

POLA ORBIS HOLDINGS INC.**Summary of Key Questions and Answers Concerning the Financial Results of FY2016
and the 2017 –2020 Medium-Term Management Plan**

- Q1. Which is the growth driver in the 2% to 3% revenue growth of the POLA brand in the plan until 2020: the number of customers or sales per customer?**
- Both the number of customers and purchase price per customer are expected to increase. An increase in purchase price per customer is feasible considering a rise in the average unit price of POLA brand products purchased in the last 10 years and strong sales in the high-price market of products priced at 10,000 yen or above. The launch of Wrinkle Shot Serum is helping to raise brand recognition, and we are aiming to increase the numbers of both new and existing customers.
- Q2. What are the assumptions for the planned operating income in the beauty care business for the fiscal year ending December 31, 2017 (year-on-year comparison), which was announced in the guidance?**
- An increase of slightly less than 10% for the POLA brand, an increase of approximately 5% for the ORBIS brand, a recovery of 800 million yen for Jurlique (including a decrease in goodwill amortization expenses compared to previous year), and a recovery of 1,200 million yen for H2O PLUS (including the cost for business withdrawal from China in the previous year), an increase of approximately 150 million yen for brands under development (including investment in new brands).
- Q3. How much room for growth does Wrinkle Shot Serum have in 2017, and what level of sales is expected in 2020?**
- There is sufficient potential to reach the annual target of 10 billion yen, and good progress was made in January, the first month following the launch. The result in the first month of sales alone, however, is not sufficient to estimate sales in 2020. The forecasts for 2017 will be updated as necessary based on the situation in the first and second quarters.
- Q4. What is the percentage of Wrinkle Shot Medical Serum sold to foreign customers, and what is the percentage sold to new customers?**
- The percentage of sales to foreign customers in January was approximately 10%. The percentage of sales to new customers was approximately 50% in the department store channel and approximately 12% in the Total Beauty (“TB”) channel (formerly the Door-to-door Sales channel). We will focus more on acquiring new customers from now on.

- Q5. What effect on or extent of cannibalization of other products do you expect as a result of the launch of Wrinkle Shot Serum?**
- It promotes cross-selling in the department store channel and has a ripple effect on the sales of skincare and other products. While some cannibalization of other products occurs in the TB channel due to its high percentage of existing customers, the current situation is in line with expectations. Either aspect can be determined with the one-month result alone.
- Q6. Will the annual sales of Wrinkle Shot Serum be higher in the first half (January to June)?**
- The result in January was more than 20% above the plan, and sales will be higher in the first half of the fiscal year since products usually sell well in the first month of launch. From now on, we will work on marketing to promote repeat purchases by customers who have experienced the benefits of the product, and will also promote other skincare products.
- Q7. What room is there for the future growth of the operating income of major brands and what is the expected ROE in the future?**
- There is room to increase the profit margin by continuing management to keep the growth rate in expenses below the growth rate in net sales and combining it with reductions in COGS. Considering that our criterion for recognizing sales is retail prices, we consider that our profitability level is comparable to that of other cosmetic companies that is based on shipment sales. As for ROE, we will aim for further improvement by reducing the accumulation of net assets as much as possible and increasing EPS by the growth of main business, and set approximately 15% as one future benchmark (ultra long-term).
- Q8. What is the condition of the flagship brands in China, and what is your concept of cross-border e-commerce?**
- The overseas operations of POLA and ORBIS are currently reducing their losses. We hope to move into the black by around 2019. Many of the domestic products demanded by foreign visitors to Japan (particularly beauty food, etc.) cannot be sold in China due to its import regulations. However, we are currently investigating the feasibility of various sales channels including cross-border e-commerce.
- We are basically undertaking research to determine whether cross-border e-commerce can supplement the sales of POLA, which is sold through counseling at prestige department stores, and ORBIS, which is sold primarily on our e-commerce website. We are still at the investigation stage and will ensure full compliance with any restrictions due to changes in regulations, etc.
- Q9. What is your plan for travel retail of POLA and ORBIS?**
- The brand recognition of POLA is growing in Asia thanks to demand for inbound tourism. We are undertaking travel retail at duty-free shops in Japan and investigating feasibility at airport duty-free shops in the Chinese regions. We are hoping for aggressive development.

- Q10. What are the factors contributing to the EPS growth rate, which is higher than the yearly average growth rate of operating income at 10%?**
- Losses in the overseas business are excluded from losses in consolidated taxation, resulting in a high effective tax rate. The effective tax rate will decrease if overseas losses can be reduced, which is expected to improve the EPS more than the increase in operating income.
- Q11. What is your forecast for free cash flow?**
- We are planning to increase investment in the growth of new brands, equipment, and R&D. While free cash flow will increase organically through our normal business operations, it will be used for investment in growth, and a very large increase in free cash flow is not expected.
- Q12. What issues remain when you reflect on 2016? Based on this, what is your image of the years beyond 2020?**
- Issues remain in the overseas business. We consider that a lack of flexibility in the organization and the exhaustion of human resources were some of the issues in 2016. The need for human resources will grow toward 2029, a turning point and the centennial of the company. We aim to operate a business that adapts to customer diversity and focuses on diversity rather than prioritizing the corporate organization. We are aspiring to make our company one with high quality, rich ideas, and energetic employees who identify themselves with the company, and one that will have people say “that company is doing something fascinating.”
- Q13. What can we expect regarding the growth of Jurlique sales?**
- We recognize challenges concerning the products and are planning to launch new products from the second half of this year. We are also developing a CRM system and hope to achieve growth of approximately 10%.
- Q14. Are there any changes in your policy of skincare-focused businesses? Do you plan to expand the businesses to other areas such as makeup products?**
- The percentage of skincare products in our cosmetics sales exceeds 60%, which is high in comparison to the entire market. This is, however, the result of our strategic focus, taking into account the relative strength of the skincare market following the global financial crisis. The management team has been holding discussions since the end of last year regarding the fact that it is about time to critically view and rethink this in a good sense. We plan to gradually expand the business in the so-called lifestyle market.
- Q15. What kind of mass-market strategy do you plan to take for the new brands?**
- We consider the mass market is a highly challenging market for us, and the possibility of a brand creation for mass market is low under the current consideration for new brands.

Q16. What do you think about recognizing impairment losses incurred in the past?

→ The progress of the M&A has not exactly been as we had planned, and we recognize a number of improvements that must be made as business issues. M&A, however, will not be excluded from our key strategies. While we seek good opportunities, we will first re-examine what to do during the M&A process from information gathering to due diligence and post-merger integration (PMI) based on our experience and learning in the past.

Q17. Is it correct to understand that your M&A strategy is targeting overseas companies and the new brand strategy is targeting domestic brands?

→ Our M&As aim to achieve the development of the overseas market and basically target overseas brands. The new brand strategy, on the other hand, assumes that products originate from Japan, and we hope to create brands, such as THREE, with concepts and products that are differentiated and allow overseas expansion. This is also part of the examination criteria in the in-house venture project. We are not planning any M&A in Japan at this point.

Q18. What is the status of ORBIS? The 2016 results are somewhat sluggish. Is this a result of business confidence? Is 5% growth in operating income possible this year?

→ The ORBIS brand struggled last year, and there were both external and internal factors for this. A renewal of the flagship series AQUA FORCE was implemented this year. We will define the selling points of ORBIS based on this product line, aggressively launch new products, and increase contact with customers through all kinds of marketing strategies to return the brand to the trend of revenue growth and aim for 5% income growth.

[Attention]

This document contains our summary (in random order) of the questions and answers regarding Pola Orbis Holdings, Inc. Financial Results of FY 2016 and the 2017 –2020 Medium-Term Management Plan in view of fair disclosure while taking responsibility for the summarization. It does not guarantee the accuracy and completeness of the information provided, and such information is subject to change without notice. The statements about the future, including financial projections, included in this material are based on information currently available to us and certain assumptions that are considered reasonable, which do not guarantee the achievement of the projected results. The actual financial results may vary from such forecasts depending on the economic situation and various other uncertain factors.