POLA ORBIS HOLDINGS

Annual Report 2010

Year ended December 31, 2010

1 Universal Value

A long-standing commitment to “making and selling our products ourselves”

Our founder’s policy continues to guide us today

The POLA ORBIS Group traces its origins back to a hand cream made by the Group’s founder, Shinobu Suzuki, who studied by himself to create a hand cream to heal his wife’s dry and rough hands.

He then began selling the hand cream door-to-door, visiting individual customers by bicycle and supplying them with no more than the amount of cream they needed.

Our founder’s policy that we “find happiness in giving happiness” and “make and sell our products ourselves” is alive nowadays with us beyond time.

Highest Quality

Your skin deserves the best

→ Conducting advanced research and development activities that are highly acclaimed overseas

P.12 Strength 1

Best Hospitality

Supplying products to each customer with sincerity and based on a commitment to the highest level of customer service

→ Responding to customer needs via direct marketing

P.13 Strength 2

The mortar used to make the first POLA product

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Forward-looking statements
This annual report contains projections of performance and other projections based on information available as of February 14, 2011 and certain assumptions judged to be reasonable. Actual performance may materially differ from these projections resulting from changes in the economic environment and other risks and uncertainties.

2 Continuous Change

The flexibility to respond to change

Our commitment to "making and selling our products ourselves" has allowed us to respond rapidly to changes in the market and the shifting needs of our customers. We have adapted our business continuously in step with the changing times.

We believe this flexibility to change is our power as a company, and by maximizing our strengths in research and development and direct marketing, we will continue to grow our business.

1929–1970s Growth in door-to-door sales channel

▷ More women moving into the workplace

Achieved growth by pioneering the door-to-door sales approach with POLA cosmetics

1980s–1999 Business diversification

▷ Diversifying lifestyles

Reinforced operating base through business diversification and the new ORBIS brand

2000–2004 Sales channel mix

▷ Customer needs becoming more fragmented

Expanded sales channels in response to the changing times

2005–2010 Implemented multi-brand strategy

▷ Globalization

Launched brands under development to reinforce the operating structure and support future growth

2011– Accelerating growth after stock market listing

Formulated Long-term Vision and Medium-term Management Plan to take the Group to the next stage of growth

POLA ORBIS HOLDINGS

▶ September 2006 POLA ORBIS HOLDINGS INC. founded as a holding company

POLA

P.14–15

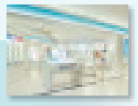
- 1929 Company founded in Shizuoka by Shinobu Suzuki
- 1940 Current POLA CHEMICAL INDUSTRIES, INC. established
- 1946 Current POLA INC. established
- 1981 Fashion business launched
- 1989 Department store business launched
- 2000 Reform to door-to-door sales started
- 2004 Moves into Chinese market
- 2005 POLA THE BEAUTY business model launched
- 2007 Moves into Russian market

The mortar used by the founder

ORBIS

P.16–17

- 1984 ORBIS Inc. established
- 1988 Mail-order business developed throughout Japan
- 1999 ORBIS THE NET launched
- 2000 ORBIS THE SHOP store format opened
- 2001 International sales started (first in South Korea)
- 2005 Moves into Hong Kong market
- 2006 Moves into Taiwanese market
- 2008 Moves into Chinese market



ORBIS first generation of "100% OIL CUT (oil-free)" Series

Brands under development

P.18

- 1992 pdc INC. established
- 2006–2008 Establishes and strengthens brands under development
  - Invests in FUTURE LABO INC.
  - decencia INC. established
  - ORLANE JAPON INC. established
  - ACRO INC. established

Medium-term Management Plan 2011–2013

P.10

Management indicators

- Net sales: Growth rate outperforming the market in Japan (CAGR of 2–3%)
- Operating income: Large increase accompanying sales growth (CAGR of 10% or higher)
- Operating margin: Top level in the industry 9% (10% in Japan) in fiscal 2013

Growth strategies

1. Generate stable profits with POLA and ORBIS brands
2. Accelerate the growth of portfolio of brands under development
3. Develop the Group's presence overseas
4. Reinforce R&D capabilities
5. Strengthen the operating structure

*CAGR: Compound annual growth rate

Long-term Vision (Goal for 2020)

P.9

Management indicators

- Net sales: ¥250 billion or more
- Operating margin: 13–15% (top level in the industry)
- Overseas sales ratio: 20% or more

Basic policy

We are aiming to become a global beauty and health company guided by our Group philosophy of "Inspire all people and touch their hearts."

3 Review of Operations

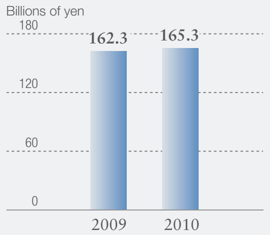
Guided by its corporate philosophy of "Inspire all people and touch their hearts," the POLA ORBIS Group operates businesses in the health and beauty fields centered on its Cosmetics business.

Year ended December 31, 2010 (fiscal 2010)

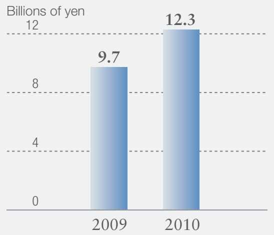
Consolidated net sales ¥165,253 million

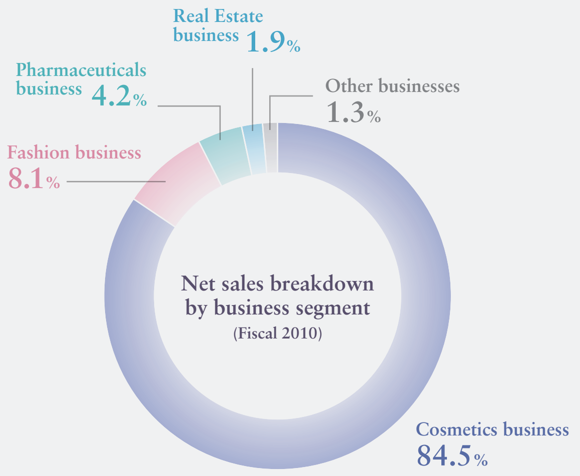
Consolidated operating income ¥12,270 million

Consolidated net sales



Consolidated operating income

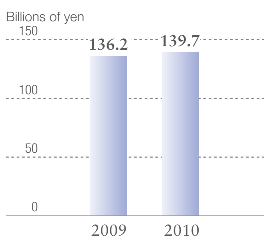




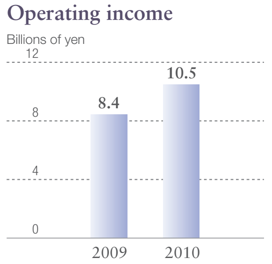
Cosmetics business

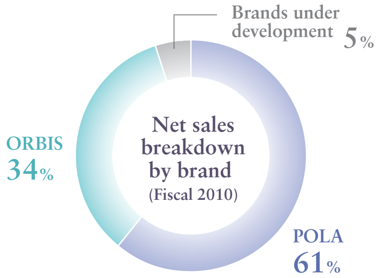
Research and development, manufacture and sales of cosmetics centered on skincare products.

Net sales



Operating income





POLA INC.

High-prestige products, based on advanced technology, supplied mainly through the door-to-door sales channel

Sales and operating income both increased year on year owing to strong sales of the reformulated *B.A* and *WHITISSIMO* series and an increase in the amount of money spent per customer owning to strengthen customer relationships.

ORBIS Inc.

Unique oil-free cosmetics supplied through the mail-order and retail store channels

Sales and operating income both rose year on year due to robust sales of the reformulated *Cleansing Liquid* and the *CLEAR* series, and an increase in the amount spent per customer owing to success in attracting new customers and efforts to improve customer service.

Brands under development

Leveraging the characteristics of five individual brands

Sales and operating income increased year on year, reflecting higher sales of products such as THREE, which was launched by ACRO INC., and tighter control of SG&A expenses at operating companies.

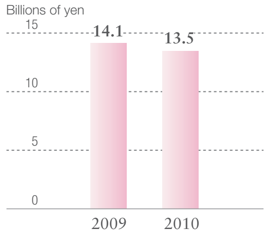
POLA INC. | ORBIS Inc. | pdc INC. | FUTURE LABO INC. | ORLANE JAPON INC. | decencia INC. | ACRO INC. | POLA CHEMICAL INDUSTRIES INC.

Fashion business

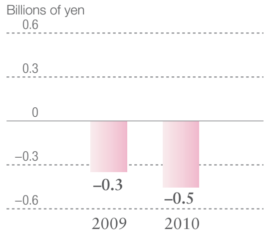
Sales of body fashion products*, apparel and jewelry

* a term that refers primarily to products such as underwear and nightwear

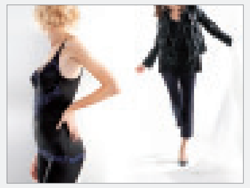
Net sales



Operating income



Catalog sales of POLA INC.'s autumn and winter products were weak due to the hot summer but ORBIS Inc. saw strong mail-order sales of its functional bodywear range. As a result, sales declined slightly year on year and the operating loss widened.

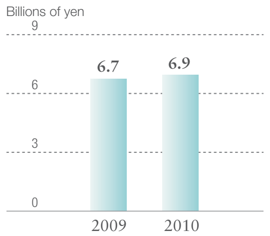


POLA INC. | ORBIS Inc.

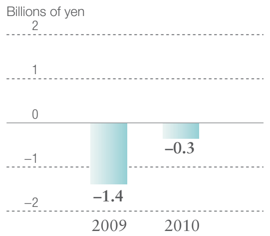
Pharmaceutical business

Development, manufacture, and sales of drugs in the dermatological field

Net sales



Operating income



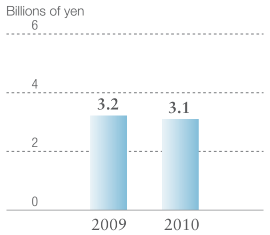
Sales of drugs, including new drugs, increased compared with the previous fiscal year. At the same time, a reduction in selling, general and administrative expenses supported a significant improvement in profitability at the operating income level.

POLA PHARMA INC. | KAYAKU CO., LTD.

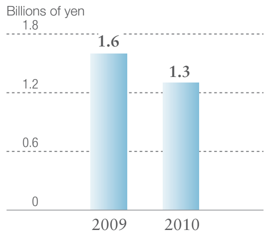
Real Estate business

Leasing business that effectively utilizes portfolio assets

Net sales



Operating income



Amid falling rents for office buildings, the Real Estate business continued its efforts to attract new tenants and reduce rent free periods, but net sales and operating income both declined year on year.

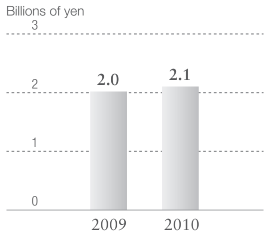
Brote Okurayama, a new residential property designed for families raising children, opened in September 2010.

P.O. REAL ESTATE INC.

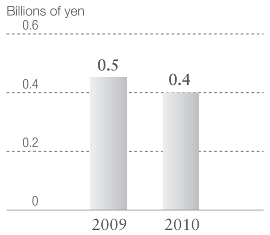
Other businesses

Providing commercial printing, building maintenance and other services

Net sales



Operating income



The building maintenance service business secured new customers and boosted average prices, but net sales in the Other businesses rose only slightly year on year as the printing business was affected by the general decline in advertising spending. Operating income declined year on year.

P.O. MEDIA SERVICE INC. | P.O. TECHNO SERVICE INC.

4 President's Message

We are aiming to deliver further growth by creating new value and adapting our business to the changing times.

POLA ORBIS HOLDINGS INC. listed on the first section of the Tokyo Stock Exchange on December 10, 2010.

Since POLA was founded in 1929, we have been actively engaged in the cosmetics industry and other businesses related to "beauty & health" and "culture." Since my appointment as President of POLA INC. in 2000, we have accelerated the pace at which we adapt our business model to changing customer needs, and this has supported stable sales and profit growth.

In order to further increase the effectiveness of our growth strategy, I believe we have to become the most recognizable Japanese cosmetics company in the minds of consumers, and this was the main reason for our decision to list on the stock market.

Underpinned by more than 80 years of corporate history, and using the listing to spur the Group's further development, we strive to generate further growth and work steadily to increase corporate value while fulfilling our social responsibility as a publicly listed company.

Satoshi Suzuki
President
鈴木郷史

An Interview with the President

Q Please tell us about the operating environment in your key Cosmetics business in Japan.

A Our core skincare products market held up well amid a generally tough operating environment in the cosmetics industry.

Consumer spending remains sluggish in Japan due to prolonged economic weakness, but there have been some positive signs, with statistics compiled by the Ministry of Economy, Trade and Industry (METI) showing a year-on-year increase in shipments of cosmetics in 2010. Although shipments of makeup cosmetics declined 0.1%, shipments of skincare cosmetics, the POLA ORBIS Group's (the Group's) main market, were firm, rising 4.5% year on year. The Japanese cosmetics market is becoming more focused on skincare products, supported by an interest in beautiful skin among Japanese women. Out of a total cosmetics market worth roughly ¥1,422 billion, skincare products account for ¥638 billion, or approximately 45%, and this ratio is rising each year.

Q Please summarize the Group's performance in fiscal 2010.

A Restructuring POLA and ORBIS brands helped support a marked increase in profits.

Against the context of this market environment, the Group launched new high value-added products and relaunched existing products, mainly in the skincare field. As a result, the amount spent per customer increased and the ratio of skincare product sales rose, underlining again our strengths as a Group. In the flagship POLA brand, we pushed ahead with efforts to develop our retail business model by expanding our chain of POLA THE BEAUTY (PB) stores, which integrate cosmetics, counseling, and esthetic treatments. In the ORBIS brand, we made steady progress with rebranding including steps to strengthen online sales and reinforce and enhance the lineup of skincare products. As a result of these efforts, sales rose 1.8% year on year to ¥165,253 million, despite a weak consumer spending environment, and we delivered strong profit growth, with operating income rising 26.4% to ¥12,270 million and net income surging 74.6% to ¥7,086 million.

Consolidated financial results for fiscal 2010

Net sales	¥165,253 million (+ 1.8% year on year)
Operating income	¥12,270 million (+26.4% year on year)
Net income	¥7,086 million (+74.6% year on year)

Q Please tell us about your initiatives for the POLA brand and the results achieved in 2010.

A We have built a new business model driven by growth in the POLA THE BEAUTY our retail business model.

In Japan, POLA has strong brand recognition, but potential customers have been unsure how to get hold of POLA products because they are mainly sold through the door-to-door sales channel. The door-to-door approach also meant we had little contact with the younger age groups we are targeting as future customers. To resolve these issues, we have been steadily increasing of PB stores, which we first opened in 2005. We have opened an average of 100 PB stores each year, reaching a total of 500 stores in 2010, and they now account for around 30% of sales in the POLA business. Sales at existing stores rose 6.9% year on year in 2010, and PB stores are playing a major role in helping us

POLA THE BEAUTY

attract new customers. Nearly 60% of our new customers are in their 20s or 30s, and we see these customer segments supporting the future growth of the whole POLA business. We also expect younger POLA ladies (sales partners) to support business growth. The expansion of the PB business means POLA has built a new business model based on a mixture of door-to-door sales and retail sales.

Our products remained very popular during fiscal 2010, with skin-whitening products *WHITE SHOT* and the reformulated *WHITISSIMO* series seeing strong sales and our top line anti-aging *B.A* series receiving 14 best cosmetics awards from leading Japanese women's magazines.

Overseas, sales in Russia and Asian markets such as China and Thailand rose year on year. P.14

Q Please tell us about your initiatives for the ORBIS brand and the results achieved in 2010.

A Brand rebuilding drove an increase in the ratio of repeat customers and the annual amount of money spent per customer, supporting sales and profit growth.

We believe we can deliver further growth in the ORBIS business in Japan by strengthening the product lineup and enhancing communication with customers. We have made steady progress with our rebranding program such as launching new skincare products which include anti-aging and skin-whitening properties together with ORBIS' key feature of "oil-free" and upgrading our online store.

CREAR series

We reformulated the *CLEAR* series of medicated skincare products and worked to promote the mainstay skincare series *AQUA FORCE* and other products to expand the customer base.

ORBIS sells its products through the catalog, online and retail store sales channels. The online site, which generates around 30% of the brand's total sales, was voted the best site for customer satisfaction in after-sales service (online category) in a Nikkei Business survey* for two consecutive years (2009 and 2010), illustrating how our fine-tuned service system is popular with customers.

These efforts have led to an increase in the ratio of repeat customers and the annual amount spent per customer, supporting sales and profit growth and higher margins.

Overseas, results in South Korea and Taiwan improved year on year on the back of efforts to stabilize profits in the mail-order business. In China, we are putting the groundwork in place for an online retail business.

*Source: Nikkei Business, July 26, 2010 P.16

Q Please update us about the brands under development.

A Sales of the THREE brand are growing steadily and we see it as our future growth driver.

THREE is a prestige brand sold through the department store sales channel. Since its launch in the autumn of 2009, sales have increased steadily and there are a total of 10 shops in department stores (as of December 31, 2010).

One of THREE's features is that it is made from carefully selected organic essential oils. Essential oils are seen as promising skincare ingredients that improve and control damage to the skin. THREE has been developed to meet the needs of Japanese women, who put great importance on skincare, and we have positioned the brand as a future growth driver. P.18

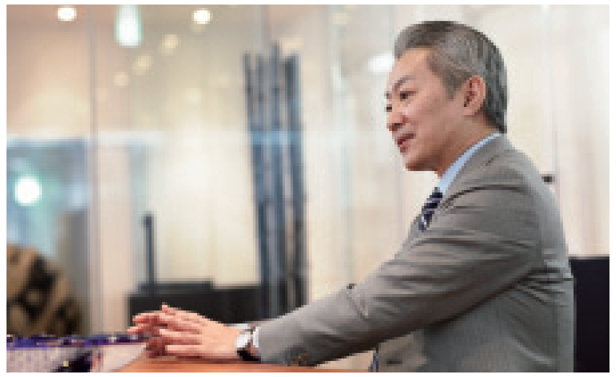
The THREE brand

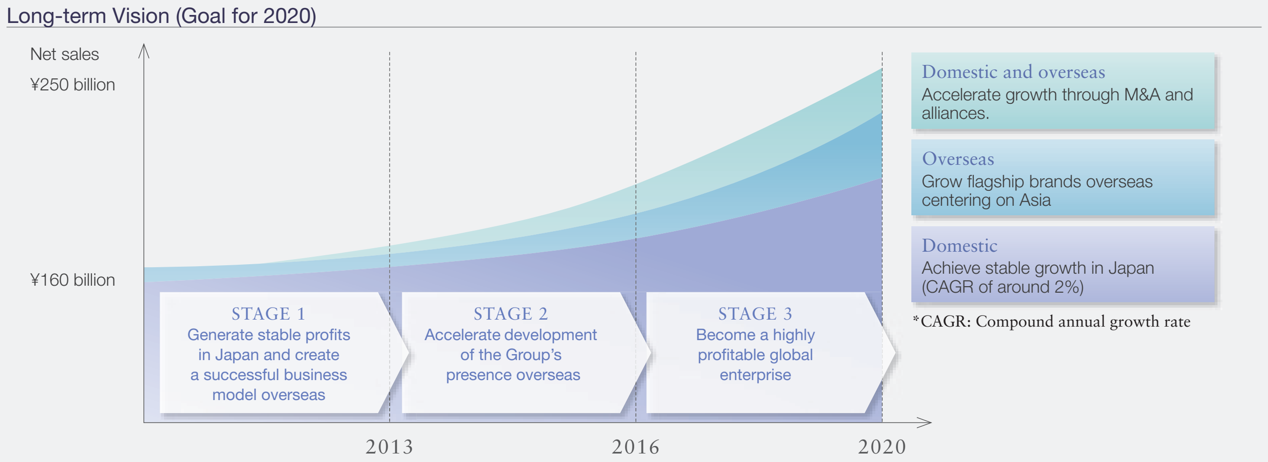
Q Please give us some details about the Group's long-term vision which was announced recently.

A Our long-term vision is to become a global beauty and health company. We also aim to create more corporate value.

Spurred by our stock market listing, we are striving to deliver new growth and boost the Group's corporate value. To achieve this, we have formulated a long-term vision and a medium-term management plan (2011–2013).

Our long-term vision describes what kind of Group we want POLA ORBIS to be in 2020. Specifically, we plan to leverage our strengths in direct marketing and research and development to accelerate the development of the Group's overseas presence, centered on flagship brands, and ultimately become a global enterprise in the field of beauty and health.





Long-term Vision management indicators in 2020

Net sales	Operating margin	Overseas sales ratio
¥250 billion or more	13–15% (Top level in the industry)	20% or more

Q Please summarize the current medium-term management plan (2011–2013).

A We are aiming to generate stable profits through stronger flagship brands, accelerate the growth of brands under development, enhance the Group's overseas presence, and invest to reinforce research and development.

Strategy 1: Generate stable profits with flagship brands

The operating environment in Japan remains challenging due to sluggish consumer spending amid prolonged weakness in the economy. However, we are starting to see clear benefits from the restructure of our flagship POLA and ORBIS brands, so we think it is possible to improve our domestic market share.

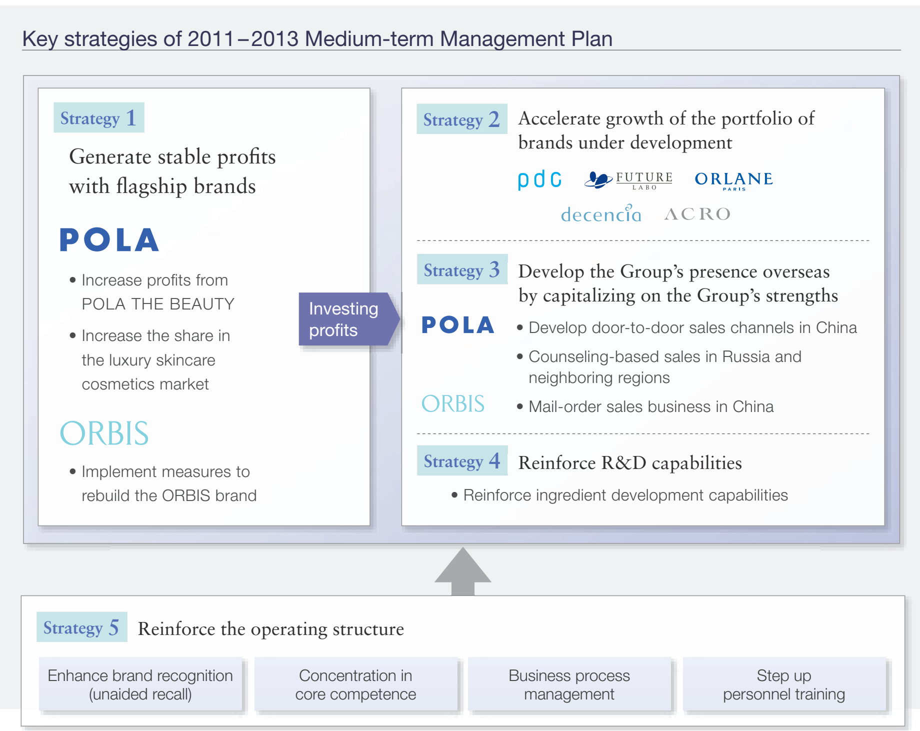
In the POLA business, we plan to continue opening our strong-performing PB stores, with a store opening program focused on quality set to boost the network to 600 stores by 2013. In terms of our products and services, we plan to focus on luxury skincare and counseling.

We will continue to push ahead with our brand rebuilding program in the ORBIS business. In addition to innovative oil-free products, we plan to continue reinforcing online sales. Our goals are to boost the amount of money spent per customer and increase the ratio of repeat customers by developing the ORBIS brand further, so that customers will continue to buy our products for many years to come.

And by boosting profitability, we will target an operating margin of 10% in the Group's domestic operations by 2013.

Strategy 2: Accelerate growth of the portfolio of brands under development

We are targeting total sales of ¥10 billion as early as possible from five brands under development. By creating unique identities for each brand, to match their respective sales channel and market, we plan to boost market share.



Strategy 3: Develop the Group's presence overseas

The POLA ORBIS Group's overseas sales ratio currently stands at only a few percent, but we plan to accelerate our efforts to boost the Group's overseas sales by tapping our recent successes in the domestic market.

Positioning emerging markets such as high-growth China as our main target markets, we are aiming for average annual sales growth of 20–30% by leveraging strengths such as our expertise in door-to-door sales nurtured since POLA was founded and the success of our sales channel-mix strategy in the ORBIS business.

In the POLA business, we launched POLA as a premium brand in China in the department store sales channel in 2005, and we are now targeting further growth by building our presence in door-to-door sales. In Russia and surrounding countries such as Ukraine, we now have selling spaces in chain of around 50 perfumeries (boutiques handling luxury cosmetics). We intend to actively increase the number of stores and strengthen counseling-based sales.

The ORBIS business continues to growth steadily in Taiwan and South Korea. We will work to attract more customers by implementing aggressive advertising and promotional campaigns in Taiwan and by rolling out online initiatives to win over customers in South Korea. We will put the groundwork in place for the ORBIS business in China with an eye on launching online sales as quickly as possible.

Strategy 4: Reinforce R&D capabilities

We plan to continue investing 2–3% of consolidated net sales in research and development to reinforce our capabilities in ingredients for skin-whitening, anti-aging and other areas of skincare.

Strategy 5: Reinforce the operating structure

In order to achieve the above goals, we plan to build a framework that supports healthy business expansion based on management independence for Group companies. Specific steps include preventing inefficient investment, implementing business process management based on key performance indicators (KPI), and training the Group's future leaders.

Q What is your policy on returning profits to shareholders?

A Our policy is to pay a stable dividend of ¥40 per share with increases in line with earnings performance.

The year-end dividend for fiscal 2010 is ¥40 per share. We will introduce an interim dividend from fiscal 2011 and plan to pay an annual dividend of ¥45 for the year (comprising an interim dividend of ¥20 and a year-end dividend of ¥25).

Q Could you please end the interview with a message to the Group's stakeholders.

A Leveraging our flexibility to adapt to change, we will work to deliver sustained growth and make an even greater contribution to society.

The POLA ORBIS Group has been in business for more than 80 years and during that time we have stayed true to our ideal of making and selling all our products ourselves. At the same time, we have continued to adapt flexibly to the changing times, driving change from within to create a new growth model. Going forward, we plan to continue adapting and growing in step with customers and society.

We would like to thank all our shareholders and other investors for their continuous support.

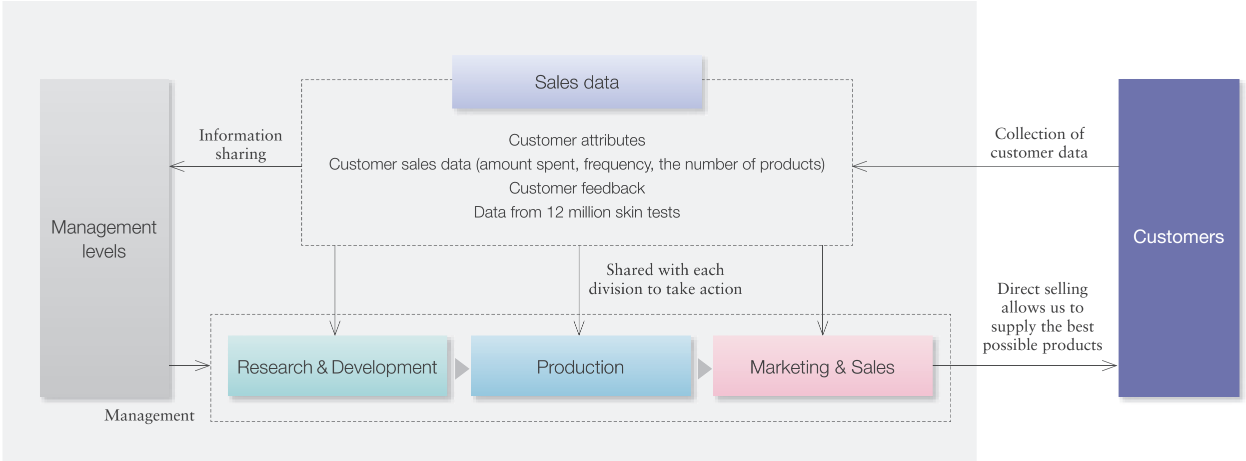
5 The Strengths of the POLA ORBIS Group's Cosmetics Business

A unique value chain that allows us to supply products and services best-suited to the needs of our customers

Our fundamental approach since the Group was founded has been to make and sell all our products by ourselves. As a result, we have built a unique integrated value chain that covers everything from product research through to sales.

We believe two of the strengths in our Cosmetics business are research & development and marketing & sales.

Through direct marketing, we deal with our customers directly, giving us access to information such as real time sales data and feedback from our customers. All organizations within the Group, from management through to research & development and marketing & sales, share and use this data, allowing us to respond flexibly to changes in the market.

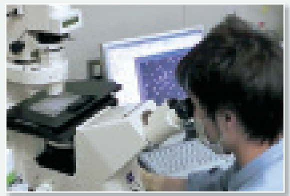


Research & Development

Strength 1 Development of anti-aging and skin whitening materials

We are focusing our research efforts on skin blemishes and wrinkles, two of the areas that give women most concern. Using roughly 12 million* skin data gained through our sales activities, we have developed proprietary anti-aging and skin whitening ingredients that we can use exclusively in our products.

*As of December 31, 2010



Efforts and results

We continue to actively develop a wide range of innovative products in pursuit of beauty. We have opened the door to a new era of beauty in the fields of anti-aging and whitening with Japan's first cosmetics to proclaim skin-whitening properties and the world's first cosmetics product containing hyaluronic acid.

These research & development successes have been recognized internationally, with the Group winning a total of five awards at the International Federation of Societies of Cosmetic Chemists (IFSCC) World Congress–the Olympics of the cosmetics industry–including the highest award on three occasions.

A history of innovative products

Japan first 1951
Skin-whitening
POLA

Japan's first cosmetic to proclaim skin-whitening properties

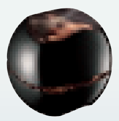
World first 1982
Hyaluronic acid
POLA

Perbona: the world's first cosmetic product to contain hyaluronic acid

World first 1987
Oil-free
ORBIS

The world's first totally oil-free skincare product

New concepts 2009
Anti-glycation
POLA



The new *B.A* series of anti-aging products focused on preventing glycation

Marketing & Sales

Strength 2 Direct contact with customers enabling tailored customer service

We have direct contact with customers through our direct marketing approach, allowing us to offer our customers the products and services best-suited to their needs. We can also tap into potential needs by using customer data.

Efforts and results

We have built relationships of trust with our customers by using tailored customer service to offer them the best products and services for their needs.

And by analyzing and using the data we gather from our sales contacts, we can rapidly change the direction of our business to match changing times and markets. In recent years, as part of our efforts to boost customer satisfaction and expand our business, we have opened POLA THE BEAUTY stores in the POLA business and started rebuilding the ORBIS brand in response to changing lifestyles and customer needs.

Evolving retail business model in the POLA brand: POLA THE BEAUTY stores

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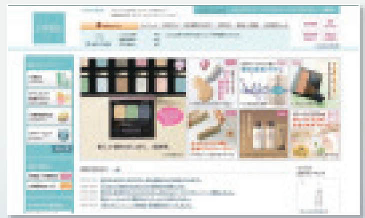


Rebuilding the ORBIS brand to target future growth

P.16

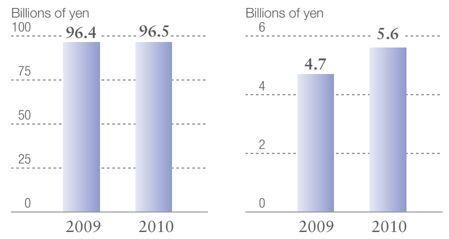
6 The POLA Brand

POLA

High-prestige products with personalized service offered primarily via door-to-door sales

POLA's basic information

Products	Strength in anti-aging and whitening skincare products
Service	Counseling, skin analysis, esthetic service
Channels	Door-to-door sales (POLA THE BEAUTY, Esthe Inn, and other door-to-door sales style business) Other (department stores, business use, overseas)
Overseas	Russia, China, Thailand and eleven other nations and regions



* Includes fashion business
* Sales and operating income on a consolidated basis

Products

We offer high-prestige products enriched with the latest technology.

Our particular strength is in anti-aging and whitening skincare. In these two fields, we possess proprietary materials.

Early to focus on skin glycation, we pioneered anti-glycation, a new avenue of anti-aging skincare research. The four new products in the *B.A* skincare series introduced in autumn 2010 employ the latest technology and contain unique ingredients effective for anti-glycation. The increasingly popular *B.A* series of products have won 14 best cosmetics awards from prestigious fashion and cosmetics magazines.

B.A series

WHITE SHOT series

Service

Cell-level skin analysis of our unique skin check system applied in APEX-i series enables quantitative assessment of individuals' skin conditions, such as moisturizing ability, resilience, the amount of melanin, and proneness to wrinkling.

Our esthetic treatments are based on a holistic approach to improve the skin, the mind, and the body through comprehensive care. By meticulous counseling and the use of skillful techniques, our exclusive estheticians help customers relax.

Face-to-face counseling is the key to knowing individual customers' skin conditions, making it possible for us to offer a service that delivers outstanding customer satisfaction.

Esthetic treatments

Skin check

Sales channels

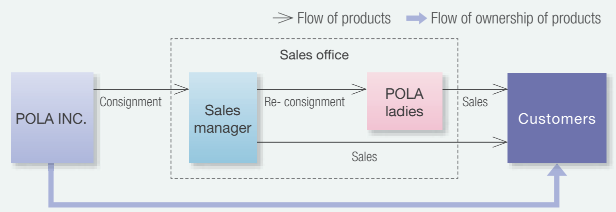
Door-to-door sales are POLA's principal sales channel. Over 120,000 POLA ladies are engaged in face-to-face sales with customers nationwide. They determine each customer's skin condition through counseling and then make a personalized proposal corresponding to the customer's, age and concerns, as well as to the season.

Through this customer-centric approach, we cultivate the enduring customer relationships that are our greatest strength.

Counseling

Our door-to-door sales channel employs a consignment sales system.

The sales of POLA INC. are recognized when sales managers or POLA ladies sell products to customers, and POLA INC. pays sales commissions corresponding to the sales results.



TOPICS

Evolving retail business model in the POLA brand: POLA THE BEAUTY stores

Achievements of the POLA THE BEAUTY approach

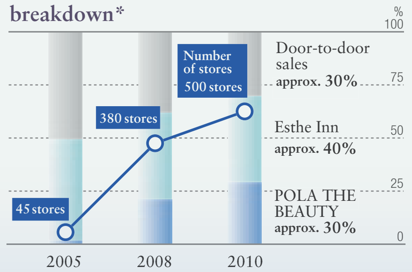
- Establishment of a new business model
- Increase in younger POLA ladies
- 60% of new customers are in their 20s or 30s

POLA THE BEAUTY (PB) retail stores integrating cosmetics, counseling, and esthetic treatments are operated by POLA ladies (sales partners).

We launched PB in 2005 in response to the changing social environment. Increasingly, women are making their presence felt in almost every sphere and spending less time at home. PB stores are in prime locations adjacent to railway stations or in commercial districts with the power to attract customers. Visual merchandising and consistent service quality add luster to the distinctive POLA brand. There were 500 PB stores nationwide at the end of 2010. As a result of their remarkable sales growth, they now account for about 30% of the cosmetics sales of POLA's total business. Women in their 20s and 30s now account for about 60% of our new customers.

Positioning PB as a growth driver, our aim is to build a network of 600 PB stores by 2013.

POLA's door-to-door sales business breakdown*



* Ratio of sales of each business format to sales of the door-to-door sales business

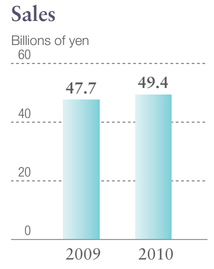
7 The ORBIS Brand

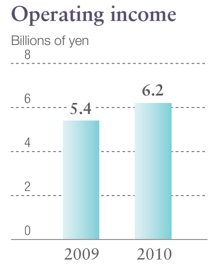
ORBIS

100% OIL-CUT (oil-free) skincare products with superb customer service via mail-order sales and retail stores

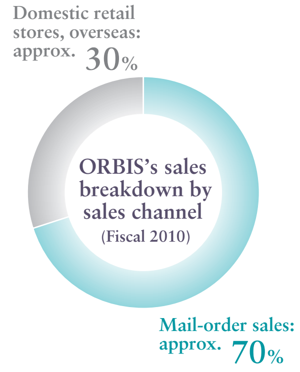
ORBIS's basic information

Products	100% OIL-CUT (oil-free), fragrance-free, and pigment-free products
Service	"Fulfillment system" offering free shipping, and free return and replacement within 30 days, etc.
Channels	Mail-order sales, store sales, overseas sales
Overseas	Taiwan, South Korea, China, and Hong Kong





* Includes fashion business
* Sales and operating income on a consolidated basis



Products

ORBIS offers skincare products based on the "100% oil free" concept. Instead of covering the skin surface with oil to seal moisture in the skin, ORBIS skincare is designed to enhance the skin's homeostasis from the cell level in the horny layer by the power of water. Products delivering benefits and ensuring safety underpinned by the latest science are offered at attractive prices.

AQUA FORCE series

Service

Utilizing a unique order fulfillment system that manages the entire process from order-taking and shipping to payment and return items, ORBIS provides high-value-added service, including free shipping throughout Japan even for a single item and free returns and replacements within 30 days.

ORBIS's online store is highly recognized. It was placed at the top for two consecutive years in the After-sales Service Satisfaction Ranking (online shop category)* by Nikkei Business, a magazine.

*Source: Nikkei Business, July 26, 2010

Call center

Sales channels

Mail-order is our principal sales channel. For ultimate convenience, customers can order ORBIS products by using any of seven methods: toll-free phone, toll-free fax, postpaid postcard, postpaid envelope, 24-hour automated phone order-taking, Internet, and mobile website.

We launched sales of ORBIS products in 2000, initially in stores so that consumers could try out ORBIS products for themselves directly. At the end of December 2010, there were 111 ORBIS stores throughout Japan.

mail-order catalog

ORBIS THE SHOP

TOPICS

Rebuilding the ORBIS brand for future growth

Achievements through rebuilding of ORBIS brand

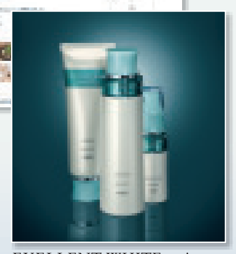
Results for fiscal 2010 (change from the previous year)

- Sales: +3.6% / Operating income: +15.0%
- Annual customer spending
  Mail-order sales: +3.9%
  Retail store sales: +4.6%
- % of mail-order skincare purchasers: +2.9 pp
- % of mail-order customers who repeat: +1.2 pp
- % of web mail-orders received among entire mail-order: +2.5 pp

We are restructuring the ORBIS brand to enhance brand loyalty among customers and strengthen earning power.

By reinforcing online sales for customer convenience and offering enhanced skincare products to cultivate loyal customers who make ORBIS part of their lifestyle, we aim to deliver greater customer satisfaction. Our quantitative target is to achieve an operating margin of 15% in 2013.

Internet shopping site



EXELLENT WHITE series

Enriching skincare

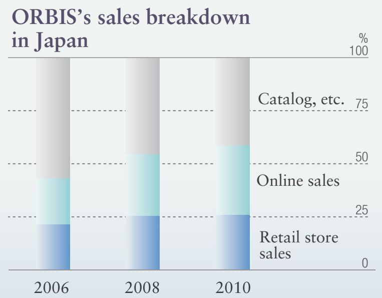
While restructuring the ORBIS brand, we have sharpened our focus on skincare, a field where we excel. We are emphasizing products that are oil-free yet leave users in no doubt of their high moisturization performance. The *EXCELLENT WHITE* series launched in autumn 2010 for comprehensive care of blemishes associated with aging skin, such as spots and wrinkles, have gained widespread popularity.

By enriching skincare products, we seek to cultivate loyal customers who make ORBIS part of their lifestyle, then try to improve profitability.

Reinforcing online sales

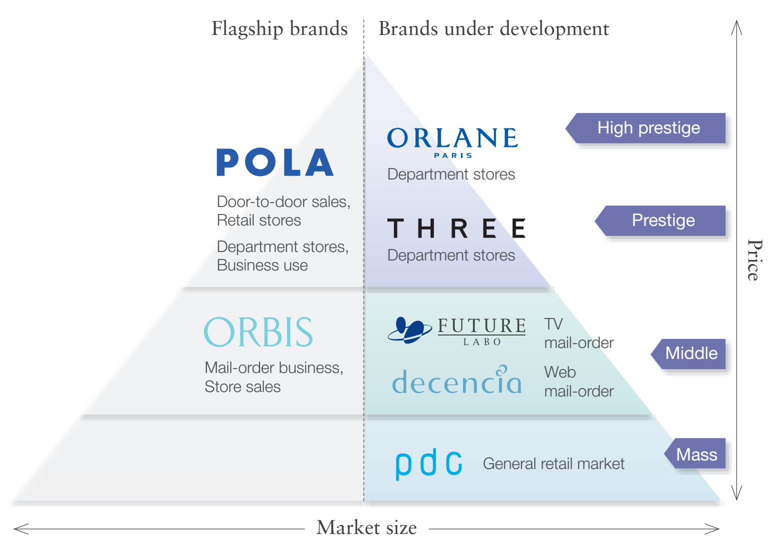
We are reinforcing online sales in step with the times and evolving customer needs. By enriching the online shopping experience and utilizing data on customer purchasing behavior, we aspire to one-to-one communication over the Internet so that we can offer the optimum products to each customer.

Through these initiatives we aim to increase the annual amount spent per customer and the ratio of repeat customers. At the same time, the shift away from printed catalogs will lead to both greater profitability and improved environmental performance.



8 Brands under Development

Brand Portfolio



Developing brands by channel and price band to power growth

POLA ORBIS Group is responding to diversified customer values and needs in a changing society by developing five brands under development to power the Group's future growth. Through brand development corresponding to channels and price bands, we are cultivating a distinctive brand identity while increasing each brand's market share as well as the Group's.

THREE

ACRO INC.

ACRO offers natural skincare products and makeup items generated from free spirit. As a prestige brand pursuing what women want now, THREE brand cosmetics have been sold since autumn 2009 mainly at department stores in urban areas.

ORLANE PARIS

ORLANE JAPON INC.

ORLANE JAPON is the exclusive distributor in Japan for ORLANE, a luxury brand from France with a 60-year history centering on anti-aging skincare cosmetics. ORLANE brand cosmetics are sold at department stores and directly operated stores that include esthetic salons.

FUTURE LABO

FUTURE LABO INC.

FUTURE LABO offers cosmetics and supplements mainly for whitening and anti-aging skincare that are sold through TV shopping channels. A wealth of scientific evidence attests to the safety of these products.

decencia

decencia INC.

decencia offers skincare products for dry, sensitive skin that feature patented technology developed jointly by POLA R&D Center and a pharmaceutical manufacturer. Products are offered through mail-order sales, primarily online sales.

pdc

pdc INC.

Specializing in skincare products, pdc follows the basic concept of providing articles at reasonable prices. The company offers products mainly in the general retail market such as drug stores.

9 R&D and Production

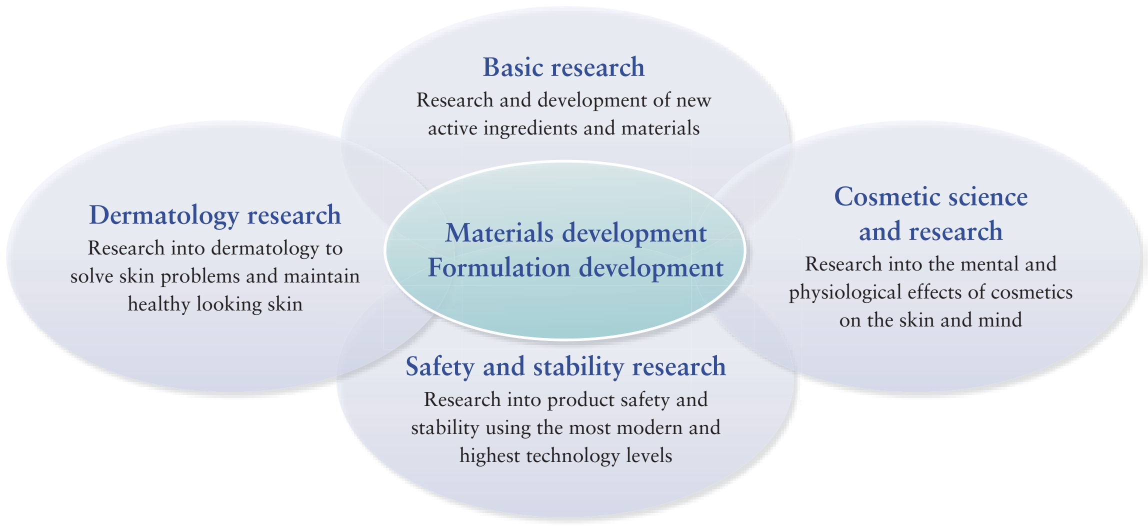
R&D policy

Our R&D policy is to create excellent products that inspire all people and touch their hearts.


POLA Yokohama Research Center

R&D to support direct marketing

Information gathered in the course of direct marketing and fed back to R&D is reflected in the creation of unique whitening active ingredients and anti-aging skincare technologies. In R&D, we emphasize both physical and mental approaches. In addition to dermatology research, basic research, and safety and stability research, our R&D fields also include cosmetic science and research into mental and physiological effects, such as relationships between psychological states and the skin and the impact on the skin of exposure to light.



Production—Swiftly responding to market needs with diverse products and small-lot production

Shizuoka Factory and Fukuroi Factory manufacture cosmetics of the POLA ORBIS Group. They emphasize diverse products and small-lot production and exploit sales data obtained in the value chain to flexibly respond to changing market needs. Comprehensive hygiene management is implemented at production lines to ensure product safety and quality. As cosmetics are applied directly to the skin, our products are scrupulously manufactured in an ultra-clean environment. Both factories are ISO 9001 certified for quality management systems and have put in place comprehensive quality assurance systems throughout the production process.

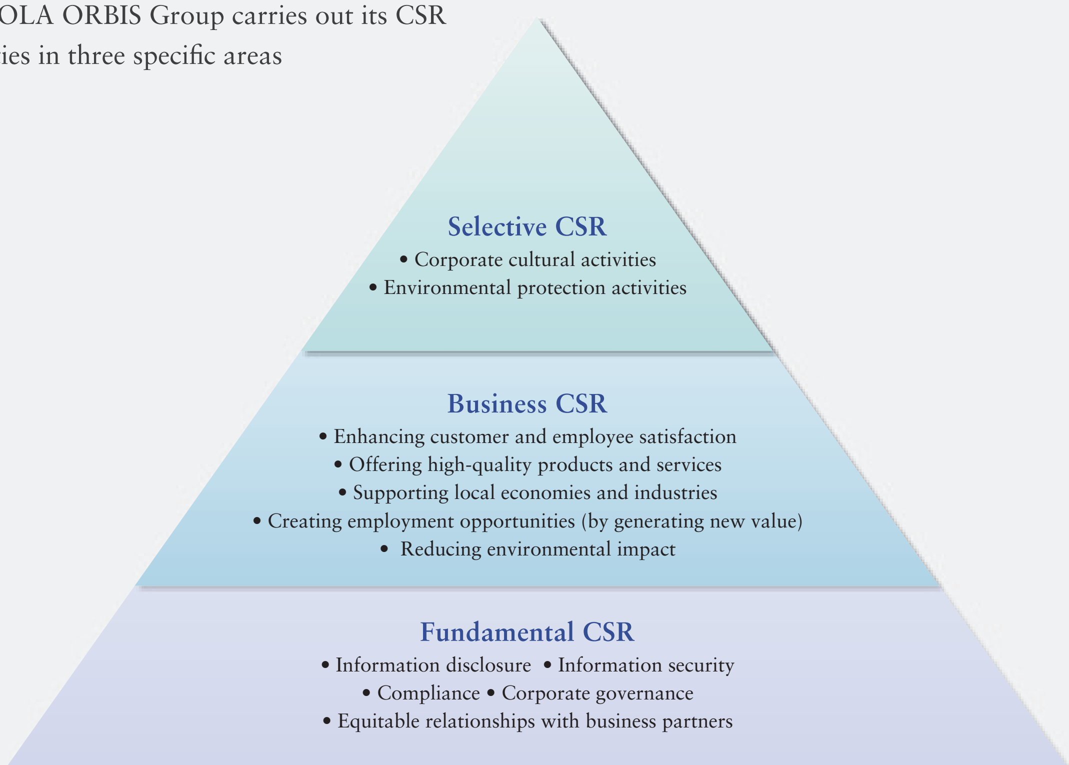

Fukuroi Factory

10 Corporate Social Responsibility

Our efforts to secure and retain public trust

Guided by our founding ethos, "Find happiness in giving happiness," the POLA ORBIS Group has consistently sought to build a brand that is loved and trusted by the public. Nurturing this ethos, we aim to "Fulfill our responsibilities as a good corporate citizen and contribute to society" through our CSR activities.

The POLA ORBIS Group carries out its CSR activities in three specific areas



Selective CSR

Active corporate culture and environmental protection programs that make significant contributions to society and enrich our core business.

Business CSR

Programs implemented through our core business and in cooperation with stakeholders to support sustainable development, such as enhancing customer and employee satisfaction, providing high-quality products and services, supporting local economies and industries, and creating employment opportunities by generating new value.

Fundamental CSR

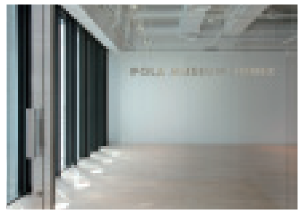
Fundamental activities that all companies should carry out, such as compliance with laws, regulations and public morals, corporate governance related to the Group's operating structure, and information disclosure to meet corporate standards of accountability.

10-1 Selective CSR: Contributing to a spiritually richer, more beautiful future

Cultural activities

Holding special exhibitions to promote the arts —POLA Museum Annex (est. 2002)

The POLA Museum Annex, inside the POLA Ginza Building, holds special free entry exhibitions featuring artworks in the POLA Collection and modern art to encourage greater public interest in the arts. Events held in 2010 included Oto no Deru Tenrankai (an exhibition of oil paintings themed around music) and the Matisse JAZZ Exhibition centered on artworks in the POLA Museum of Art's collection.


POLA Museum Annex

Giving society the benefit of years of research into the culture of cosmetics —POLA Research Institute of Beauty and Culture (est. 1976)

The POLA Research Institute of Beauty and Culture conducts independent research into the culture of cosmetics from every angle of the social sciences and humanities. The results of this research are widely available to the public via publications, survey reports, and exhibitions. Through its research, the institute has accumulated around 6,500 high-value cosmetics articles and accessories and 15,000 literary documents.



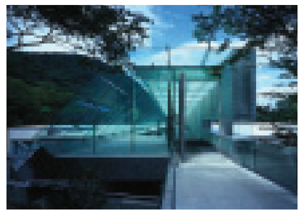
Antique cosmetics articles

Cultural support activities

Funding activities in support of young artists, managing art museums and conducting research surveys —Pola Art Foundation (est. 1996)

The Pola Art Foundation provides assistance to young artists studying overseas, museum staff conducting research, and those participating in art-related international exchanges. The foundation provided assistance to 36 projects in 2010.

The foundation also exhibits pieces well-known to the general public at the POLA Museum of Art in Hakone (est. 2002), visited by more than 200,000 people annually, and conducts artwork research and educational programs. Special exhibitions held in 2010 included, Garden and Interior Visions of Intimate World by Bonnard and Matisse, Mineral Colors, Myriad Images: Nihonga from the Collection, and Henri Rousseau Under Paris Skies.


POLA Museum of Art
© Mamoru Ishiguro

Recording, preserving and promoting Japan's intangible cultural assets —Pola Foundation for the Promotion of Traditional Japanese Culture (est. 1979)

The Pola Foundation for the Promotion of Traditional Japanese Culture carries out activities to encourage the handing down of traditional Japanese culture such as arts, crafts, performance art, and folk traditions to future generations. The foundation also presents the Pola Traditional Culture Prize to foster the activities of individuals or groups that have contributed to traditional culture.

10-2 Business CSR: Fulfilling our social responsibility through our core business activities

POLA

Promoting Japan to the World — 3·9 Project

POLA launched the 3·9 (pronounced “thank you” in Japanese) Project in 2009 to promote the essence of Japan’s renown monozukuri (product creation) capabilities and energize local industry through its corporate activities. POLA has added new value to the traditional craftsmanship techniques found in the various regions of Japan by realizing product designs that bring discovery and joy to customers every time they look at or use one of our products.

日本のよいものを未来まで
日本 世界 地域 匠
デザイン 伝統 革新 発見
経済 持続 もてなし 協働

“3·9 Project” logo

Women’s mineral water containing deep sea water

POLA DEEP SEA WATER

Together with NISACO Co., Ltd., we have developed a new mineral water for women called *POLA DEEP SEA WATER*.

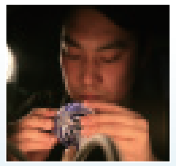
POLA DEEP SEA WATER contains sea water drawn from 332m below sea level off Sado Island in Niigata Prefecture. The sea water is rich in minerals and contains almost no contaminants because it has not been exposed to land and atmospheric pollution. We have added nutrients vital for human health and beauty and launched the beverage as a nutritional product.

POLA and traditional craftsmanship meet in the world’s first cosmetics container made from Edo Kiriko cut glass

To mark the company’s 80th anniversary, we launched *POLA B.A THE CREAM EDO KIRIKO* in 2009. This unique product packages our highest quality skin cream in a container made from Japan’s world-famous Edo Kiriko cut glass.

Entirely handcrafted, the Edo Kiriko container presented challenges for the craftsmen, as they were required to work to an accuracy of 1/100th of a millimeter to ensure it sealed tightly. The result is the world’s first Edo Kiriko cut glass cosmetics container that offers our customers new value by bringing art and craft into their everyday lives while also being highly usable.

POLA B.A THE CREAM EDO KIRIKO



Edo Kiriko is entirely handcrafted by a team of craftsman each responsible for different parts of the process

ORBIS

Efforts to reduce environmental impact that avoid conventional thinking

Since it was established, ORBIS has eschewed the conventional view that packaging is a vital part of cosmetics products, and this has guided its efforts to use simple packaging to reduce the impact of its products on the environment. Many of its products are packaged in only simple film bags which are filled with air to act as cushions during transit, preventing any damage to the contents. ORBIS also offers refills for skincare products and nutritional supplements when the characteristics of the products allow.

Product refills

Simple packaging

10-2 Fundamental CSR: Securing and retaining public trust

Corporate governance

Basic approach

The POLA ORBIS Group follows a multi-brand strategy, with each operating company in the Group essentially allowed to manage its operations autonomously and independently. As the holding company, POLA ORBIS HOLDINGS INC. retains management control over each operating company with the aim of increasing shareholder value by ensuring sound and efficient management.

The Group has formulated the POLA ORBIS Group Action Platform (“Action Platform” hereafter) that sets out regulations governing legal compliance, environmental protection, investor relations and other matters. All executives and employees are required to make a pledge to act in accordance with the Action Platform.

Features of the Group’s corporate governance framework

The Company has a Board of Directors and a Board of Corporate Auditors. The President of the Company is the Chairman of the Board of Directors while the statutory auditor is the Chairman of the Board of Corporate Auditors. The Company holds Group Strategy Meetings (management meetings) every month. Operational responsibility has been clarified under a pure holding company that oversees operating companies responsible for multiple cosmetics brands.

The Board of Directors and Group Strategy Meetings

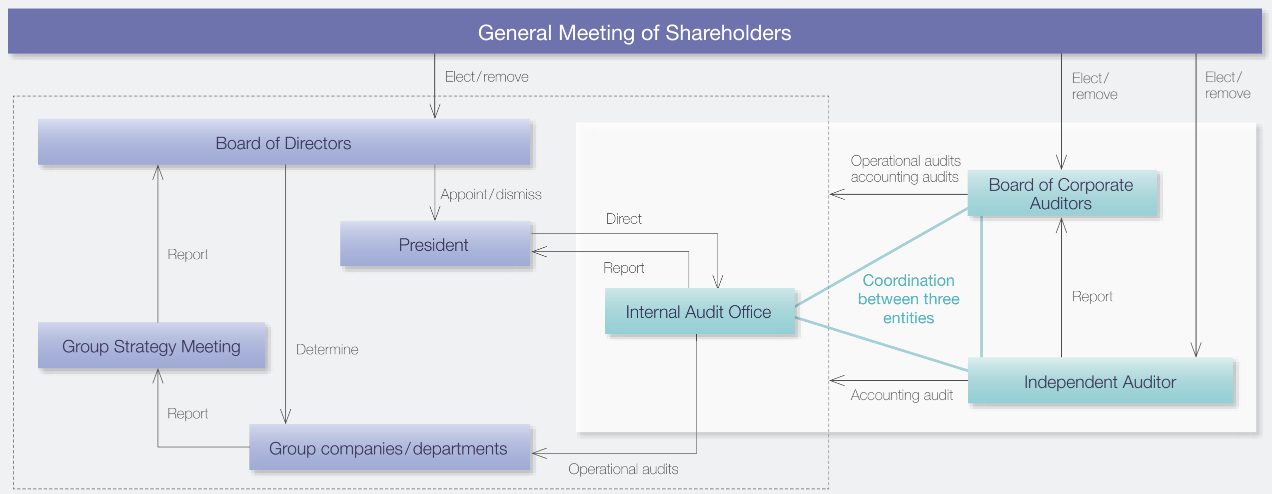
The Board of Directors, comprising seven directors, is responsible for improving the performance of the Group and employs a system that facilitates rapid decisions regarding the management of subsidiaries and key issues facing the Group. The directors are entrusted with the necessary authority to carry out these duties. Corporate auditors also attend meetings of the Board of Directors and offer their frank opinions.

Meetings of the Board of Directors are held at least once every month. In fiscal 2010, the Board of Directors met 31 times (including extraordinary meetings). The directors had a 100% attendance record.

In addition to fulfilling its duties as set out by law and the Company’s Articles of Incorporation, the Board of Directors contributes to corporate governance by passing resolutions and reporting on important management matters, such as the analysis of differences between monthly forecasts and actual performance, and conducting discussions in response to the views of each director and corporate auditor.

Group Strategy Meetings are held with the aim of increasing the profits and supporting the development of the entire Group. Group Strategy Meetings are attended by the Company’s directors and corporate auditors, as well as by subsidiary presidents, directors, or others appointed by resolutions of the Board of Directors. The committee deliberates on important Company and subsidiary matters that are reported to it by the Group companies.

Corporate governance structure



Internal audits, audits by corporate auditors, and accounting audits

The Company's Board of Corporate Auditors comprises one statutory auditor and two part-time outside corporate auditors as defined by Article 2-16 of Japan's Companies Act. Corporate auditors attend the General Meeting of Shareholders, meetings of the Board of Directors, Group Strategy Meetings and other important meetings, where they receive reports from directors, employees and the accounting auditor and monitor the executive duties of the directors.

The Company's Internal Audit Office (eight staff as of December 31, 2010) serves as its Internal Audit Department. The Internal Audit Office is under the direct control of the Company's President, separating it from other lines of business execution. From its independent and objective position, the Internal Audit Office strives to conduct highly effective internal audits to ensure sound and appropriate management at Group companies.

The Company's corporate auditors work together with the Internal Audit Department (Internal Audit Office), receiving reports on internal audits in principle every month and closely sharing information. The Company also works to increase the effectiveness and efficiency of audits by conducting audits with the participation of the independent auditor (Ernst & Young ShinNihon LLC) as well as the Internal Audit Department and corporate auditors. All three parties share their views on the content of audit reports and management issues.

Director remuneration

Total amounts available for remuneration for directors and for corporate auditors are determined in accordance with the share transfer plan drawn up when the Company was established. Remuneration for directors is decided by the Board of Directors based on Company regulations up to the aforementioned maximum allowable level, and takes into account factors such as each director's contribution to the Company's earnings. Remuneration for corporate auditors is decided by deliberation among the Board of Corporate Auditors up to the aforementioned maximum allowable level and is based on the respective duties and responsibilities of each auditor.

The Company has also established a retirement benefits system for directors. In accordance with Company regulations, provisions for directors' retirement benefits are made each business year for each director during their tenure.

In fiscal 2010, a total of ¥205 million was paid to ten directors and corporate auditors, of which a total of ¥13 million was paid to the two outside auditors.

Internal control system

The Company's Board of Directors has passed a resolution that sets out the basic policy for the internal control system related to the following areas: ensuring directors carry out their executive duties efficiently; retaining and managing information related to the executive duties of the directors; formulating regulations for loss and crisis management and other systems; implementing measures to upgrade the compliance system; implementing measures to upgrade the system that ensures appropriate business practices at Group companies; establishing a system for individuals who are required to support the corporate auditors and their duties in the event that the corporate auditors request such a person; establishing a system that allows directors and employees to provide reports to corporate auditors, a system that allows the submission of reports to other auditors; establishing a system to ensure other auditors carry out their duties effectively; formulating and improving the Company's basic policy on eliminating anti-social forces; and financial reporting.

Compliance system

The Group CSR Committee has been established directly below the Board of Directors and is responsible for the compliance system across the Group. Additionally, Group companies have also, depending on their size, established a CSR office or CSR support administrator to support the compliance system within their organizations. Awareness is likewise promoted through a CSR handbook which is distributed to all group executives and employees, while all executives and employees are required to submit a written pledge to uphold certain standards of CSR.

Risk management system

In order to mitigate risk in the Group's business activities and minimize any losses, the Company has established risk management regulations to ensure continuous and stable business operation. Risk management under normal conditions is conducted by the boards of directors of Group companies, which deliberate and decide on risk management matters such as basic policy, annual plans, budget allocation, the composition of working groups, progress management, and the development and flow of remedial measures.

Meanwhile, the Company has established crisis control regulations to provide a fundamental framework in the event of major risk events (crises) that have a significant impact on the Group's management and that require a rapid response. All executives and employees at Group companies are required to be aware that crisis control is an important part of management and business activities when carrying out their duties.

11 Directors and Corporate Auditors (As of December 31, 2010)

Directors

Satoshi Suzuki
President

Motto:
Find happiness in giving happiness

Takao Miura
Executive Vice President

Motto:
Revere heaven, love man

Akira Fujii
Vice President

Motto:
Be yourself

Naoki Kume
Vice President

Motto:
What doesn't kill you makes you stronger

Hiroki Suzuki
Vice President

Motto:
He who does not pause to consider what is distant shall find sorrow near at hand

Yasuo Iwazaki
Vice President

Motto:
Creativity opens the door to new worlds

Shigeo Takatani
Vice President

Motto:
The value of a man is determined not by what he achieved, but what he tried to achieve

Corporate Auditors

Osamu Sugimoto
Auditor

Motto:
Follow a sincere path and everything will turn out for the better

Akio Sato
Outside Auditor

Motto:
Always do your best

Motohiko Nakamura
Outside Auditor

Motto:
Cool head, but warm heart

*Akio Sato and Motohiko Nakamura are Outside Auditors as stipulated in Article 2, Paragraph 16 of the Japan's Companies Act.

12 Financial Section

Contents

12-1 Three-Year Summary of Selected Financial Data

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

	Millions of yen (Except per share data)			Thousands of U.S. dollars (Note 1) (Except per share data)
Years ended or at December 31	2010	2009	2008	2010
Operating results				
Net sales	¥165,253	¥162,332	¥170,838	$2,027,897
Operating income	12,270	9,706	10,868	150,577
Operating margin (%)	7.4	6.0	6.4	
Net income	7,086	4,059	6,559	86,961
Net income per share	137.36	79.16	127.91	1.69
Financial position				
Net assets	153,104	140,890	137,564	1,878,810
Total assets	187,771	181,909	180,664	2,304,233
Net assets per share	2,767.55	2,743.87	2,677.47	33.96
Cash flows				
Cash flows from operating activities	17,906	12,530	16,419	219,743
Cash flows from investing activities	(40,367)	(4,374)	(5,808)	(495,366)
Cash flows from financing activities	(2,789)	(1,125)	36	(34,231)
Cash and cash equivalents at end of year	¥ 43,507	¥ 68,817	¥ 61,803	$ 533,902
Financial indicators				
Equity ratio (%)	81.5	77.4	76.0	
Return on equity (%)	4.8	2.9	4.9	
Price-earnings ratio (times)	12.3	—	—	
Number of employees	3,773	3,713	3,603	
Average number of temporary-hired workers	1,872	1,906	2,103	

(Notes) 1. Dollar amounts have been shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1=¥81.49 as of December 31, 2010.
2. Net sales do not include consumption taxes.
3. The price-earnings ratio has not been shown for fiscal 2008 and 2009 as the stock was not listed.
4. Number of employees is the number of people working for the Group.

12-2 Management’s Discussion and Analysis

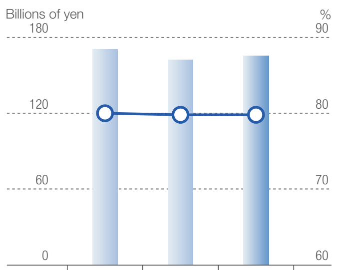
Overview of operations

The Japanese economy showed signs of a pickup in corporate earnings and consumer spending in the second half of 2010, but the economic recovery remained weak overall due to unstable domestic and international political conditions, the continued strong yen, and a deteriorating employment situation.

In the cosmetics industry, the POLA ORBIS Group’s (“the Group”) main business area, shipment statistics compiled by the Ministry of Economy, Trade and Industry (METI) showed some positive signs, with shipments of cosmetics in Japan, especially those of skincare cosmetics, exceeding the level in the previous year. However, the recovery was limited, with sales of makeup cosmetics remaining weak. Meanwhile, cosmetics companies with an international presence and that rely on the Asian region as a source of growth will probably continue to implement aggressive strategies in Asia.

Against this backdrop, in fiscal 2010, the Group sought to respond rapidly to changes in the market environment, guided by the Group philosophy of “Inspire all people and touch their heart,” and implemented a range of measures aimed at boosting earnings growth in line with the objectives of its medium-term management plan. As a result, the Group reported higher sales and profits year on year.

Net sales and gross margin



	2008	2009	2010
Net sales (Billions of yen)	170.8	162.3	165.3
Gross margin (%)	80.0	79.8	79.8

Analysis of operating results –Comparison of fiscal 2010 and fiscal 2009

Net sales

Net sales increased 1.8% year on year to ¥165,253 million. This mainly reflected sales growth at the Group’s two core companies in their Cosmetics business, POLA INC. and ORBIS Inc.

Cost of sales, and selling, general and administrative expenses

Cost of sales rose 1.5% year on year to ¥33,321 million driven by the increased net sales. The ratio of cost of sales was 20.2%, largely the same as the level in the previous year, as an increase in sales ratio for the higher-margin skincare products was offset by a rise in product disposals and other factors. As a result, gross margin rose 1.9% year on year to ¥131,932 million.

Selling, general and administrative expenses declined 0.1% year on year to ¥119,661 million. The principle factors were the reduction in personnel costs and administrative expenses partially offset by the increase in sales commission related to the increased net sales. Selling, general and administrative expense ratio improved by 1.4 percentage points from the previous fiscal year to 72.4%.

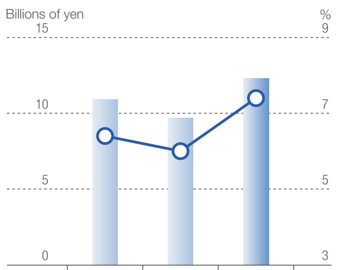
Operating income

Operating income increased 26.4% to ¥12,270 million and operating margin increased 1.4 percentage points to 7.4% as compared with the previous fiscal year.

Income before income taxes and minority interests

Other expenses decreased to ¥239 million as compared with ¥1,249 million in the previous fiscal year. Despite an increase in foreign exchange losses, loss on valuation of investments in securities declined and the reversal of foreign currency translation adjustments was recorded due to the liquidation of foreign subsidiaries. As a result, income before income taxes and minority interests increased 42.3% year on year to ¥12,030 million.

Operating income and operating margin



	2008	2009	2010
Operating income (Billions of yen)	10.9	9.7	12.3
Operating margin (%)	6.4	6.0	7.4

Net income

Net income increased 74.6% year on year to ¥7,086 million, primarily reflecting the exclusion of a family concern from the scope of taxable retained earnings.

Net income per share increased to ¥137.36 compared with ¥79.16 in fiscal 2009. ROE increased from 2.9% to 4.8%.

Business segment performance

Cosmetics business

POLA INC., the core company in the Cosmetics business, is changing its business model to match customer needs and lifestyles while leveraging the strengths of its existing door-to-door sales structure. Specifically, it has expanded its chain of POLA THE BEAUTY retail stores, which integrate cosmetics, counseling, and esthetic treatments, and actively opened outlets in department stores to diversify its sales distribution channels. At the same time, the company is working to enhance the sales quality and counseling skills of its sales partners - POLA ladies. POLA INC. reported higher sales and profits year on year in the domestic market, mainly reflecting continued strong sales of the *B.A* series, which was relaunched in September 2010, and the *WHITISSIMO* series, which was relaunched in March 2010. Overseas, sales rose year on year in Russia, where the company is steadily expanding its network of perfumeries (boutiques handling luxury cosmetics), and in Thailand, China and other Asian markets. However, conditions were still challenging in the US and Taiwan, owing to the impact of the economic slowdown and rapid yen appreciation. Overall, POLA INC. reported lower sales and profits year on year in the overseas market.

The other core company in the Cosmetics business is ORBIS Inc. The company has been working to improve sales efficiency by boosting the amount spent per customer and the ratio of repeat customers. In the mail-order business, benefits from these measures targeting existing customers started to emerge, and the business also steadily attracted new customers. Retail stores also achieved success in attracting customers through sales promotion activities and steps to increase the amount spent per customer by improving customer service, which contributed to strong sales. In terms of products, *Cleansing Liquid*, which was revamped in July, and the *CLEAR* series, which was relaunched in May, continued to generate strong sales. These products, together with the successful launch of skincare line *EXCELLENT WHITE*, supported year-on-year improvement in sales. Overseas, ORBIS Inc. continued to build up its presence in China, while in South Korea and Taiwan, mail-order sales continued to rise and the company made progress in establishing a retail store business model to generate stable profits. Sales overseas exceeded the level in the previous fiscal year, mainly due to performance in Taiwan on the back of an increase in online sales and sales promotion efforts tied in with the redesign of retail stores.

Sales and operating income in other brands increased year on year, reflecting higher sales of products such as the THREE brand, which was launched by ACRO INC. in the previous fiscal year.

As a result of the above, net sales in the Cosmetics business for fiscal 2010 were ¥139,660 million, an increase of 2.5% year on year, and operating income was ¥10,472 million, an increase of 24.4% year on year.

Fashion business

The Fashion business run by POLA INC. worked to reinforce its lineup of lifestyle items and health products that go beyond the narrow definition of fashion items. In catalog sales, sales were strong in the first half of fiscal 2010, but the very hot summer led to weak sales of autumn and winter items, with sales overall declining slightly year on year. In exhibition sales, demand for luxury items failed to grow, resulting in weaker sales year on year.

In the Fashion business managed by ORBIS Inc., the business generated steady sales by launching new products and expanding the product lineup.

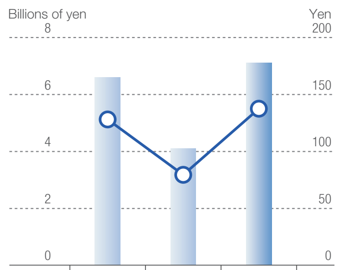
As a result of the above, net sales in the Fashion business for fiscal 2010 were ¥13,453 million, a decrease of 4.8% year on year, and operating loss was ¥452 million, compared with operating loss of ¥347 million in the previous fiscal year.

Pharmaceuticals business

In the Pharmaceutical business run by POLA PHARMA INC. and KAYAKU CO., LTD., two new drugs have been launched on the market to date, *Lulicon*, which is an antifungal agent for topical use, in 2005, and *DIVIGEL*, which is a treatment for menopausal disorder, in 2007. The business has also supplied a number of other products such as laxative agent *Alosenn* to medical facilities nationwide, including universities, hospitals and general practitioners. In fiscal 2010, sales of drugs, including new drugs, increased compared with the previous fiscal year. At the same time, a reduction in selling, general and administrative expenses supported a significant improvement in profitability at the operating income level.

As a result of the above, net sales in the Pharmaceuticals business for fiscal 2010 were ¥6,936 million, an increase of 2.8% year on year, and operating loss was ¥349 million, compared with operating loss of ¥1,384 million in the previous fiscal year.

Net income and net income per share



	2008	2009	2010
Net income (Billions of yen)	6.6	4.1	7.1
Net income per share (yen)	127.91	79.16	137.36

Real Estate business

The Real Estate business run by P.O. REAL ESTATE INC. continued its marketing efforts, which included reducing rent free periods (the portion of the term of new leases when no rent is required), and maintaining rent levels. However, despite these efforts, results in the company declined year on year.

Two property projects – the rebuilding of the Osaka Building and the redevelopment of a residential property in Ookurayama, Yokohama City, Kanagawa, to make it better suited for families raising children – also progressed according to plan, with the residential property completed and opened in September 2010 and the office building finished and opened in October 2010.

As a result of the above, net sales in the Real Estate business for fiscal 2010 were ¥3,102 million, a decrease of 3.5% year on year, and operating income was ¥1,304 million, a decline of 18.4% year on year.

Other businesses

The building maintenance service business operated by P.O. TECHNO SERVICE INC. endeavored to attract new customers and boost average order prices. This led to an overall increase in sales year on year.

The commercial printing business managed by P.O. MEDIA SERVICE INC. worked to win new customers and expand business from existing customers, but these efforts failed to offset the impact of a tough operating environment in the printing industry, with sales declining year on year.

As a result of the above, net sales in Other businesses for fiscal 2010 were ¥2,101 million, an increase of 4.3% year on year, and operating income was ¥399 million, a decrease of 11.8% year on year.

Analysis of financial position

Assets, liabilities, and net assets

Assets

As of December 31, 2010, total assets were ¥187,771 million, an increase of 3.2%, compared with the end of the previous fiscal year. Current assets declined 7.6% from the end of the previous fiscal year to ¥107,230 million. The main increases were ¥1,185 million increase in short-term investments in securities due to the purchase of commercial paper and negotiable certificates of deposit. The main decreases were ¥7,454 million decrease in cash and deposits, and ¥2,133 million decrease in short-term deferred tax assets owing to the utilization for the carryforward of tax losses.

Property, plant and equipment increased 1.5% from the end of the previous fiscal year to ¥51,651 million.

Investments and other assets increased 137.5% from the end of the previous fiscal year to ¥24,750 million. This mainly reflected an increase of ¥15,514 million in investments in securities.

Liabilities

Total liabilities were ¥34,667 million, a decrease of 15.5%, compared with the end of the previous fiscal year.

Current liabilities declined 21.0% from the end of the previous fiscal year to ¥23,623 million. The main decrease was ¥8,247 million decrease in short-term loans payable owing to the repayment of bank loans. The main increases were ¥552 million increase in income taxes payable related to a rise in taxable income, ¥381 million increase in other current liabilities owing to an increase in consumption taxes payable.

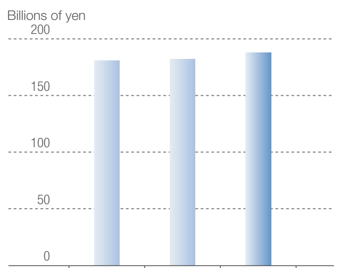
Long-term liabilities declined 0.7% from the end of the previous fiscal year to ¥11,044 million. The main decreases were ¥435 million decreases in provision for retirement benefits and ¥181 million decrease in other long-term liabilities. The main increase was ¥365 million increase in long-term lease obligations related to new store openings.

Net assets

Total net assets were ¥153,104 million, an increase of 8.7%, compared with the end of the previous fiscal year. The main increases were net income of ¥7,086 million, ¥4,398 million decrease in treasury stock, and ¥2,376 million increase in capital surplus, of which the latter two arose from disposal of treasury stock. The main decrease was payment of dividends, totaling ¥1,025 million.

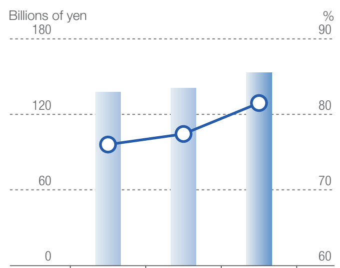
As a result, net assets per share increased ¥23.68 from the end of the previous fiscal year to ¥2,767.55. The equity capital ratio rose 4.1 percentage points to 81.5%.

Total assets



	2008	2009	2010
	180.7	181.9	187.8

Net assets and return on equity



	2008	2009	2010
Net assets (Billions of yen)	137.6	140.9	153.1
Return on equity (%)	76.0	77.4	81.5

Cash flows

As of December 31, 2010, the balance of cash and cash equivalents stood at ¥43,507 million, a decrease of ¥25,310 million compared with the end of the previous fiscal year.

Cash flows from operating activities

Operating activities provided net cash of ¥17,906 million, an increase in net cash of 42.9% compared with the previous fiscal year. The main increases in net cash were income before income taxes and minority interests of ¥12,030 million, depreciation and amortization of ¥5,019 million, and decrease in inventories of ¥1,454 million. The main decrease in net cash was income taxes paid of ¥1,049 million, owing to the payment of local taxes and other factors.

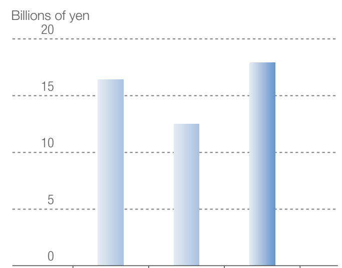
Cash flows from investing activities

Investing activities used net cash of ¥40,367 million, an increase of 822.9% compared with the previous fiscal year. This mainly reflected the purchase of short-term investments in securities of ¥34,857 million, and the purchase of investments in securities of ¥23,484 million owing to the start of surplus fund investments in accordance with investment plans, and for proceeds from sales and redemption of short-term investments in securities of ¥22,146 million.

Cash flows from financing activities

Financing activities used net cash of ¥2,789 million, an increase of 147.9% compared with the previous fiscal year. This mainly reflected decreases of ¥8,232 million for short-term loans payable owing to the repayment of bank loans and ¥1,025 million for cash dividends paid, and reissued treasury stock of ¥6,775 million related to the Company's listing on the Tokyo Stock Exchange.

Cash flows from operating activities



	2008	2009	2010
	16.4	12.5	17.9

Sources of funds and policy on fund liquidity

The Group uses internal funds and procures funds using bank loans as its sources of working capital and capital expenditure. Bank loans procured from external consisted of interest-bearing debt of ¥3,053 million as of December 31, 2010, a decline of ¥7,654 million from the end of the previous fiscal year. This mainly reflected the repayment of bank loans of ¥8,500 million. In fiscal 2010, the Company procured funds of ¥6,775 million by reissuing treasury stock for its public offering. In addition, from fiscal 2010, the Company introduced a cash management system to boost fund efficiency for the whole Group by concentrating funding operations for subsidiaries at the Company.

From fiscal 2010 the Company started managing operating funds and surplus funds in a more appropriate manner in accordance with fund management regulations and standards. Operating funds are managed on a short-term basis in line with payment schedules, while surplus funds are managed on a long-term basis centered on government bonds and corporate bonds while ensuring fund stability and liquidity.

Business risks

For businesses and other aspects of the POLA ORBIS Group, risks that are considered to be critical for investors in making investment decisions are described below. As of the date of the publication of this annual report, future-related matters have been identified by the Group within, unless otherwise noted.

1) Damage to brand value

The Group has multi-brands such as POLA and ORBIS. Through conscientious business management and supply of products and services catering to customers' trust, the Group is working to maintain and enhance its brand image. However, the operating results and financial position of the Group may be adversely affected in the event of negative opinions and rumors about the Group's products and services that spread, trust is lost and brand value is impaired.

2) Competition within the Group

In accordance with its multi-brand, multi-channel strategy, the Group develops existing brands by categorizing them by target (demographic base), price bracket, and market channel, preventing competition from occurring between brands. However, the operating results and financial position of the Group may be adversely affected in the event that competition occurs within the Group in the course of maximizing the values of existing brands and accelerating multi-brand evolution in the future as the Group's strategy.

3) Securing sales partners (Sales managers and POLA ladies (sole proprietors))

POLA INC., the core of the Group's Cosmetics business, operates its business through door-to-door sales based on consignment sales agreements. Securing sales partners based on consignment sales agreements is an important activity for business expansion and is something the Group consistently works on. However, if regulations under the Act on Specified Commercial Transactions are tightened or the working environment changes, sufficient human resources may not be available because implementation of measures for securing them may become difficult and POLA ladies applicants may decrease. As a result, the operating results and financial position of the Group may be adversely affected.

4) Strategic investment activities

The Group plans to make strategic investments for overseas expansion concentrated in China, M&A, and new businesses. For decision-making on strategic investment activities, the Group collects and examines the necessary information. However, the operating results and financial position of the Group may be adversely affected in the event that results initially intended are not achieved due to various unexpected environmental changes, etc.

5) Cosmetic market environment

The domestic cosmetics market has reached maturity and the trend in product shipments has shifted from generally flat to a gradual decline. Against this backdrop, competition has increased due to the reorganization of domestic corporate groups via M&A deals, new competitors have entered the market from different industries, and the influence of distributors and retailers has increased through cooperation/integration. Consequently, the operating results and financial position of the Group may be adversely affected in the event that the Group cannot properly respond to unexpected changes in the competitive environment.

6) Research & Development

R&D is one source of the Group's competitive strength and it intends to maintain its investment in this area. To carry out R&D effectively and efficiently, the Group implements R&D activities in accordance with an annual plan. If development of a new product requires a long period, the results may be seen in subsequent years. In some cases, when the results as planned cannot be achieved, extension of the period or an increase in investment may be required; otherwise commercialization may not be achieved as a result. Furthermore even after being commercialized, the product may not necessarily be accepted by customers because it may be met by uncertainty due to various causes.

If the initially intended results of R&D cannot be achieved as such, the operating results and financial position of the Group may be adversely affected.

7) Manufacture and quality assurance

The Group works to secure the necessary volume of raw materials required for the manufacture of products at an appropriate price by using diversified sources of supply and by maintaining favorable relations with suppliers, based on the overall supervision of divisions in the Group responsible for procuring raw materials. However, if an unexpected situation is caused by external factors, troubles may occur in the procurement of necessary raw materials.

Our cosmetics are manufactured at two locations: the Fukuroi Factory (Fukuroi, Shizuoka) and the Shizuoka Factory (Suruga-ku, Shizuoka, Shizuoka) of POLA CHEMICAL INDUSTRIES INC., while pharmaceutical drugs are manufactured at two locations; the Saitama Factory (Fujimino, Saitama) and the Tokorozawa Factory (Tokorozawa, Saitama) of KAYAKU CO., LTD. We are undertaking efforts to verify quality control and quality maintenance. However, should any problem arise in product quality, the operating results and financial position of the Group may be adversely affected.

8) Overseas business activities

The major sales bases of the Group are mainly located in Japan but the Group plans to set up bases in China, other parts of Asia, and Russia where market expansion is expected.

Since these overseas business activities contain the risk of social dislocation due to unexpected economic/political uncertainty, labor problems, terrorism/war, infectious diseases, the operating results and financial position of the Group may be adversely affected.

9) Currency exchange

The Group takes exchange rate risks into consideration for monetary materiality for clearance of foreign currency due to the increase in import/export transactions and loans to foreign subsidiaries as a result of expansion of overseas business activities. Additionally, since the figures denominated in local currency of foreign consolidated subsidiaries are converted to a yen basis when consolidated financial statements are prepared, changes in the exchange rate may affect the operating results and financial position of the Group.

10) Limit of protection for intellectual property rights

Although the Group takes actions to protect its intellectual property rights, third parties may infringe upon intellectual properties through unexpected means. Consequently, the business activities of the Group may be adversely affected by illegal misuse of technologies and the creation of counterfeit goods.

11) Information security

The Group carefully manages the handling of confidential information including personal information and R&D information through the implementation of internal audits, use of an information security system, establishment of internal codes of conduct and education initiatives by the section in charge of CSR and various committees. However, if such information is leaked for any reason, a claim for damage may be filed against the Group or damage to its image may arise. As a result, the businesses of the Group may be adversely affected.

12) Material litigation

Although lawsuits that could seriously affect the Group have not been filed in the consolidated fiscal year under review, the operating results and financial position of the Group may be adversely affected in the event of material lawsuits in the future and judgments disadvantageous to the Group.

13) Disasters

The major productions bases of the Group are the Fukuroi Factory and Shizuoka Factory of POLA CHEMICAL INDUSTRIES INC. Lines for manufacturing different products are installed in these factories and the backup manufacturing capacities between the factories are limited. Therefore, product supply may be affected in the event that manufacturing is disabled or production capacity drops at either of these factories as a result of contingencies such as disasters. Further, since both factories are close to each other, product supply may be interrupted for a long period in the event of a large-scale earthquake in the Tokai Area.

Similarly, pharmaceutical products are produced in the Saitama Factory and Tokorozawa Factory of KAYAKU CO., LTD. Since both factories are close to each other, product supply may be interrupted for a long period in the event of a large-scale earthquake in the Kanto Area.

14) Spread of infectious diseases

If the spread of infectious diseases resulting in a substantial social impact occurs, service and sales activities must be voluntarily suspended and sales offices must be closed because of the characteristics of daily face-to-face business activities of customers and business partners. Consequently, the operating results of the Group may be adversely affected domestically and overseas.

15) Risks of the Pharmaceuticals business

In the Pharmaceuticals business, since a large amount of R&D investment is required for new pharmaceutical products to be marketed, losses may continue for a long time. At present, the Group is attempting to make investment more efficient to secure earnings at an earlier stage through co-development with R&D counterparty for investments in new pharmaceutical products. However, various unexpected risks such as abrupt changes in the business environment, delays in new pharmaceutical product development, and changes in the business administration policy of the counterparty may arise. Consequently, if losses increase or are prolonged, the operating results of the Group may be adversely affected.

Significant accounting policies and assumptions

The Group's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Japan ("Japanese GAAP").

The preparation of consolidated financial statements requires management to select and apply certain accounting policies and make assumptions that affect the reported amounts and disclosure of assets and liabilities and of revenues and expenses. These assumptions are based on reasonable judgments taking into account historical performance and other factors. However, actual results could differ from these assumptions due to inherent uncertainties.

Please refer to Note 1 to Consolidated Financial Statements for more detailed accounting policies.

12-3 Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
Assets			
Current assets			
Cash and deposits (Notes 4, 5 and 17)	¥ 34,678	¥ 42,132	$ 425,549
Notes and accounts receivable – trade (Note 17)	19,543	18,844	239,823
Short-term investments in securities (Notes 4, 17 and 18)	32,169	30,984	394,767
Merchandise and finished goods	9,421	11,239	115,616
Work in process	1,644	1,644	20,180
Raw materials and supplies	4,276	4,047	52,481
Deferred tax assets (Note 14)	2,917	5,050	35,806
Other	2,653	2,174	32,556
Allowance for doubtful accounts	(74)	(64)	(912)
Total current assets	107,230	116,055	1,315,870
Property, plant and equipment (Note 13)			
Buildings and structures	58,954	57,641	723,456
Machinery, equipment and vehicles	11,972	12,543	146,922
Land	22,296	22,314	273,613
Leased assets	1,712	819	21,016
Construction in progress	302	1,149	3,708
Other	19,029	20,237	233,515
Total property, plant and equipment	114,268	114,705	1,402,233
Accumulated depreciation	(62,616)	(63,812)	(768,399)
Net property, plant and equipment	51,651	50,892	633,834
Intangible assets (Note 13)	4,140	4,539	50,804
Investments and other assets			
Investments in securities (Notes 17 and 18)	17,538	2,024	215,226
Long-term loans receivable	51	79	627
Deferred tax assets (Note 14)	3,748	4,888	45,995
Other	3,563	3,742	43,732
Allowance for doubtful accounts	(151)	(311)	(1,857)
Total investments and other assets	24,750	10,422	303,723
Total assets	¥187,771	¥181,909	$2,304,233

See notes to consolidated financial statements.

December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 17)	¥ 3,549	¥ 3,285	$ 43,557
Short-term loans payable (Notes 6 and 17)	1,753	10,000	21,521
Lease obligations (Note 6)	425	199	5,215
Accounts payable – other (Notes 17 and 19)	10,848	10,804	133,122
Income taxes payable	1,118	566	13,722
Provision for bonuses	1,653	1,344	20,290
Provision for directors' bonuses	41	14	509
Provision for sales returns	90	90	1,106
Provision for point program	1,700	1,520	20,864
Provision for loss on business liquidation	32	39	392
Other	2,411	2,030	29,594
Total current liabilities	23,623	29,896	289,897
Long-term liabilities			
Lease obligations (Note 6)	875	509	10,739
Provision for retirement benefits (Note 8)	7,306	7,741	89,664
Provision for directors' retirement benefits	325	287	3,993
Provision for environmental measures	132	—	1,624
Other	2,404	2,585	29,503
Total long-term liabilities	11,044	11,123	135,525
Total liabilities	34,667	41,019	425,423
Contingent liabilities (Note 7)			
Net assets (Note 9)			
Shareholders' equity			
Common stock			
Authorized: 200,000,000 shares			
Issued: 57,284,039 shares at December 31, 2010 and 161,592,296 shares at December 31, 2009	10,000	10,000	122,714
Capital surplus	90,718	203,036	1,113,243
Retained earnings	54,746	48,685	671,819
Treasury stock, at cost (2,000,000 shares at December 31, 2010 and 110,308,257 shares at December 31, 2009)	(2,199)	(121,293)	(26,986)
Total shareholders' equity	153,265	140,429	1,880,790
Valuation and translation adjustments and others			
Unrealized gains on available-for-sale securities	210	257	2,585
Foreign currency translation adjustments	(475)	29	(5,830)
Total valuation and translation adjustments and others	(264)	287	(3,245)
Minority interests	103	173	1,264
Total net assets	153,104	140,890	1,878,810
Total liabilities and net assets	¥187,771	¥181,909	$2,304,233

See notes to consolidated financial statements.

12-4 Consolidated Statements of Income

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
Net sales (Notes 16 and 20)	¥165,253	¥162,332	$2,027,897
Cost of sales (Notes 10, 11, 16 and 20)	33,321	32,843	408,899
Gross profit	131,932	129,488	1,618,998
Selling, general and administrative expenses (Notes 10, 12, 16, 20 and 22)	119,661	119,782	1,468,421
Operating income	12,270	9,706	150,577
Other income (expenses) (Notes 13 and 16)			
Interest and dividend income	420	350	5,166
Interest expense	(103)	(120)	(1,274)
Foreign exchange gain (loss)	(410)	226	(5,043)
Equity in losses of affiliates	—	(1)	—
Loss on valuation of investments in securities	—	(848)	—
Gain on sales of non-current assets	537	30	6,599
Loss on disposal of non-current assets	(235)	(412)	(2,895)
Loss on advanced depreciation deduction of non-current assets	(517)	—	(6,346)
Impairment loss	(172)	(387)	(2,112)
Non-recurring depreciation on non-current assets	(341)	(61)	(4,193)
Reversal of foreign currency translation adjustments	661	—	8,121
Other, net	(78)	(25)	(961)
	(239)	(1,249)	(2,940)
Income before income taxes and minority interests	12,030	8,456	147,636
Income taxes (Note 14)			
Current	1,757	1,538	21,563
Deferred	3,281	2,945	40,269
	5,038	4,483	61,833
Income before minority interests	6,992	3,972	85,803
Minority interests in net income of consolidated subsidiaries	(94)	(87)	(1,158)
Net income	¥ 7,086	¥ 4,059	$ 86,961

Per share information (Note 21)	Yen		U.S. dollars (Note 3)
Basic net income per common share	¥137.36	¥79.16	$1.69
Diluted net income per common share	—	—	—
Weighted average common shares outstanding	51,591,731	51,284,039	
Cash dividends declared per common share	¥ 40.00	¥20.00	$0.49

See notes to consolidated financial statements.

12-5 Consolidated Statements of Changes in Net Assets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

		Millions of yen							
	Common shares (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at December 31, 2008	161,592	¥10,000	¥ 203,036	¥45,650	¥(121,293)	¥(250)	¥ 167	¥253	¥137,564
Dividends from retained earnings				(1,025)					(1,025)
Net income				4,059					4,059
Disposal of treasury stock									—
Retirement of treasury stock									—
Change in scope of consolidation				1					1
Change in unrealized gains (losses) on available-for-sale securities						507			507
Foreign currency translation adjustments							(137)		(137)
Minority interests								(79)	(79)
Balance at December 31, 2009	161,592	10,000	203,036	48,685	(121,293)	257	29	173	140,890
Dividends from retained earnings				(1,025)					(1,025)
Net income				7,086					7,086
Disposal of treasury stock			2,376		4,398				6,775
Retirement of treasury stock	(104,308)		(114,695)		114,695				—
Change in scope of consolidation									—
Change in unrealized gains (losses) on available-for-sale securities						(46)			(46)
Foreign currency translation adjustments							(504)		(504)
Minority interests								(70)	(70)
Balance at December 31, 2010	57,284	¥10,000	¥ 90,718	¥54,746	¥ (2,199)	¥ 210	¥(475)	¥103	¥153,104

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Minority interests	Total net assets
Balance at December 31, 2009	$122,714	$2,491,556	$597,444	$(1,488,441)	$3,158	$ 365	$2,126	$1,728,924
Dividends from retained earnings			(12,586)					(12,586)
Net income			86,961					86,961
Disposal of treasury stock		29,167		53,973				83,141
Retirement of treasury stock		(1,407,480)		1,407,480				—
Change in scope of consolidation								—
Change in unrealized gains (losses) on available-for-sale securities					(573)			(573)
Foreign currency translation adjustments						(6,196)		(6,196)
Minority interests							(862)	(862)
Balance at December 31, 2010	$122,714	$1,113,243	$671,819	$ (26,986)	$2,585	$(5,830)	$1,264	$1,878,810

See notes to consolidated financial statements.

12-6 Consolidated Statements of Cash Flows

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 12,030	¥ 8,456	$ 147,636
Adjustments to reconcile income before income taxes and minority interests to net cash flows from operating activities:			
Depreciation and amortization	5,019	4,912	61,595
Impairment loss	172	387	2,115
Non-recurring depreciation on non-current assets	341	61	4,193
Amortization of goodwill	80	80	992
Loss (gain) on sales of non-current assets	(20)	(30)	(252)
Loss on disposal of non-current assets	235	412	2,895
Increase (decrease) in allowance for doubtful accounts	(33)	(2)	(406)
Increase (decrease) in provision for retirement benefits	(434)	(295)	(5,327)
Increase (decrease) in provision for loss on business liquidation	(6)	19	(79)
Increase (decrease) in other provisions	689	(576)	8,460
Loss on valuation of investments in securities	—	848	—
Interest and dividend income	(420)	(350)	(5,166)
Interest expense	103	120	1,274
Foreign exchange loss (gain)	307	(142)	3,773
Equity in losses of affiliates	—	1	—
Reversal of foreign currency translation adjustments	(661)	—	(8,121)
Changes in operating assets and liabilities			
Decrease (increase) in notes and accounts receivable – trade	(734)	590	(9,016)
Decrease in inventories	1,454	314	17,844
Increase (decrease) in notes and accounts payable – trade	289	(319)	3,547
Increase (decrease) in consumption taxes payable	481	(178)	5,912
Decrease (increase) in other assets	(97)	271	(1,191)
Increase (decrease) in other liabilities	(155)	(450)	(1,903)
Other	38	7	473
Subtotal	18,681	14,137	229,248
Interest and dividends received	378	352	4,640
Interest paid	(103)	(97)	(1,266)
Income taxes paid	(1,049)	(1,810)	(12,878)
Other payments	—	(50)	—
Net cash provided by operating activities	¥ 17,906	¥12,530	$219,743

See notes to consolidated financial statements.

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2010	2009	2010
Cash flows from investing activities			
Payments into time deposits	¥ (1,013)	¥ (2,454)	$ (12,433)
Proceeds from withdrawal of time deposits	2,315	4,858	28,418
Purchase of short-term investments in securities	(34,857)	(4)	(427,757)
Proceeds from sales and redemption of short-term investments in securities	22,146	1,402	271,769
Purchase of property, plant and equipment	(4,095)	(6,588)	(50,258)
Proceeds from sales of property, plant and equipment	53	122	651
Purchase of intangible assets	(1,191)	(1,360)	(14,623)
Purchase of investments in securities	(23,484)	(0)	(288,183)
Proceeds from sales of investments in securities	25	147	314
Payments for disposal of non-current assets	(104)	(206)	(1,283)
Purchase of long-term prepaid expenses	(85)	(281)	(1,054)
Payments for lease and guarantee deposits	(318)	(207)	(3,903)
Proceeds from collection of lease and guarantee deposits	179	157	2,199
Other	63	38	778
Net cash used in investing activities	(40,367)	(4,374)	(495,366)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	(8,232)	—	(101,025)
Cash dividends paid	(1,025)	(1,025)	(12,586)
Cash dividends paid to minority shareholders	(3)	—	(39)
Repayments of lease obligations	(303)	(99)	(3,721)
Proceeds from disposal of treasury stock	6,775	—	83,141
Net cash used in financing activities	(2,789)	(1,125)	(34,231)
Effect of exchange rate changes on cash and cash equivalents	(60)	(15)	(739)
Net increase (decrease) in cash and cash equivalents	(25,310)	7,014	(310,593)
Cash and cash equivalents at beginning of year (Note 4)	68,817	61,803	844,496
Cash and cash equivalents at end of year (Note 4)	¥ 43,507	¥68,817	$ 533,902

See notes to consolidated financial statements.

12-7 Notes to Consolidated Financial Statements

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Note 1 Summary of Significant Accounting Policies

1.1. Basis of presentation

The accompanying consolidated financial statements of POLA ORBIS HOLDINGS INC. (the "Company") and its consolidated subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards – ("IFRS").

Certain amounts in the consolidated financial statements of the prior year have been reclassified to conform to current year's presentation for comparative purposes.

Effective from the year ended December 31, 2009 ("fiscal 2009"), the Group adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force ("PITF") No. 18, issued on May 17, 2006 by the Accounting Standards Board of Japan ("ASBJ")).

PITF No. 18 requires that the parent and its consolidated subsidiaries shall use uniform accounting policies and procedures for like transactions and other events in similar circumstances in preparing consolidated financial statements.

Financial statements of foreign consolidated subsidiaries prepared in accordance with either IFRS or accounting principles generally accepted in the United States ("U.S. GAAP") shall be used as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs in preparing the consolidated financial statements.

For the convenience of readers outside Japan, certain presentations in the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau in Japan have been reclassified and rearranged.

1.2. Principles of consolidation

The Company has 26 subsidiaries controlled directly or indirectly at December 31, 2010 (28 at December 31, 2009). The accompanying consolidated financial statements include the accounts of the Company and its 26 subsidiaries at December 31, 2010 (27 at December 31, 2009).

THAI POLA CO., LTD. was excluded from the scope of consolidation at December 31, 2009 as it was in the process of liquidation and its total assets, net sales, net losses and retained earnings attributable to the Company's investment had no significant impact on the consolidated financial statements. At December 31, 2010, its liquidation was finished.

ORBIS CHINA HONG KONG LIMITED was newly established during the year ended December 31, 2010 ("fiscal 2010"). Therefore, it was included in the scope of consolidation at December 31, 2010.

HYUNWOO CO., LTD. and POLA KOREA INC. were liquidated during fiscal 2010, and RASEL Inc. and POLA AP INC. were liquidated during fiscal 2009, thus they were excluded from the scope of consolidation at December 31, 2010 and 2009, respectively.

All significant intercompany balances and transactions, and material unrealized profit included in assets resulting from the intercompany transactions have been eliminated in consolidation.

All companies included in the scope of consolidation have a fiscal year ending December 31.

Assets and liabilities of consolidated subsidiaries are evaluated using the full fair value method at the acquisition date. The difference between the cost of purchased businesses and the fair value of their net assets is recorded as goodwill or negative goodwill, and amortized by the straight-line method over a reasonably estimated period. The goodwill or negative goodwill whose amortized period is not able to be reasonably estimated is amortized over 4 years. Immaterial amounts of goodwill or negative goodwill, however, are charged to income in the acquisition year.

Companies, over which the Group has the ability to exercise significant influence on their operations, are accounted for using the equity method.

Miu Cosmetics, Inc., over which the Company had significant influence, was accounted for using the equity method until December 31, 2008. During fiscal 2009, a portion of its shares owned by the Company was sold, thus it was excluded from the application of the equity method. At December 31, 2010 and 2009, the Group has no companies over which it has the ability to exercise significant influence on their operations.

1.3. Cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

1.4. Inventories

Inventories held for sale in the ordinary course of business are stated at cost. The cost of merchandise, finished goods, work in process and raw materials is determined on the monthly moving average method, and the cost of supplies is determined on the last purchase price method.

At each fiscal year-end, the carrying amount of inventories in the balance sheets may be written down to net realizable value if net realizable value is lower than its carrying amount.

1.5. Investments in securities

Securities are classified into held-to-maturity or available-for-sale securities depending on management's intent. Held-to-maturity securities are recorded at amortized cost using the straight-line method.

Marketable securities classified as available-for-sale securities are recorded at fair value. Unrealized holding gains or losses on available-for-sale securities are reported as a component of net assets. Cost of securities sold is determined using the moving average method.

Non-marketable securities classified as available-for-sale securities are recorded at cost which is determined using the moving average method. Investments in limited partnerships (investments defined as securities under Article 2.2 of the Financial Instruments and Exchange Law of Japan) are recorded at net equity based on financial statements for the most recent account closing as provided in the partnership agreement.

1.6. Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment (excluding leased assets) of the Company and its domestic consolidated subsidiaries is calculated using the declining balance method, except buildings (excluding building fixtures) acquired on or after April 1, 1998 for which depreciation is calculated using the straight-line method.

Depreciation of property, plant and equipment (excluding leased assets) of the foreign consolidated subsidiaries is calculated using the straight-line method based on the local accounting standards of each country.

Estimated useful lives mainly range from 10 to 50 years for buildings and structures and 7 to 15 years for machinery, equipment and vehicles. Effective from fiscal 2009, the Company and its domestic consolidated subsidiaries changed the estimated useful lives of certain machinery based on the revision to the Corporation Tax Act of Japan in 2008 for property, plant and equipment. As a result of this change, operating income and income before income taxes and minority interests were ¥38 million less than what would have been recorded prior to the change, respectively, in fiscal 2009.

Property, plant and equipment with acquisition cost greater than ¥100,000 and less than ¥200,000 are depreciated evenly over 3 years.

1.7. Intangible assets

Intangible assets (excluding leased assets) are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over its estimated useful life of 5 years.

1.8. Leases

Finance leases that do not transfer ownership are capitalized and depreciated using the straight-line method over the lease term with zero residual value. However, finance leases entered into on or prior to December 31, 2008 are not capitalized but accounted for using a method similar to that applicable to operating lease transactions, and corresponding information is provided in the notes to the accompanying consolidated financial statements.

Lease transactions other than finance lease transactions are accounted for as operating leases and the related payments are charged to income as incurred.

1.9. Impairment on non-current assets

The Group reviews non-current assets for impairment whenever events or changes in circumstances based on external or internal sources of information indicate that the carrying amount may not be recoverable. When such events or changes in circumstances occur, a recoverability test is required to be performed. An asset or asset group is impaired if its carrying amount exceeds the amount to be recovered through use or sale of the asset.

1.10. Retirement benefits

The Company and its domestic consolidated subsidiaries have defined benefit plans including a cash balance plan, lump sum retirement payment plan and qualified pension plan to cover the majority of their employees (including corporate officers).

For the employees (including corporate officers) of certain foreign consolidated subsidiaries, defined contribution pension plans and lump sum retirement payment plans are provided.

Certain subsidiaries may make an additional lump sum retirement payment, which is expensed as incurred.

Accrued retirement benefits and prepaid pension cost for employees (including corporate officers) of the Company and its domestic consolidated subsidiaries are provided for based on the estimated amount of projected benefit obligation and the fair value of the pension plan assets at the fiscal year end. Prior service cost is amortized using the straight-line method over a certain period (10 years), which is within the average remaining service years of the employees (including corporate officers). Actuarial gains or losses are amortized from the following fiscal year after recognition using the straight-line method over a certain period (10 years through 14 years), which is within the average remaining service years of the employees (including corporate officers).

1.11. Directors' retirement benefits

Accrued retirement benefits for directors and corporate auditors are provided at an amount to be required at the fiscal year end according to internal regulations.

1.12. Allowance for doubtful accounts

The Company and its domestic consolidated subsidiaries record allowance for doubtful accounts based on historical loss ratio for performing receivables, and based on individual assessment of uncollectible amounts for certain receivables. Foreign consolidated subsidiaries mainly estimate unrecoverable amounts on an individual basis.

1.13. Provision for directors' and employees' bonuses

To provide for the payment of directors' and employees' bonuses, a portion of the estimated bonus payment attributable to each fiscal year is recorded.

1.14. Provision for sales returns

Provisions are set up to cover future losses arising from sales returns based on the past return ratios.

1.15. Provision for point program

Provisions are set up to cover future discounts and commemorative gifts under the point program plan based on the estimated future outflows.

1.16. Provision for loss on business liquidation

Losses arising from business terminations are provided for based on the estimated loss amounts.

1.17. Provision for environmental measures

Provisions are set up to cover the estimated charges for disposal of waste (polychlorinated biphenyl (PCB)).

1.18. Research and development costs

The costs for research and development are charged to income as incurred.

1.19. Income taxes

Deferred tax assets and liabilities are recognized in the accompanying consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

The consolidated tax return is filed by the Company and its wholly owned domestic consolidated subsidiaries. Deferred tax assets are recognized based on the estimate of consolidated tax bases.

1.20. Consumption tax and local consumption tax

The tax-exclusion accounting method is applied.

1.21. Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average common shares outstanding during the period. The number of shares used in the computations was 51,591 thousand shares and 51,284 thousand shares for fiscal 2010 and 2009, respectively. The diluted net income per share assumes dilution that would occur if stock acquisition rights were exercised. The Company did not have securities or contingent stock agreements with potentially dilutive effect during fiscal 2010 and 2009.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after year-end.

1.22. Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at year-end exchange rates, and differences arising from the translation are included in the accompanying consolidated statements of income.

All assets and liabilities of the foreign consolidated subsidiaries are translated into yen at year-end exchange rates, while revenue and expenses are translated at the average exchange rate for the year. Adjustments to translate those accounts into Japanese yen are presented as foreign currency translation adjustments and minority interests in net assets of the accompanying consolidated balance sheets.

Note 2 Changes in Accounting Policies

2.1. Accounting standard for retirement benefits

Effective from fiscal 2010, the Group adopted “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (ASBJ Statement No. 19, issued on July 31, 2008).

The impact of this change on operating income, income before income taxes and minority interests and net income for fiscal 2010 was immaterial.

2.2. Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements

Effective from fiscal 2009, the Group adopted “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 18, issued on May 17, 2006), and appropriate adjustments have been made for the preparation of the consolidated financial statements. The impact of this change on operating income, income before income taxes and minority interests and net income for fiscal 2009 was immaterial.

2.3. Accounting standard for lease transactions

Effective from fiscal 2009, the Group adopted “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13, issued on June 17, 1993 (First Committee of Business Accounting Council), revised on March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Statement No. 16, issued on January 18, 1994 (The Japanese Institute of Certified Public Accountants (JICPA) Accounting Committee), revised on March 30, 2007).

The impact of this change on operating income, income before income taxes and minority interests and net income for fiscal 2009 was immaterial.

2.4. Accounting for revenues from sales of cosmetics production equipment and subcontracted research and development

Revenues from sales of cosmetics production equipment and subcontracted research and development activities were previously recorded as other income. However, beginning fiscal 2009; such revenues are recognized in net sales. In addition, expenses related to revenues from sales of cosmetics production equipment, previously recorded as other expenses, and expenses related to revenues from subcontracted research and development activities, previously recorded in selling, general and administrative expenses are recorded as cost of sales.

This change was implemented to present income and loss more appropriately as the leveraging of the Group’s technical expertise for generating income has been a key operating strategy since implementation of the Group’s three-year medium-term management plan starting fiscal 2008. In line with this strategy, costs can be ascertained more precisely after the improvement of the cost management system.

As a result of this change, consolidated net sales and cost of sales increased by ¥79 million and ¥44 million, respectively, and selling, general and administrative expenses decreased by ¥17 million compared with the amounts that would have been recorded prior to the change. Operating income, therefore, increased ¥52 million compared with the amounts that would have been recorded prior to the change. The impact of this change on income before income taxes and minority interests for fiscal 2009 was immaterial.

2.5. Accounting standard for inventories

Effective from fiscal 2009, the Group adopted “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, issued on July 5, 2006).

The impact of this change on operating income, income before income taxes and minority interests and net income for fiscal 2009 was immaterial.

Note 3 U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of readers outside Japan, certain amounts have been translated into U.S. dollars at the rate of U.S. $1= ¥81.49, the approximate rate of exchange prevailing at December 31, 2010. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such a rate.

Note 4 Cash Flows Information

Cash and cash equivalents consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2010	2009	2010
Cash and deposits	¥ 34,678	¥ 42,132	$ 425,549
Short-term investments in securities	32,169	30,984	394,767
Less:			
Time deposits with maturities exceeding three months	(1,170)	(2,480)	(14,358)
Stocks and bonds with maturities exceeding three months	(22,169)	(1,819)	(272,056)
Cash and cash equivalents	¥ 43,507	¥ 68,817	$ 533,902

Assets and liabilities related to finance lease transactions newly recorded were ¥893 million (U.S. $10,965 thousand) and ¥819 million for fiscal 2010 and 2009, respectively.

Note 5 Pledged Assets

At December 31, 2010, assets pledged as collateral for operating transactions are as follows:

December 31, 2010	Millions of yen	Thousands of U.S. dollars
Cash and deposits	¥27	$336

Note 6 Short-term and Long-term Debt

Short-term and long-term debt consists of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2010	2009	2010
Short-term loans payable	¥1,753	¥10,000	$21,521
Lease obligations	1,300	708	15,954
Less current portion	(425)	(199)	(5,215)
	¥ 875	¥ 509	$10,739

The weighted average interest rate of short-term loans payable was 1.21% per annum at December 31, 2010.

The weighted average interest rates of the current portion of lease obligations and long-term lease obligations were 2.67% per annum and 2.69% per annum, respectively, at December 31, 2010.

At December 31, 2010, the annual maturities of lease obligations are as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2011	¥ 425	$ 5,215
2012	432	5,309
2013	317	3,895
2014	123	1,519
2015	1	14
Total	¥1,300	$15,954

Note 7 Contingent Liabilities

Contingent liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2010	2009	2010
Guarantees of loans			
Employees’ mortgages	¥429	¥596	$5,271
Equipment loans payable of Pola Art Foundation	—	375	—
Total	¥429	¥971	$5,271

Note 8 Retirement Benefits

8.1. Provision for retirement benefits consists of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2010	2009	2010
Projected benefit obligation	¥12,770	¥13,336	$156,708
Fair value of plan assets	(5,159)	(5,057)	(63,320)
Unfunded retirement benefit obligation	7,610	8,279	93,388
Unrecognized prior service cost	467	556	5,735
Unrecognized actuarial losses	(770)	(1,094)	(9,459)
Provision for retirement benefits	¥ 7,306	¥ 7,741	$ 89,664

Certain consolidated subsidiaries apply the simplified method in calculating projected benefit obligations. Beginning April 2009, certain domestic consolidated subsidiaries transferred their qualified pension plans to defined benefit corporate pension plans (cash balance plans).

8.2. The components of net periodic retirement benefit costs are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2010	2009	2010
Service cost	¥786	¥732	$ 9,651
Interest cost	186	242	2,288
Expected return on plan assets	(74)	(68)	(913)
Amortization of prior service cost	(89)	(75)	(1,096)
Amortization of actuarial losses	116	90	1,432
Additional lump-sum payment	5	48	70
Net periodic retirement benefit costs	¥931	¥970	$11,432

Retirement benefit costs of certain consolidated subsidiaries which apply the simplified method were included in "Service cost."

8.3. Assumptions used in accounting for the above plans are as follows:

Years ended December 31	2010	2009
Discount rate	1.50%	1.50%
Expected rate of return on plan assets	1.50%	1.50%

Prior service cost is amortized using the straight-line method over a certain period (10 years), which is within the average remaining service years of the employees (including corporate officers). Actuarial gains or losses are amortized from the following fiscal year after gains or losses are recognized using the straight-line method over a certain period (10 years through 14 years), which is within the average remaining service years of the employees (including corporate officers).

Note 9 Net Assets

Information regarding changes in net assets is summarized as follows:

9.1. Shares issued and outstanding / Treasury stock

	Common stock	
(Thousands of shares)	Shares issued	Treasury stock
Balance at December 31, 2008	161,592	110,308
Increase	—	—
Decrease	—	—
Balance at December 31, 2009	161,592	110,308
Increase	—	—
Decrease	(104,308)	(108,308)
Balance at December 31, 2010	57,284	2,000

Under Article 178 of the Japanese Corporate Law, the Company canceled 104,308 thousand shares of treasury stock in accordance with a resolution of the Board of Directors on May 26, 2010. The Company reissued 4,000 thousand shares of treasury stock for its public offering in the First Section of the Tokyo Stock Exchange on December 10, 2010. As a result, as of December 31, 2010, treasury stock decreased by 108,308 thousand shares to 2,000 thousand shares.

9.2. Dividends

Dividends paid

Year ended December 31, 2010

		Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Resolution	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 30, 2010	Common stock	¥1,025	$ 12,586	¥20.00	$ 0.24	December 31, 2009	March 31, 2010

Year ended December 31, 2009

		Millions of yen	Yen		
Resolution	Type of shares	Total dividends	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 30, 2009	Common stock	¥1,025	¥20.00	December 31, 2008	March 31, 2009

Dividends with the record date in fiscal 2010 and the effective date in fiscal 2011

Year ended December 31, 2010

			Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Resolution	Type of shares	Source of dividends	Total dividends	Total dividends	Dividends per share	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 30, 2011	Common stock	Retained earnings	¥2,211	$27,136	¥40.00	$ 0.49	December 31, 2010	March 31, 2011

Dividends with the record date in fiscal 2009 and the effective date in fiscal 2010

Year ended December 31, 2009

			Millions of yen	Yen		
Resolution	Type of shares	Source of dividends	Total dividends	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 30, 2010	Common stock	Retained earnings	¥1,025	¥20.00	December 31, 2009	March 31, 2010

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥40.00 (U.S. $0.49) per share, aggregating to ¥2,211 million (U.S. $27,136 thousand), in respect of fiscal 2010 which is to be approved on March 30, 2011.

Note 10 Research and Development Costs

The costs of ¥3,652 million (U.S. $44,819 thousand) and ¥4,281 million for research and development were expensed for fiscal 2010 and 2009, respectively, as incurred, and included in selling, general and administrative expenses and cost of sales.

Note 11 Cost of Sales

Provision for sales returns included in cost of sales consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2010	2009	2010
Reversal of provision for sales returns	¥90	¥197	$1,108
Provision for sales returns	¥90	¥ 90	$1,106

Note 12 Selling, General and Administrative Expenses

Selling, general and administrative expenses mainly consist of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2010	2009	2010
Sales commission	¥ 43,073	¥ 43,390	$ 528,573
Promotion expenses	16,627	15,427	204,045
Advertising expenses	7,366	7,496	90,392
Packing and transportation expenses	4,562	4,556	55,985
Salaries, allowances and bonuses	17,645	18,253	216,536
Welfare expenses	2,764	2,689	33,925
Depreciation and amortization	2,912	2,833	35,740
Other	24,709	25,135	303,221
Total	¥119,661	¥119,782	$1,468,421

Note 13 Other Income (Expenses)

13.1. Gain on sales of non-current assets mainly consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2010	2009	2010
Buildings and structures	¥300	¥ (0)	$3,693
Land	237	27	2,908
Other, net	(0)	3	(2)
Total	¥537	¥ 30	$6,599

13.2. Loss on disposal of non-current assets mainly consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2010	2009	2010
Buildings and structures	¥ 68	¥127	$ 838
Other property, plant and equipment	29	122	356
Intangible assets	5	71	66
Removal and demolition	104	66	1,283
Other, net	28	23	350
Total	¥235	¥412	$2,895

13.3. Loss on advanced depreciation deduction of non-current assets consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2010	2009	2010
Buildings and structures	¥318	—	$3,905
Land	198	—	2,430
Other property, plant and equipment	0	—	9
Total	¥517	—	$6,346

Loss on advanced depreciation deduction of non-current assets is the amount directly reduced from the acquisition cost of substitute assets.

13.4. Non-recurring depreciation on non-current assets consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2010	2009	2010
Buildings and structures	¥335	¥61	$4,123
Machinery, equipment and vehicles	1	—	24
Other property, plant and equipment	3	0	46
Total	¥341	¥61	$4,193

Non-recurring depreciation on non-current assets was recorded as the useful lives of the assets to be retired after the next fiscal year were reviewed.

13.5. Impairment loss consists of the following:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2010	2009	2010
Domestic			
Stores	¥ 84	¥114	$1,032
Offices	28	169	348
Idle assets	38	—	469
Overseas			
Stores	20	38	250
Offices	1	65	14
Total	¥172	¥387	$2,115

As described in the note 1.9, an asset or asset group is impaired if its carrying amount exceeds the amount to be recovered through use or sale of the asset.

For fiscal 2010 and 2009, the Group performed recoverability tests for certain asset groups of the retail stores and offices whenever the operating losses of Cash Generating Units (CGUs) have been continuously recorded and the total estimated future cash flows from the use of such asset groups were less than their book values. The book value was written-down to the recoverable amount. Recoverable amount of an asset group for stores and offices was measured by using value-in-use based on the undiscounted future cash flows expected to be generated from the continued use and eventual disposition. For stores and offices scheduled for closure, the recoverable amount of an asset group was measured by using net sales value based on the expected amount for sale. Recoverable amount of idle assets was measured by using net sales value based on real estate appraisal values.

Value-in-use was assessed as zero because no future cash flows were expected to be generated.

Note 14 Income Taxes

Deferred tax assets and liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2010	2009	2010
Deferred tax assets:			
Provision for bonuses	¥ 663	¥ 541	$ 8,138
Provision for retirement benefits	2,949	3,122	36,191
Loss on valuation of inventories	740	613	9,086
Loss on disposal of non-current assets	167	246	2,060
Impairment loss	17,591	17,610	215,873
Loss on valuation of investments in securities	388	388	4,767
Non-recurring depreciation on non-current assets	155	190	1,913
Provision for point program	671	608	8,241
Unrealized intercompany profit	378	327	4,646
Net unused tax losses of subsidiaries in liquidation	—	792	—
Net carryforward of unused tax losses	6,141	8,730	75,366
Enterprise tax payable	268	140	3,291
Other	873	717	10,716
Less valuation allowance	(24,154)	(23,894)	(296,412)
Total deferred tax assets	6,835	10,138	83,877
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(169)	(185)	(2,075)
Enterprise tax refund receivable	—	(14)	—
Total deferred tax liabilities	(169)	(200)	(2,075)
Deferred tax assets, net	¥ 6,666	¥ 9,938	$ 81,802

The statutory tax rate was approximately 40.7% for fiscal 2010 and 2009. The reconciliation between the statutory tax rate and the effective tax rate is omitted for fiscal 2010 as the difference is less than 5% of the statutory tax rate.

The effective tax rate was 53.0% for fiscal 2009. The significant components of reconciling items reflected a nondeductible permanent difference, such as entertainment expense of 1.5%, the effect of accumulated earnings tax of 3.9%, per capita inhabitants' tax of 0.5%, changes in valuation allowance of 2.3%, adjustments to the book values of investments of 4.0% and other of 0.2%.

Note 15 Leases

(As a lessee)

15.1. Finance leases that do not transfer ownership

15.1.1. Accounting treatment for the finance leases entered into on or after January 1, 2009

The finance leases entered into on or after January 1, 2009 are capitalized. They primarily consist of interior and furniture and fixtures for retail stores included in buildings and structures or other property, plant and equipment, and are depreciated using the straight-line method over the lease term with zero residual value.

15.1.2. Accounting treatment for the finance leases entered into on or prior to December 31, 2008

The finance leases entered into on or prior to December 31, 2008 are not capitalized but accounted for using a method similar to that applicable to operating lease transactions.

If such leases were capitalized, their depreciation or amortization would be determined on the straight-line method over the lease term with zero residual value.

Acquisition cost, accumulated depreciation or amortization, accumulated impairment loss and net book value of such leases would be as follows:

	Millions of yen				Thousands of U.S. dollars			
December 31, 2010	Acquisition cost	Accumulated depreciation/ amortization	Accumulated impairment loss	Net book value	Acquisition cost	Accumulated depreciation/ amortization	Accumulated impairment loss	Net book value
Buildings and structures	¥1,036	¥ 798	¥ 5	¥ 232	$12,715	$ 9,804	$ 63	$ 2,847
Machinery, equipment and vehicles	681	433	—	248	8,360	5,316	—	3,043
Other property, plant and equipment, including tools, furniture and fixtures	2,418	1,818	23	576	29,675	22,311	293	7,071
Intangible assets (Software)	8	7	0	0	102	94	2	5
Total	¥4,144	¥3,058	¥29	¥1,056	$50,855	$37,527	$359	$12,968

December 31, 2009	Millions of yen: Acquisition cost	Accumulated depreciation/ amortization	Accumulated impairment loss	Net book value
Buildings and structures	¥1,468	¥ 924	¥11	¥ 531
Machinery, equipment and vehicles	681	334	—	346
Other property, plant and equipment, including tools, furniture and fixtures	3,603	2,275	52	1,276
Intangible assets (Software)	12	8	0	2
Total	¥5,765	¥3,543	¥64	¥2,157

Future minimum lease payments are as follows:

	Millions of yen		Thousands of U.S. dollars
December 31	2010	2009	2010
Due within 1 year	¥ 698	¥1,167	$ 8,577
Due after 1 year	437	1,136	5,373
Total	¥1,136	¥2,304	$13,950

Balance of allowance for impairment loss on leased assets is as follows:

	Millions of yen		Thousands of U.S. dollars
December 31	2010	2009	2010
Allowance for impairment loss on leased assets	¥25	¥51	$317

Lease payments, reversal of impairment loss on leased assets, depreciation and amortization, interest expense and impairment loss are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2010	2009	2010
Lease payments	¥1,250	¥1,596	$15,346
Reversal of impairment loss on leased assets	39	45	486
Depreciation and amortization	1,134	1,448	13,924
Interest expense	69	120	849
Impairment loss	¥ 13	¥ 56	$ 170

Interest expense is calculated as the difference between the aggregate lease payments and the acquisition cost of leased assets, allocated over the lease term using the effective interest method.

15.2. Operating lease transactions

Future minimum lease payments under non-cancelable operating lease arrangements are as follows:

	Millions of yen		Thousands of U.S. dollars
December 31	2010	2009	2010
Due within 1 year	¥ 7	¥ 7	$ 95
Due after 1 year	11	19	138
Total	¥19	¥26	$234

Note 16 Investment and Rental Property

Effective from fiscal 2010, the Group adopted "Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Statement No. 20, issued on November 28, 2008) and "Guidance on Accounting Standard for Disclosures about Fair Value of Investment and Rental Property" (ASBJ Guidance No. 23, issued on November 28, 2008).

Certain of the Company's domestic consolidated subsidiaries own office buildings and residential properties for lease in Tokyo and other areas. During fiscal 2010, they recorded net rental income of ¥1,507 million (U.S. $18,498 thousand) from rental properties. The rental income is reported as net sales or other income, and the rental expenses are reported as cost of sales, selling, general and administrative expenses or other expenses. Impairment loss of ¥38 million (U.S. $469 thousand) and non-recurring depreciation of ¥341 million (U.S. $4,193 thousand) from these rental properties are reported as other expenses.

The carrying amount on the consolidated balance sheets, net change during fiscal 2010, the fair value of these properties, and the method used for calculating the fair value of investment and rental properties are as follows:

Millions of yen			
Carrying amount			Fair value
Balance at December 31, 2009	Net increase	Balance at December 31, 2010	At December 31, 2010
¥ 23,417	¥649	¥24,067	¥45,348

Thousands of U.S. dollars			
Carrying amount			Fair value
Balance at December 31, 2009	Net increase	Balance at December 31, 2010	At December 31, 2010
$ 287,362	$7,975	$295,338	$556,495

1. The carrying amounts represent acquisition cost less accumulated depreciation and accumulated impairment loss.
2. Components of net change are as follows:
   Increase: Acquisition of residential properties for lease: ¥1,393 million (U.S. $17,105 thousand).
   Refurbishment of office buildings for lease: ¥244 million (U.S. $2,999 thousand).
   Decrease: Impairment loss and non-recurring depreciation on idle assets: ¥373 million (U.S. $4,583 thousand).
   Depreciation on office buildings and residential properties for lease: ¥588 million (U.S. $7,224 thousand).
3. Method for calculating fair value
   The fair values of the major properties are determined at the amounts using appraisal certificates provided by outside real estate assessors. For the minor properties, however, the fair value of land is determined at the amount adjusted using the indices that are considered to properly reflect market price. The fair values of depreciable assets such as buildings are determined at the carrying amounts. For the properties acquired in fiscal 2010, the fair values are determined at the carrying amounts due to minimal fluctuation on fair values.

Note 17 Financial Instruments

Effective from fiscal 2010, the Group adopted "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued on March 10, 2008) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, issued on March 10, 2008).

17.1. Overview of financial instruments

17.1.1. Policies on financial instruments

The Group only utilizes low risk, short-term financial instruments for cash management, and it raises funds through borrowings from banks and by issuing corporate bonds in the capital market. Derivatives are utilized only to the extent necessary to hedge foreign currency risk arising primarily from trade payables. The Group does not enter into derivative transactions for speculative or trading purposes.

17.1.2. Description of financial instruments, risks and risk management policy

Trade receivables such as notes and accounts are exposed to customers' credit risk. In order to manage such risk, the Group manages payment dates and outstanding balances by individual customer and review customers' credit status on a regular basis in accordance with credit management policy.

Investments in securities consist of financial instruments with low risk such as held-to-maturity debt securities, but some of them are exposed to the risk of fluctuations in market price. The Group reviews the prices on a quarterly basis in order to manage such risk.

Notes and accounts payable – trade and accounts payable – other are due within one year. The interest-bearing liabilities mainly include short-term loans payable and lease obligations. Short-term loans are mainly funding for operating transactions, and lease obligations are mainly funding for capital investments. Loans payable with floating interest rates are exposed to the risk of interest rate fluctuations but they are all short-term in nature.

The Group executes and manages derivative transactions in accordance with the internal policy governing the authorization of transactions. The use of derivatives is limited only to the extent necessary to hedge foreign exchange risk, and also the counterparties are limited to financial institutions with high credit standing in order to mitigate credit risk.

Furthermore, trade payables and interest-bearing liabilities are exposed to liquidity risk, but the Group manages such risk by, for example, preparing the cash management schedule on a monthly basis.

17.1.3. Supplementary information on fair value of financial instruments

Fair value of financial instruments is based on the quoted price in the active market. A reasonable valuation technique is used if a quoted price is not available. The values may change under different assumptions as such calculation incorporates variable factors. Also, the contract amounts disclosed in "Derivative transactions" do not represent market risk related to derivative transactions. For detailed information on derivative transactions, see Note 19 "Derivative transactions."

17.2. Fair value of financial instruments

The carrying amount, fair value of financial instruments and the difference between them as of December 31, 2010 consist of the following:

	Millions of yen		
	2010		
December 31	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 34,678	¥ 34,678	—
(ii) Notes and accounts receivable – trade(*1)	19,481	19,481	—
(iii) Investments in securities			
Held-to-maturity securities	45,061	45,104	42
Available-for-sale securities	4,425	4,425	—
Total assets	103,647	103,689	42
(i) Notes and accounts payable – trade	3,549	3,549	—
(ii) Short-term loans payable	1,753	1,753	—
(iii) Accounts payable – other	10,848	10,848	—
Total liabilities	16,151	16,151	—
Derivative transactions (*2)	¥ (21)	¥ (21)	—

	Thousands of U.S. dollars		
	2010		
December 31	Carrying amount	Fair value	Difference
(i) Cash and deposits	$ 425,549	$ 425,549	—
(ii) Notes and accounts receivable – trade(*1)	239,070	239,070	—
(iii) Investments in securities			
Held-to-maturity securities	552,971	553,492	521
Available-for-sale securities	54,307	54,307	—
Total assets	1,271,898	1,272,420	521
(i) Notes and accounts payable – trade	43,557	43,557	—
(ii) Short-term loans payable	21,521	21,521	—
(iii) Accounts payable – other	133,121	133,121	—
Total liabilities	198,199	198,199	—
Derivative transactions (*2)	$ (262)	$ (262)	—

(*1) Notes and accounts receivable – trade are presented net of allowance for doubtful accounts.
(*2) Receivables and payables arising from derivative transactions are presented on a net basis, with net payables presented in parenthesis.

1. Calculation method of fair value of financial instruments and information about securities and derivative transactions

Assets

(i) Cash and deposits, (ii) Notes and accounts receivable – trade

Carrying value is used for fair value as they are short term in nature; the fair value approximates the carrying value.

(iii) Investments in securities

The fair value of stock is determined on the quoted price on stock exchanges and the fair value of debt securities is determined on the quoted prices provided by financial institutions. For the short-term investments in securities, their fair values approximate carrying value. For notes related to securities by holding purpose, refer to Note 18 "Investments in securities."

Liabilities

(i) Notes and accounts payable – trade, (ii) Short-term loans payable and (iii) Accounts payable – other

Carrying value is used for fair value as they are short term in nature; the fair value approximates the carrying value.

Derivative transactions

The fair value of derivative transactions is determined on the quoted price provided by financial institutions.

For further information, refer to Note 19 "Derivative transactions."

2. Financial instruments for which fair values are not readily available consist of the following:

	Millions of yen	Thousands of U.S. dollars
December 31, 2010	Carrying amount	Carrying amount
Unlisted stock	¥ 32	$ 394
Capital contribution to investment in a limited partnership	189	2,320
Total	¥221	$2,715

These financial instruments are not included in "Investments in securities" as their fair values are unavailable and future cash flows are not determinable.

3. Redemption schedule of monetary receivables and investments in securities with maturities after December 31, 2010 is as follows:

	Millions of yen			
December 31, 2010	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥34,678	—	—	—
Notes and accounts receivable – trade	19,481	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	9,907	¥ 2,103	—	—
Held-to-maturity debt securities (other)	19,529	13,520	—	—
Available-for-sale securities with maturities (other)	1,010	—	¥178	—
Total	¥84,607	¥15,624	¥178	—

	Thousands of U.S. dollars			
December 31, 2010	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	$ 425,549	—	—	—
Notes and accounts receivable – trade	239,070	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	121,583	$ 25,812	—	—
Held-to-maturity debt securities (other)	239,654	165,921	—	—
Available-for-sale securities with maturities (other)	12,396	—	$2,195	—
Total	$1,038,225	$191,733	$2,195	—

4. For the repayment schedule of lease obligations after December 31, 2010, refer to Note 5 "Short-term and Long-term Debts."

Note 18 Investments in Securities

18.1. Marketable securities classified as held-to-maturity securities consist of the following:

	Millions of yen		
	2010		
December 31	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount			
Corporate bonds	¥ 6,311	¥ 6,369	¥ 57
Other	13,031	13,117	85
Subtotal	19,343	19,486	143
Securities with carrying amount exceeding fair value			
Corporate bonds	5,699	5,692	(7)
Other	20,018	19,924	(93)
Subtotal	25,718	25,617	(100)
Total	¥45,061	¥45,104	¥ 42

	Thousands of U.S. dollars		
	2010		
December 31	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount			
Corporate bonds	$ 77,454	$ 78,164	$ 709
Other	159,918	160,968	1,049
Subtotal	237,373	239,132	1,759
Securities with carrying amount exceeding fair value			
Corporate bonds	69,940	69,853	(87)
Other	245,657	244,506	(1,150)
Subtotal	315,598	314,360	(1,237)
Total	$552,971	$553,492	$ 521

18.2. Marketable securities classified as available-for-sale securities consist of the following:

	Millions of yen					
	2010			2009		
December 31	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost						
Stock	¥ 548	¥ 133	¥414	¥ 589	¥ 133	¥455
Other	732	730	2	1,819	1,810	8
Subtotal	1,280	863	416	2,408	1,944	464
Securities with acquisition cost exceeding carrying amount						
Stock	1,144	1,178	(33)	1,178	1,178	—
Other	2,000	2,000	—	—	—	—
Subtotal	3,145	3,179	(33)	1,178	1,178	—
Total	¥4,425	¥4,042	¥382	¥3,587	¥3,122	¥464

	Thousands of U.S. dollars		
	2010		
December 31	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost			
Stock	$ 6,727	$ 1,641	$5,086
Other	8,983	8,958	25
Subtotal	15,710	10,599	5,111
Securities with acquisition cost exceeding carrying amount			
Stock	14,050	14,467	(417)
Other	24,546	24,546	—
Subtotal	38,596	39,013	(417)
Total	$54,307	$49,613	$4,694

Unlisted stock of ¥32 million (U.S. $394 thousand) at December 31, 2010 (¥32 million at December 31, 2009) and capital contribution to investment in a limited partnership of ¥189 million (U.S. $2,320 thousand) at December 31, 2010 (¥224 million at December 2009) were carried in the accompanying consolidated balance sheets. They are not included in "available-for-sale securities" in the above table as quoted price is unavailable and their fair value is not readily determinable.

At December 31, 2009, commercial paper of ¥18,998 million classified as held-to-maturity debt securities, MMFs of ¥23 million, foreign-denominated MMFs of ¥143 million and a certificate of deposit of ¥10,000 million classified as available-for-sale securities had no fair value, and were carried at the carrying amount in the accompanying consolidated balance sheets.

18.3. Available-for-sale securities sold during fiscal 2010 and 2009 consist of the following:

	Millions of yen					
	2010			2009		
Years ended December 31	Amount sold	Aggregate gains on sales of securities	Aggregate losses on sales of securities	Amount sold	Aggregate gains on sales of securities	Aggregate losses on sales of securities
Stock	¥ 11	¥1	¥ 0	¥ 10	—	¥1
Other	247	5	27	138	37	2
Total	¥258	¥6	¥27	¥149	¥37	¥3

	Thousands of U.S. dollars		
	2010		
Years ended December 31	Amount sold	Aggregate gains on sales of securities	Aggregate losses on sales of securities
Stock	$ 142	$17	$ 0
Other	3,034	62	339
Total	$3,176	$80	$340

Note 19 Derivative Transactions

19.1. Overview of transactions

19.1.1. Description of transactions and purpose

The Group enters into foreign exchange forward contracts and currency option contracts in order to mitigate the risk of fluctuations in foreign exchange rates arising from import and export transactions in the ordinary course of business.

19.1.2. Policies

The Group primarily uses derivative transactions related to the currency to hedge supply contracts denominated in Euro. Mostly foreign exchange forward contracts and currency options relating to foreign currency denominated assets and liabilities are used only to the extent necessary, and derivative transactions are not entered into for speculative or trading purposes.

19.1.3. Risks

Derivative transactions related to the currency are exposed to the risk of fluctuations in exchange rates.

The counterparties' credit risk is considered insignificant as the Group enters into derivative contracts only with the domestic banks with high credit standing.

19.1.4. Risk management system

Accounting and financial department of each company intensively executes and manages derivative transactions, and reports the status of the transactions to the Board of Directors on a regular basis.

19.2. Fair value

Derivative financial instruments are recorded at their fair values. Derivative transactions related to the currency for which hedge accounting is not applied consist of the following:

	Millions of yen							
	2010				2009			
Years ended December 31	Contract amount	Maturity over 1 year	Fair value	Unrealized gain/loss	Contract amount	Maturity over 1 year	Fair value	Unrealized gain/loss
Non-market transactions								
Currency options								
Sell (Put)								
Euro	—	—	—	—	¥ 94	—	¥(11)	¥(11)
Purchase (Call)								
Euro	—	—	—	—	47	—	(2)	(2)
Foreign exchange forwards								
Purchase								
Euro	¥69	—	¥(21)	¥(21)	178	¥69	¥150	(27)
Total	¥69	—	¥(21)	¥(21)	¥319	¥69	¥137	¥(41)

	Thousands of U.S. dollars			
	2010			
Years ended December 31	Contract amount	Maturity over 1 year	Fair value	Unrealized gain/loss
Non-market transactions				
Currency options				
Sell (Put)				
Euro	—	—	—	—
Purchase (Call)				
Euro	—	—	—	—
Foreign exchange forwards				
Purchase				
Euro	$855	—	$(262)	$(262)
Total	$855	—	$(262)	$(262)

The fair value of currency options was based on the quoted price obtained from financial institutions. The fair value of foreign exchange forwards was based on the forward exchange rates.

Note 20 Segment Information

20.1. Business segment information

The Group's operations are primarily focused on businesses related to the beauties and health, and classified into five segments: "Cosmetics," "Fashion," "Pharmaceuticals," "Real Estate," and "Other," based on internal management purposes. Financial information summarized by business segment for fiscal 2010 and 2009 is as follows:

Year ended or at December 31, 2010

	Millions of yen							
Categorized by business type	Cosmetics	Fashion	Pharmaceuticals	Real Estate	Others	Total	Elimination or corporate	Consolidated
Net sales								
Sales to external customers	¥139,650	¥13,453	¥6,936	¥ 3,102	¥2,101	¥165,253	—	¥165,253
Intersegment sales and transfers	50	0	—	673	6,142	6,865	¥ (6,865)	—
Total	¥139,710	¥13,453	¥6,936	¥ 3,775	¥8,243	¥172,119	¥ (6,865)	¥165,253
Operating expenses	129,237	13,905	7,286	2,471	7,843	160,743	(7,761)	152,982
Operating income (loss)	10,472	(452)	(349)	1,304	399	11,375	895	12,270
Total assets	¥ 39,566	¥ 6,514	¥2,419	¥16,434	¥4,420	¥ 69,355	¥118,416	¥187,771
Depreciation and amortization	4,245	135	259	561	68	5,270	90	5,361
Impairment loss	172	—	—	—	—	172	(0)	172
Capital expenditures	¥ 3,716	¥ 88	¥ 183	¥ 2,249	¥ 22	¥ 6,260	¥ (15)	¥ 6,245

Year ended or at December 31, 2009

	Millions of yen							
Categorized by business type	Cosmetics	Fashion	Pharmaceuticals	Real Estate	Others	Total	Elimination or corporate	Consolidated
Net sales								
Sales to external customers	¥136,219	¥14,137	¥ 6,744	¥ 3,216	¥2,014	¥162,332	—	¥162,332
Intersegment sales and transfers	7	0	42	474	6,352	6,876	¥ (6,876)	—
Total	¥136,226	¥14,137	¥ 6,787	¥ 3,691	¥8,366	¥169,209	¥ (6,876)	—
Operating expenses	127,805	14,485	8,172	2,092	7,914	160,470	(7,843)	152,626
Operating income (loss)	8,420	(347)	(1,384)	1,598	452	8,739	966	9,706
Total assets	¥ 29,715	¥ 8,514	¥ 2,352	¥17,641	¥4,073	¥ 62,297	¥119,612	¥181,909
Depreciation and amortization	3,714	168	386	582	71	4,923	50	4,973
Impairment loss	285	—	103	—	—	388	(1)	387
Capital expenditures	¥ 6,367	¥ 421	¥ 437	¥ 1,151	¥ 43	¥ 8,422	¥ 216	¥ 8,639

Year ended or at December 31, 2010

	Thousands of U.S. dollars							
Categorized by business type	Cosmetics	Fashion	Pharmaceuticals	Real Estate	Others	Total	Elimination or corporate	Consolidated
Net sales								
Sales to external customers	$1,713,836	$165,088	$85,117	$ 38,072	$ 25,782	$2,027,897	—	$2,027,897
Intersegment sales and transfers	613	2	—	8,262	75,373	84,253	$ (84,253)	—
Total	$1,714,450	$165,091	$85,117	$ 46,335	$101,156	$2,112,151	$ (84,253)	$2,027,897
Operating expenses	1,585,932	170,640	89,410	30,324	96,252	1,972,559	(95,239)	1,877,320
Operating income (loss)	128,518	(5,549)	(4,292)	16,011	4,904	139,591	10,986	150,577
Total assets	$ 485,535	$ 79,940	$29,692	$201,672	$ 54,246	$ 851,086	$1,453,146	$2,304,233
Depreciation and amortization	52,103	1,664	3,184	6,884	844	64,682	1,106	65,789
Impairment loss	2,115	—	—	—	—	2,115	(2)	2,112
Capital expenditures	$ 45,604	$ 1,087	$ 2,252	$ 27,606	$ 278	$ 76,829	$ (194)	$ 76,635

1. Primary products for each business segment consist of the following:
   (1) Cosmetics: Cosmetics (***B.A*** series, ***APEX-i***, ***Aqua Force***, ***Clear***, ***Pure Natural***, ***White Diamante***, ***Sowan Hypnotique***, "***Tsutsumu***" series, ***THREE***), and health foods (***KENBISANSEN***)
   (2) Fashion: Ladies' underwear (***Sofical***), ladies' apparel (***amian***, ***Crea+mure***) and jewelry (***LA VIE D'OR***)
   (3) Pharmaceuticals: Pharmaceutical products (***Lulicon Cream 1%***, ***Lulicon Solution 1%***, ***Alosenn***)
   (4) Real Estate: Office buildings and residential properties for lease
   (5) Others: Printing, and building maintenance, etc.
2. Operating expenses include unallocable operating expenses (¥1,906 million (U.S. $23,397 thousand), ¥1,904 million for fiscal 2010 and 2009, respectively), under "Elimination or corporate," which mainly consist of the Company's administrative expenses.
3. Assets include corporate assets (¥156,506 million (U.S. $1,920,563 thousand), ¥123,964 million at December 31, 2010 and 2009, respectively), under "Elimination or corporate," which mainly consist of surplus funds (cash and deposits, and investments in securities) at the Company, and assets related to administrative operations.
4. Depreciation and amortization and capital expenditures include amortization and the increase of long-term prepaid expenses, respectively.
5. Depreciation and amortization for the Cosmetics business include non-recurring depreciation (¥341 million) (U.S. $4,193 thousand) for fiscal 2010.

20.2. Geographical segment information

Geographical segment information is omitted, as both sales and assets of the domestic segment account for more than 90% of the total sales and assets of all segments for fiscal 2010 and 2009.

20.3. Overseas sales

Overseas sales are omitted, as overseas sales account for less than 10% of the consolidated net sales for fiscal 2010 and 2009.

Note 21 Per Share Information

For fiscal 2010 and 2009, basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average common shares outstanding. Diluted net income per share is not computed because there are no potentially dilutive common stock to be issued upon exercise of warrants and stock subscription rights.

Net assets per share are computed based on the net assets excluding minority interests and common shares outstanding at year-end.

Cash dividends per share represent the cash dividends which have been proposed or will be proposed by the Annual Meeting of Shareholders as applicable to the respective years together with any interim cash dividends paid.

Assumptions used for calculations are as follows:

Years ended or at December 31

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net income per share			
Numerator:			
Net income attributable to common stock	¥ 7,086	¥ 4,059	$ 86,961
Denominator:			
Weighted average common shares outstanding (thousands)	51,591	51,284	51,591
Net assets per share			
Numerator:			
Total net assets	¥153,104	¥140,890	$1,878,810
Amount deducted from total net assets	103	173	1,264
[Of which, minority interests]	(103)	(173)	(1,264)
Net assets attributable to common stock	¥153,001	¥140,716	$1,877,545
Denominator:			
Common shares issued	57,284	161,592	57,284
Treasury stock	2,000	110,308	2,000
Common shares outstanding used in the calculation of net assets per share (thousands)	55,284	51,284	55,284

Note 22 Related Party Transactions

Effective from fiscal 2009, the Group adopted "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11, issued on October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13, issued on October 17, 2006).

As a result, transactions between the Company's consolidated subsidiaries and the Company's parent company or major shareholders (corporations only) are included in the scope of related party transactions disclosures.

The Pola Art Foundation ("the Foundation"), the Company's major shareholder, was established to contribute to the advancement and development of culture through activities such as supporting young artists and preserving and displaying artworks. The Company supports its aims and provides donations. The Foundation has a voting rights ratio of 35.6% of the Company at December 31, 2010 (38.3% at December 31, 2009). Satoshi Suzuki, President of the Company, concurrently holds the post as director of the Foundation.

The amount of donations is determined by the Company's Board of Directors based on the request from the Foundation, taking into consideration of the Foundation's activities, purpose and necessary operating costs. The Company donated ¥110 million (U.S. $1,349 thousand) and ¥176 million for fiscal 2010 and 2009, respectively.

The Group agrees with the Foundation's aims, and confirms an appropriate repayment plan when liability guarantees are made. At December 31, 2009, the consolidated subsidiaries guaranteed equipment loans payable of ¥375 million for the Foundation. No guarantee fees were received.

12-8 Report of Independent Auditors

ERNST & YOUNG

Ernst & Young ShinNihon LLC
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Tel : +81 3 3503 1100
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Report of Independent Auditors

The Board of Directors
Pola Orbis Holdings Inc.

We have audited the accompanying consolidated balance sheets of Pola Orbis Holdings Inc. and consolidated subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pola Orbis Holdings Inc. and consolidated subsidiaries at December 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

March 22, 2011

A member firm of Ernst & Young Global Limited

13 Corporate Information (As of December 31, 2010)

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10.0 billion
Number of employees	3,773 (for the Group) 83 (for the Company) *Full-time employees (Excluding those on loan to other companies, including those on loan from other companies) Excluding temporary workers
Fiscal year-end	December 31
General Meeting of Shareholders	March
Business description	Business management of the entire group
Head office	2-2-3 Nishigotanda, Shinagawa-ku, Tokyo 141-0031, Japan (Business activities conducted at 1-7-7 Ginza, Chuo-ku, Tokyo)
Stock listings	Tokyo Stock Exchange, First Section
TSE code	4927
Share register	1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation

Major domestic group companies

Cosmetics business / Fashion business
- POLA INC.
- ORBIS Inc.

Cosmetics business / R&D, Production
- POLA CHEMICAL INDUSTRIES INC.

Cosmetics business
- pdc INC.
- FUTURE LABO INC.
- ORLANE JAPON INC.
- decencia INC.
- ACRO INC.

Pharmaceuticals business
- POLA PHARMA INC.
- KAYAKU CO., LTD.

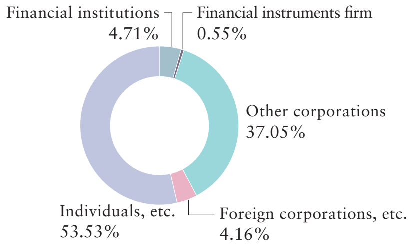
Real Estate business / Other businesses
- P.O. REAL ESTATE INC.
- P.O. MEDIA SERVICE INC.
- P.O. TECHNO SERVICE INC.

14 Stock Information (As of December 31, 2010)

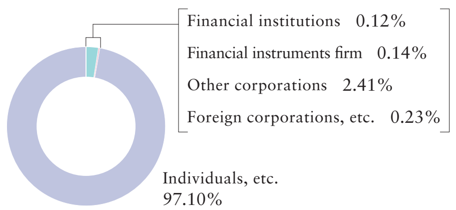
Total number of authorized shares	200,000,000 shares
Total number of issued shares	57,284,039 shares
Number of shareholders	18,948

Composition of shareholders

By number of shares



By number of shareholders



Principal shareholders

Shareholders	Number of shares held (thousands)	Percentage of shareholding (%)
The Pola Art Foundation	19,654	35.6
Satoshi Suzuki	12,788	23.1
Japan Trustee Services Bank, Ltd. (Trust Account)	1,245	2.3
POLA ORBIS HOLDINGS Employees' Stockholding	1,239	2.2
Naoko Nakamura	1,192	2.2
Northern Trust Co AVFC Re Northern Trust Guernsey. Irish Clients.	590	1.1
The Master Trust Bank of Japan, Ltd. (Trust Account)	573	1.0
Katsuji Suzuki	527	1.0
BARCLAYS CAPITAL SECURITIES LONDON A/C CAYMAN CLIENTS	429	0.8
Hiromi Nakamura	250	0.5

(Notes) 1. Number of shares is rounded down to the nearest thousand shares.
2. In addition to the above, the Company holds 2,000 thousand shares of treasury stock.
3. Percentage of shareholding is calculated by deducting shares of treasury stock.

POLA ORBIS
HOLDINGS

POLA ORBIS HOLDINGS INC.

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