

# Results for the Nine Months of Fiscal 2011: Supplementary Materials

POLA ORBIS HOLDINGS INC.  
DIRECTOR OF FINANCE/MANAGEMENT PLANNING DIV.

**Naoki Kume**

This report contains projections of performance and other projections based on information currently available and certain assumptions judged to be reasonable. Actual performance may differ materially from these projections resulting from changes in the economic environment and other risks and uncertainties.

1. **Highlights of Consolidated Performance**
2. Segment Analysis
3. Revisions to Forecasts for FY2011,  
Ending December 31, 2011

# Highlights of Consolidated Performance [P&L Summary]



(Millions of yen)	Nine months of FY2010	Nine months of FY2011	YoY Change	
			Amount	Percentage (%)
Net Sales	119,886	119,946	60	0.05%
Cost of sales	23,981	23,400	-581	-2.4%
Gross profit	95,904	96,546	642	0.67%
Selling, general and administrative expenses	87,464	87,762	298	0.34%
Operating income	8,440	8,784	344	4.1%
Ordinary income	8,357	9,108	751	9.0%
Income before income taxes	8,351	7,398	-952	-11.4%
Net income	3,780	5,475	1,694	44.8%

## Summary of consolidated results

**Consolidated net sales:** Net sales for nine months of FY2011 grew YoY, owing to a stronger-than-expected recovery from the earthquake and tsunami.

**Operating income:** Profit growth exceeded sales growth, owing to a lower cost of sales ratio.

**Net income:** Although the decrease of extraordinary income (loss) of ¥1,703 million led to a ¥952 million decline in income before income taxes, net income rose sharply YoY, owing to reduced tax-related costs.

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

(Millions of yen)	Nine months of FY2010	Nine months of FY2011	YoY Change	
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## Consolidated net sales

- POLA: up ¥71 million YoY
- THREE: up ¥182 million YoY
- ORBIS: down ¥993 million YoY
- H2O PLUS: up ¥864 million YoY

## Cost of sales

- Cost of sales ratio: 1Q-3Q FY2010 ratio of 20.00% ⇒ 1Q-3Q FY2011 19.51%
- Improved cost of sales ratio due to higher ratio of luxury products and change in POLA ORBIS sales breakdown

## Selling, general and administrative expenses

- Personnel expenses: up ¥327 million YoY
- Sales commissions: up ¥96 million YoY
- Sales-related expenses: down ¥71 million YoY
- Administrative expenses: down ¥53 million YoY

## Operating income

- Up ¥344 million YoY (up ¥275 million in the Beauty care segment)

# Analysis of Consolidated P&L Changes (Operating Income to Net Income)

(Millions of yen)	Nine months of FY2010	Nine months of FY2011	YoY Change	
			Amount	Percentage (%)
Operating income	8,440	8,784	344	4.1%
Non-operating income	484	603	119	24.7%
Non-operating expenses	567	279	-287	-50.7%
Ordinary income	8,357	9,108	751	9.0%
Extraordinary income	821	558	-263	-32.1%
Extraordinary losses	827	2,267	1,440	174%
Income before income taxes	8,351	7,398	-952	-11.4%
Income taxes	4,664	1,933	-2,731	-58.6%
Minority interests in net loss of consolidated subsidiaries	-93	-10	83	—
Net income	3,780	5,475	1,694	44.8%

## Non-operating income/ expenses

- Interest income due to investment of funds grew ¥156 million YoY
- Owing to a decrease in foreign exchange losses, profits grew ¥216 million YoY

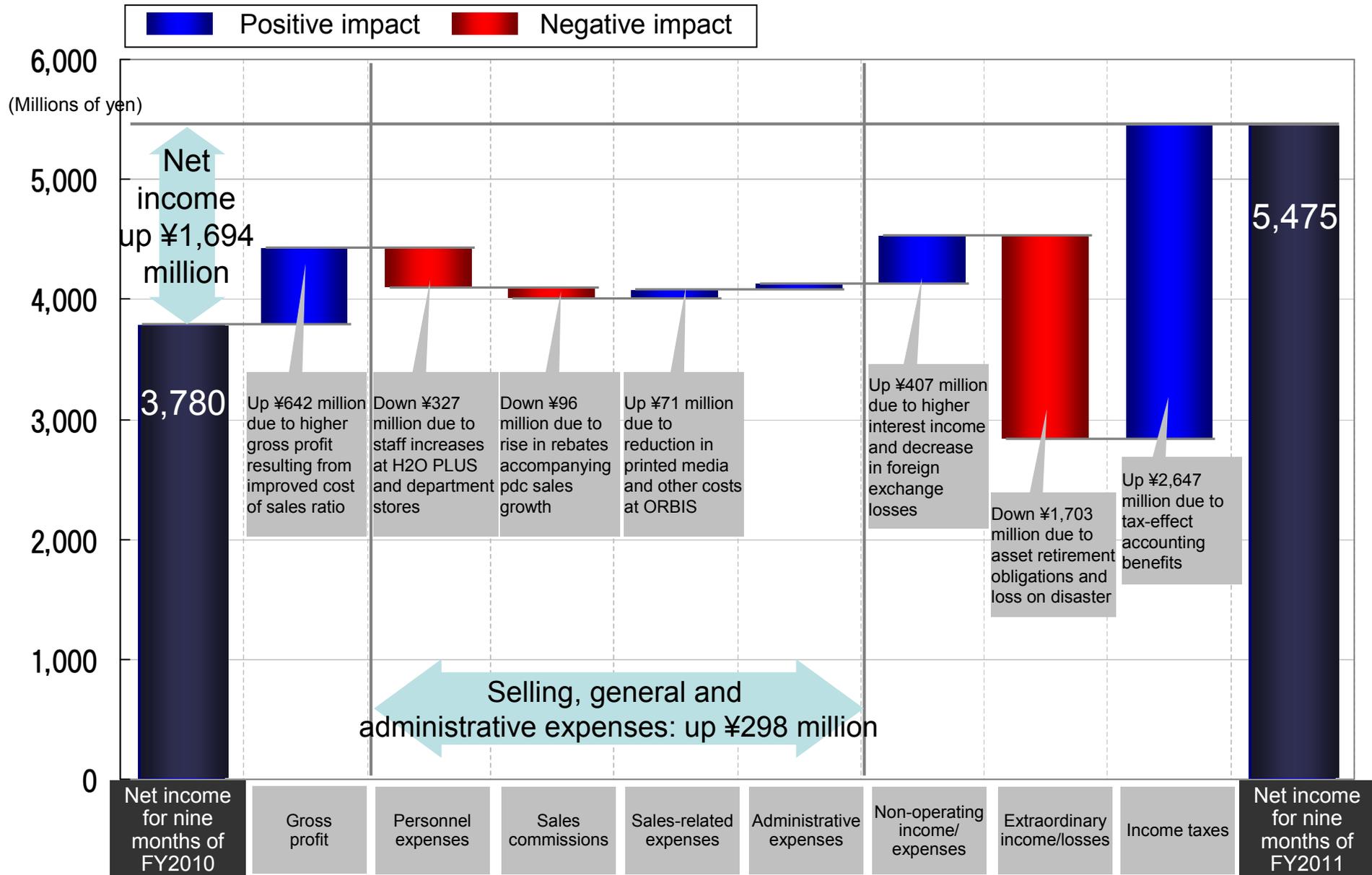
## Extraordinary income/ losses

- Asset retirement obligations: ¥954 million
- Loss on disaster: ¥425 million (includes relief supplies)

## Income taxes

- Tax effects due to real estate sales: – ¥1,335 million
- Effect of exemption from special tax on retained earnings: – ¥932 million
- Change in effective tax rate due to elimination of losses brought forward: – ¥660 million

# Factors Impacting Net Income



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# Operating Results by Segment

(Millions of yen)	Nine months of FY2010	Nine months of FY2011	YoY Change	
			Amount	Percentage (%)
Consolidated net sales	119,886	119,946	60	0.05%
Beauty care	110,984	111,140	155	0.14%
Real estate	2,310	2,336	26	1.1%
Others	6,591	6,469	-121	-1.8%
Operating income	8,440	8,784	344	4.1%
Beauty care	6,903	7,178	275	4.0%
Real estate	964	997	33	3.4%
Others	55	343	287	520%
Reconciliations	516	264	-252	-48.8%

# Beauty Care Segment Operating Results, by Product Type

(Millions of yen)	Nine months of FY2010	Nine months of FY2011	YoY change	
			Amount	Percentage (%)
Net sales	110,984	111,140	155	0.14%
Cosmetics	102,049	102,484	434	0.43%
Fashion	8,934	8,655	-278	-3.1%
Operating income	6,903	7,178	275	4.0%
Cosmetics	7,420	7,718	298	4.0%
Fashion	-516	-539	-22	—

- ◆ Cosmetics: Solid performance in 1-3Q, with net sales and operating income both up YoY
- ◆ Fashion: Sales fairs cancellations in 1H continued to have an impact, but showing improvement compared with 2Q

\* Figures are based on the same calculation methods used for the same period of the previous year for reference purposes only (unaudited)

# Beauty Care Segment Operating Results, by Brand



(Millions of yen)	Nine months of FY2010	Nine months of FY2011	YoY change	
			Amount	Percentage (%)
Net sales	110,984	111,140	155	0.14%
POLA	69,276	69,347	71	0.10%
ORBIS	36,556	35,563	-993	-2.7%
H2O PLUS/Brands under development	5,151	6,229	1,077	20.9%
Operating income	6,903	7,178	275	4.0%
POLA	3,549	3,549	0	0.00%
ORBIS	4,726	5,072	346	7.3%
H2O PLUS/Brands under development	-1,371	-1,442	-70	—

- ◆ POLA: Net sales and operating income remained level YoY. However, full-year profit growth is expected despite operating income remaining flat YoY, as expenses were concentrated in 3Q.
- ◆ ORBIS: Net sales declined YoY, but profits grew due to successful efforts to bolster online sales.
- ◆ H2O PLUS/Brands under development:  
H2O PLUS was included in the scope of consolidation from 3Q. THREE continues to perform well.

\* Consolidated operating income and losses are shown for each brand for reference purposes only (unaudited).

## 1 — Generate stable profits with flagship brands

	Products	<ul style="list-style-type: none"> <li>◆ Launch of <i>B.A RED</i>, a <i>B.A</i> series entry-level product, in August</li> </ul>
	Sales channels	<ul style="list-style-type: none"> <li>◆ Number of POLA THE BEAUTY (PB) stores rose by 15 to 515 (six below target)</li> <li>◆ January-September PB sales rose 9.9% year-on-year Note: Esthe Inn sales down 0.5%, conventional door-to-door sales down 8.5%</li> </ul>
	Non-door-to-door sales	<ul style="list-style-type: none"> <li>◆ Continued double-digit growth in department store sales, reflecting successful efforts to attract new customers with <i>B.A RED</i></li> </ul>



*B.A RED*,  
launched in August

	Products	<ul style="list-style-type: none"> <li>◆ Launch of <i>NEW WHITENING</i> series in July</li> </ul>
	Efforts to rebuild brands	<ul style="list-style-type: none"> <li>◆ Efforts to rebuild brands, including a bolstering of the skincare line making solid progress                             <ul style="list-style-type: none"> <li>⇒ sales ratio for skincare products: up 0.1pt YoY</li> <li>⇒ sales ratio for skincare products out of new customer sales: up 9.9pt YoY</li> </ul> </li> </ul>
	Sales channels	<ul style="list-style-type: none"> <li>◆ Online order ratio: up 4.3pt YoY</li> </ul>



*NEW WHITENING*,  
launched in July

## 2 — Accelerate growth of brands under development

**T H R E E**

- ◆ One store added in August, for a total of 13 stores
- ◆ Existing stores maintaining approx. 30% YoY sales growth



CONCENTRATE Line, an anti-aging product series launched in September

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

~H<sub>2</sub>O<sup>+</sup>  
sea-derived skincare

- ◆ Strong overseas wholesales, centering on Asia, achieving over 20% YoY sales growth

**POLA**

- ◆ China: strong department store sales accompanied by expansion in flagship store space. Overseas subsidiary established with the aim of launching door-to-door sales in 2012
- ◆ Russia: network of 100 stores, double-digit YoY growth, strong performance



The Oasis™ series

**ORBIS**

- ◆ China: launch of e-commerce site to develop a sales channel mix of mail-order sales and retail stores in a full scale



<http://www.orbis.com.cn>

## Real Estate/Others Segment Results

(Millions of yen)	Nine months of FY2010	Nine months of FY2011	YoY change	
			Amount	Percentage (%)
Real estate segment net sales	2,310	2,336	26	1.1%
Operating income	964	997	33	3.4%

◆ Slight increase in net sales, profit growth due partly to change in standard for recording non-current asset tax expenses (with switch from recording one lump sum in 2Q to a 12-month even distribution)

(Millions of yen)	Nine months of FY2010	Nine months of FY2011	YoY change	
			Amount	Percentage (%)
Others segment net sales	6,591	6,469	-121	-1.8%
Operating income	55	343	287	520%

◆ Pharmaceuticals: increased sales of *Lulicon* and generic drugs led to YoY growth, with steady improvement at the operating level.

◆ Building maintenance: decrease in orders due to earthquake and tsunami resulted in a YoY decline.

\* The commercial printing business is excluded from the scope of consolidation from 3Q onward.

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# Factors Behind Revisions to Forecasts

(Millions of yen)	Current full-year forecast	Change from forecast on April 28	Factors		
			Existing businesses	H2O Plus	Commercial printing company
Consolidated net sales	165,600	+3,600 (+2.2%)	POLA +2,000 Real estate +100	+1,800 (incl. in the scope of consolidation from 3Q)	-300 (excl. from the scope of consolidation from 3Q)
Operating income	12,400	+1,300 (+11.7%)	+1,360 Increased operating income due to sales growth	-30 Goodwill -150 Operating income +120	-30 Forecast for 2H operating income on April 28
Ordinary income	12,900	+1,300 (+11.2%)	+1,380	-50	-30
Net income	7,400	+100 (+1.4%)	+120 <div style="border: 1px dashed black; padding: 5px; margin: 5px 0;">                     [Ordinary income] +1,380                      [Extraordinary losses] -300                      [Income taxes] -960                 </div>	-50	+30
			<div style="border: 1px dashed black; padding: 5px;">                     [Extraordinary losses] -300                      ⇒ Increases in loss on disaster -180                      ⇒ Increase in building demolition costs -120                 </div>	<div style="border: 1px dashed black; padding: 5px;">                     [Income taxes] -960                      ⇒ Income taxes due to higher income before income taxes -470                      ⇒ Tax effects due to losses -490                 </div>	

# Revisions to Forecasts for FY2011, Ending Dec. 31, 2011

Upward revisions to full-year forecasts factor in a stronger-than-expected recovery from the earthquake and tsunami, in addition to benefits from M&A activity and the sale of shares. The Group is targeting sales and profit growth for the second year in a row.

(Millions of yen)	Full-year FY2011	Full-year forecasts announced on April 28			Full-year FY2010						
	Forecast	Forecast	Change (amount)	Change (%)	Results	Change (amount)	Change (%)				
<b>Consolidated net sales</b>	165,600	162,000	3,600	2.2%	165,253	346	0.21%				
Beauty care	153,800	150,000	3,800	2.5%	153,092	708	0.46%				
Real estate	3,100	3,000	100	3.3%	3,102	-2	-0.06%				
Others	8,700	9,000	-300	-3.3%	9,059	-359	-4.0%				
<b>Operating income</b>	12,400	11,100	1,300	11.7%	12,270	130	1.1%				
Beauty care	10,400	/					9,836	564	5.7%		
Real estate	1,200						/		1,304	-104	-8.0%
Others	400								302	98	32.5%
Elimination or corporate	400								828	-428	-51.7%
<b>Ordinary income</b>	12,900	11,600	1,300	11.2%	12,247	652			5.3%		
<b>Net income</b>	7,400	7,300	100	1.4%	7,086	313	4.4%				

# Efforts in the Fourth Quarter (POLA & ORBIS)

**POLA**

- ◆ Bolster the *B.A* series
  - ⇒ Launch of *B.A THE MASK*
  - ⇒ Launch of *B.A THE CREAM PREMIUM SET*, a limited edition
- ◆ Achieve target for POLA THE BEAUTY (PB) store openings
  - ⇒ Aim for network of 530 stores by the end of FY2011



*B.A THE MASK*,  
launched in October



*B.A THE CREAM PREMIUM SET*,  
due for launch in November

**ORBIS**

- ◆ Launch of innovative OIL-CUT (oil-free) skincare products
- ◆ Increase amount spent per customer by bolstering luxury skincare products



*EXCELLENT WHITE CREAM*,  
due for launch in November



*EXCELLENT ENRICH*,  
due for launch in December

# 2011–2013 Medium-Term Management Plan (Revisited)

Generate stable profits with flagship brands and invest funds to implement growth strategy



- ◆ Consolidated net sales → CAGR of 2–3%
- ◆ Operating income → CAGR of 10% or higher
- ◆ Operating margin → 9% (10% in Japan) in 2013

Strategy 1: Generate stable profits with flagship brands

**POLA**

- Increase profits from POLA THE BEAUTY
- Increase market share in luxury skincare cosmetics

**ORBIS**

- Implement measures to rebuild the ORBIS brand

Generate stable profits

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

**pdc**  **FUTURE LABO**  **ORLANE PARIS**  **decencia**  **THREE**

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

**POLA**

- Develop door-to-door sales channels in China
- Counseling-based sales in Russia and neighboring regions

**ORBIS**

- Mail-order sales business in China

New

 **H<sub>2</sub>O<sup>+</sup>**  
sea-derived skincare

Strategy 4: Reinforce R&D capabilities

- Reinforce skincare ingredient development capabilities

Strategy 5: Reinforce the operating base

1. Enhance brand recognition (unaided recall)

2. Concentration on core competence

3. Business process management

4. Step up personnel training