First Quarter of Fiscal 2014
Supplementary Material

POLA ORBIS HOLDINGS INC.

Director and Vice President
Management Planning, Accounting and
Global Business Strategy

Naoki Kume

POLA ORBIS HOLDINGS

Q1 Key Topics

Cosmetic Market

- Recovery of business confidence positively influenced consumer sentiment and spending improved.
- Consumption tax hike on April 1st caused increased consumer demand in March. Impact of the last-minute surge in demand was particularly strong at department stores and sales was up about 60%* from the same month last year.
- Sluggish Chinese New Year's holiday shopping had negative impact on the department store sales in China.

Our Group

- High-prestige brand, POLA, marked drastic increases both in sales and OP income due to the last-minute surge in demand.
- Sales also significantly increased at ORBIS because the increased demand prior to the tax hike was stronger than expected, and "ORBIS =U" series, launched at the end of February, had strong results.
- At Jurlique, China sales received negative impact from the slow Chinese New Year's holiday shopping, while sales in HK and DFS were favorable.
- At H2O PLUS, North America had favorable sales, but China underperformed.

*Source: Japan Department Stores Association

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Analysis of Consolidated P&L Changes
Net Sales to Operating Income

(mil. yen)	FY2013 Q1Result	FY2014 Q1Result	YoY Amount	YoY %
Consolidated net sales	41,238	50,213	8,975	21.8%
Cost of sales	8,131	9,666	1,534	18.9%
Gross profit	33,107	40,547	7,440	22.5%
SG&A* expenses	31,505	35,093	3,587	11.4%
Operating income	1,601	5,453	3,852	240.6%

*Selling, General and Administrative Expenses

Key Factors

- **Consol. net sales** — Domestic brands marked significant increase both in sales and OP income due to the last-minute demand before the tax hike.
  Overseas brands increased sales on local currency basis mainly in the key regions.
  Overseas sales ratio: 11.2%
- **Cost of sales** — Cost of sales ratio at overseas brands improved as their sales volume increased.
  Cost of sales ratio: FY2013 Q1: 19.72% ⇒ FY2014 Q1: 19.25%
- **SG&A expenses** — Labor expenses: up ¥595 mil. YoY
  Sales commissions: up ¥1,880 mil. YoY
  Sales related expenses: up ¥705 mil. YoY
  Administrative expenses: up ¥405 mil. YoY
- **Operating income** — Beauty care business up ¥3,793 mil. YoY

Analysis of Consolidated P&L Changes
Operating Income to Net Income

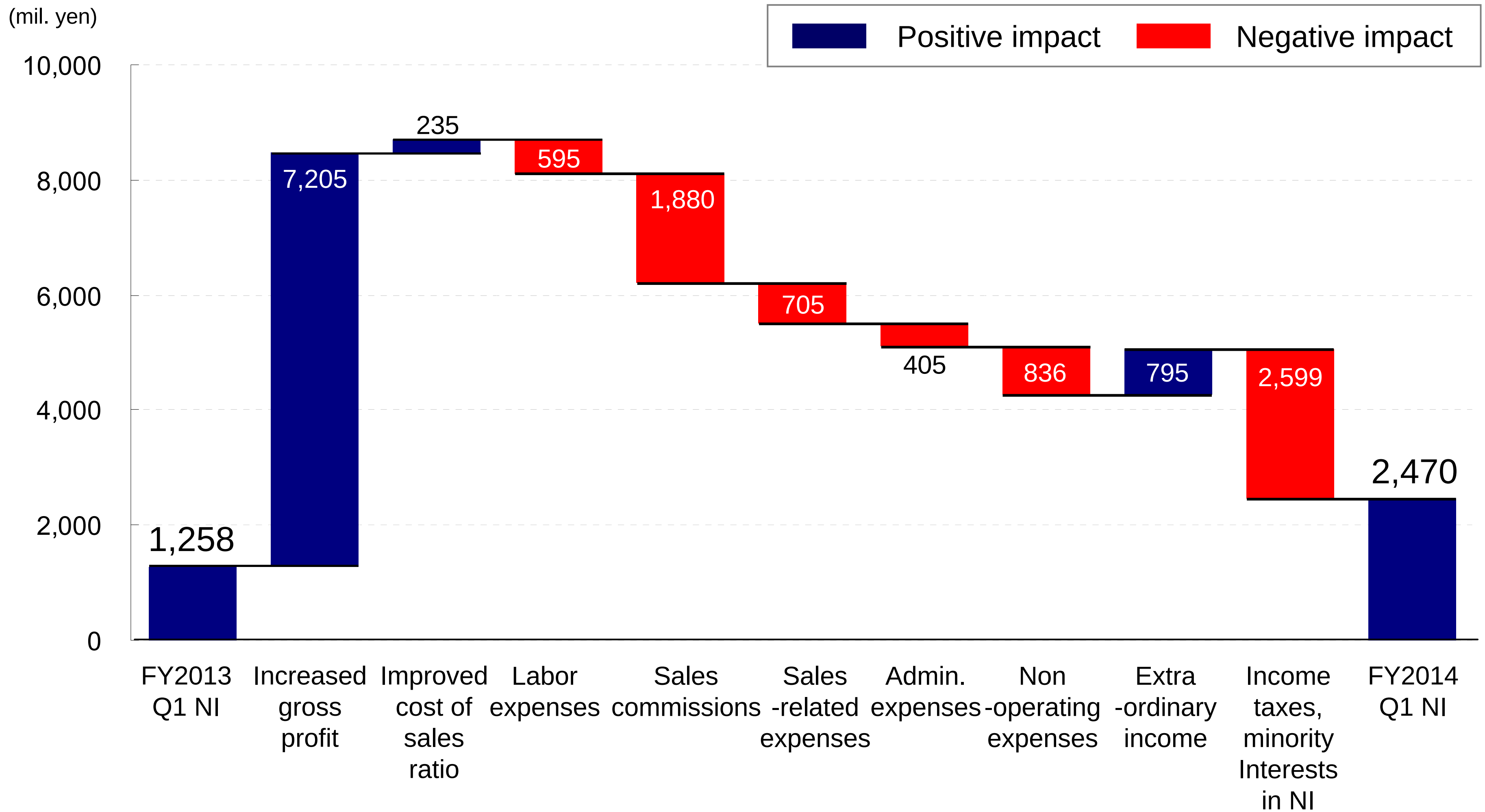
(mil. yen)	FY2013 Q1Result	FY2014 Q1Result	YoY Amount	YoY %
Operating income	1,601	5,453	3,852	240.6%
Non-operating income	564	151	(413)	(73.2%)
Non-operating expenses	21	444	423	1970.1%
Ordinary income	2,144	5,160	3,015	140.6%
Extraordinary income	213	19	(194)	(91.1%)
Extraordinary loss	1,053	63	(990)	(94.0%)
Income before income taxes	1,304	5,116	3,811	292.2%
Income taxes	42	2,696	2,654	6276.4%
Minority interests in net income / loss of consol. subsidiaries	3	(50)	(54)	-
Net income	1,258	2,470	1,212	96.3%

Key Factors

- Non-operating income: Gain from favorable foreign exchange down ¥782 mil. YoY
- Extraordinary income: FY2013 Q1 Gain on sales of land ¥211 mil.
- Extraordinary loss: FY2013 Q1 Loss on business liquidation following POLA USA pullout ¥1,001 mil.
- Income taxes: FY2013 Q1 Decrease in tax expenses following POLA USA pullout ¥1,219 mil.
  FY2014 Q1 Increase in tax expenses due to increased domestic income before income taxes up ¥1,900 mil. YoY

Factors Impacting Net Income

While gross profit significantly increased due to the last-minute surge in demand prior to the consumption tax hike, sales commissions and tax expenses also increased. As a result, net income was up 96% YoY.



1. Highlights of Consolidated Performance
2. Segment Analysis
3. Forecasts for Fiscal 2014
4. Reference

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Segment Results

(mil. yen)	FY2013 Q1Result	FY2014 Q1Result	YoY Amount	YoY %
Consolidated net sales	41,238	50,213	8,975	21.8%
Beauty care	38,559	47,110	8,550	22.2%
Real estate	719	762	43	6.0%
Others	1,960	2,341	381	19.4%
Operating income	1,601	5,453	3,852	240.6%
Beauty care	1,472	5,266	3,793	257.6%
Real estate	321	341	20	6.4%
Others	(132)	(16)	116	-
Reconciliations	(60)	(138)	(78)	-

Summary

- Beauty care: The last-minute demand before the tax hike significantly boosted sales and OP income, mainly at POLA and ORBIS.
- Real estate: Performed steadily and maintained high occupancy rate.
- Others: Pharmaceutical business increased sales and OP income as orders from medical institutes increased before the tax hike.
  Building maintenance also increased sales and OP income as construction orders were moved forward before the tax hike.

Beauty Care Business Results by Brands

(mil. yen)	FY2013 Q1Result	FY2014 Q1Result	YoY Amount	YoY %
Beauty care net sales	38,559	47,110	8,550	22.2%
POLA	21,492	26,412	4,919	22.9%
ORBIS	10,899	13,274	2,375	21.8%
Jurlique	3,102	3,702	600	19.4%
H2O PLUS	1,107	1,319	211	19.1%
Brands under development	1,957	2,401	443	22.7%
Beauty care OP income	1,472	5,266	3,793	257.6%
POLA	202	2,750	2,548	1256.5%
ORBIS	2,095	3,587	1,491	71.2%
Jurlique	(461)	(640)	(179)	-
H2O PLUS	(23)	(206)	(182)	-
Brands under development	(340)	(224)	115	-

Note: Consolidate operating income and loss are shown for each brand for reference purpose only (figures are unaudited)
Results of Jurlique and H2O PLUS will be shown separately from this fiscal year.

Brand Analysis (1)

POLA

- Total number of customers and purchase per customer marked significant increases. Number of new customers also increased due to successful sales approaches, such as events, etc.
- High-end products, especially B.A series, had strong sales.
- Increase in OP income was huge due to increased gross profit.
- As for overseas business, department store counters in China and HK performed as expected. Russia remained in line YoY because some underperforming locations were closed.

Launched in January
SIGNS SHOT

Launched in March
WHITISSIMO

(mil. yen)

Q1	Result	YoY
Net sales	26,412	up 22.9%
Operating income	2,750	up 1256.5%

Key indicators		
Number of sales offices (vs. Dec. 2013)		4,749 (no change)
Number of PB[1] (vs. Dec. 2013)		603 (up 1)
Cosmetic sales ratio	PB	36%
	Esthe-inn	41%
	D2D[2] and other	23%
Sales increase*	PB	up 28.1%
	PB (like-for-like)	up 27.6%
	Esthe-inn	up 21.1%
	D2D and other	up 13.1%
Purchase per customer*		up 18.6%
Number of new customers*		up 14.3%

(1) PB: POLA THE BEAUTY stores
(2) D2D: Conventional door-to-door
*YoY

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Brand Analysis (2)

ORBIS

- Purchase per customer increased mainly with repeat customers, due to the last-minute surge in demand prior to the tax hike.
- ORBIS =U series launched in February had favorable sales. Overall sales of the brand was stronger than expected.
- Promotions though social media, such as LINE, resulted in successful new customer acquisitions.
- Online sales ratio steadily increased.
- As for overseas business, some stores were closed in China to improve profitability which resulted in weaker sales YoY.
  Singapore performed in line with expectations.

(mil. yen)

Q1	Result	YoY
Net sales	13,274	up 21.8%
Operating income	3,587	up 71.2%

Key indicators		
Sales ratio	Online	40%
	Other mail-order	32%
	Store and overseas	28%
Sales increase*	Online	up 33.8%
	Other mail-order	up 12.6%
Purchase per customer*		up 12.9%
Number of customers (online and other mail-order)*		up 9.3%
Mail-order[(1)] skincare purchase ratio		up 5.1pt

*YoY
(1) Online and other mail-order

Launched in February
ORBIS =U

ORBIS
Store in Singapore

Brand Analysis (3)

Jurlique

- China sales was slightly weaker due to the slow Chinese New Year's holiday shopping, but HK and DFS sales were strong and overall sales was up by 24% on local currency basis YoY.
- Operating Income fell short on year-on-year basis, but it was in line with expectations.

(mil. yen)

Q1	Result	YoY
Net sales	3,702	up 19.4%
Operating income	(640)	(179)

Key indicators		
Number of stores in China (vs. Dec. 2013)		92 (up 2)
Sales ratio	China	26%
	Hong Kong	16%
	DFS	18%
Sales increase*	China	up 27%
	Hong Kong	up 23%
	DFS	up 23%

*YoY, local currency basis

h2O+

- Reverse effect from the first shipments to retailers in Russia last year, and sluggish sales in China resulted in weaker than expected sales, up 7% on local currency basis YoY.
- Operating Income was weaker than expected due to slow China sales.

(mil. yen)

Q1	Result	YoY
Net sales	1,319	up 19.1%
Operating income	(206)	(182)

Key indicators		
Number of doors in China (vs. Dec. 2013)		414 (up 10)
Sales ratio	China	31%
	North America	59%
Sales increase*	China	up 34%
	North America	up 26%

*YoY, local currency basis

Brands Under Development

- Prestige brand, THREE, had strong sales due to the last-minute surge in demand and new product launches.
- At Future Labo, sales increased YoY, but it was weaker than expectation due to changes in air time schedules on TV shopping channels.
- pdc underperformed because sales of some products fell short, and retailers increased inventories of daily supplies to meet the last-minute consumer demands before the tax hike.

(mil. yen)

Q1	Result	YoY
Net sales	2,401	up 22.7%
Operating Income	(224)	up 115

Key indicators		
THREE	Dept. store counters in Japan	27
	Other stores in Japan	17
	Overseas stores (Thailand and Taiwan)	9

Launched in March
THREE
New foundation make up line

Opened in March
THREE
First store in Taiwan

Forecasts for FY2014 (H1 forecasts revised)

Revised forecasts for the first half as the last-minute surge in demand was stronger than expected. Full year forecast remains the same as initially planned.

(mil. yen)	FY2014 Full Year	YoY Amount	YoY %	FY2014 H1 Revised	FY2014 H1 Initial	YoY Amount	YoY %	vs. Initial Amount	vs. Initial %
Consol. net sales	198,000	6,644	3.5%	95,500	94,600	4,084	4.5%	900	1.0%
Beauty care	184,700	6,393	3.6%	89,200	88,300	3,863	4.5%	900	1.0%
Real estate	3,100	64	2.1%	1,500	1,500	6	0.4%	0	0.0%
Others	10,200	186	1.9%	4,800	4,800	213	4.7%	0	0.0%
OP income	17,650	1,632	10.2%	7,500	6,900	1,194	18.9%	600	8.7%
Beauty care	16,850	2,069	14.0%	7,200	6,400	1,496	26.2%	800	12.5%
Real estate	1,250	(8)	(0.7%)	600	600	(45)	(7.0%)	0	0.0%
Others	350	(60)	(14.7%)	100	100	1	1.6%	0	0.0%
Reconciliations	(800)	(368)	–	(400)	(200)	(257)	–	(200)	–
Ordinary income	17,900	63	0.4%	7,400	7,100	64	0.9%	300	4.2%
Net income	8,800	1,481	20.2%	3,600	3,450	197	5.8%	150	4.3%

Assumed exchange rates: AUD1.00 = ¥92 USD1.00 = ¥105 CNY1.00 = ¥17

Initiatives for FY2014 Q2 Onward

Realizing 2014 - 2016 Medium-term Management Plan

Sustain stable growth of flagship brands to lead Group earnings

POLA

- As countermeasure against the reverse effect of the last-minute surge in demand, promote seasonal products to acquire new customers and turn them to loyal customers.
- Re-launch APEX series in July, and strengthen consulting skills of POLA LADIES.

ORBIS

- As a countermeasure against the reverse effect of the last-minute surge in demand, promote seasonal products.
- Continue to acquire new customers through social media.

Sales growth and monetization of brands under development

- THREE: Expand overseas business, mainly in Thailand and Taiwan through local agents.
- pdc: Revitalize sales by launching new and renewed products.
- FUTURE LABO: Secure current air time and try to acquire new air time on TV shopping channels.

Overseas brands contributing to profitability through high sales growth

Jurlique

- Open about 20 new stores in China in FY2014.
- Launch new anti-aging series fueled with R&D knowledge of the Group.

h2O+

- Send personnel from the US headquarter to China to improve sales at retail store level, and provide unique support in marketing and staff training that match the needs of each store.

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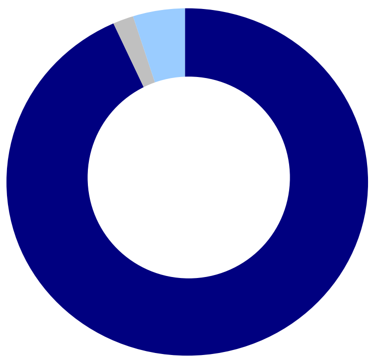
Download historical financial data here.
http://ir.po-holdings.co.jp/ja/Finance/Factsheet.html

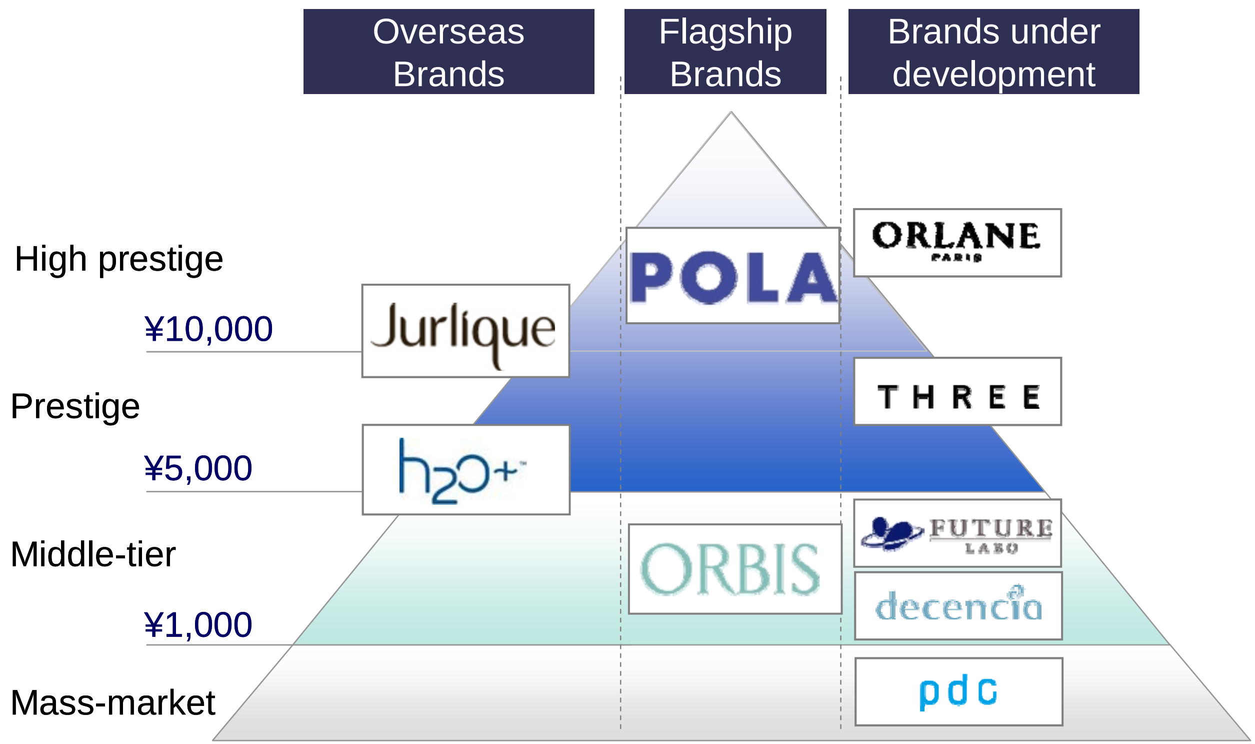
(Reference) About POLA ORBIS Group

Beauty care is the core business of the Group and 9 different cosmetic brands are operated under the Group umbrella.

FY2013
Consol. Net Sales
¥191.3 bil.



- Beauty care business 93%
- Real estate business 2%
- Other businesses 5% (dermatological drugs and building maintenance business)



Our strengths

- Focus on skincare products
- Flagship brands, POLA and ORBIS own and operate through their own unique sales channels
- Multi-brand strategy

- High customer repeat ratio
- Strong relationships with customers
- Meeting diversified needs of customers

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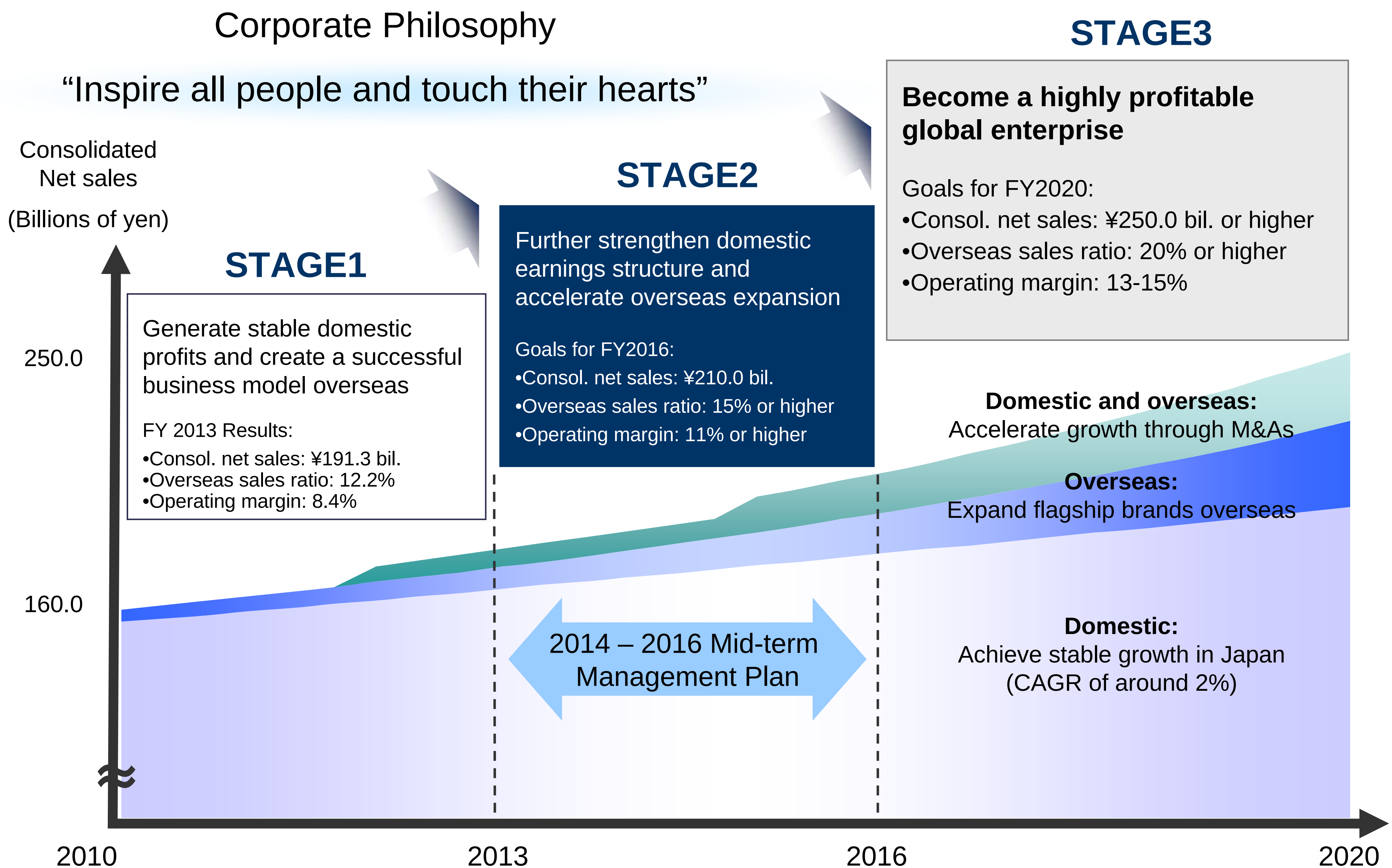
(Reference) Beauty Care Business Brand Portfolio

	Sales ratio*	Brand	Concept and products	Price	Sales channel
Flagship brands	53%	POLA	■ High-prestige skincare ■ Leading-edge technology in anti-aging and skin-whitening fields	Approx. ¥10,000 or higher	■ Consignment sales through POLA LADIES: POLA THE BEAUTY (PB), Esthe-inn and conventional door-to-door ■ Department store counters
	25%	ORBIS	■ Provides original-concept 100% OIL-FREE skincare products	¥1,000~ ¥3,000	■ Online ■ Catalog ■ Retail stores
Overseas brands	11%	Jurlique	■ Prestige organic skincare brand from Australia	Approx. ¥5,000 or higher	■ Directly operated counters and stores in department stores and shopping malls ■ Duty free stores
		h2O+	■ Skincare products made with natural, sea-derived ingredients	Approx. ¥4,000 not sold in Japan	■ Sold to retail stores (specialty cosmetic stores) through distributors ■ Few directly operated stores in the US
Brands under develop-ment	5%	THREE	■ Skincare made with natural ingredients from Japan and fashion-forward make-up	Approx. ¥5,000 or higher	■ Directly operated counters in department stores
		pdc	■ Affordably priced cosmetic products for mass-market	Approx. ¥1,000	■ Drug stores ■ GMS
		FUTURE LABO	■ Cosmetic and other products with unique features	Approx. ¥3,000 or lower	■ Mainly sold through TV shopping channels
		decencia	■ Skincare for dry, sensitive skin	Approx. ¥3,000 or lower	■ Online ■ Catalog
		ORLANE PARIS	■ High prestige anti-aging skincare cosmetics from France	Approx. ¥10,000 or higher	■ Directly operated counters in department stores ■ Specialty stores

*Sales ratio as of FY2013

(Reference) Long-term Vision



(Reference) 2014–2016 Medium-term Management Plan

The 2nd stage of the long-term vision for 2020
Aim to enhance the enterprise value by further strengthening domestic earnings structure, accelerating overseas expansion, and improving capital efficiency.

Consolidated net sales

- Consol. net sales: CAGR 3 to 4% (¥210.0 bil. in FY2016)
- Overseas sales ratio: 15% or higher in FY2016

Operating income

- Operating income: CAGR15% or higher
- Operating margin: 11% or higher in FY2016

Capital efficiency

- Target for ROE: 8% or higher in FY2016

Shareholder return

- Consolidated payout ratio: 50% or higher from FY2014

Japan

Strategy 1. Sustain stable growth of flagship brands to lead Group earnings

Strategy 2. Sales growth and monetization of brands under development

Overseas

Strategy 3. Overseas brands contributing to profitability through high sales growth

Strategy 4. Restructure overseas expansion of flagship brands

Strategy 5. Strengthen operations (R&D, production and human resources)

Strategy 6. Improve capital efficiency and shareholder return