

POLA ORBIS HOLDINGS INC.**Summary of Key Questions and Answers Concerning the Financial Results of FY2017**

Q1. [Wrinkle Shot Serum] Are you seeing effects such as brand/product switching as a result of launches of competitive products?

→ We are not seeing such effects in particular. We believe that the product is highly valued by customers, given that the product has received a number of awards as a result of external reviews. We hope that the anti-wrinkle market will become established and will become a trending topic within the cosmetics industry to enliven the overall market.

Q2. [Wrinkle Shot Serum] After the two-year domestic sales period, do you plan to change the means of marketing and channel expansion?

→ At this point we have not yet decided on any specific plans; in the future, however, we would like to explore the possibilities of overseas expansion and more variety in the dosage forms of the product series.

For countries in Asia, except China where regulations are strict, we would like start selling the product after 2019 when the domestic sales period ends. Although the ingredients are difficult to formulate, we would like to aim for new dosage forms.

Q3. [Wrinkle Shot Serum] A price revision has been implemented for Wrinkle Shot Serum from January this year. Do you think that it is possible for the POLA brand to maintain the gross profit margin if B.A and other products sell well?

→ Yes. Because Wrinkle Shot Serum has a high cross-selling ratio, we would like to maintain the gross profit margin or increase it even further.

Q4. [Wrinkle Shot Serum] How do you plan to promote Wrinkle Shot Serum and the B.A series in the future?

→ It is a fact that the presence of the POLA brand has become stronger since the brand launched Wrinkle Shot Serum in 2017. This trend still continues in January 2018 thanks to promotions.

In addition, the limited Wrinkle Shot Serum Anniversary Kit (Wrinkle Shot Serum with mini B.A lotion and serum) is almost sold out. We intend to enable customers to experience not only the Wrinkle Shot Serum but also the POLA brand overall and enjoy its effectiveness in order to promote customers' continued use of the POLA brand.

Q5. [POLA brand] Do you anticipate a risk of a reduction in the brand value as a result of the launch of Touch & Talk stores that place emphasis on product sales in order to pursue customer touchpoints?

→ We have now opened nearly 700 POLA THE BEAUTY (“PB”) stores, and we believe that it has reached the level we initially aimed for in terms of both the number of store openings and the quality. In addition, there are more and more customers who come to stores just to purchase certain products that they want due to the success of Wrinkle Shot.

With Touch & Talk as a new format of POLA stores, we would like to respond to the needs of the customers whom we were unable to reach by means of the PB stores. As we aim to open 40 to 50 stores in the future, we will carefully consider the locations and service quality so as not to diminish the brand value. In addition, we would like to enhance the brand image by offering stores that change the contents provided over time; in other words, stores where people can stop by as they wish and enjoy seasonal or limited-time promotions and various information.

Q6. [POLA brand] In what specific locations do you plan to open Touch & Talk stores?

→ We are looking at locations such as station terminals and malls, mainly in urban areas. For instance, the brand has already opened two stores in Minatomirai, Yokohama and Nagahori, Osaka. We would like to open Touch & Talk stores in locations like these where the stores can expect good customer traffic.

Q7. [POLA brand] POLA’s inbound sales in the fourth quarter of 2017 were less than in the third quarter. Did the incident of an inappropriate poster at a POLA store have an impact?

→ It is a fact that inbound sales in the fourth quarter were ¥600 million less than in the third quarter. However, we do not consider that the decrease in the inbound amount was due to the incident. Rather, we assume that the announcement made on December 1 regarding the price revision of Wrinkle Shot Serum may have had some impact on the postponement of purchases during December.

Q8. [POLA brand] The overseas business became profitable in 2017. How was the performance of the overseas business in 2017? What is the plan for business expansion overall and e-commerce?

→ In FY2017, the overseas sales ratio was slightly less than 3% for the POLA brand (which is double the amount compared to FY2016), and the OP margin was around 10% in POLA’s overseas business. The drivers were department store counters, e-commerce, and cross-border e-commerce in China.

Going forward, POLA plans to triple the number of stores overseas from 30 to 90 stores and expand the business accordingly.

The e-commerce ratio among POLA’s overseas business is less than 10% in 2017, however the brand will increase the ratio in the future.

Q9. [POLA brand] What is the reason behind the improvement of the China business compared with the past?

Why has the brand set China as a priority market going forward?

→ In the past, the brand was utilizing a sales method that was inappropriate for the brand. We believe that the recovery was achieved because the brand terminated this inappropriate sales method and focused on marketing in the same way as in department stores in Japan in order to enhance the brand value. The China business got back on the right track due to initiatives that place emphasis on consultation and repeat purchases with the brand image of the B.A series as well as the favorable tailwind from inbound customers who visited Japan.

Against these backdrops, the brand finds opportunity in China and aims to increase the number of stores. At the same time, however, we understand that the department store channel cannot expect significant growth in the future from a macro perspective, and the brand needs to strengthen other channels such as prestige shopping malls and e-commerce.

Q10. [POLA brand] Why is V resonatic cream not categorized as medicated (i.e. quasi-drug) cosmetics, although the product has appeal for skin sagging and resilience?

→ It is not necessary for all new products to be medicated cosmetics. V resonatic cream was developed and launched based on the concept “have a good effect on others while brightening myself up” with a view to offering new value for beauty in cosmetics.

In relation to medicated cosmetics, the Group recently obtained approval for “food for specified health use” (under the Health Promotion Act in Japan) with the claim of “suitable for people who care about skin dryness” last year. Going forward, we aim to provide new value that will offer solutions to customers’ worries and concerns. The Group’s new R&D system was reformed in order to achieve these purposes.

Q11. [POLA brand] Is there a new pipeline in the field other than wrinkle improvement? What is the development situation of new areas in cosmetics?

→ As a basic idea, the Group plans to strengthen research in the fields of aging-care and whitening. We cannot disclose specific information about our pipelines, however our approach is to research and develop materials based on scientific evidence in order to respond to latent needs. In addition, we would like to strengthen measures to promote R&D, such as the participation to MIT Media Lab as a Consortium and researchers’ overseas dispatch program.

Q12. [ORBIS brand] The brand was unable to achieve a recovery in the fourth quarter, and the guidance for FY2018 is still at the same level as in FY2017. What is the recovery scenario for the brand?

→ In the fourth quarter of 2017, ORBIS implemented advertising aimed at customer acquisition, but this was not intended as a temporary sales hike. The brand stopped short-run bonus point campaigns and now focuses on marketing for skincare products in order to encourage repeat customers and increase the lifetime value of customers. In addition, in order to realize fundamental brand superiority, reforms on the product side are essential. The brand plans to move into the recovery phase in autumn 2018; however, as a full-year guidance, the brand expects its performance to be flat year on year because it needs to spend some money in order to get back on the right track. It will take some time for the brand to achieve a full-fledged recovery, as the top management of the brand has changed and the company is right in the middle of changing its environment. The management team is currently holding discussions on the reform of the brand.

Q13. [Consolidated outlook] What achieves the improvement in the “others” segment? Why will the amount of reconciliations (intersegment elimination) decrease?

→ We expect a recovery in the “others” segment in 2018 due to trimming the one-time expense incurred in the pharmaceuticals business in 2017. However, further improvements are not factored into the plan at this time. Regarding the decreases (negative increase) in reconciliations, they are mainly due to the increase in expenses at the holding company due to the establishment of the new R&D department.

Q14. [Others] Are you considering responding to demand for make-up products against the backdrop of the expansion of the make-up market? Is there still the possibility of M&A?

→ Color makeup items will be launched from the B.A series by the POLA brand, and the brand plans to further reinforce makeup products. In addition, from ACRO Inc., which operates the THREE brand, a new makeup brand is scheduled to be launched, and we want to make this brand cutting-edge in the market. Although M&A remains one of our key strategies, we recognize that we need to consider them carefully because valuations are very high in the latest cases.

[Attention]

This document contains our summary (in random order, edited for disclosure format) of the questions and answers regarding the Financial Results of FY2017 for Pola Orbis Holdings, Inc. 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. 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.