing on cultivation of professional Beauty Directors mainly at POLA THE BEAUTY stores.
- As for inbound demand, strengthen measures to stop illegitimate sales that can lead to brand damaging.

White shot　B.A

ORBIS

- Implementing measures to improve purchase price per customer :
  - Promotions that will encourage the number of items per purchase
  - Launch of additional items that appeal to season demand
- Promotion of one-to-one communications :
  - Aiming to increase repeat purchase rate of customers acquired through LINE
  - Taking advantage of the point system, expand approaches in accordance with the purchasing behavior of each customer

A cool feeling all-in-one gel,
Summer Conditioning Jelly

Initiatives from FY2016 Q3 onward

Realizing 2014 - 2016 Medium-term Management Plan

Overseas brands contributing to profitability through high sales growth

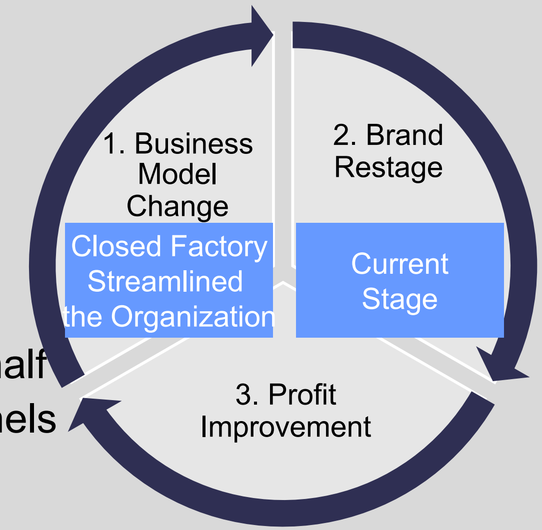
Jurlique

- Introduce a new skincare item in order to recover the struggle mainly due to weak product launches during the fist half. (August 25th)
- Take measures to retrieve existing store performance fueled by new products and limited items aiming for higher existing customers' repeat ratio and repeat frequency.

Jurlique Hydrating Water Essence

H2O+ BEAUTY

- For brand restage :
  - Targeted to the Millennial Generation
  - Revamped the brand concept
  (Articulate aging-care and brightening function)
  - Narrowed down the product lineups
  (With SKU of around 50)
  - Available at stores from 2016 second half
  - Develops at prestige distribution channels
- Introduced a new brand logo



h2o+ → H2O+ BEAUTY

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Initiatives from FY2016 Q3 onward

Realizing 2014 - 2016 Medium-term Management Plan

Sales growth and monetization of brands under development

THREE

- For the autumn/winter season, strengthen products in the main skincare line.
- In Japan, e-commerce started in July. As the first month of the launch, the progress is beyond the plan.
- For overseas market, with a view to expand into mainland China in future, the brand will enter into Hong Kong which will be the fifth foreign country. (September 13th)

THREE Official Online Shop

decencia

- decencia has specialized in the high-sensitive skin market. Going forward, in order to expand customer base, decencia will appeal to sensitive skin market which is expected to grow.
- decencia develops its brand statement as: "Sensitive skin can be beautiful limitlessly”
- Corporate logo is to be revamped. In addition, the main aging care series "ayanasu“ is expecting renewal. (November 1st)

decencia

DECENCIA

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Latest news at Our Group

- **Outline:**

  Pola Chemical Industries received the first approval for manufacturing and sales of a wrinkle-improving quasi-drug in Japan. It is the first-ever quasi-drug that claims for wrinkle-improving function in Japan as there were only quasi-drugs for aging-care but not for winkle-improving in the market.

- **Details of the Development:**

  Elucidated the mechanisms of wrinkle formation and approaches to improve wrinkles after 15 years of research period. The quasi-drug approval was the first time ever since 2009. It is a significant success in the untapped area of “anti-wrinkle".

- **Product Development:**

  “POLA Wrinkle Shot Medical Serum” is scheduled to be released from POLA in early 2017.

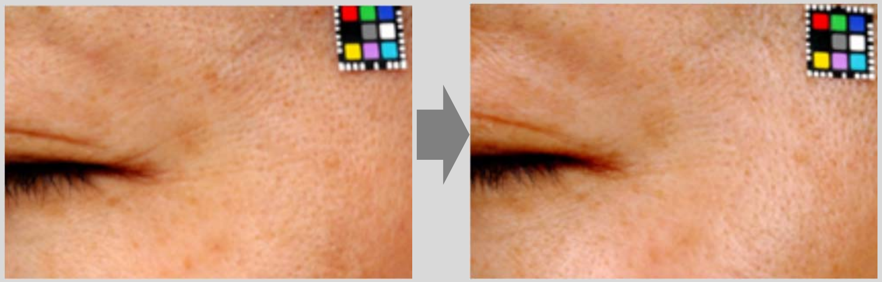
- **Sales Scale:**

  Target is annual sales of 10 billion yen in 2017.

- **Wrinkle Improvement Test:**

  The test was carried out on 68 women with wrinkles at the corner of the eyes.

  Improvement was observed in approximately 70% of the testee.



<Safety Verification>

1) 12-month continuous-use trial in 122 healthy Japanese women.

2) 48-h occlusive patch test after 6 months of continuous use in 102 healthy Japanese women to more carefully evaluate cutaneous allergenic potential.

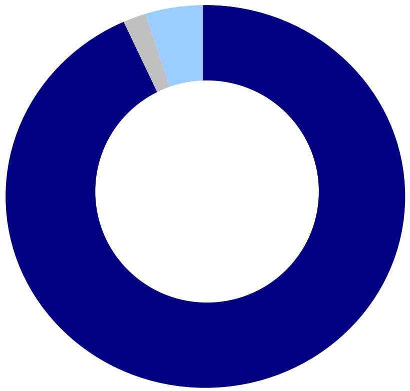
In both tests, continuous use comprised twice-daily application of a moderate amount of the serum to an area with wrinkles. In both tests, no adverse effects were observed and the serum was determined to be safe in all cases. These findings indicate that the serum containing the active ingredient is safe for use as a quasi-drug.

In addition, as the serum contains a novel quasi-drug as the active ingredient, POLA conduct post-marketing surveillance. We will continue to confirm the safety of the serum for consumers directly for at least two years after its release.

Appendix: About POLA ORBIS Group

Beauty care is the core business of the Group, and 9 different cosmetic brands are operated under the Group umbrella.

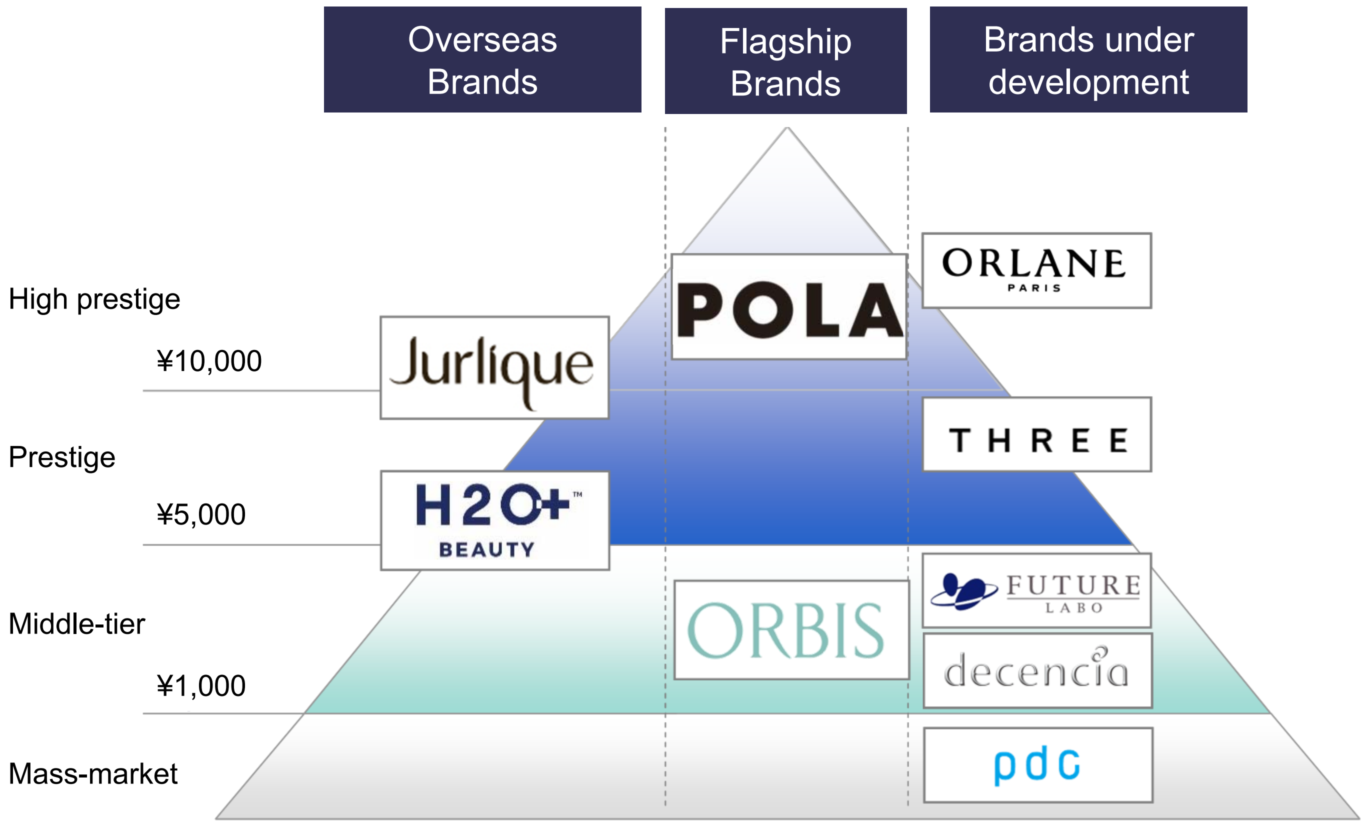
FY2015
Consol. Net Sales
¥214.8 bil.



Beauty care business 93%

Real estate business 2%

Other businesses 5% (dermatological drugs and building maintenance business)



Our strengths

- Multi-brand strategy
- Focus on skincare products
- Flagship brands, POLA and ORBIS own and operate through their own unique sales channels

- Meeting diversified needs of customers
- High customer repeat ratio
- Strong relationships with customers

Beauty Care Business Brand Portfolio

	Sales ratio*	Brand	Concept and products	Price	Sales channel
Flagship brands	55%	POLA Since 1929	■ High-prestige skincare ■ Leading-edge technology in anti-aging and skin-whitening fields	Approx. ¥10,000 or higher	■ Consignment sales through Beauty Directors: POLA THE BEAUTY (PB), Esthe-inn and conventional door-to-door ■ Department store counters
	28%	ORBIS Since 1984	■ Provides original-concept 100% OIL-FREE skincare products	¥1,000~ ¥3,000	■ Online ■ Catalog ■ Retail stores
Overseas brands	9%	Jurlique Acquired in 2012	■ Prestige organic skincare brand from Australia	Approx. ¥5,000 or higher	■ Directly operated counters and stores in department stores ■ Duty free stores
	2%	H2O+ BEAUTY Acquired in 2011	■ Skincare products made with natural, sea-derived ingredients	Approx. ¥4,000 not sold in Japan	■ US: Specialty stores and online
Brands under develop-ment	6%	THREE Since 2009	■ Skincare made with natural ingredients from Japan and fashion-forward make-up	Approx. ¥5,000 or higher	■ department store counters, directly-operated stores, and specialty stores ■ Online
		pdc Since 1992	■ Affordably priced cosmetic products for mass-market	Approx. ¥1,000	■ Drug stores, GMS ■ Variety stores
		FUTURE LABO Acquired in 2006	■ Cosmetic and other products with unique features	¥3,000～ ¥6,000	■ Mainly sold through TV shopping channels
		decencia Since 2007	■ Skincare for dry, sensitive skin	¥2,000～ ¥5,000	■ Online
		ORLANE PARIS JV established in 2007	■ High prestige anti-aging skincare cosmetics from France	Approx. ¥10,000 or higher	■ Department store counters ■ Specialty stores

*Sales ratio in the beauty care business as of FY2015

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Appendix: Beauty Care Business FY2015 Results by Brands

(mil. yen)	FY2014 Results	FY2015 Results	YoY Change Amount	YoY Change %
Consolidated net sales	198,094	214,788	16,693	8.4%
Beauty care net sales	184,475	200,570	16,095	8.7%
POLA	99,571	109,352	9,780	9.8%
ORBIS	52,302	56,354	4,051	7.7%
Jurlique	17,600	18,390	789	4.5%
H2O PLUS	4,876	3,944	(931)	(19.1%)
Brands under development	10,123	12,529	2,405	23.8%
Consol. operating income	17,683	22,511	4,827	27.3%
Beauty care operating income	16,535	21,290	4,754	28.8%
POLA	8,583	12,302	3,719	43.3%
ORBIS	10,792	11,197	404	3.7%
Jurlique	(445)	(379)	66	-
H2O PLUS	(1,435)	(1,814)	(378)	-
Brands under development	(958)	(15)	943	-

Note: Consolidated operating income and loss for each brand are shown for reference purpose only (figures are unaudited)

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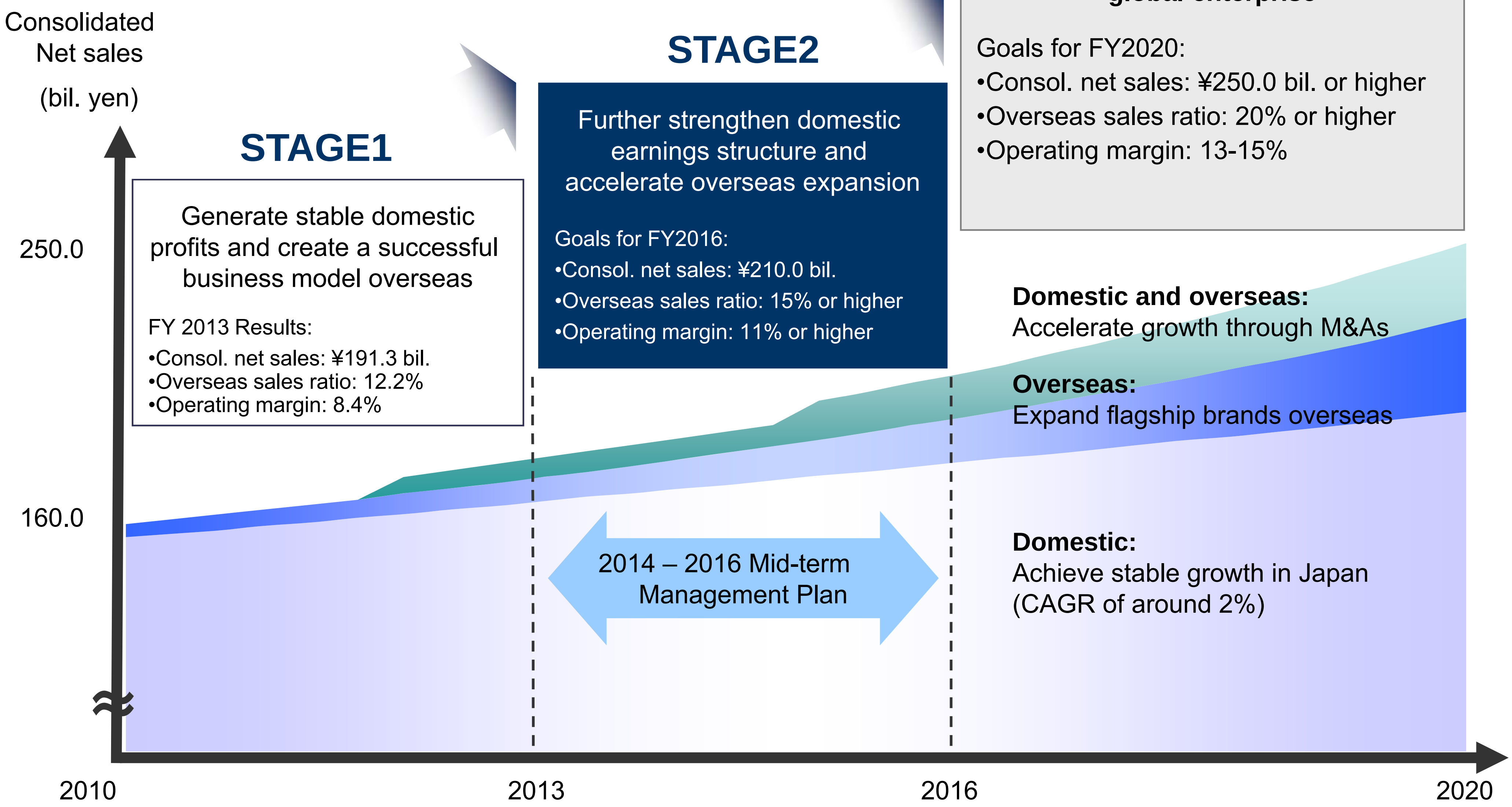
Appendix: Long-term Vision

Corporate Philosophy

“Inspire all people and touch their hearts”



Appendix: 2014–2016 Medium-term Management Plan

The 2nd stage of the long-term vision for 2020
Aim to enhance the enterprise value by further strengthening domestic earnings structure, accelerating overseas expansion, and improving capital efficiency.

Consolidated net sales

- Consol. net sales: CAGR 3 to 4% (¥210.0 bil. in FY2016)
- Overseas sales ratio: 15% or higher in FY2016

Operating income

- Operating income: CAGR15% or higher
- Operating margin: 11% or higher in FY2016

Capital efficiency

- Target for ROE: 8% or higher in FY2016
  New target: 9%

Shareholder return

- Consolidated payout ratio: 50% or higher from FY2014

Japan

- Strategy 1. Sustain stable growth of flagship brands to lead Group earnings
- Strategy 2. Sales growth and monetization of brands under development

Overseas

- Strategy 3. Overseas brands contributing to profitability through high sales growth
- Strategy 4. Restructure overseas expansion of flagship brands

- Strategy 5. Strengthen operations (R&D, production and human resources)
- Strategy 6. Improve capital efficiency and shareholder return