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Announcement Regarding Recording of Extraordinary Loss and Revision of Full-Year Forecast

The POLA ORBIS Group hereby announces that POLA ORBIS HOLDINGS INC. (the "Company") will record an extraordinary loss as outlined below in its consolidated financial results for the fourth quarter of fiscal 2013, and with the recording of this extraordinary loss, has revised its full-year consolidated performance forecast announced on October 30, 2013.

1. Recording of extraordinary loss

(1) Details of extraordinary loss

An impairment loss on intangible assets (goodwill, right of trademark) related to the Company's consolidated subsidiary H2O PLUS HOLDINGS, INC. (head office: Illinois, USA; "H2O PLUS") in the amount of ¥2,862 million was recorded in the fourth quarter of fiscal 2013.

(2) Reason for extraordinary loss

H2O PLUS, a manufacturer and seller of sea-derived skincare and body care products, was acquired and became part of the POLA ORBIS Group in 2011. H2O PLUS currently operates in more than 20 countries around the world, primarily in North America and Asia, and in Russia, through directly operated stores and via agents at department stores and specialty cosmetics stores, as well as through other channels.

Since joining the POLA ORBIS Group, H2O PLUS has worked to reinforce its business base by pursuing synergies through initiatives including joint development of new products with POLA CHEMICAL INDUSTRIES and rebranding to enhance its brand recognition, while at the same time, proactively expanding its overseas business with a focus on China and other Asian countries, and Russia.

Taking a long-term view toward cultivating the brand in China, H2O PLUS changed its local agent in February 2012. With this move, however, shipments stalled as the previous agent's inventories were liquidated, and expenses increased as rebranding expenses were greater than expected and competition in the cosmetics market intensified. As a result, the business performance at H2O PLUS for the past two years has fallen short of the level initially anticipated at the time of the acquisition.

Therefore, in the course of formulating the new 2014–2016 Medium-Term Management Plan, the POLA ORBIS Group reviewed the medium- to long-term business plan and future cash flow projections for H2O PLUS. Based on this review, the Group carried out an impairment test, which resulted in the decision to record the impairment loss.

(3) Measures going forward

In China, the situation involving the stalled shipments has improved and the increase in rebranding expenses noted above has stabilized. Going forward, H2O PLUS will work through the joint-venture company established with the new agent to appropriately manage inventories and efficiently invest in promotional activities based on store information, while at the same time, ensuring thorough brand management and expediting the introduction of new products to increase sales per store. H2O PLUS will also work to enhance its business performance by reinforcing its earnings structure in the United States and accelerating the development of agent network in Russia and other countries around the world.

2. Revision to the forecast of consolidated performance for fiscal 2013 (January 1, 2013–December 31, 2013)

Millions of yen (except per share data and percent)

	Net sales	Operating income	Ordinary income	Net income	Net income per share
Previous forecast (A)	188,500	16,000	16,300	8,200	148.32
Revised forecast (B)	191,300	16,000	17,800	7,300	132.05
Amount changes (B – A)	2,800	—	1,500	–900	
Percent changes (%)	1.5	—	9.2	–11.0	
Actual result for fiscal 2012	180,873	13,520	14,604	6,681	120.86

Reason for revision

The Company has raised its previous forecast for consolidated net sales to reflect the impact of the yen's depreciation.
The forecast for ordinary income has been raised to reflect an increase in non-operating income from larger foreign exchange gains resulting from the yen's depreciation. Nevertheless, with the recording of the impairment loss as an extraordinary loss noted in Section 1 above, the previously announced forecast for net income has been reduced by ¥900 million.

3. Dividends forecast

The cash dividends forecast for fiscal 2013, is unchanged. The Company plans to pay a year-end dividend per share of ¥30 (which combined with the ¥25 per share interim dividend will result in a full-year dividend of ¥55 per share).

Note: Forecasts are based on information available as of the publication of this news release. Actual performance may differ from these forecasts, owing to changes in various factors.