

## Summary of Financial Results

For the First Half of the Fiscal Year Ending December 31, 2014 (Consolidated)

These financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan. The following English translation is based on the original Japanese-language document.

July 30, 2014

### **POLA ORBIS HOLDINGS INC.**

Listing: Tokyo Stock Exchange, First Section (Code No.: 4927)  
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 Filing Date of Quarterly Securities Report: August 11, 2014  
 Start of Cash Dividend Payment: September 12, 2014  
 Supplemental Materials Prepared for Quarterly Financial Results: Yes  
 Conference Presentation for Quarterly Financial Results: Yes (for analysts)

(Amounts less than one million yen have been truncated)

### **1. Consolidated Performance for the First Half of Fiscal 2014 (January 1, 2014–June 30, 2014)**

#### **(1) Consolidated Operating Results**

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2014 First Half	95,940	4.9	8,331	32.1	8,043	9.7	3,700	8.8
FY2013 First Half	91,415	5.8	6,305	11.6	7,335	22.1	3,402	22.2

Note: Comprehensive income: ¥4,055 million (-26.3%) for the First Half of FY2014;  
 ¥5,503 million (113.0%) for the First Half of FY2013

	Net Income Per Share	Diluted Net Income Per Share
	Yen	Yen
FY2014 First Half	66.94	66.88
FY2013 First Half	61.55	61.51

#### **(2) Consolidated Financial Position**

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	Millions of yen	Millions of yen	%	Yen
FY2014 Second Quarter	221,485	176,281	79.4	3,180.00
FY2013	218,005	173,887	79.5	3,133.82

Reference: Equity capital: FY2014 Second Quarter: ¥175,803 million; FY2013: ¥173,250 million

### **2. Dividends**

	Annual Cash Dividends Per Share				
	Q1-end	Q2-end	Q3-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2013	—	25.00	—	30.00	55.00
FY2014	—	40.00	—	—	—
FY2014 (Forecast)	—	—	—	47.00	87.00

Note: Revisions to the cash dividends forecast announced most recently: None

### **3. Consolidated Performance Forecast for the Fiscal Year Ending December 31, 2014**

(January 1, 2014–December 31, 2014)

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income Per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
FY2014	198,000	3.5	17,650	10.2	17,900	0.4	8,800	20.2	159.18

Note: Revisions to the consolidated performance forecast announced most recently: None

**Notes to Summary Information**

- (1) Changes in significant subsidiaries during the current period  
(Changes in specific subsidiaries resulting in changes in the scope of consolidation) : None
- (2) Application of special accounting methods for the preparation of the quarterly consolidated financial statements : None
- (3) Changes in accounting policies, accounting estimates, and restatement
- |  |        |
|--|--------|
| 1) Changes in accounting policies associated with revision of accounting standards | : None |
| 2) Changes other than (3)-1)   | : None |
| 3) Changes in accounting estimates   | : None |
| 4) Restatements  | : None |
- (4) Number of shares issued and outstanding (common stock)
- |   |                   |
|---|-------------------|
| 1) Number of shares issued and outstanding at the end of each period (including treasury stock) |                   |
| At June 30, 2014  | 57,284,039 shares |
| At December 31, 2013  | 57,284,039 shares |
| 2) Number of shares of treasury stock at the end of each period                                 |                   |
| At June 30, 2014  | 2,000,000 shares  |
| At December 31, 2013  | 2,000,000 shares  |
| 3) Average number of shares issued and outstanding in each period                               |                   |
| Six months ended June 30, 2014  | 55,284,039 shares |
| Six months ended June 30, 2013  | 55,284,039 shares |

**Information Regarding Quarterly Review Procedures**

This quarterly financial report is not included in the scope of the quarterly review procedures pursuant to the Financial Instruments and Exchange Act (the "Act"). At the time of disclosure of this report, review procedures for the quarterly financial statements pursuant to the Act, have not been completed.

**Explanation of Appropriate Use of Performance Forecast and Other Special Items**

This report contains projections of performance and other projections based on information currently available and certain assumptions judged to be reasonable. Actual performance may differ materially from these projections resulting from changes in the economic environment and other risks and uncertainties. For performance projections, please refer to "1. Qualitative Information on Consolidated Performance for the First Half of Fiscal 2014 (3) Explanation of Consolidated Performance Forecast and Other Predictive Information" on page 5.

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## 1. Qualitative Information on Consolidated Performance for the First Half of Fiscal 2014

### (1) Explanation of Consolidated Operating Results

During the first half of fiscal 2014 (January 1–June 30, 2014), the Japanese economy recovered modestly, amid government economic measures and monetary policies that improved the employment and income climates, while improvement was also seen in some areas of personal consumption which had weakened in a recoil against the surge in demand ahead of the consumption tax hike. Despite uncertain prospects because of downside risks from an economic slump overseas and other factors, the Japanese economy looks set to continue recovering owing to the impacts of government policies.

The domestic cosmetics market improved overall as a result of the momentum of a recovery in the Japanese economy. The overseas cosmetics market continued to expand steadily despite economic slowdowns in China and elsewhere in Asia.

It was within this market environment that the POLA ORBIS Group (the “Group”) endeavored to strengthen its domestic earnings structure, accelerate overseas development, and increase corporate value by improving capital efficiency in keeping with a three-year medium-term management plan started in the current fiscal year.

As a result of these factors, the Group achieved the following consolidated operating results for the first half of fiscal 2014.

Consolidated net sales for the first half of fiscal 2014 increased 4.9%, year on year to ¥95,940 million. This reflected the impacts of new product launches for flagship brands, and a demand surge for domestic brands ahead of a hike in the consumption tax. Operating income rose 32.1% year on year to ¥8,331 million, as the above sales gain drove gross profit higher. With the yen rising from the end of the previous fiscal year and leading to foreign exchange losses, ordinary income advanced 9.7% year on year to ¥8,043 million. Net income increased 8.8% year on year to ¥3,700 million.

<u>Operating Results Overview</u>		(Millions of yen)		
		Six Months Ended June 30		
	2013	2014	Year-on-Year	
			Amount Change	Percent Change (%)
Net Sales	¥91,415	<b>¥95,940</b>	¥4,524	4.9
Operating Income	6,305	<b>8,331</b>	2,026	32.1
Ordinary Income	7,335	<b>8,043</b>	708	9.7
Net Income	¥ 3,402	<b>¥ 3,700</b>	¥ 298	8.8

Operating Results by Segment

Net Sales (Segment Sales to External Customers)		(Millions of yen)		
Six Months Ended June 30				
	2013	2014	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥85,336	<b>¥89,400</b>	¥4,064	4.8
Real Estate	1,493	<b>1,571</b>	77	5.2
Others	4,586	<b>4,968</b>	381	8.3
Total	¥91,415	<b>¥95,940</b>	¥4,524	4.9

  

Segment Income (Operating Income)		(Millions of yen)		
Six Months Ended June 30				
	2013	2014	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥5,703	<b>¥7,772</b>	¥2,068	36.3
Real Estate	645	<b>665</b>	19	3.1
Others	98	<b>191</b>	93	95.0
Reconciliations of Segment Income (Note)	(142)	<b>(298)</b>	(156)	—
Total	¥6,305	<b>¥8,331</b>	¥2,026	32.1

Note: Reconciliations of segment income refer to elimination of profits arising from inter-company transactions and expenses not allocated to reportable segments. Please see note 2 in “1. Information about Net Sales and Profit (Loss) by Reportable Segment” on page 10 and 11 for the details of reconciliations of segment income during the period.

Beauty Care

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

With regard to the impact of the consumption tax hike on domestic brands, although there was a surge in demand in advance of the increase and a recoil afterwards, countermeasures showed definite effects and results for the first half of fiscal 2014 surpassed those recorded in the corresponding period of the previous year.

POLA is making concerted efforts to boost customer satisfaction. These include increasing customer contact points by aggressively developing sales channels through POLA THE BEAUTY stores, which integrate sale of cosmetics, consulting and esthetic treatments, and through department store outlets; and further enhancing POLA’s sales-process quality and consulting skills. In the domestic market, in January POLA announced *SIGNS SHOT*, which reduces the signs of facial tension created by facial movements, and in April launched *B.A THE PROTECTOR S*, a day cream that treats the damage due to light caused by near infrared and ultraviolet rays. Overseas markets grew steadily as department store operations attracted more new and existing customers in China, its key market. As a result, POLA recorded net sales above those recorded in the corresponding period of the previous year.

ORBIS efforts are to improve a skincare-focused product strategy, reinforce online sales, and leverage new infrastructural systems to evolve customer communications while enhancing the efficiency of sales promotions. In the domestic market, *ORBIS=U*, a new skincare series that embodies the new concept of OIL-FREE skincare, was launched in February as a key product strategy of brand rebuilding, and both per-capita spending and customer numbers have grown steadily. In overseas markets, ORBIS has continued sales promotion activities to increase brand awareness. As a result, ORBIS exceeded the net sales of the corresponding period of the previous year.

Meanwhile, as a result of strong business growth centered on *THREE* and *decencia*, sales of brands under development were up from a year earlier.

For overseas brands, the Group endeavored to maintain high expansion and contribute to revenues and earnings, focusing on Asia as a growth driver. *Jurlique* expanded its business centered on the Chinese and Australian markets, and sales increased year on year. Sales declined from the previous year for *H2O PLUS*, reflecting poor sales in the Chinese market.

As a result of the factors noted above, net sales—sales to external customers—were ¥89,400 million, up

4.8% year on year, and operating income was ¥7,772 million, up 36.3% year on year.

#### Real Estate

The Real Estate segment concentrates on the leasing of office buildings in cities. Efforts are currently directed toward at sustaining rent levels but leaning more toward raising rents and occupancy rates by creating attractive office environments. Another area of emphasis is the rental residential properties business. This business highlights new-model condominiums perfect for families with young children. During the first half of fiscal 2014, the Group continued to make efforts to sustain rent levels and attract tenants.

As a result of the above, net sales—sales to external customers—generated by the Real Estate segment totaled ¥1,571 million, up 5.2% year on year, and operating income reached ¥665 million, up 3.1% year on year.

#### 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. During the first half of fiscal 2014, due to the Group's continued sales activities specializing in the field of dermatology, the market expanded further for *Lulicon*, an antifungal agent for topical application, and sales were higher than a year earlier.

The building maintenance business primarily caters to the needs of Group companies. In the first half of fiscal 2014, the Group engaged in sales activities to conclude contracts with new customers, resulting in higher sales than a year earlier.

As a reflection of the above, net sales—sales to external customers—generated by the Others segment totaled ¥4,968 million, up 8.3% year on year, and operating income amounted to ¥191 million, up 95.0% year on year.

## **(2) Explanation of Consolidated Financial Position**

As of June 30, 2014, total assets stood at ¥221,485 million, up 1.6%, or ¥3,480 million, from December 31, 2013. Factors contributing to this increase included the following: increases of ¥2,016 million in merchandise and finished goods, ¥3,106 million in buildings and structures associated with the completion of the Takashimadai condominium building, ¥9,196 million in short-term investments in securities from the management of surplus funds, and ¥4,364 million in investments in securities. These were offset to some degree by decreases of ¥13,072 million in cash and deposits and ¥2,017 million in other under property, plant and equipment, primarily because of construction in progress account transfers.

Total liabilities amounted to ¥45,204 million, up 2.5%, or ¥1,086 million, from December 31, 2013. Factors contributing to this increase included an increase of ¥1,921 million in short-term loans payable associated with the bank borrowings of an overseas subsidiary, offset to some degree by a decrease of ¥605 million in provision for bonuses.

Net assets amounted to ¥176,281 million, up 1.4%, or ¥2,394 million, from December 31, 2013. Factors contributing to this increase included the following: net income of ¥3,700 million and an increase of ¥514 million in foreign currency translation adjustments as a result of exchange rate movements. These were partially offset by a decrease of ¥1,658 million in dividends from retained earnings.

**(3) Explanation of Consolidated Performance Forecast and Other Predictive Information**

The Company has made no revisions to the full-year consolidated performance forecast announced on April 30, 2014.

(Information for reference)

**Cumulative Results for Fiscal 2013**

	(Millions of yen)			
	Three Months	Six Months	Nine Months	Full Year
Net Sales	¥41,238	¥91,415	¥137,346	¥191,355
Operating Income	1,601	6,305	9,809	16,017
Ordinary Income	2,144	7,335	10,852	17,836
Net Income	¥ 1,258	¥ 3,402	¥ 4,905	¥ 7,318

**Quarterly Operation Results for Fiscal 2013**

	(Millions of yen)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Sales	¥41,238	¥50,177	¥45,930	¥54,009
Operating Income	1,601	4,704	3,504	6,208
Ordinary Income	2,144	5,190	3,516	6,983
Net Income	¥ 1,258	¥ 2,144	¥ 1,502	¥ 2,413

**2. Summary Information (Notes)****(1) Changes in Significant Subsidiaries during the Current Period**

None

**3. Quarterly Consolidated Financial Statements****(1) Consolidated Balance Sheets**

(Millions of yen)

	FY2013 December 31, 2013	FY2014 Second Quarter June 30, 2014
<b>Assets</b>		
Current assets		
Cash and deposits	¥ 34,492	¥ 21,420
Notes and accounts receivable – trade	24,023	22,054
Short-term investments in securities	17,608	26,804
Merchandise and finished goods	12,099	14,116
Work in process	1,699	1,647
Raw materials and supplies	4,983	5,589
Other	7,779	9,508
Allowance for doubtful accounts	(150)	(147)
Total current assets	102,537	100,994
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	18,286	21,392
Land	22,380	22,330
Other, net	16,322	14,305
Total property, plant and equipment	56,989	58,029
Intangible assets		
Goodwill	15,856	15,688
Right of trademark	12,327	12,441
Other	9,842	9,659
Total intangible assets	38,025	37,788
Investments and other assets		
Investments in securities	14,122	18,486
Other	6,450	6,305
Allowance for doubtful accounts	(120)	(119)
Total investments and other assets	20,452	24,672
Total non-current assets	115,467	120,491
Total assets	¥218,005	¥221,485



(Millions of yen)

	FY2013 December 31, 2013	FY2014 Second Quarter June 30, 2014
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable – trade	¥ 4,105	¥ 4,541
Short-term loans payable	1,034	2,956
Income taxes payable	3,568	4,653
Provision for bonuses	1,731	1,125
Other provision	2,731	2,394
Other	17,470	16,375
Total current liabilities	<u>30,640</u>	<u>32,047</u>
Non-current liabilities		
Long-term loans payable	1,000	1,000
Provision for retirement benefits	5,908	5,727
Other provision	67	57
Other	6,500	6,372
Total non-current liabilities	<u>13,477</u>	<u>13,157</u>
Total liabilities	<u>44,117</u>	<u>45,204</u>
<b>Net assets</b>		
Shareholders' equity		
Common stock	10,000	10,000
Capital surplus	90,718	90,718
Retained earnings	67,941	69,983
Treasury stock	(2,199)	(2,199)
Total shareholders' equity	<u>166,460</u>	<u>168,502</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	454	450
Foreign currency translation adjustments	6,335	6,849
Total accumulated other comprehensive income	<u>6,789</u>	<u>7,300</u>
Subscription rights to shares	90	115
Minority interests	546	362
Total net assets	<u>173,887</u>	<u>176,281</u>
Total liabilities and net assets	<u>¥218,005</u>	<u>¥221,485</u>

**(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income**  
Consolidated Statements of Income

(Millions of yen)

	Six Months Ended June 30	
	FY2013 (January 1, 2013– June 30, 2013)	FY2014 (January 1, 2014– June 30, 2014)
Net sales	¥91,415	<b>¥95,940</b>
Cost of sales	18,281	<b>18,586</b>
Gross profit	73,134	<b>77,354</b>
Selling, general and administrative expenses		
Sales commission	22,633	<b>23,115</b>
Promotion expenses	8,862	<b>8,616</b>
Advertising expenses	3,432	<b>3,460</b>
Salaries, allowances and bonuses	10,757	<b>11,385</b>
Provision for bonuses	993	<b>1,100</b>
Provision for point program	1,521	<b>1,506</b>
Other	18,628	<b>19,837</b>
Total selling, general and administrative expenses	66,829	<b>69,022</b>
Operating income	6,305	<b>8,331</b>
Non-operating income		
Interest income	218	<b>178</b>
Dividend income	24	<b>5</b>
Foreign exchange gains	726	<b>—</b>
Other	111	<b>143</b>
Total non-operating income	1,080	<b>328</b>
Non-operating expenses		
Interest expense	35	<b>71</b>
Foreign exchange losses	—	<b>493</b>
Other	15	<b>51</b>
Total non-operating expenses	50	<b>616</b>
Ordinary income	7,335	<b>8,043</b>
Extraordinary income		
Gain on sales of non-current assets	211	<b>18</b>
Other	3	<b>3</b>
Total extraordinary income	214	<b>22</b>
Extraordinary losses		
Loss on sales of non-current assets	0	<b>16</b>
Loss on disposal of non-current assets	115	<b>46</b>
Loss on business liquidation	1,000	<b>—</b>
Business structure improvement expenses	848	<b>48</b>
Other	16	<b>26</b>
Total extraordinary losses	1,982	<b>137</b>
Income before income taxes	5,567	<b>7,928</b>
Income taxes – current	3,910	<b>5,195</b>
Income taxes – deferred	(1,710)	<b>(802)</b>
Total income taxes	2,200	<b>4,393</b>
Income before minority interests	3,367	<b>3,535</b>
Minority interests in net loss of consolidated subsidiaries	(35)	<b>(165)</b>
Net income	¥ 3,402	<b>¥ 3,700</b>

## Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six Months Ended June 30	
	FY2013 (January 1, 2013– June 30, 2013)	FY2014 (January 1, 2014– June 30, 2014)
Income before minority interests	¥3,367	¥3,535
Other comprehensive income		
Valuation difference on available-for-sale securities	363	(3)
Foreign currency translation adjustments	1,766	521
Share of other comprehensive income of associates accounted for using equity method	6	1
Total other comprehensive income	2,136	519
Quarterly comprehensive income	5,503	4,055
Comprehensive income attributable to owners of the parent	5,529	4,211
Comprehensive income attributable to minority interests	¥(26)	¥ (156)

**(3) Notes to Consolidated Financial Statements  
(Going Concern Assumptions)**

None

**(Significant Changes in Shareholders' Equity)**

None

**(Segment Information)**

I. First Half of Fiscal 2013 (January 1, 2013–June 30, 2013)

1. Information about Net Sales and Profit (Loss) by Reportable Segment

							(Millions of yen)
	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount Shown on the Consolidated Statements of Income (Note 3)
	Beauty Care	Real Estate	Subtotal				
Net Sales							
Sales to External Customers	¥85,336	¥1,493	¥86,829	¥4,586	¥91,415	—	¥91,415
Intersegment Sales or Transfers	44	329	373	1,585	1,958	¥(1,958)	—
Total	85,380	1,822	87,203	6,171	93,374	(1,958)	91,415
Segment Income	¥ 5,703	¥ 645	¥ 6,349	¥ 98	¥ 6,447	¥ (142)	¥ 6,305

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance.

2. The segment income reconciliation of ¥(142) million includes intersegment transaction eliminations of ¥971 million minus corporate expenses of ¥1,113 million, not allocated to each segment. Corporate expenses are primarily the Company's administrative expenses not allocated to reportable segments.

3. Segment income is adjusted for operating income reported in the quarterly consolidated statements of income.

2. Information about Impairment Loss of Non-current Assets and Goodwill by Reportable Segment  
(Significant Impairment Loss of Non-current Assets)

None

(Significant Changes in Goodwill)

None

## II. First Half of Fiscal 2014 (January 1, 2014–June 30, 2014)

## 1. Information about Net Sales and Profit (Loss) by Reportable Segment

(Millions of yen)

	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount Shown on the Consolidated Statements of Income (Note 3)
	Beauty Care	Real Estate	Subtotal				
Net Sales							
Sales to External Customers	¥89,400	¥1,571	¥90,972	¥4,968	¥95,940	—	¥95,940
Intersegment Sales or Transfers	41	299	340	1,713	2,054	¥(2,054)	—
Total	89,442	1,870	91,313	6,681	97,994	(2,054)	95,940
Segment Income	¥ 7,772	¥ 665	¥ 8,438	¥ 191	¥ 8,629	¥ (298)	¥ 8,331

Notes: 1. “Others” comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance.

2. The segment income reconciliation of ¥(298) million includes intersegment transaction eliminations of ¥879 million minus corporate expenses of ¥1,177 million, not allocated to each segment. Corporate expenses are primarily the Company’s administrative expenses not allocated to reportable segments.

3. Segment income is adjusted for operating income reported in the quarterly consolidated statements of income.

## 2. Information about Impairment Loss of Non-current Assets and Goodwill by Reportable Segment

(Significant Impairment Loss of Non-current Assets)

None

(Significant Changes in Goodwill)

None