

Conference Presentation for Financial Results: First Half of Fiscal 2013

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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.

1. Highlights of Consolidated Performance
2. Segment Analysis and Progress of Key Strategies
3. Impact of Integration of the Production Structure
4. Forecasts for Fiscal 2013
5. Initiatives for the Second Half Onward

1. **Highlights of Consolidated Performance**
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Net sales exceeded the forecast with the positive impact of weaker yen.
Operating income also exceeded the forecast, mainly due to the improved SG&A efficiency at flagship brands.

Consolidated Performance FY2013 1H

Net sales ¥91,415 mil. (+5.8% YoY) Operating income ¥6,305 mil. (+11.6% YoY)



Net sales ¥48,888 mil. (+1.7% YoY) Operating income 3,417 mil. (+3.8%)

- POLA THE BEAUTY (PB) remains as a growth driver.
- Skin-whitening and seasonal products performed well.



Net sales ¥23,647 mil. (-0.0% YoY) Operating income ¥4,278 mil. (+11.9%)

- Brand rebuilding smoothly progressed and as a result, amount spent per customer increased and SG&A efficiency improved.

Overseas Brands



Net sales ¥8,709 mil. (+72.0% YoY) Operating income -¥1,240 mil.

- Sales was inline with the forecast on local currency basis. On JPY basis, sales exceeded the forecast as weaker yen was favorable on overseas sales.
- Operating income was also inline with the forecast on local currency basis, but on JPY basis, it was weaker than expected due to weaker yen impacting negatively on overseas operating income.

Highlights of Consolidated Performance

(Millions of yen)	FY2012	FY2013	YoY		Compared with Forecasts	
	1H Results	1H Results	Amount	%	Amount	%
Net Sales	86,407	91,415	5,008	5.8%	1,4515	1.6%
Cost of Sales	17,744	18,281	536	3.0%	681	3.9%
Gross Profit	68,662	73,134	4,472	6.5%	734	1.0%
Selling, General and Administrative Expenses	63,010	66,829	3,818	6.1%	329	0.5%
Operating Income	5,652	6,305	653	11.6%	405	6.9%
Ordinary Income	6,008	7,335	1,326	22.1%	1,235	20.2%
Income before Income Taxes	6,030	5,567	-462	-7.7%	-382	-6.4%
Net Income	2,785	3,402	617	22.2%	602	21.5%

Consolidated Performance Overview

- Net sales exceeded the forecast with weaker yen boosting overseas sales.
- Operating income exceeded the forecast due to the improved cost efficiency and some deferral costs at flagship brands.
- Net income significantly exceeded the forecast with increased non-operating income from foreign currency translation adjustments and reduction of tax expenses following POLA USA pullout which was announced in 1Q.

Analysis of Consolidated P&L Changes

Net Sales to Operating Income

(Millions of yen)	FY2012	FY2013	YoY		Compared with Forecasts	
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Consolidate Net Sales

- Domestic brands ⇒ +¥998 mil. YoY
- Overseas brands ⇒ +¥3,646 mil. YoY

Cost of Sales

- Cost of sales ratio FY2012 1H: 20.54% ⇒ FY2013 1H: 20.00%
- Elimination of one-time expenses paralleling acquisition of Jurlique led to improvement in cost of sales ratio.
- (FY2012 1H: Recorded ¥733 mil. in inventory valuation differences accompanying acquisition of Jurlique)

SG&A

- Key factor: Increased SG&A expenses due to the aggressive expansions of overseas brands
- Personnel Expense ⇒ +¥1,156 YoY
 - Sales related expense ⇒ +¥843 mil.
 - Sales commissions ⇒ +¥728 mil.
 - Administrative expense ⇒ +¥1,090 mil.

Operating Income

- +¥653 mil. YoY (+¥816 mil. increase in Beauty Care segment)

Analysis of Consolidated P&L Changes

Operating Income to Net Income

(Millions of yen)	FY2012	FY2013	YoY		Compared with Forecasts	
	1H Results	1H Results	Amount	%	Amount	%
Operating Income	5,652	6,305	653	11.6%	405	6.9%
Non-operating Income	431	1,080	649	150.5%	780	260.2%
Non-operating Expenses	75	50	-24	-32.5%	-49	-49.1%
Ordinary Income	6,008	7,335	1,326	22.1%	1,235	20.2%
Extraordinary Income	121	214	93	76.4%	214	-
Extraordinary Losses	99	1,982	1,882	1,894.9%	1,832	1,221.5%
Income before Income Taxes	6,030	5,567	-462	-7.7%	-382	-6.4%
Income Taxes	3,254	2,200	-1,054	-32.4%	-949	-30.1%
Minority Interests in Net Loss of Consolidated Subsidiaries	-9	-35	-25	-	-35	-
Net Income	2,785	3,402	617	22.2%	602	21.5%

Non-operating Income/Expenses

- Increase due to foreign exchange: +¥657 mil. (FY2012 1H: ¥68 mil. ⇒ FY2013 1H: ¥726 mil.)

Extraordinary Income/Losses

- **【Extraordinary Income】** Gain on sales of idle property: ¥211 mil.
- **【Extraordinary Losses】** Loss related to the plant integration: ¥848 mil.
- Loss on business liquidation following POLA USA pullout: ¥1,000 mil.

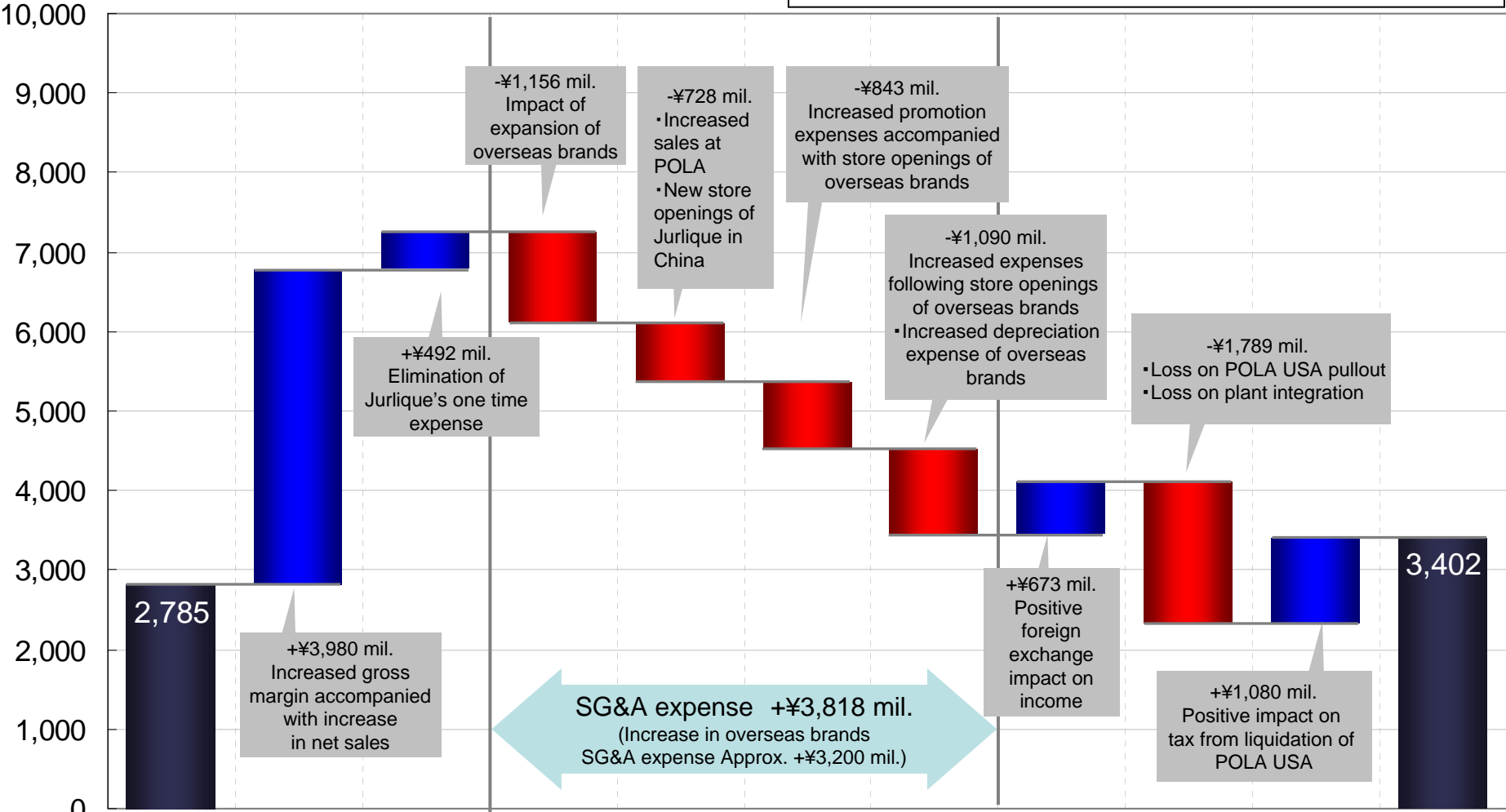
Income Taxes

- Decrease in tax expenses following POLA USA pullout: ¥-1,186 mil. YoY

Factors Impacting Net Income

(Millions of yen)

■ Positive Impact
 ■ Negative Impact



FY2012 1H Net Income	Increased gross profit with increased sales	Impact of improved cost of sales ratio	Personnel expense	Sales commissions	Sales related expense	Administrative expense	Non-operating income/expense	Extraordinary income/losses	Income taxes minority interest in net loss	FY2013 1H Net Income
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Operating Results by Segment

(Millions of yen)	FY2012	FY2013	YoY		Compared with Forecasts	
	1H Results	1H Results	Amount	%	Amount	%
Consolidated Net Sales	86,407	91,415	5,008	5.8%	1,415	1.6%
Beauty Care	80,691	85,336	4,644	5.8%	1,236	1.5%
Real Estate	1,444	1,493	49	3.4%	93	6.7%
Others	4,271	4,586	314	7.4%	86	1.9%
Operating Income	5,652	6,305	653	11.6%	405	6.9%
Beauty Care	4,887	5,703	816	16.7%	103	1.9%
Real Estate	627	645	17	2.8%	45	7.6%
Others	-12	98	110	-	98	-
Reconciliations	149	-142	-291	-	157	-

Beauty Care Segment Operating Results by Product Type

(Millions of yen)	FY2012	FY2013	YoY Change	
	1H Results	1H Results	Amount	%
Net Sales	80,691	85,336	4,644	5.8%
Cosmetics	74,645	79,468	4,822	6.5%
Fashion	6,046	5,867	-178	-3.0%
Operating income	4,887	5,703	816	16.7%
Cosmetics	5,028	5,788	760	15.1%
Fashion	-140	-84	55	-

- ◆ Cosmetics ⇒ Flagship brands continued to perform steadily and overseas brands contributed significantly on sales.
- ◆ Fashion ⇒ Although sales decreased year on year, cost structure has been improved and loss position is lowered.

Note: Results for each product type are shown for reference purpose only (figures are unaudited).

Beauty Care Segment Operating Results by Brand

(Millions of yen)	FY2012 1H Results	FY2013 1H Results	YoY Change	
			Amount	%
Net Sales	80,691	85,336	4,644	5.8%
POLA	48,069	48,888	819	1.7%
ORBIS	23,655	23,647	-7	-0.0%
Brands under development	3,903	4,090	186	4.8%
Overseas brands (Jurlique and H2O+)	5,063	8,709	3,646	72.0%
Operating Income	4,887	5,703	816	16.7%
POLA	3,293	3,417	123	3.8%
ORBIS	3,825	4,278	453	11.9%
Brands under development	-753	-751	1	-
Overseas brands (Jurlique and H2O+)	-1,477	-1,240	237	-

- ◆ POLA ⇒ PB continues to be the growth driver. *WHITE SHOT* series and *B.A THE DAY MASK S* showed strong performance.
- ◆ ORBIS ⇒ Brand rebuilding process on track, with profitability improving and achieved double digit increase in operating income.
- ◆ Brands under Development ⇒ Growth continues, but some brands are underperforming, resulting weaker than expected sales.
- ◆ Overseas Brands ⇒ Jurlique and H2O+ performed as expected on local currency basis. Both brands showed strong sales in China.

Local Currency Basis

Approx. +45% YoY

Jurlique FY'12 Feb-Jun
H2O+ FY'12 Jan-Jun

Approx. +25% YoY

Jurlique FY'12 Jan-Jun
H2O+ FY'12 Jan-Jun

Note: Consolidate operating income and losses are shown for each brand for reference purpose only (figures are unaudited).

Real Estate/Others Segment Results

(Millions of yen)	FY2012 1H Results	FY2013 1H Results	YoY Change	
			Amount	%
Real Estate Net Sales	1,444	1,493	49	3.4%
Operating Income	627	645	17	2.8%

◆ Thanks to successful sales efforts to maintain rent level and attract new tenants, both net sales and operating income exceeded year on year.

(Millions of yen)	FY2012 1H Results	FY2013 1H Results	YoY Change	
			Amount	%
Others Net Sales	4,271	4,586	314	7.4%
Operating Income	-12	98	110	-

◆ Pharmaceuticals ⇒ *Lulicon* continued to sell well.

◆ Building maintenance ⇒ Sales significantly exceeded year on year, mainly due to the orders received earlier than planned.

1 — Generate stable profits with flagship brands



Product	<ul style="list-style-type: none"> ◆ <i>B.A THE DAY MASK S</i> launched in May, is showing strong performance. ◆ Thanks to successful campaigns, <i>WHITE SHOT</i> series performed well.
Channel	<ul style="list-style-type: none"> ◆ Number of PB stores rose by 12 to 584 since Dec. 2012 ◆ PB stores 1H Cosmetics sales: +7.3% YoY (PB existing stores: +7.2% YoY) Note: Esthe-inn +1.1%, Door-to-door -8.6%
Customers	<ul style="list-style-type: none"> ◆ Amount spent per customer: -0.6% YoY ◆ Number of new customers: -0.1% YoY



POLA
“B.A THE DAY MASK S”
launched in May



Product	<ul style="list-style-type: none"> ◆ Launched <i>Sunscreen Super</i>, UV care product in May
Channel	<ul style="list-style-type: none"> ◆ Online order ratio: +0.6pt YoY
Customers	<ul style="list-style-type: none"> ◆ Amount spent per customer +3.0% YoY ◆ Mail-order* skincare purchaser ratio: -1.5pt YoY
Logistics	<ul style="list-style-type: none"> ◆ Enhanced customer service and cost efficiency in delivery through two-point logistics structure, with one distribution center in eastern Japan and another in western Japan.



ORBIS
“*Sunscreen Super*”
launched at the end of May

*Mail order includes online and catalog orders.

2 — Accelerate growth of brands under development

T H R E E

- ◆ Received No.1 awards in various categories from VoCE Beauty Awards 2013 Spring Summer.
- ◆ Opened 2 new stores in Japan and opened 2 overseas stores (Thailand) since Dec. 2012.



THREE store opening in Thailand

3 — Develop presence overseas by capitalizing on the Group's strengths

Overseas brands

- ◆ Jurlique ⇒ Number of dept. counters in China: 80 (+11 since Dec. 2012).
- ◆ H2O PLUS ⇒ Established JV with an agent for further growth in China (C2O Plus Asia Limited).

Existing brands

- ◆ POLA ⇒ Number of stores handling its product continued to increase, boosting sales in Russia. Still on hold for direct selling license in China.
- ◆ ORBIS ⇒ Established a structure to support expansion in ASEAN region.
- ◆ THREE ⇒ Launched stores in Thailand as the first step of overseas expansion.



Jurlique "Purely White" launched in April

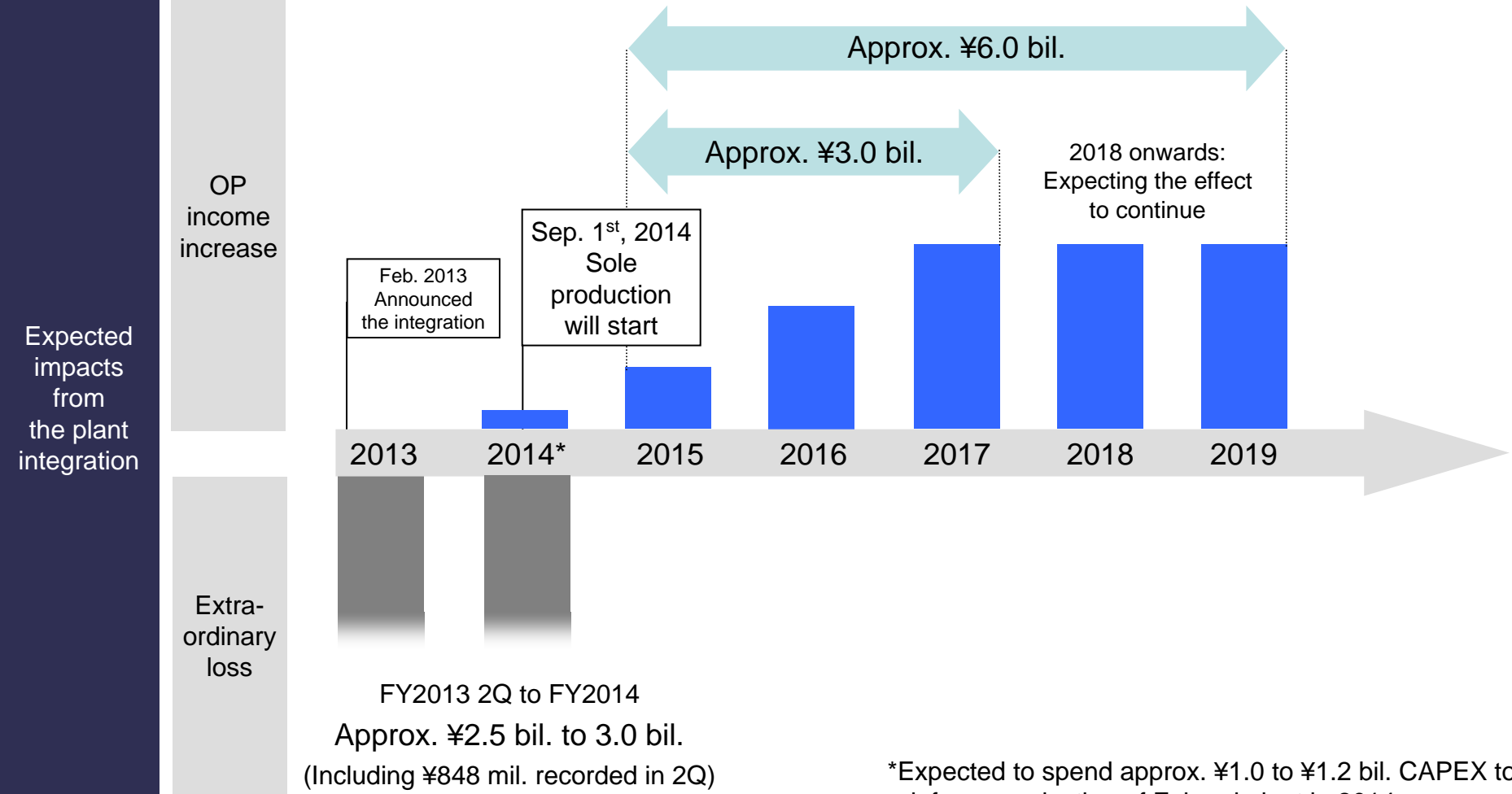
4 — Reinforce R&D capabilities

POLA CHEMICAL INDUSTRIES

- ◆ Joint development of new products with overseas brands on track for 2014 launch.

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Focus resources to our strength, skincare and base make-up products.
 Promote cost-saving and efficiency improvement initiatives including outsourcing.



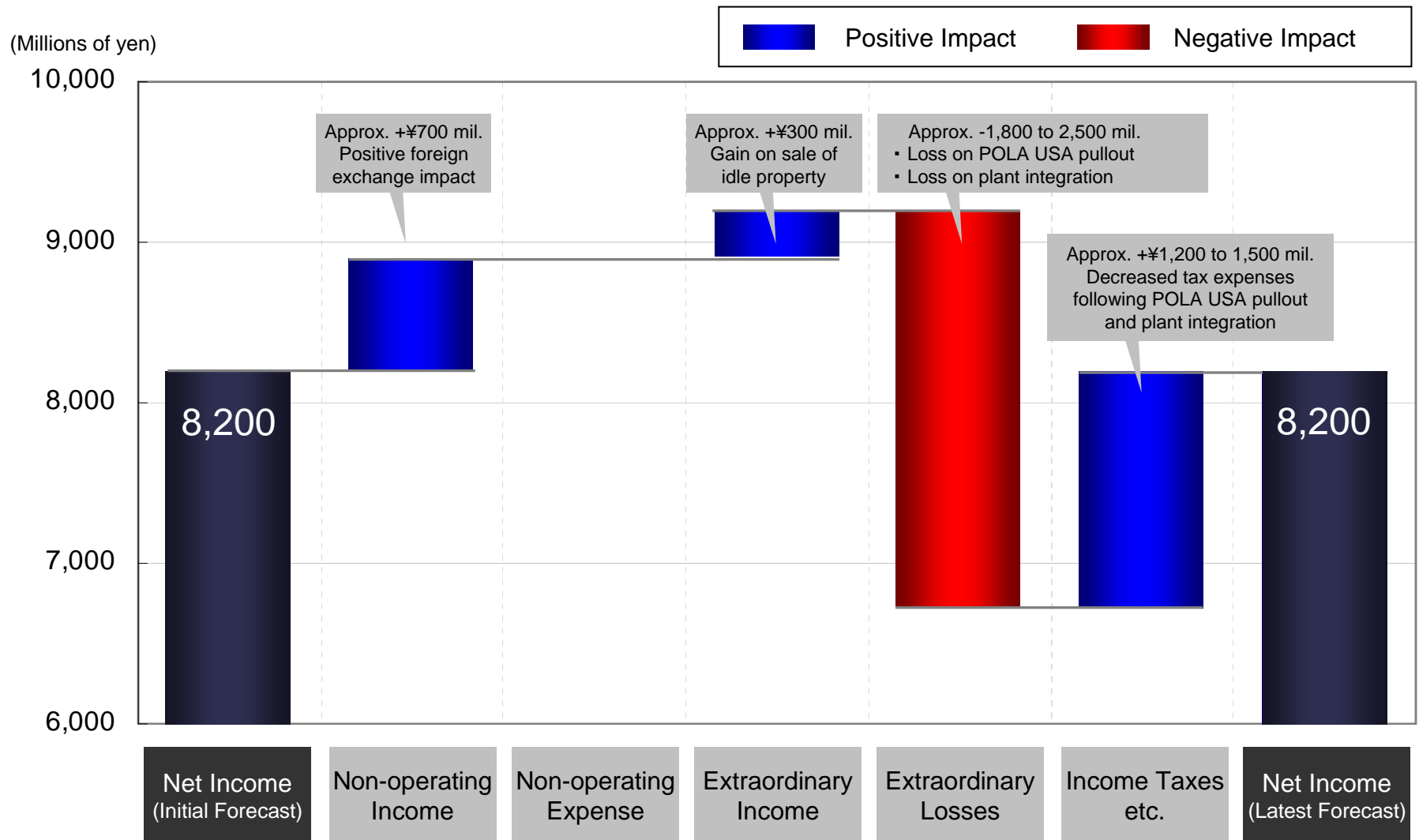
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Forecasts for Fiscal 2013 (same as initial forecasts)

No changes to the initial forecasts despite the impact of plant integration.

(Millions of yen)	FY2013 Full Year Forecasts	YoY Change		FY2013 First Half Results	YoY Change	
		Amount	%		Amount	%
Consolidate Net Sales	188,500	7,626	4.2%	91,415	5,008	5.8%
Beauty Care	175,800	6,988	4.1%	85,336	4,644	5.8%
Real Estate	3,000	158	5.6%	1,493	49	3.4%
Others	9,700	479	5.2%	4,586	314	7.4%
Operating Income	16,000	2,479	18.3%	6,305	653	11.6%
Beauty Care	15,000	3,187	27.0%	5,703	816	16.7%
Real Estate	1,200	60	5.3%	645	17	2.8%
Others	300	-35	-10.5%	98	110	—
Reconciliations	-500	-732	—	△142	△291	—
Ordinary Income	16,300	1,695	11.6%	7,335	1,326	22.1%
Net Income	8,200	1,518	22.7%	3,402	617	22.2%

Factors impacting the net income forecast (FY2013)

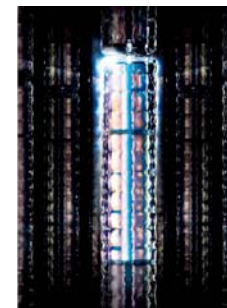


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Generate stable profits with flagship brands

POLA

- ◆ Introducing top of the line product of *B.A* series, *B.A GRANDLUXE II* in September.
- ◆ Aim to increase amount spent per customer by promoting customers to purchase additional item.



POLA
“B.A GRANDLUXE II”
will be launched in September

ORBIS

- ◆ Aim to increase amount spent per customer by introducing high-value-added skincare products.
- ◆ Expecting to renew the core system in October.



ORBIS
“Excellent Enrich Cream” will be
launched in November

Accelerate growth of the portfolio of brands under development

T H R E E

- ◆ Hair care series, *Scalp & Hair* launched in July.
- ◆ Reinforce sales trainings to earn repeat customers and improve amount spent per customer.

Accelerate overseas expansions

Jurlique

- ◆ Continue to invest to open stores in China to bring the total number of stores in China to 100.

h2o+

- ◆ Continue to reinforce expansion under new structure in China.
- ◆ Increase number of stores handling its products in Russia.

POLA

- ◆ Continue to increase number of stores handling its products in Russia.

ORBIS

- ◆ Established an office in Singapore as a first step of ASEAN expansion.



Jurlique
“Herbal Recovery Advanced Serum”
will be launched in September

Aggressively expand existing brands to overseas markets with synergies between the overseas brands.

T H R E E

- ◆ Start the overseas expansion from the newly opened stores in Thailand.
- ◆ Develop to a global brand by utilizing know-how and networks of overseas brands.



H2O+
“total Source Optimum
Cleanser & Optimum Toner”
will be launched in October

Integration of the Production Structure

POLA CHEMICAL
INDUSTRIES

- ◆ Preparing the production structure for the plant integration.

Progress toward Long-Term Vision

Mid-term Management Plan (2011 to 2013) mostly on track.
Overseas sale ratio increased to double digit level.

Next Mid-term Management Plan will be announced at the conference presentation for FY2013.

Long-term Vision (Goals for 2020)
Management Indicators

Net sales: ¥250.0 billion or more
Overseas sales ratio: 20% or more
Operating margin: Top level in the industry (13 to 15%)

