POLA ORBIS HOLDINGS

Annual Report 2011

Year ended December 31, 2011

POLA ORBIS HOLDINGS

May 1, 2012

Performance Forecast for the Fiscal Year Ending December 31, 2012

POLA ORBIS HOLDINGS INC. (the "Company") has made the following revisions to the consolidated performance forecast announced on February 14, 2012 for the first half and full-year periods of the fiscal year ending December 31, 2012. The revisions factor in the impact of purchasing Australian-based Jurlique International Pty Ltd, which became a wholly owned subsidiary when share acquisition procedures were completed on February 3, 2012.

Performance Forecast for the Fiscal Year Ending December 31, 2012

Revisions to the Consolidated Performance Forecast for the First Half of Fiscal 2012
(From January 1, 2012 to June 30, 2012)

	Net Sales	Operating Income	Net Income	Net Income Per Share
	Millions of Yen	Millions of Yen	Millions of Yen	Yen
Previous Forecast (A)	82,200	5,500	2,700	48.84
Current Forecast (B)	**86,400**	**4,700**	**2,000**	**36.18**
Amount Changes (B-A)	4,200	−800	−700	–
Percent Changes (%)	5.1	−14.5	−25.9	–
(Reference): Actual Results for First Half of Fiscal 2011	78,937	5,534	2,989	54.08

Revisions to the Consolidated Performance Forecast for Fiscal 2012
(From January 1, 2012 to December 31, 2012)

	Net Sales	Operating Income	Net Income	Net Income Per Share
	Millions of Yen	Millions of Yen	Millions of Yen	Yen
Previous Forecast (A)	172,000	13,700	7,000	126.62
Current Forecast (B)	**182,000**	**13,800**	**7,000**	**126.62**
Amount Changes (B-A)	10,000	100	–	–
Percent Changes (%)	5.8	0.7	–	–
(Reference): Actual Results for Fiscal 2011	166,657	12,853	8,039	145.43

Depreciation and Amortization Costs Relating to Jurlique's Acquisition

The Company expects approximately ¥1,500 million to ¥1,600 million of depreciation and amortization costs to impact its performance in fiscal 2012, with amortization costs of ¥700 million to ¥800 million factoring in inventory valuation differences, which will be reflected entirely in the fiscal 2012 statements. (In particular, the Company anticipates these costs to have a heavier impact in the first half.)

Annual depreciation and amortization costs are expected to reach ¥800 million to ¥900 million from fiscal 2013 onward.

Note: The figures above are based on current estimates and may differ from actual results.

Inspire all people and touch their hearts.

The POLA ORBIS Group is committed to providing distinctly unique products and services to you, the customer, backed with the assurance of solid scientific testing. We make every effort to contribute to improving the global cosmetics culture as well as preserving the global environment in the name of beauty and health. We aim to build a brand that will be forever admired and trusted in every corner of the globe. Achieving this requires us to approach each and every challenge with humility, and to identify precisely what makes people happy, stemming from our very own personal experiences. With this in mind, we, the POLA ORBIS Group, spend our days at work and at home full of vitality and with a smile on our faces.

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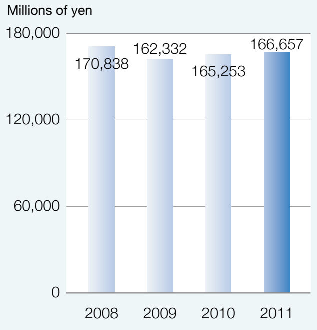
Forward-looking statements

This annual report contains projections of performance and other projections based on information available as of February 14, 2012 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.

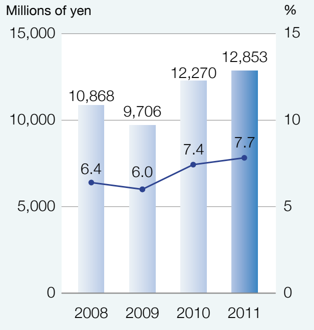
Financial Highlights

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

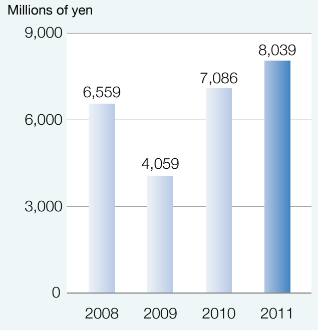
Net sales



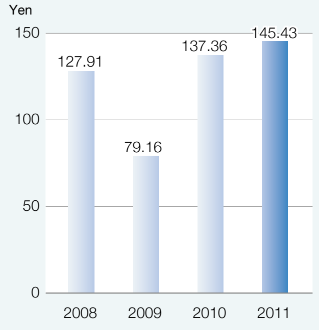
Operating income and Operating margin



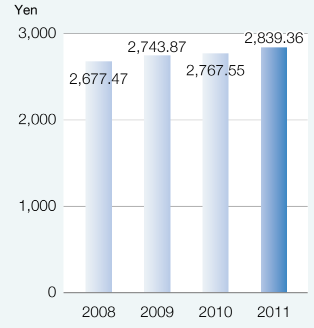
Net income



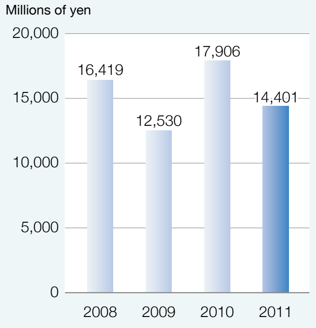
Net income per share



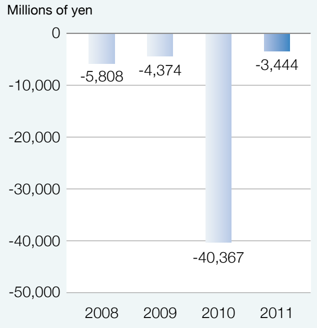
Net assets per share



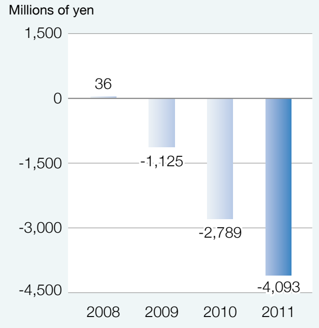
Cash flows from operating activities



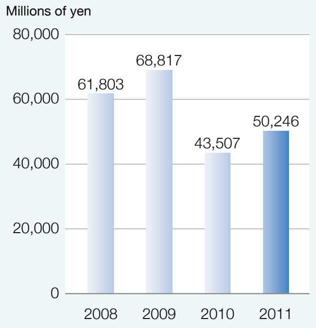
Cash flows from investing activities



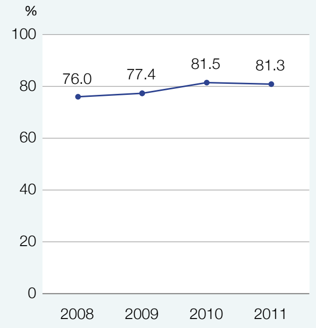
Cash flows from financing activities



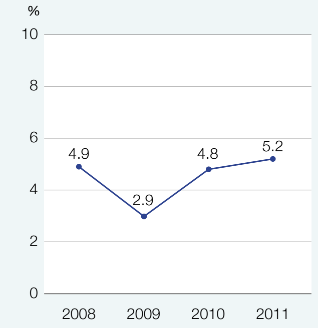
Cash and cash equivalents at end of year



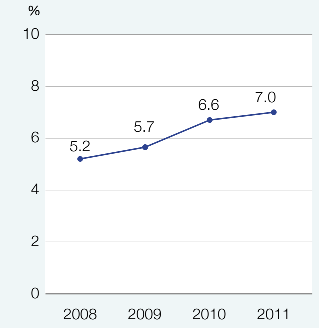
Equity ratio



Return on equity



Return on assets



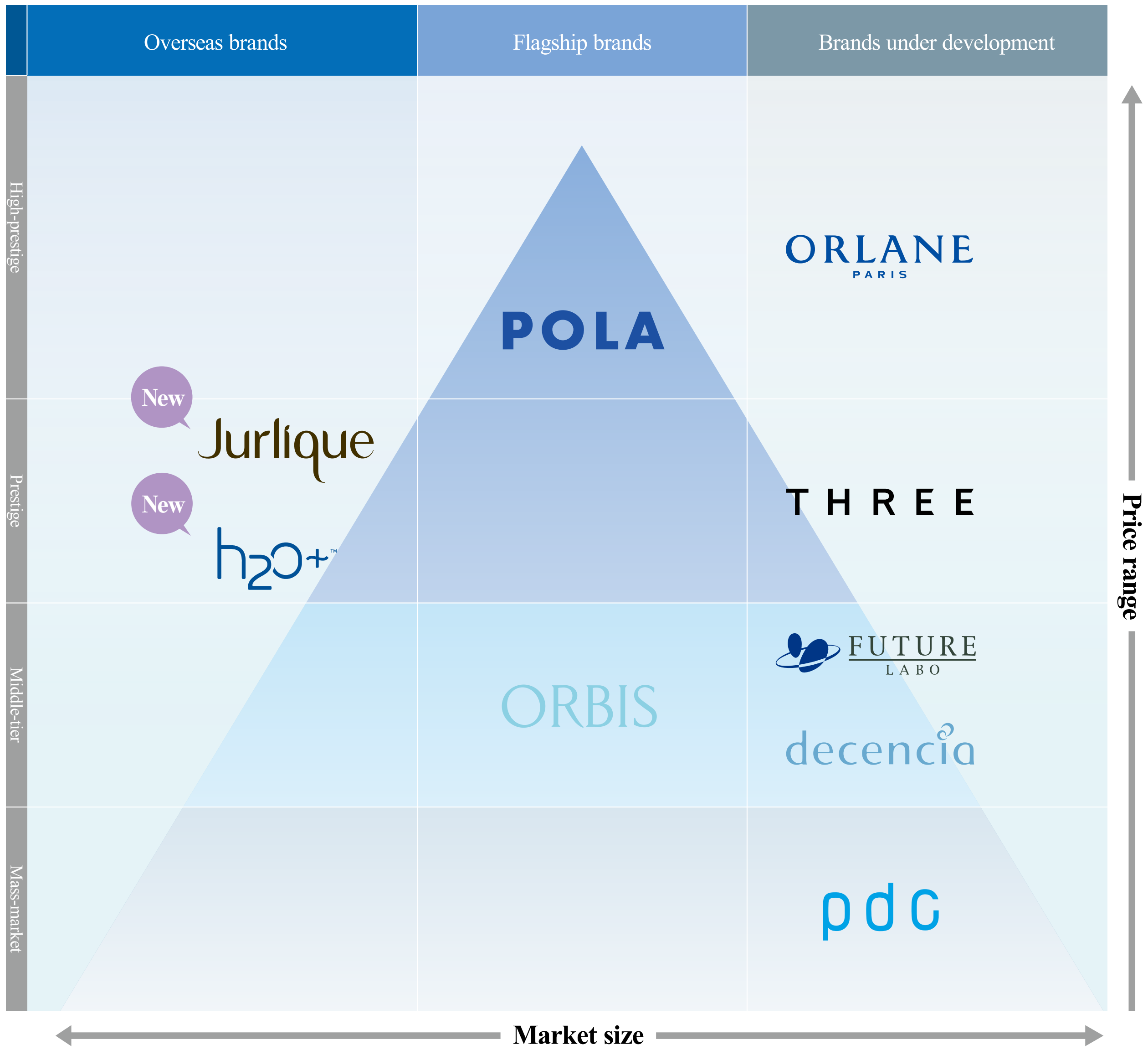
	Millions of yen (Except per share data)				Thousands of U.S. dollars*1 (Except per share data)
Years ended December 31	2008	2009	2010	2011	2011
Operating results					
Net sales*2	¥170,838	¥162,332	¥165,253	**¥166,657**	**$2,143,784**
Operating income	10,868	9,706	12,270	**12,853**	**165,339**
Operating margin (%)	6.4	6.0	7.4	**7.7**	
Net income	6,559	4,059	7,086	**8,039**	**103,419**
Net income per share	127.91	79.16	137.36	**145.43**	**1.87**
Financial position					
Net assets	137,564	140,890	153,104	**157,057**	**2,020,298**
Total assets	180,664	181,909	187,771	**193,027**	**2,482,987**
Net assets per share	2,677.47	2,743.87	2,767.55	**2,839.36**	**36.52**
Cash flows					
Cash flows from operating activities	16,419	12,530	17,906	**14,401**	**185,250**
Cash flows from investing activities	(5,808)	(4,374)	(40,367)	**(3,444)**	**(44,304)**
Cash flows from financing activities	36	(1,125)	(2,789)	**(4,093)**	**(52,653)**
Cash and cash equivalents at end of year	61,803	68,817	43,507	**50,246**	**646,342**
Depreciation and amortization	4,602	4,973	5,361	**5,374**	**69,134**
Capital expenditure	5,655	8,639	6,245	**5,048**	**64,934**
Financial indicators					
Equity ratio (%)	76.0	77.4	81.5	**81.3**	
Return on equity (%)	4.9	2.9	4.8	**5.2**	
Return on assets (%)	5.2	5.7	6.6	**7.0**	
Price-earnings ratio (times)*3	—	—	12.3	**14.3**	
Number of employees*4	3,603	3,713	3,773	**3,812**	
Average number of temporary-hired workers	2,103	1,906	1,872	**1,864**	

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1=¥77.74 as of December 31, 2011.
*2 Net sales do not include consumption taxes.
*3 The price-earnings ratio is not shown for fiscal 2008 and 2009 as the stock was not listed.
*4 The number of employees is the number of people working for the POLA ORBIS Group.

Overview of Our Business

The POLA ORBIS Group is engaged in businesses related to beauty and health, centering on cosmetics, a segment that dates back to 1929 and the establishment of POLA INC. Today, the Group develops its two flagship brands, POLA—high-prestige products available under a consulting-based sales format—and ORBIS—original-concept products provided through mail-order and at retail stores—along with several other brands matched to a specific sales channel and price bracket to attract target customers. The Group subscribes to a multi-brand strategy designed to utilize the unique qualities and well-defined identity of each brand to fuel growth and capture bigger shares in various markets. Group companies are guided by a holding company structure to ensure dynamic, fast-paced execution of business activities.

Brand Portfolio



Flagship Brands

POLA

POLA INC.

Boasts strengths built on leading-edge technology in the fields of anti-aging and skin-whitening and promotes consulting-based sales through a domestic network of about 4,500 sales offices and more than 135,000 POLA LADIES.

ORBIS

ORBIS Inc.

Provides original-concept product OIL-CUT—which trumped conventional industry wisdom about oil-free skincare—along with services that have earned a high level of customer satisfaction. Utilizes mail-order channels, such as Internet shopping and catalogs, as well as retail stores, to market products.

Overseas Brands

Jurlique

Jurlique International Pty Ltd

Operations hinge on a cosmetics brand with organic benefits, exemplified by ingredients made from the herbs grown on the company's own 153-acre farm in South Australia under pesticide-free, organic farming methods. Sales activities in 20 countries.

h2o+

H2O PLUS HOLDINGS, LLC

Promotes products made with natural, sea-derived ingredients, such as seaweed, through a marketing network of more than 2,000 locations in 24 countries, primarily in North America and Asia.

Brands under Development

We meet customers' diversifying needs by developing brands appropriate to specific sales channels and price brackets.

ORLANE PARIS

ORLANE JAPON INC.

Exclusive distributor of ORLANE, a luxury brand of anti-aging skincare cosmetics from France with a 60-year history, sold mainly at department stores in Japan.

THREE

ACRO INC.

Promotes THREE, a prestige brand of natural skincare products and fresh-idea makeup items at department stores.

FUTURE LABO

FUTURE LABO INC.

Offers products with exceptional properties through TV shopping channels.

decencia

decencia INC.

Markets products for dry, sensitive skin primarily through mail-order sales.

pdc

pdc INC.

Sells reasonably priced cosmetics through general retail channels, such as drugstores.

Our Expertise

The POLA ORBIS Group has inherited an enduring commitment to "make and sell our products ourselves" since the start of our business, and this fundamental approach has given form to a unique value chain integrating everything from research and development through sales. Our strengths as a group are skincare development technology and direct selling and a global network.

Strength 1

SKINCARE

Because women feel that skincare products are essential to their daily routine, the skincare field is known for market stability and a high rate of repeat customers—and subsequently high profitability as well—and the fact that companies can easily separate themselves from the competition with distinctive research themes and technologies. With these factors in mind, the POLA ORBIS Group pursues business activities with an emphasis on skincare, and skincare thus represents approximately 60% of the Group's sales.

Developing original anti-aging and skin-whitening ingredients

We have built a database of about 13 million entries from information given to us in the course of business by customers about their skin. With this information and leading-edge technologies as our tools, we delve into the realm of skincare. Concerted efforts are directed toward the development of ingredients for anti-aging and skin-whitening formulas, and we have originated numerous active ingredients, exemplified by the skin-whitening ingredient Rucinol®.

Strength 2

DIRECT SELLING

We believe that the direct-selling approach is the best way to tailor suggestions on skincare options to each customer. This approach also provides us with a conduit for collecting customer information and allows us to fine-tune brand management and boost the rate of repeat customers.

Growth through new sales format POLA THE BEAUTY

A national sales force of more than 135,000 POLA LADIES provides POLA products directly to customers through face-to-face contact. Customer information is consolidated within the network and underpins efforts to anticipate customer needs and boost levels of customer satisfaction. In 2005, we opened the first POLA THE BEAUTY store and began cultivating a new model for direct selling. The store network achieved a 10% increase in sales over the previous fiscal year.

Utilizing mail-order customer data to boost earning power

For three straight years, the ORBIS online store has taken the top spot in the After-sales Service Satisfaction Rating (online shop category) survey conducted by *Nikkei Business*, Japan's leading business publication. The solid reputation of the online store is tangible evidence of the company's efforts to provide greater purchasing convenience to customers. Efficient marketing techniques utilizing customer data has pushed ORBIS's operating margin above 10%.

Strength 3

GLOBAL NETWORK

A distribution network encompassing 35 countries and efforts to reinforce our overseas business structure and sales expansion capabilities will contribute significantly to the realization of our long-term vision.

Utilize distribution network in growth markets; quickly expand sales channels

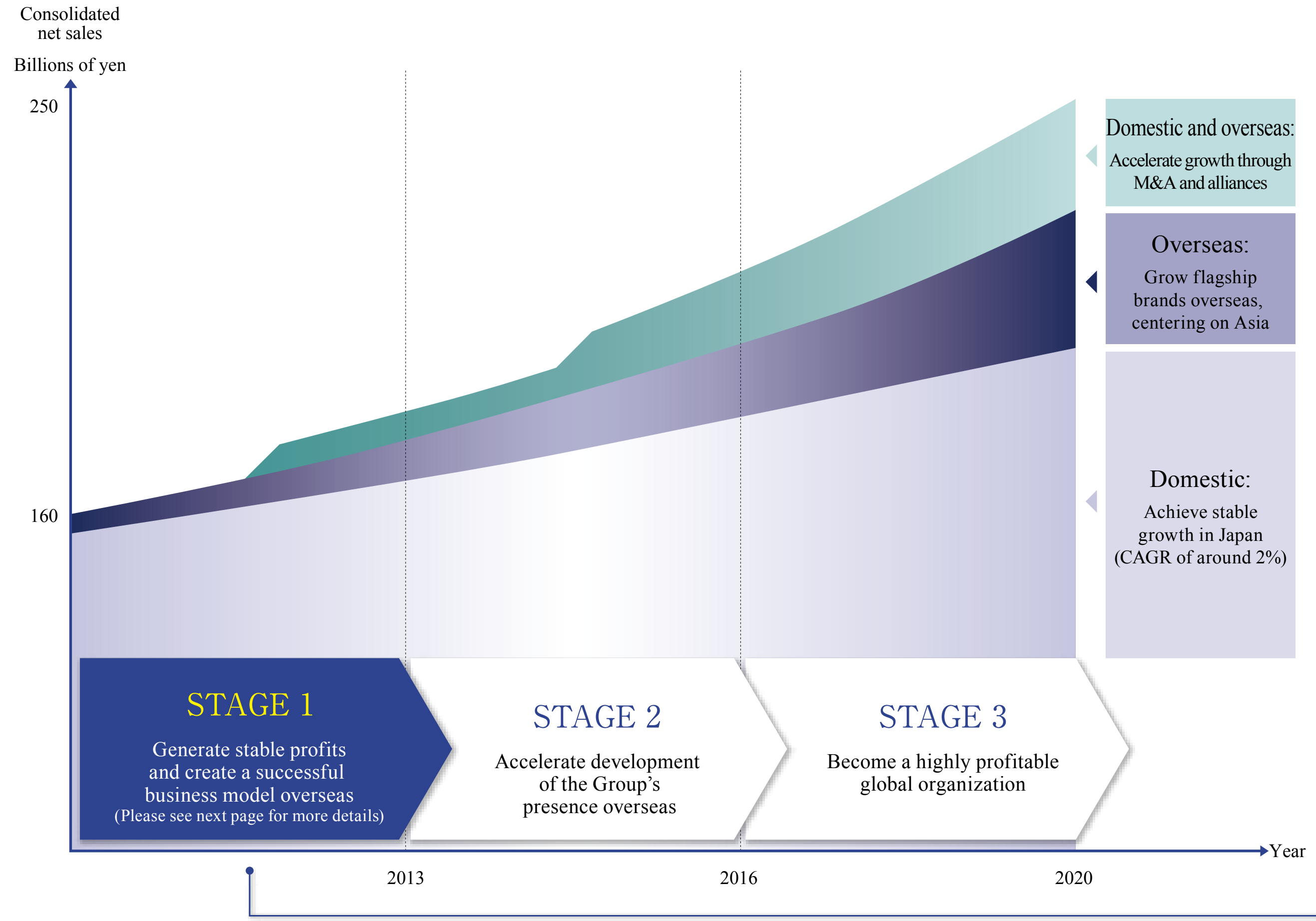
We maintain a 35-country distribution network, hinging on the structures of H2O PLUS and Jurlique. By increasing sales points, we will bring our brands and associated products to more women and set the stage for expansion in China and other parts of Asia where economies are still maintaining amazing growth.

Our Vision

To ensure further growth and create additional corporate value, we formulated a long-term vision for the POLA ORBIS Group that looks ahead to 2020 and embarked on a medium-term management plan that runs from fiscal 2011 through fiscal 2013. We will draw on three areas of strength—skincare development technology, direct selling and a global network—and emphasize business practices designed to achieve stable domestic growth and accelerate development of the Group's presence overseas with the aim of becoming a global organization in the field of beauty and health.

Toward Long-term Vision 2020

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



STAGE 1

2011–2013 Medium-term Management Plan

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

Management indicators	Consolidated net sales	Operating income	Operating margin
	CAGR of 2%–3%	CAGR of 10% or higher	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**

We will continue to add new locations to the favorably performing POLA THE BEAUTY network, aiming to have 600 stores in operation by 2013. We will direct concerted efforts into luxury skincare products and services and promote our original style of consulting.

P22 Review of Operations

ORBIS

- **Implement measures to rebuild the ORBIS brand**

We will promote brand rebuilding designed to ensure stable growth and enhanced profitability five years down the road and will strive to redefine brand value and boost recognition in the market.

P24 Review of Operations

Invest profits

Strategy 2 Accelerate growth of the portfolio of brands under development

pdc FUTURE LABO ORLANE decencia THREE

As customer needs diversify, we are promoting five brands under development that will contribute to growth. By developing brands appropriate to specific sales channels and price brackets, we will establish brand identity and raise respective market shares, which will underpin a higher market share for the Group as a whole.

P26 Review of Operations

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

POLA
- **Develop door-to-door sales channels in China**
- **Consulting-based sales in Russia and neighboring countries**

ORBIS
- **Mail-order sales business in China**

Jurlique
- **Accelerate growth and improve profitability in Asia**

h2O+
- **Achieve synergistic effects**

We will draw on proven direct-selling capabilities to develop activities overseas. Our primary targets for POLA are China and Russia. For ORBIS, we will launch Internet sales of ORBIS products in China while further growing such business in Taiwan and South Korea. Recent events, particularly the acquisitions of U.S.-based H2O PLUS and Australia-based Jurlique, are fueling an accelerated push to expand overseas sales beyond the current geographical emphasis in Asia.

P16 Special Feature 1: POLA ORBIS Group's Expansion in China

Strategy 4 Reinforce R&D capabilities

- **Reinforce skincare ingredient development capabilities**

We will reinforce development capabilities, with an emphasis on skincare ingredients, particularly those for anti-aging and whitening applications, and continue to allocate 2%–3% of net sales toward this effort. We aim to raise ingredient development expertise to new heights.

P27 Research & Development

Strategy 5 Reinforce the operating base

- Enhance brand recognition (unaided recall)
- Business process management
- Concentration on core competence
- Step up personnel training

To achieve the goals presented above, we will build a framework that facilitates healthy business expansion based on autonomous and independent management of operations by each company within the Group. This will include measures to prevent inefficient investment, implement business process management based on key performance indicators (KPIs), and cultivate personnel with the potential to climb the corporate ladder within the Group.

P28 Corporate Governance

By steadily implementing the growth strategies of our medium-term management plan, we are moving ever closer to realizing our goal of becoming a global organization trusted by people around the world.

The POLA ORBIS Group has maintained the same emphasis on its business since the day we started business in 1929 through activities in the cosmetics industry and other businesses related to "beauty, health and culture." As we will celebrate our second anniversary of POLA ORBIS HOLDINGS' December 2010 listing on the First Section of the Tokyo Stock Exchange in 2012, the Group is directing concerted efforts into growth strategies that will take corporate development to new heights.

In fiscal 2011, ended December 31, 2011, the domestic cosmetics industry encountered challenges, particularly the impact of the Great East Japan Earthquake and a prolonged economic downturn, which left the status of the market rather uncertain. In this operating environment, the POLA ORBIS Group adhered to its medium-term management plan, which served to promote stable growth in the core beauty care business in Japan and to forge a stronger presence overseas. The latter was highlighted by the acquisition of two companies—one in the United States and one in Australia. Our efforts were rewarded with higher sales and higher income.

Guided by the philosophy "Inspire all people and touch their hearts," we will accelerate globalization efforts and strive, as a corporate group that has earned the trust and business of customers around the world, to maintain a growth trend.

Satoshi Suzuki
President

鈴木郷史

Update on the Medium-term Management Plan

Q What were the highlights of the Group's performance in fiscal 2011?

A We achieved increases in sales and income, buoyed by solid results from our flagship brand POLA, and we accelerated overseas development through M&A activities.

The domestic cosmetics market environment remained difficult in fiscal 2011, mainly due to persistently lackluster economic conditions and sluggish consumer activity following the Great East Japan Earthquake. Nevertheless, we were able to secure increases in sales and income for the second consecutive year by executing strategies in our core beauty care business that successfully drew on our solid reputation in the skincare industry and direct-selling capabilities.

POLA charted growth along the expected trajectory, substantiated by favorable expansion in sales through POLA THE BEAUTY stores, up 10.4% overall—or 8.8% higher on an existing store basis—and positive market reception to new products, particularly those in the *B.A* series. The number of POLA LADIES has been increasing, and the number of sales offices rose, soundly reversing the downward trend of past years. These results indicate that POLA has completed its evolution from the traditional door-to-door sales format to a new business model better matched to prevailing customer needs and that the stage is now set for growth into the future.

ORBIS pushed ahead with efforts to reinforce Internet sales and showed a 3.3-percentage point improvement in its ratio of Internet sales to total sales. This underpinned enhanced cost efficiency, which supported a 5.8% improvement in income.

In brands under development, THREE, which debuted in autumn 2009, continued to show favorable results. On an existing store basis, sales jumped more than 30% over fiscal 2010, and we are expecting further growth in the future.

With regard to overseas activities, specifically the acquisitions of H2O PLUS and Jurlique—the latter officially joining the Group in February 2012—we have accelerated progress toward our long-term vision of becoming a highly profitable global organization by 2020.

The rewards for these efforts were higher sales and higher income in fiscal 2011, with net sales inching up 0.8%, to ¥166,657 million, operating income rising 4.8%, to ¥12,853 million, and net income climbing 13.5%, to ¥8,039 million.

▶ For more details, go to P20: At a Glance

Q What are the Company's criteria for selecting acquisition targets?

A We look at four points, generally, which serve as guideposts for M&A activities.

POLA ORBIS HOLDINGS is applying two strategies in its efforts to expedite enhanced growth overseas: first, it is establishing a stronger presence in markets outside Japan by utilizing the strengths of the POLA and ORBIS brands, and second, it is pursuing M&A activities that will deliver mutual benefits to the parties involved. Potential acquisition targets must satisfy four conditions.

1. Have well-defined brand concepts and qualities that stand out from the competition
2. Present high potential for business expansion in Asia, particularly China
3. Promote opportunities for synergy with management resources of the Group
4. Possess excellent management structures

From this perspective, H2O PLUS and Jurlique—the two overseas companies that recently joined the Group—boast extremely attractive brands, and we can certainly expect significant growth from them in the years to come.

H2O PLUS products

Jurlique products

Future Market Environment and Growth Strategies

Q Any predictions on the market environment?

A In Japan, we can expect wider demand for anti-aging and whitening skincare products. Overseas, the countries of Asia where economic conditions are still favorable will be markets of particular interest.

The domestic cosmetics market will probably shrink some more, albeit slightly, overall, and the business environment will undoubtedly be tough. That said, a look at the market by product category indicates a relatively favorable shift in demand for skincare, and interest in high-performance cosmetics, particularly anti-aging and whitening skincare products, is actually expanding thanks to a demographic balance tipped toward seniors and a trend toward heightened beauty consciousness among consumers. In this demand scenario, the Group is certainly well-placed to capture a larger share of the domestic cosmetics market because it possesses overwhelming strengths in the anti-aging and whitening skincare fields and has a strategically high ratio of skincare sales to total sales.

In overseas development, a key region for the Group is Asia, especially China, which is still a growing market. Like women in Japan, women in China and the rest of Asia are very keen on skincare, and they have similar skin characteristics and perceptions about beauty. Because of these commonalities, we should be able to make full use of the 13-million-entry database on the skin characteristics of Japanese women as well as accumulated R&D know-how to raise our profile and boost sales in Asia.

▶ For more details, go to P35: Investors' FAQ

Q What activities are planned for domestic operations?

A At POLA, the emphasis will be on development of the POLA THE BEAUTY network, and at ORBIS, the priority will be brand rebuilding. The goal will be to improve profitability.

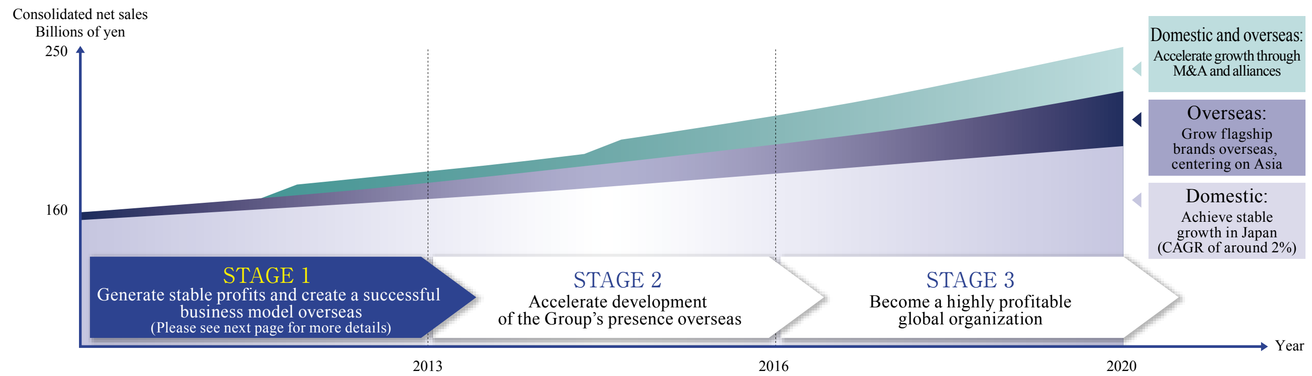
At POLA, the plan is to expand the network of POLA THE BEAUTY stores to 600 locations by 2013, and toward this end, POLA will seek to secure high growth by continuing to open new stores and boosting efficiency at existing stores. Paralleling these efforts, management will be considering a next-generation business model, which will include a new POLA THE BEAUTY concept that facilitates a more flexible approach to store openings in blank-slate areas and urban zones. On the product front, the spotlight will be on anti-aging and whitening skincare. In April 2012, POLA will launch a summer-oriented anti-aging series to reinforce the *B.A* series.

At ORBIS, brand rebuilding is the priority with goals of improved profitability and stable growth within the next five years. ORBIS will be working to accelerate the transition from mail-order catalog sales to Internet sales, boost spending per customer while trimming costs, and be more environmentally conscious. ORBIS will also reorganize the distribution and logistics side of business to enhance services and cut fixed costs and delivery costs at the same time. On the product front, ORBIS will raise the profile of its skincare products by adding new value to the 100% OIL-CUT (oil free) brand concept.

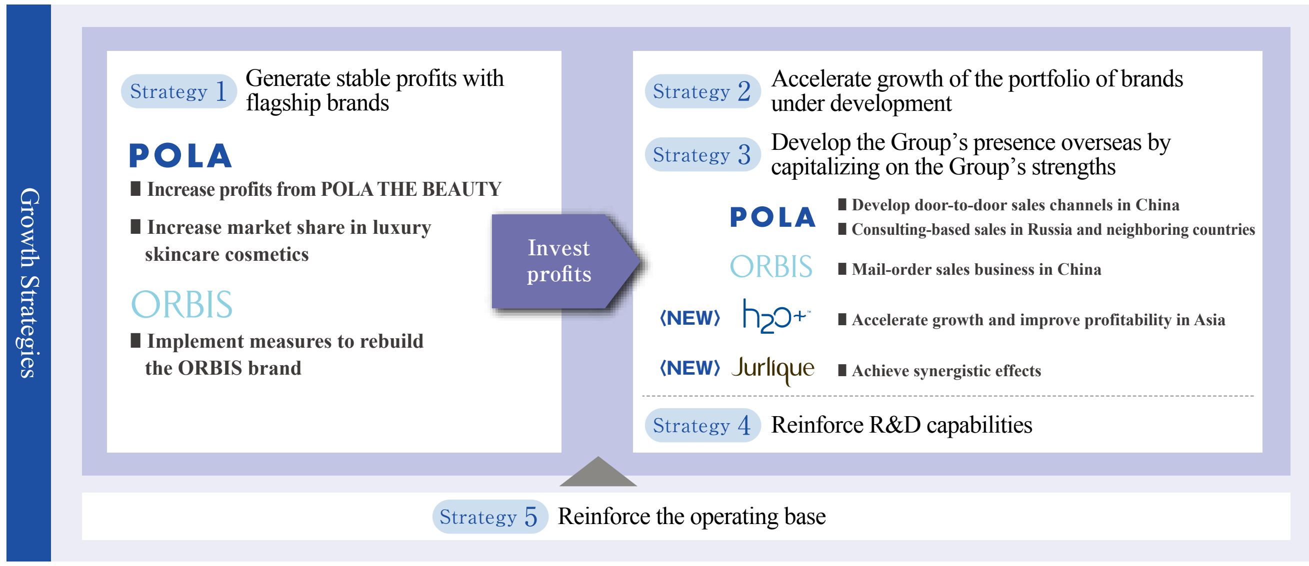
The THREE brand is sure to sustain favorable growth in Japan. The original concept of this brand—using domestically produced ingredients, such as green tea seed oils—is piquing interest overseas as well, which bodes well for development of this brand abroad in the near future.

Toward Long-term Vision 2020

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



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



Q What is on the overseas activity agenda?

A We will accelerate multi-brand development in Asian markets, particularly China, and aim for higher overseas sales and a larger market share.

Our long-term vision is to achieve consolidated net sales of ¥250 billion and an overseas sales ratio of at least 20% by 2020.

Business models that made flagship brands successful in Japan will be applied to overseas markets as well. For instance, seeking to start door-to-door sales in China, POLA established an overseas subsidiary there in 2011 and is making progress on the necessary preparations to acquire licensing as quickly as possible. Meanwhile, ORBIS launched Internet sales in China through its own website and will now embark in earnest on doorway pages and promotions to encourage wider use.

Overseas brands H2O PLUS and Jurlique will both begin shipping to luxury cosmetics stores in China. All combined, sales per store should rise and both brands should sustain double-digit growth. Also, looking to foster synergies through the application of management resources within the Group, we will emphasize development of new products in each brand underpinned by the skincare technologies of POLA CHEMICAL INDUSTRIES.

The Group will adhere to its multi-brand strategy, through which approaches to different markets and target customers hinge on specific sales channels, pricing and concepts. Each brand will further expand its sales, and the Group's presence in overseas markets will inevitably grow stronger.

▶ For more details, go to P16: Special Feature 1

Q What is the Company planning with regard to R&D?

A We will continue to concentrate investment in skincare, where market needs are most stable.

The R&D investment spotlight will remain on skincare, with POLA emphasizing new products under the *B.A* series and ORBIS pursuing the development of innovative OIL-CUT (oil-free) technology.

▶ For more details, go to P27: Research & Development

Q What measures are being taken to reinforce the operating base, according to the medium-term management plan?

A The Group as a whole is engaged in efforts to cultivate human resources with skills appropriate for global application.

The development of human resources is an important theme for us, primarily because we are accelerating efforts to establish flagship brands overseas but also because we now have overseas brands within the Group and we want to see these brands grow as well. Each Group company utilizes personnel exchanges to develop human resources who can perform on the global business stage.

POLA products

ORBIS products

THREE products

Building Higher Corporate Value

Q What is the Company doing to enhance corporate governance?

A Highly independent outside corporate auditors sit on our Board of Corporate Auditors and bring objective opinions to the table, which underpins efforts to ensure sound management practices and improve management efficiency throughout the Group.

Reinforcing corporate governance is recognized throughout the Group as a management priority. In 2011, the world's view of Japanese companies was tarnished by a series of incidents—an unfortunate situation.

At POLA ORBIS HOLDINGS, our corporate governance structure hinges on the corporate auditor system. Of the three corporate auditors on the Board of Corporate Auditors, two come from outside the Company and their high degree of independence strengthens oversight from a compliance perspective. In addition, our outside corporate auditors attend general meetings of shareholders, meetings of the Board of Directors and sessions of the Group Strategy Meeting, which involves executive-level participation from principal subsidiaries and where key strategies of the Group are discussed. They also have access to corporate documents, such as reports from directors, employees and the accounting auditor, and observe the execution of duties by directors.

Of note, when we were traveling the business road toward the acquisitions of H2O PLUS and Jurlique, sessions of the Group Strategy Meeting were filled with discussion, precipitated by comments from the third-party perspective of outside corporate auditors who broached such issues as a firm definition of acquisition price and approaches conscious of post-merger integration requirements and other global standards for M&As. The role of outside corporate auditors is to objectively state opinions on critical management decisions, and the recent acquisitions certainly provided another great opportunity for outside corporate auditors to fully demonstrate this function.

We will continue to ensure sound management practices and improve management efficiency throughout the Group with persistent efforts to reinforce corporate governance.

▶ For more details, go to P28: Corporate Governance

Q What is the Company's policy on return of profits to shareholders?

A We emphasize a balance between shareholder returns and investment for growth. With this in mind, we anticipate a ¥5 increase in the dividend for fiscal 2012.

Our basic policy is to ensure a stable dividend with increases pegged to profit improvement, and we emphasize a balance between return of profits to shareholders and investment that sustains business activities and corporate growth. Based on this policy, the fiscal 2011 dividend was set at ¥45 per share. For fiscal 2012, given expectations of a third consecutive year of higher sales and higher operating income, we plan to raise dividends by ¥5, to ¥50 per share.

▶ For more details, go to P39: Investors' FAQ

Q Looking ahead 10 years, how do you see the POLA ORBIS Group?

A I would like the Group to be respected worldwide, with brands with originality that underscore our relationship with customers and resonate with them everywhere.

Our goal is to establish the POLA ORBIS Group as a highly profitable global organization in the field of "beauty and health," and all members of the Group are working steadily toward the stated goals of consolidated net sales of ¥250 billion, an overseas sales ratio of at least 20% and a top-of-the-industry operating margin by 2020.

I hope that even as the Group expands in scope, it will be known for "brands with originality"—brands that value close customer contact and good relationships. This will encourage product loyalty among customers all over the world and raise even further our long-standing reputation, thereby perpetuating our status as a respected corporate group.

Special Feature 1

POLA ORBIS Group's Expansion in China

Establishing position as a global organization in the field of "beauty and health"

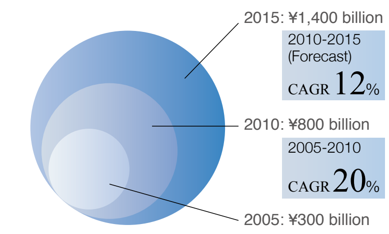
The POLA ORBIS Group has several of its brands in China: POLA, ORBIS, H2O PLUS and Jurlique. We will continue to promote our multi-brand strategy for Group brands as we strive to secure a bigger share of the huge market that China represents.

The cosmetics market in China has expanded rapidly over the last few years. The skincare segment in particular averaged annual growth of 20%, between 2005 and 2010. High growth is expected to continue, with market scale likely to reach that of Japan by 2015.

Consumers are bombarded with beauty information, which has prompted an increase in the number of women who are highly beauty conscious. A well-defined brand policy is therefore essential if the Group is to capitalize on this favorable market environment and capture market share.

In its China expansion efforts, POLA ORBIS HOLDINGS is concentrating on four Group brands: POLA and ORBIS, with strengths in direct selling; and H20 PLUS and Jurlique, with well-defined brand concepts and extensive distribution networks.

Growth of Skincare Market



Note: Data based on Company estimates

Flagship Brand Development Draws on Strengths Cultivated in Japan

POLA

POLA INC.

Training of POLA LADIES

In 2005, POLA kicked off marketing activities in mainland China at directly operated stores and at department stores. Currently, the company enjoys the image of a high-prestige brand sold mainly at high-end department stores, such as Jiu Guang. Moving forward, the plan is for POLA to put know-how accumulated in Japan into play in China through door-to-door sales. Toward this objective, POLA set up an overseas subsidiary in Shenyang, Liaoning Province, in July 2011.

ORBIS

ORBIS Inc.

Chinese version of ORBIS shopping website

In 2005, ORBIS opened a location of ORBIS THE SHOP in Hong Kong, and in 2009 it began developing the store network in mainland China. In July 2011, ORBIS opened its own mail-order site upon completion of the preparations for the site's platform, namely order delivery and payment structure. The task now is to enhance promotions and increase the number of site visits.

Developing Overseas Brands Using Worldwide Distribution Network

THE SCIENCE OF MARINE SKINCARE

H2O PLUS HOLDINGS, LLC

H2O PLUS products, featuring sea-derived nutrients from such marine botanicals as seaweed, are created under a well-defined concept and sold at more than 2,000 high-end retail points in 24 countries, primarily in North America and Asia.

H2O PLUS began sales in China in 2003. For the last few years, it has sustained more than double-digit annual growth there. A major benefit of the H2O brand, from a business perspective, is that about 75% of sales comes from the highly profitable skincare segment. H2O PLUS will continue to strengthen its brand presence in this expanding market and strive to increase sales points, specifically through a process launched in 2010 to use major local agents to reinforce sales in mainland China. H2O PLUS is expected to contribute significantly to higher sales in China in the coming years.

Oasis™ series

H2O PLUS store

Jurlique International Pty Ltd

Jurlique products are made with plants and botanicals grown on its own farm in Australia using pesticide-free organic farming methods. Adhering to a brand attitude emphasizing natural ingredients, Jurlique has earned a solid reputation in the 20 countries where its organic skincare products are sold.

Jurlique entered mainland China on its own in 2009, but from 2012 it is developing its presence in this market as a wholly owned subsidiary of POLA ORBIS HOLDINGS. Under its concept of organic-origin ingredients, Jurlique offers its products through directly operated stores and high-end department stores. Recognized as a prestige line of organic-ingredient skincare, the Jurlique brand has evolved into a highly profitable business. In its store development efforts, Jurlique is very selective about location and interior layout to ensure that its environment is fully reflective of the brand's refined image. Jurlique will make every effort to acquire more brand recognition, and it aims to increase the number of stores selling Jurlique products and sales per store.

Rosewater Balancing Mist

Jurlique's farm in Australia

Jurlique store

Special Feature 2

POLA Brand Evolution of the Door-to-Door Sales Business

In Japan's increasingly challenging cosmetics market, the POLA brand continues to attract customers. The driver of growth is a successful new sales format—POLA THE BEAUTY. This page and the next highlight the new business model that integrates door-to-door sales and retail sales and showcases the reinvigorated frontline sales network that has been created.

The door-to-door sales conundrum

Door-to-door sales had been in a slump prior to 2000, mainly because the graying of POLA LADIES was weakening the frontline sales structure, more women joining the workforce presented fewer points of contact with new customers, and efforts to build a strong image for the POLA brand had been insufficient.

"Consulting First"—the impetus for evolution

The original idea for POLA THE BEAUTY appeared in "Consulting First," a corporate message drafted in 2000. It stated that consulting was POLA's vital value, and articulation of this idea prompted changes in door-to-door sales with consulting and esthetic treatments.

Development of POLA THE BEAUTY (Introduction of Customer-Attracting Business Model)

POLA THE BEAUTY stores are street-level locations integrating sales, consulting and comprehensive esthetic treatments. The first store opened in 2005. Under the conventional door-to-door sales format, POLA LADIES visited customers. With POLA THE BEAUTY, an additional format was introduced—customers also visited POLA LADIES. The combination of marketing styles transformed frontline operations significantly. Most notably, by setting up sales points in high-traffic areas, POLA attracted the attention of new customers and was particularly successful in cultivating a customer base—women in their 20s and 30s—that had been out of reach through the door-to-door sales format. POLA also created opportunities for women to experience skin analysis and try out esthetic treatments, an approach intended to spark an interest in POLA products and services and encourage repeat customer visits. Another change came through an increase in applications from young women wishing to become POLA LADIES, which rejuvenated and energized frontline operations. POLA THE BEAUTY is a key to continued growth, and POLA will therefore continue to expand the store network.

Customer Management System Introduced

Slim (Sales for Lucid IT Management), a customer database system, allows the head office to consolidate and maintain point-of-sale customer data, such as purchase frequency and quantity of items as well as spending per customer. By analyzing customer data and applying the results to operations, POLA is able to share the status of sales laterally through the frontline sales network and anticipate customer needs.

Support Structure Enhanced

In 2005, POLA brought its domestic sales companies under a headquarters structure to facilitate direct communication of head office strategies to frontline operations. The Field Counselor System was introduced around this time as well, establishing a structure to provide fine-tuned management and support for the sales activities of shop owners and POLA LADIES.

B.A Brand Strengthened

A change in branding led to a shift in strategy that thrust the *B.A* brand into a marketing spotlight. The brand acquired a prestigious, high-quality image, which prompted an increase in spending per customer.

Successes Through Business Model Evolution

POLA THE BEAUTY Growth Rate	Energized Sales Frontline	Rejuvenated Sales Frontline	Younger Customers	*B.A* Sales	Brand Reputation
Up 10.4% (or 8.8% on an existing store basis)	Number of sales points (sales offices) in fiscal 2011 up 31	Average age difference between POLA THE BEAUTY LADIES and existing-format door-to-door POLA LADIES about 20 years	About 60% of new customers are in their 20s and 30s	Up 12.3%	*B.A* awarded best cosmetic product by women's magazines and beauty magazines in Japan a total of 45 times

Frontline Strength Supports Domestic Growth of POLA Brand

Sales branch manager* cultivates the skills of many POLA LADIES and oversees a frontline sales network posting ¥90 million in monthly sales

* District manager with more than ¥10 million in monthly sales

Holding the reins of several POLA THE BEAUTY stores and sales offices, this manager develops the skills of a staff who will reshape the next generation and gives them wings to fly.

The debut of POLA THE BEAUTY marked a big change for POLA. Through this concept, the company has achieved success on several fronts, such as improving the image of the POLA brand and attracting new customers. It has been seven years since the first store opened, and the biggest change that I've seen during this time is in the recruitment of POLA LADIES. Once quite inconceivable, the number of new university graduates applying for the position of POLA LADY is on the rise, and university students are among those who drop by stores to see what the job entails. POLA has obviously become a very attractive career option for young adults.

In my position, staff education is my biggest responsibility. When I feel a POLA LADY is ready to advance in her career, I have to consider such things as the placement of staff around her and create the right environment. Pairing up people causes a chemical reaction, so to speak, so I have to make sure I've got the right combination to generate good results. I also place a high premium on speaking freely. The LADIES can put their goals into words, but it's my job to create the environment in which they can discover what it is they really want.

I've spent more than 30 years with POLA, but it has been in the last 10 years that I've seen particularly significant changes, such as the advancement of POLA LADIES, most notably Satoko Wakisaka and Kazumi Mori, to positions as sales branch managers while still in their 20s. Today, POLA is energized in terms of a frontline sales network and human resources, and I firmly believe the company will continue to grow and grow.

Kazuko Hashiguchi, Sales Branch Manager
Higashi-Yamazaki Sales Office, Kyoto

Young sales branch managers light POLA's way into the future

In 2010, two POLA LADIES, both just 29 years old, were promoted to the position of sales branch manager, and they continue to grow in an environment conducive to opportunities that offer great potential.

I signed up as a POLA LADY because I had just had my first child and the sales office offered daycare. That was 10 years ago. POLA is a company that presents opportunities equally to everyone, and I have always been able to freely say and do as I want.

A valuable lesson I have learned through my work is to embrace change in myself. If I don't change my ways, those around me won't change either. But if I make a real effort to change, good results appear, and the POLA approach to work, which evaluates results fairly, is a perfect match for me.

Satoko Wakisaka, Sales Branch Manager

I started working for POLA right out of university. I saw the job extending beyond my young adult years as a career I could continue after marriage and for many years to come—work that I could take pride in. POLA has the corporate culture that has allowed me to realize this. If you think of work as a terrible chore, it will be. But POLA has established methods to help its LADIES, even those with no formal sales experience, achieve their targets, so the POLA road is open to anyone who wants to travel it.

I will continue to do my part to increase the number of POLA LADIES and energize the frontline sales network to enrich the human interaction aspect of the job still further.

Kazumi Mori, Sales Branch Manager

At a Glance

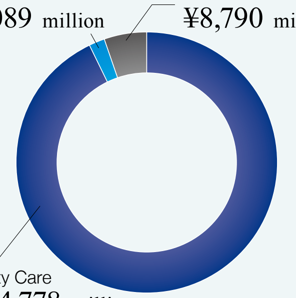
Consolidated net sales

¥166,657 million

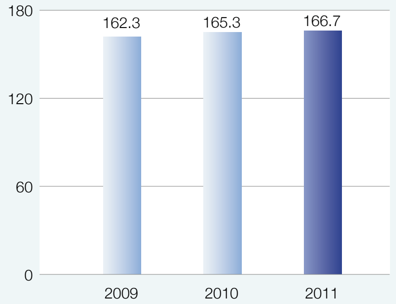
Consolidated operating income

¥12,853 million

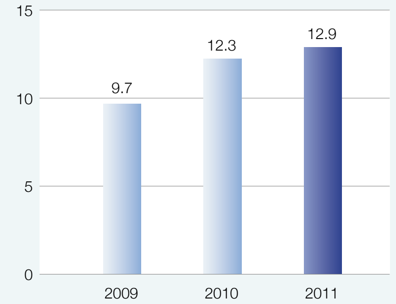
Net sales breakdown by business segment



Consolidated net sales



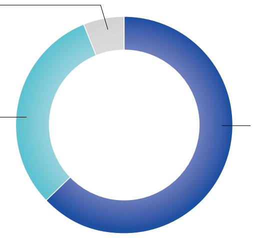
Consolidated operating income



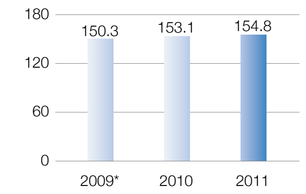
Beauty Care

Cosmetics business, emphasizing skincare products and services, and fashion business

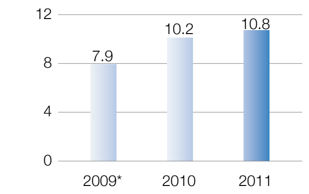
Net sales breakdown by brand



Net sales



Operating income



* Amounts for fiscal 2009 are unaudited and provided for reference only.

Fiscal 2011 Operating Results

Buoyed by solid sales of flagship brand POLA and H2O PLUS, which became a part of the Group in the third quarter, net sales increased for the second consecutive year. Efforts to enhance the profitability of flagship brands POLA and ORBIS were successful and helped boost the year-on-year percentage change in profits, even surpassing the percentage increase in net sales.

POLA INC.
P22

B.A RED series

ORBIS Inc.
P24

EXCELLENT ENRICH series

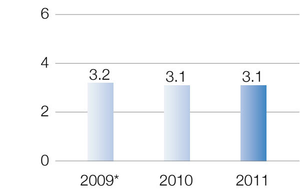
H2O PLUS and brands under development
P26

Oasis™ series

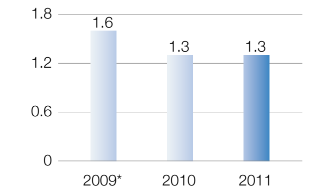
Real Estate

Rental business utilizing portfolio assets effectively

Net sales



Operating income



* Amounts for fiscal 2009 are unaudited and provided for reference only.

Fiscal 2011 Operating Results

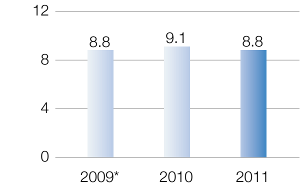
Amid a prolonged trend toward low rents and persistently difficult business conditions, tenancy contracts for condominiums and other redevelopment properties were brisk and enabled this business segment to deliver results on a par with the previous fiscal year.

Brote Ookurayama

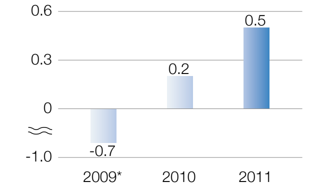
Others

Pharmaceuticals, building maintenance and commercial printing businesses

Net sales



Operating income (loss)



* Amounts for fiscal 2009 are unaudited and provided for reference only.

Fiscal 2011 Operating Results

The pharmaceuticals business became profitable with favorable sales of new and generic drugs.

The building maintenance business was adversely affected by a reduction in orders following the March 11 disasters and recorded a year-on-year decline in sales.

We withdrew from the commercial printing business in the third quarter, paralleling the sale of consolidated subsidiary P.O. MEDIA SERVICE INC. in July 2011.

Topical antifungal agent *Lulicon*

Segment Change

A new segment classification was introduced in fiscal 2011.

* Some business activities under the previous Cosmetics business segment were transferred to the Others segment.

Previous ▶	Cosmetics, Fashion	Real Estate	Pharmaceuticals, Others
Current ▶	Beauty Care	Real Estate	Others

Review of Operations

The POLA Brand

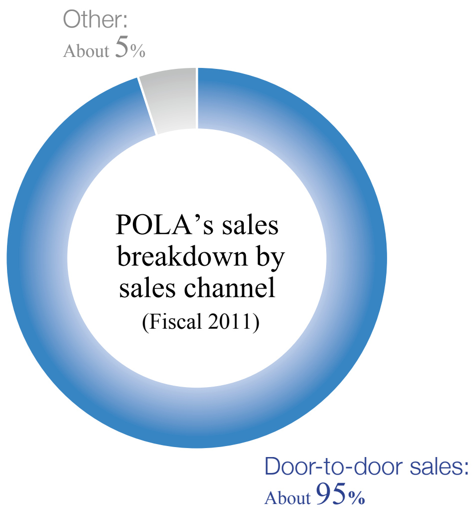

B.A series

POLA

High-prestige products
with personalized service
offered door to door

Overview of POLA's Operations

Products	Strength in anti-aging and whitening skincare products
Services	Consulting, skin analysis, esthetic services
Sales channels	• Door-to-door sales (POLA THE BEAUTY, Esthe Inn, and other sales channels) • Other (department stores, business use, overseas)
Overseas development	Russia, China, Thailand, and 12 other nations and regions



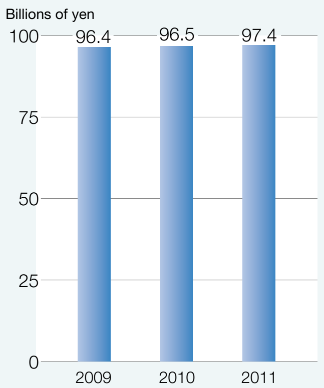
Net sales

¥97,353 million
(Up 0.8%)

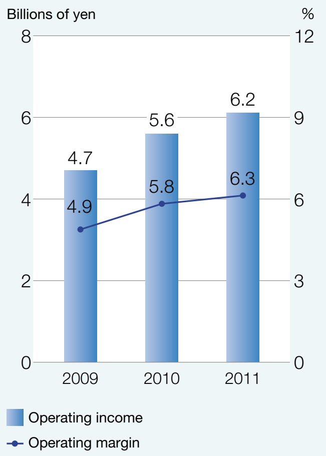
Operating income

¥6,168 million
(Up 10.3%)

Net sales



Operating income and Operating margin



Notes: 1. Net sales and operating income are on a consolidated basis.
2. Amounts on pages 22 and 23 are unaudited and provided for reference only.

Products & Services

Strategy Success

Sales of *B.A* series

Up **12.3**%

Sales per customer

Up **1.8**%

POLA continued to strengthen *B.A,* its popular anti-aging skincare series. In fiscal 2011, POLA endeavored to expand the target market with the August launch of the entry-level *B.A RED* series. *B.A THE MASK,* based on a revolutionary formula, debuted in October and generated sales of more than 50% above the initial target. In addition, POLA continued to offer opportunities for POLA LADIES to upgrade their skills and also improved consulting-based sales activities to support wider sales of prestige skincare products. These efforts were rewarded with a 1.8% increase in sales per customer.

Sales Channels

Strategy Success

POLA THE BEAUTY stores

533 locations
(An increase of 33 stores)

POLA THE BEAUTY net sales growth

Up **10.4**%

(Reference: Sales through Esthe Inn down 0.2%; sales through existing door-to-door channel down 7.7%)

Sales through POLA THE BEAUTY stores remained brisk. As planned, POLA expanded its store network, opening 33 new locations in fiscal 2011, and bringing the total number of stores in operation to 533. This supported a 10.4% increase in net sales over the previous fiscal year. After the new stores opened, POLA increased the number of POLA LADIES, and the stores successfully attracted new customers, which underpinned an 8.8% improvement in net sales at existing stores. The total number of sales offices, including POLA THE BEAUTY stores, reached 4,553 as of December 31, 2011, up 31 from fiscal 2010, setting the stage for stable growth into the future.

TOPICS

***B.A THE MASK* captures best cosmetic product awards (skincare category) from all three major domestic beauty magazines! A landmark achievement!**

B.A THE MASK, which debuted in October 2011, has been well received in the market, substantiated by awards for best cosmetic product (skincare category) from all three major domestic beauty magazines. The product was recognized for its revolutionary formula, which allows users to apply the foam to the skin without the need to rinse it off, and the characteristically high level of customer satisfaction that the *B.A* brand enjoys. For a single product to earn the top award in the skincare category of all three major domestic beauty magazines' annual product reviews is a first, and this landmark achievement will lift the profile of the *B.A* brand even higher.

Three major domestic beauty magazines

The ORBIS Brand

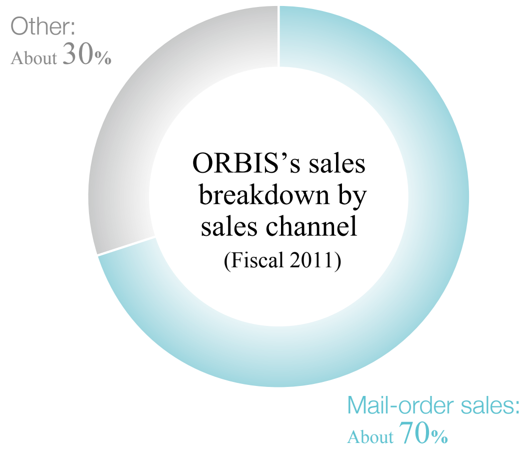
CLEAR series

ORBIS

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

Overview of ORBIS's Operations

Products	100% OIL-CUT (oil-free), fragrance-free and pigment-free products
Services	"Fulfillment system" featuring free shipping and free returns and exchanges within 30 days
Sales channels	Mail-order, stores and overseas sales
Overseas development	Taiwan, South Korea, China and Hong Kong



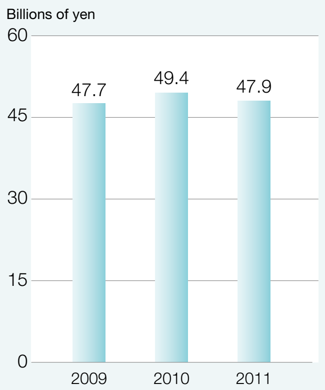
Net sales

¥47,918 million
(Down 2.9%)

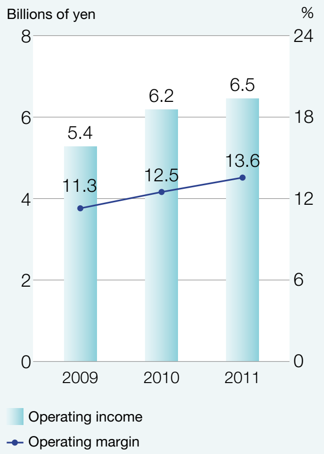
Operating income

¥6,526 million
(Up 5.8%)

Net sales



Operating income and Operating margin



Notes: 1. Net sales and operating income are on a consolidated basis.
2. Amounts on pages 24 and 25 are unaudited and provided for reference only.

Products & Services

Strategy Success

Sales ratio of skincare products to new customer sales

Up **14.0** ppt

Sales per customer

Mail-orders	Stores
Up **0.9**%	Up **0.4**%

ORBIS is accelerating efforts to strengthen its skincare series, and fiscal 2011 marked the renewal of flagship series *AQUA FORCE,* in March, and *WHITENING,* in July. In addition, in December ORBIS debuted the *EXCELLENT ENRICH* series for women in their 40s and older. This series utilizes innovative technology based on a 100% oil-free concept to seal in moisture, a feature that has generated brisk sales.

Although the disasters that struck Japan in March 2011 caused a year-on-year drop in net sales, ORBIS was successful in its efforts to promote products, particularly skincare, and to boost sales per customer. These achievements underpinned a 5.8% improvement in operating income.

Sales Channels

Strategy Success

Ratio of Internet sales to total sales

Up **3.3** ppt
(Internet sales hovered at approximately ¥16.0 billion)

To strengthen Internet sales, ORBIS introduced an abridged digital version of its product catalog and a one-to-one marketing system based on customer profiles. These efforts were favorably rewarded with a 3.3 percentage point improvement in the ratio of Internet sales to total sales and a 1.9 percentage point increase in the rate of repeat mail-order customers. In addition, profitability increased owing to a reduction in print media costs. Meanwhile, it was a persistent struggle to boost sales at department stores and similar sales channels owing to the difficulty in attracting customers in the wake of the Great East Japan Earthquake.

TOPICS

ORBIS's mail-order site wins top honors! No. 1 in online shop category for after-sales service satisfaction by *Nikkei Business* survey for third straight year!

Since the inception of its Internet sales business, ORBIS has applied a customer perspective in its efforts to enhance the shopping experience, exemplified by free shipping even for single-item orders and free returns and exchanges within 30 days. This emphasis on customer service has put the online store in the top spot for three straight years in the *Nikkei Business* survey After-sales Service Satisfaction Ranking (online shop category). Another star on the corporate report card came from the 2011 Japanese Customer Satisfaction Index survey, an evaluation undertaken by the Service Productivity & Innovation for Growth forum on behalf of the Ministry of Economy, Trade and Industry, in which ORBIS was ranked highest in customer satisfaction in the mail-order sales category. The company was chosen from among several well-known mail-order site entries.

ORBIS shopping website

H2O PLUS and Brands under Development

Net sales

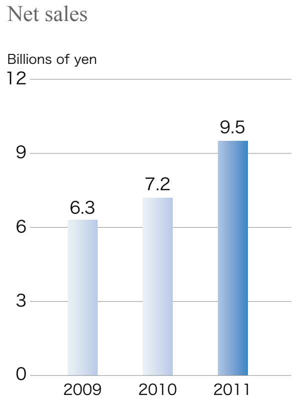
¥9,506 million

(Up 32.2%)

Operating loss

¥1,907 million

(Widened by 19.5%)



Note: Amounts are unaudited and provided for reference only.

H2O PLUS

On July 1, 2011, H2O PLUS became a wholly owned consolidated subsidiary, with its business results included in the Group's consolidated accounts from the third quarter of fiscal 2011. Net sales were favorable in North America and in the growing markets of Asia, particularly China and Hong Kong, which drove net sales to ¥1,851 million. However, H2O PLUS recorded an operating loss of ¥81 million after amortization of goodwill.

Reference

Purchase price: ¥8,174 million (including ¥377 million for advisory fees, etc.)
Goodwill will be amortized equally over 20 years.

Brands under development

All five brands under development delivered higher sales. Of note, *THREE,* which was launched in 2009, showed a dramatic improvement in sales, soaring 50% over the previous fiscal year. *pdc* marked a favorable increase in sales with solid demand for products sold only at variety shops and products made in collaboration with retail stores. Meanwhile, the operating loss deteriorated owing to prior investment in the OEM business to develop products for the future.

Real Estate

Net sales

¥3,089 million

(Down 0.4%)

Operating income

¥1,283 million

(Down 1.6%)

Net sales were generally in line with the previous fiscal year, down just 0.4%, to ¥3,089 million, underpinned by favorable demand for condominiums at a redevelopment property that was completed and opened for tenancy in September 2010. These units are suitable for families with young children. Operating income slipped slightly from the previous fiscal year, edging down 1.6%, to ¥1,283 million.

Others

Net sales

¥8,790 million

(Down 3.0%)

Operating income

¥501 million

(Up 124.9%)

For the first time since the Group entered the pharmaceuticals business, the business turned a profit, bolstered by brisk sales of generic drugs and such products as *Lulicon* antifungal agent for topical use. However, the building maintenance business incurred a drop in orders due to the impact of the March earthquake. As a result, net sales declined 3.0%, to ¥8,790 million, while operating income soared 124.9%, to ¥501 million. The Group withdrew from the commercial printing business following the July 2011 sale of all equity in consolidated subsidiary P.O. MEDIA SERVICE INC.

Reference

Commercial printing business results in fiscal 2010
Net sales: ¥3,717 million (external net sales accounted for ¥592 million)
Operating income: ¥284 million
Net income: ¥177 million

Research & Development

Nearly all the cosmetics under our flagship brands are the result of integrated research, development and production by POLA CHEMICAL INDUSTRIES, INC. The company draws on a database of 13 million entries about customers' skin and concentrates the investment of corporate resources into the development of anti-aging and whitening skincare products. These efforts have yielded various rewards, including the discovery of innovative concepts in skincare and the development of proprietary ingredients.

Seeking to harness synergies with the new subsidiaries H2O PLUS and Jurlique, we will apply the products developed by POLA CHEMICAL INDUSTRIES to H2O PLUS and Jurlique.

POLA Yokohama R&D Center

Discovering new concepts in the fight against brown spots and wrinkles

Newly discovered concepts in skincare include "anti-glycation," which prevents proteins and sugars from binding and thereby causing skin to lose its luster, and "pH control skin whitening," which slows the production of melanin by shifting the pH balance within melanocytes toward the acidity side.

Cosmetics research

Developing ingredients for anti-aging and whitening skincare

Rucinol®* is a quasi-drug ingredient recognized for its skin whitening effects and approved for use by Japan's Ministry of Health, Labour and Welfare. This ingredient is a perfect example of pioneering efforts to develop unique ingredients based on concepts discovered through leading-edge research.

* Rucinol® is a registered trademark of POLA CHEMICAL INDUSTRIES, INC.

R&D of new ingredients

TOPICS

Another discovery in the field of whitening skincare

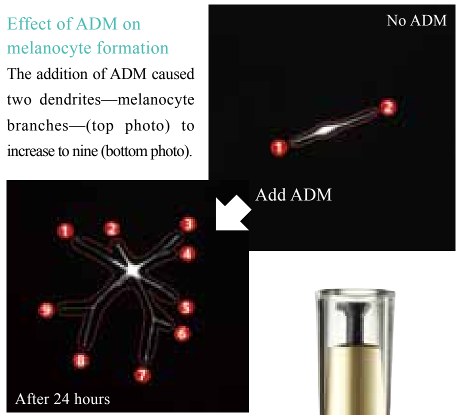
It is generally understood that ultraviolet light is the primary factor in the production of melanin, which in high concentrations shows up as brown spots on the skin. In 2011, POLA CHEMICAL INDUSTRIES made a landmark discovery, establishing that a certain dermis-expressed peptide is responsible for causing melanin-producing melanocytes to increase in size. Researchers then identified this peptide as the melanocyte enlargement factor Adrenomedullin (ADM).

In addition, researchers found that an extract of the botanical marjoram* was effective in suppressing ADM activity and went on to successfully develop Rucinol® CX, the world's first compound prepared with marjoram extract. *WHITE SHOT* CX, featuring Rucinol® CX, debuted in February 2012 and is already hailed by many customers as a milestone achievement in skincare.

* Marjoram extract is derived from the leaves of sweet marjoram, a herb in the mint family (Scientific name: Origanum majorana).

Effect of ADM on melanocyte formation

The addition of ADM caused two dendrites—melanocyte branches—(top photo) to increase to nine (bottom photo).



POLA *WHITE SHOT CX*

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 (hereafter "Action Platform") 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 full-time corporate 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

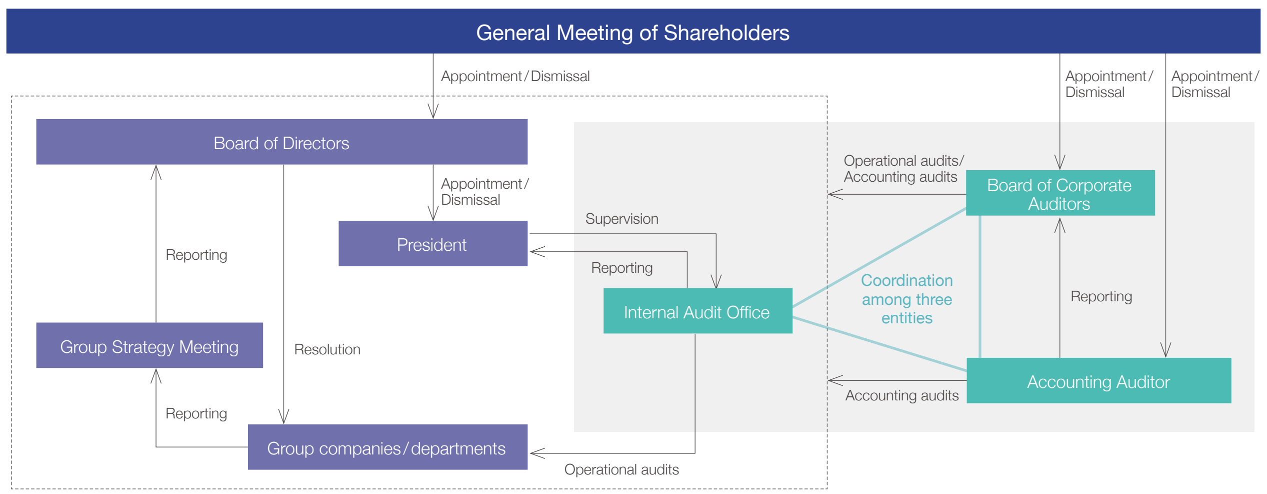
The Board of Directors, comprising seven directors, is responsible for improving the performance of the Group and employs a system that facilitates rapid decisions regarding the management of Group companies and key issues facing the Group. The directors are entrusted with the necessary authority to 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 2011, the Board of Directors met 27 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 Group company presidents, directors, or others appointed by resolutions of the Board of Directors. The meeting deliberates on important Company and Group company matters that are reported to it by the Group companies.

Corporate Governance Structure



Internal audits and audits by corporate auditors

The Company's Board of Corporate Auditors comprises one full-time corporate 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 (seven staff as of December 31, 2011) serves as its internal audit department. The Internal Audit Office is under the direct control of the Company's President, separating 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 accounting 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 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 the Company's 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 corporate auditor.

In addition, in March 2012 the Company introduced a stock-compensation-type stock options program. Stock acquisition rights will be granted to each director in each fiscal year during his or her respective time in office, based on the Company's regulations.

In fiscal 2011, a total of ¥227 million was paid to 10 directors and corporate auditors, of which a total of ¥13 million was paid to the two outside corporate 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; establishing a system that allows the submission of reports to other corporate auditors; establishing a system to ensure other corporate 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 each Group company. 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 act in accordance with the Action Platform.

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 of remedial measures and their follow-up.

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.

Interview with Outside Corporate Auditor

From the Viewpoint of an Outside Corporate Auditor

Akio Sato
Lawyer, Outside Corporate Auditor

AMUSE Inc., Auditor (External)
GMO HOSTING & SECURITY, INC., External Auditor
Infoteria Corporation, Auditor

Activities as an outside corporate auditor

As an outside corporate auditor for POLA ORBIS HOLDINGS, I attend the meetings of the Board of Directors and the Board of Corporate Auditors as well as Group Strategy Meetings, which bring key executives from Group companies together, and corporate auditor liaison meetings, which involve corporate auditors from principal Group companies. I offer my opinions at these various meetings.

Function of an outside corporate auditor

I believe the function of an outside corporate auditor is, in the course of auditing duties, to incorporate the trends and share the comments seen and heard outside a company into discussions that take place at various executive-level meetings—and so I participate in these meetings and make my opinions known from a perspective external to the Company.

Noteworthy features and evaluation of the Company's corporate governance structure

The POLA ORBIS Group maintains an organizational structure that places key executives at Group companies as full-time members in regularly held management-level meetings. Participants are encouraged to touch on subjects other than issues associated with their own companies and are therefore able to add an independent perspective to discussions covering topics that impact the entire Group. Few companies have a discussion structure that allows executives of Group companies to become full-time members at high-level management meetings. The POLA ORBIS Group actively embraces this kind of cross-organizational discussion structure. It is a major aspect of the Company's corporate governance structure and, I believe, a highly commendable feature.

Efforts to further enrich corporate governance

POLA ORBIS HOLDINGS is a pure holding company at the top of a corporate group which now includes an overseas company that joined the Group in 2011. Consequently, it will become increasingly important from a corporate governance perspective for the Company to reinforce cooperation throughout the Group in the areas of management, finance and personnel, while still preserving the independence of each Group company. I have always been impressed by the extensive business expertise of the Company's executives. But to better fulfill the corporate social responsibilities of a listed company with global aspirations, management must, with a level of determination commensurate with all that business expertise, enhance the Group's corporate governance structure to match the evolving scope of the Group's operations and to secure knowledge vital to constructive participation in management meetings.

Directors and Corporate Auditors (As of March 29, 2012)

Directors

Satoshi Suzuki
Representative Director and President

Motto:
Find happiness in giving happiness

Takao Miura
Executive Vice President

Motto:
Revere heaven, love man

Akira Fujii
Director

Motto:
Be yourself

Naoki Kume
Director

Motto:
What doesn't kill you makes you stronger

Hiroki Suzuki
Director

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

Yasuo Iwazaki
Director

Motto:
Creativity opens the door to new worlds

Tsuneo Machida
Director

Motto:
Think globally, act locally

Corporate Auditors

Kuniaki Hoshi
Corporate Auditor

Motto:
Always aspire to something greater

Akio Sato
Outside Corporate Auditor

Motto:
Always do your best

Motohiko Nakamura
Outside Corporate Auditor

Motto:
Cool head, but warm heart

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

Corporate Social Responsibility

Perpetuating our long-held spirit to "find happiness in giving happiness," the POLA ORBIS Group strives to build a corporate brand that is loved and trusted by society. Our corporate social responsibility (CSR) activities reflect efforts to cultivate this spirit and "fulfill our responsibilities as a good corporate citizen in contributing to society."

The POLA ORBIS Group undertakes CSR activities in three areas: fundamental, business and selective. Of these, business CSR takes center stage with programs that encourage cooperation with stakeholders through the Group's core business. These programs emphasize efforts to enhance customer and employee satisfaction and thereby ensure sustainable development, promote high-quality products and services, invigorate local economies and industries, and create employment opportunities by generating new value.

As a brand, spotlighting natural ingredients of Japan and seeking to energize local economies and utilize natural ingredients in products

The autumn 2009 launch of THREE marked the start of social contribution from an ingredient perspective. For THREE, we cast a spotlight on natural ingredients that had not been utilized in Japan before and worked with local producers to develop the raw materials for cosmetics. We believe that products featuring ingredients made in Japan will be well received by women not only in Japan but also overseas.


THREE

Moving Salon delivers beauty to customers in rural areas without easy access to stores

In many rural communities in Japan, the shrinking retail market has forced department store and supermarket operators to withdraw from these locations, making it increasingly difficult for residents of small towns to address all their shopping needs. So POLA converted a 12-meter bus into a department store on wheels with sofas and mirrors to create a boutique-like atmosphere. The bus travels all over Japan. The novel shopping concept has drawn considerable interest, especially from rural customers, and has been well received. The bus rolled out in October 2011 on an extended sales trip and by year-end had visited 54 locations, including areas affected by the Great East Japan Earthquake.

Moving Salon

Support for Areas Affected by the Great East Japan Earthquake

We hold in our hearts all those whose lives have been disrupted by the events of the Great East Japan Earthquake of March 11, 2011. We hope and pray that life is returning to normal as quickly as possible.

The POLA ORBIS Group continues to contribute to reconstruction in the disaster areas and provide support to people who have been affected by the earthquake and tsunami.

Hopes and prayers for a quick recovery in a disaster-devastated region are given tangible form

POLA

Going into the community

Volunteers provided a welcome esthetic respite to people at emergency shelters. They offered facials, handcare and other treatments in the characteristic POLA style and were rewarded with smiles of appreciation from so many people.

Through products

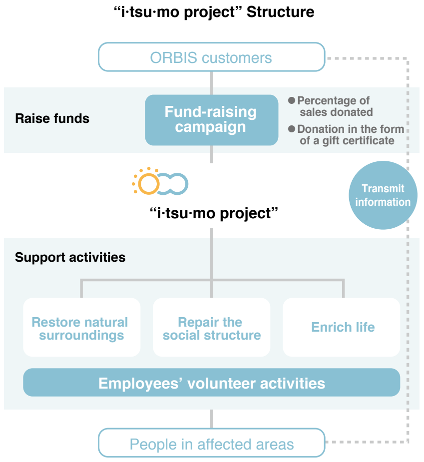
At POLA Fair (exhibition and sales show), POLA offered Tohoku specialty products to support the recovery of industry in the disaster-affected areas. A variety of items were available, including bags, accessories and furniture made with materials produced in Miyagi and Iwate prefectures as well as food products, such as Sendai miso.

ORBIS

"i·tsu·mo project" and "Adding a Touch of Warmth Project"

The "i·tsu·mo* project" is a program designed to help people affected by the Great East Japan Earthquake get back to the life they knew before disaster hit. The program comprises activities in three themes: restore natural surroundings, repair the social structure and enrich life.

An example of activities under the enrich life theme is support for the "Adding a Touch of Warmth Project." This project is designed to promote opportunities to deepen communication as artists work with citizens to paint pictures on temporary housing to create warm and welcoming environments. The effort has garnered such comments as "Thank you" and "I'm so pleased that my home got some makeup, too."



* Japanese term suggesting "daily" or "normal"

History

1929	Shinobu Suzuki founds the business in Shizuoka Prefecture.
1940	POLA CHEMICAL INDUSTRIES INC. is established (incorporated).
1946	POLA Cosmetics, Inc. is established (incorporated).
1954	The Shizuoka Factory is completed.
1961	The Yokohama Factory is completed. Fuji Printing, Ltd. (currently P.O. MEDIA SERVICE INC.) is established.
1964	The Yokohama R&D Center is completed.
1971	POLA Real Estate Inc. is established and the real estate business is launched.
1976	The POLA Research Institute of Beauty & Culture is established.
1977	The Fukuroi Factory is completed.
1979	The POLA Foundation for the Promotion of Traditional Japanese Culture is established.
1983	POLA CHEMICAL becomes a major investor in KAYAKU CO., LTD. and enters the pharmaceuticals business.
1984	ORBIS Inc. is established and the mail-order sales business is launched.
1986	POLA GTS Inc. (currently P.O. TECHNO SERVICE INC.) is established and the building maintenance business is launched. POLA CHEMICAL wins the high award at the 14th annual IFSCC (International Federation of Societies of Cosmetic Chemists) Congress held in Barcelona, Spain.
1987	ORBIS starts full-fledged business activities (in the Tokyo metropolitan area).
1988	ORBIS first publishes its nationwide catalog.
1993	POLA Daily Cosme Inc. (currently pdc INC.) is established and the personal cosmetics business is launched.
1994	POLA CHEMICAL wins the highest award at the 18th IFSCC Congress held in Venice, Italy.
1996	POLA CHEMICAL wins a high award at the 19th IFSCC Congress held in Sydney, Australia. The Pola Art Foundation is established.
1997	ORBIS receives ISO9001 certification. The Shizuoka and Fukuroi Factories receive ISO9002 certification.
1998	POLA wins the highest award at the 20th IFSCC Congress held in Cannes, France. The Shizuoka and Fukuroi Factories receive ISO9001 certification.
1999	ORBIS The Net (EC site) opens.
2000	POLA's corporate message, "Consulting First POLA," is announced. The first retail store "ORBIS THE SHOP" in Marui, Ikebukuro, Tokyo opens. The Shizuoka and Fukuroi Factories receive ISO14001 certification.
2002	New business announcement by POLA aimed at "A thorough commitment to customer first," "Selection and concentration of businesses," "Reform of corporate culture and management." The POLA Museum of Art opens at Sengokuhara in Hakone, and the POLA Museum Annex opens in Ginza.
2004	The Fukuroi Factory receives the Prime Minister's Award, recognizing it as an Outstanding Green Plant.
2005	POLA THE BEAUTY premium esthetic salons are launched. ORBIS acquires the Privacy Mark, certifying proper handling of personal information.
2006	POLA ORBIS HOLDINGS INC. is established and the Group transitions to a pure holding company system. P.O. REAL ESTATE INC. is established and carries on the real estate business. The Group becomes a major investor in the FUTURE LABO group, and the TV mail-order sales business is launched.
2007	POLA Cosmetics, INC. is renamed to POLA INC. The pharmaceutical company POLA PHARMA INC. is established. ORLANE JAPON INC. is established through a joint venture with Orlane S.A. of France. decencia INC. is established.
2008	ACRO INC. is established. POLA CHEMICAL wins the highest award at the 25th IFSCC Congress held in Barcelona, Spain.
2010	POLA ORBIS HOLDINGS INC. is listed on the Tokyo Stock Exchange First Section.
2011	The Group acquires all outstanding shares in H2O PLUS HOLDINGS, LLC. P.O. MEDIA SERVICE INC. is sold.
2012	The Group acquires all outstanding shares in Jurlique International Pty Ltd.

Investors' FAQ

Q1 What do you make of recent trends in the domestic cosmetics market?

A Consumer demand for skincare, particularly anti-aging and whitening products, is high. This is our forte, and we should be able to fully demonstrate our strengths to meet market needs.

The domestic cosmetics market is shrinking slightly overall. However, a breakdown by category reveals that skincare remains relatively favorable, compared with makeup. (Graph 1)

Moreover, demand for anti-aging and whitening skincare products is brisk, owing to the graying of consumers in Japan and a trend toward heightened beauty consciousness. (Graph 2)

By price bracket, high-prestige products are doing well, while middle-tier products are struggling. (Graph 3)

By sales channel, mail-order sales have been charting an upward path for the past few years. (Graph 4)

Given these market conditions, the Group is well placed to demonstrate its strengths.

On a consolidated basis, skincare accounts for 60% of sales, considerably higher than the industry average of 45%, and we will continue to concentrate investment in R&D in the fields of anti-aging and whitening skincare, which will push the ratio up even more. In these key skincare fields, the Group has a considerable assortment of original ingredients with the potential for exclusive use that other companies do not have. This presents an advantage that the Group can utilize to develop superior products to those of its rivals.

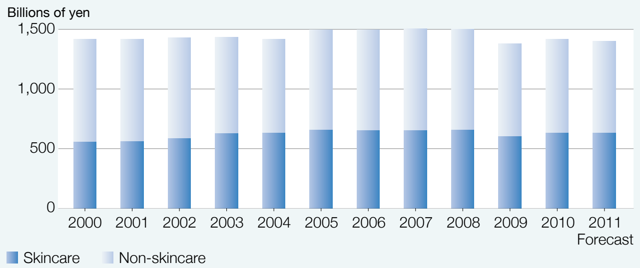
By price bracket, we will continue to enhance high-prestige products headlined by POLA.

By sales channel, for ORBIS we will build on the unrivaled excellence of mail-order services. For POLA, we will seek further growth—around 10%—for the progressive POLA THE BEAUTY business model to offset persistently lower sales from the door-to-door format.

These efforts should yield stable growth of 1%–2% for the Group in the domestic market.

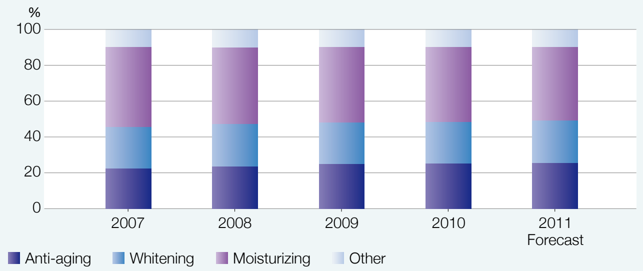
(Akira Fujii, Director, PR & IR and CSR divisions)

1. Domestic Cosmetics Shipments



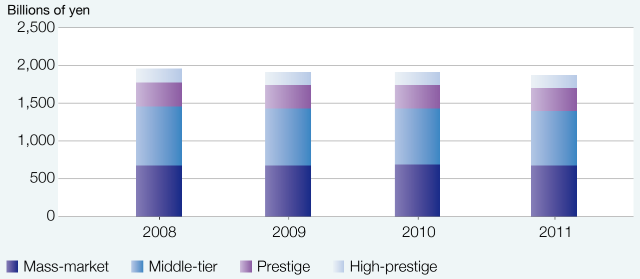
Source: The Office of Current Survey for Mining and Manufacturing, Ministry of Economy, Trade and Industry; 2011 forecast based on Company estimates

2. Breakdown of Skincare Market by Product Function (skin lotions)



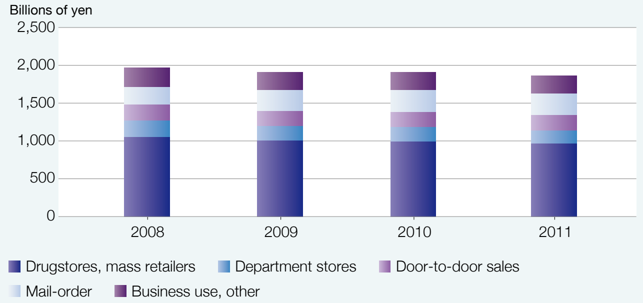
Source: *Marketing Handbook of Cosmetics 2011*, by Fuji Keizai Group

3. Trends by Price Bracket



Source: *Marketing Handbook of Cosmetics 2011*, by Fuji Keizai Group

4. Trends by Sales Channel



Source: *Marketing Handbook of Cosmetics 2011*, by Fuji Keizai Group

Q2 How does the door-to-door sales system work?

A **POLA concludes consignment sales contracts with POLA LADIES—sales office managers and sales representatives—who sell products to POLA customers. The door-to-door sales system has merits for all involved, benefiting the company, POLA LADIES and customers.**

Merits for POLA

- Product ownership resides with POLA until the order is delivered to customers, preventing discounts and resale and enabling POLA to maintain its high-prestige brand image.
- Under the sales commission system, POLA LADIES receive compensation based on actual sales. Therefore, an increase in the number of POLA LADIES does not precipitate a fixed increase in costs, such as personnel expenses.
- The head office, with access to all sales data, can apply it to marketing activities. All inventory data is consolidated and managed at the head office.
- Sales are recorded at the time a POLA LADY sells to a customer, reducing the risk of returned products.

Merits for POLA LADIES

- Under the consignment sales contract, POLA LADIES are not required to pay for the products they supply to customers, nor do they incur any inventory risk.
- Contracts are signed between sales office managers, with sales know-how, and POLA LADIES so that each LADY is able to receive guidance and advice from her manager whenever necessary.
- The compensation system is directly linked to revenues, so a POLA LADY who enthusiastically pursues sales will be rewarded with higher compensation.
- A POLA LADY can assemble her own staff and become a sales office manager or shop owner.

Merits for Customers

- POLA LADIES are assigned to customers, and through face-to-face consulting and sales activities they are always able to suggest the products most suitable for each customer.
- Purchasing history is maintained not only by a customer's assigned POLA LADY but also by stores and the head office, so customers can be assured of personalized services and follow-up assistance.
- Customer comments and other feedback reach the head office through the frontline structure.

(Mitsuru Noda, General Manager, Sales Organization Service Division, POLA INC.)

Sales Flowchart

In general, sales contracts are transactions between manufacturers and wholesalers and stores. As such, it is difficult for manufacturers to obtain customer information as well as control prices. Under POLA's consignment sales contracts, products belong to the company until they are passed by hand to purchasing customers, which enables the company to collect customer information and control prices.

Q3 Why is POLA THE BEAUTY so successful?

A **POLA THE BEAUTY has become readily recognizable as a place to purchase POLA products, prompting not only an increase in customer visits but also an increase in POLA LADIES.**

The traditional door-to-door sales format had two main drawbacks. From a customer point of view, it was difficult to know where POLA products could be purchased; and from a company perspective, the door-to-door format precluded access to women in their 20s and 30s—a demographic group that the company needed to develop for the future. But thanks to POLA THE BEAUTY, places to purchase POLA products are now a familiar sight. As a result, the company has attracted many new customers, 60% of whom are in their 20s and 30s, a key age group for POLA.

Also, development of the POLA THE BEAUTY network put the role of POLA LADIES in the public eye, prompting an increase in the number of women wishing to sign up as POLA LADIES. Furthermore, enhanced support from the head office inspired more women to embrace their entrepreneurial spirit, which energized the frontline structure and inevitably contributed to higher sales.

(Seiko Sueyoshi, General Manager, Customer Development Division, POLA INC.)

POLA THE BEAUTY

Q4 What keeps even existing POLA THE BEAUTY stores growing?

A **POLA THE BEAUTY, which evolved out of the door-to-door business, naturally sees an aggregate increase in customer visits when a new store opens, but the ongoing PR activities of POLA LADIES also bring in new customers.**

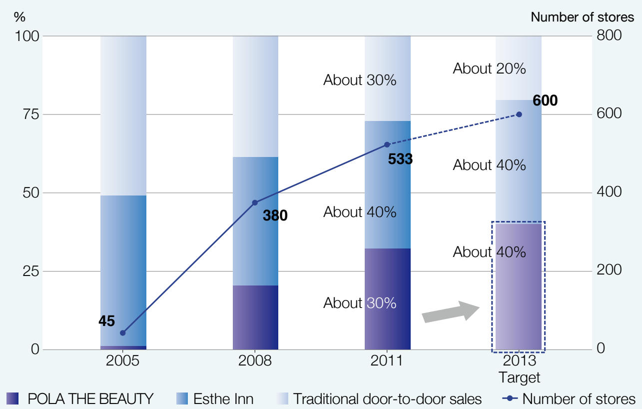
POLA maintains a system that assigns a POLA LADY to each customer, and each POLA LADY receives sales commissions based on her actual sales. New POLA LADIES must actively implement measures to attract their own customers. Also, the sales office manager in charge of a store has know-how in traditional door-to-door sales and can guide POLA LADIES in executing the off-site PR activities needed to build a base of customers.

These are the factors that lead to an increasing number of new customers at existing stores and ensure sustained growth.

POLA does not rely on new store openings alone to achieve growth but rather complements store development efforts with activities to foster continuous growth at existing stores as well.

(Seiko Sueyoshi, General Manager, Customer Development Division, POLA INC.)

Ratio of Sales by Business Format/Number of POLA THE BEAUTY Stores



Q5 What's the difference between POLA THE BEAUTY and Esthe Inn*? Is respective profitability different as well?

A The difference is in initial investment costs at store openings. For POLA THE BEAUTY, the start-up costs are covered by POLA while sales office managers shoulder such costs for Esthe Inn locations. If POLA THE BEAUTY can sustain its high-growth results, the profitability of this network will exceed that of Esthe Inn in the future.

* Esthe Inn: Sales office where customers visit and have esthetic treatments

POLA THE BEAUTY and Esthe Inn are the same in that both operate on the consignment sales system and both offer POLA's specific style of consulting and full esthetic treatments.

But before POLA THE BEAUTY came into existence, sales office managers covered the initial investment required to open a store. This placed limits on spending associated with site selection and interior design and inevitably restricted growth. So when POLA THE BEAUTY was rolled out, the company took the big step of carrying all initial investment costs associated with store openings, including security deposits and renovation costs. As a result, sales office managers were able to open stores in better locations than those of Esthe Inn, such as areas with high pedestrian traffic, and ensure a consistently refined interior design throughout the network. Another difference between the two store formats reflects customer lifestyles. Esthe Inn is ideal for women who prefer consulting in a relaxed suburban setting, while POLA THE BEAUTY is geared toward women who enjoy esthetic treatments in a stylish space in the city.

In terms of profitability, Esthe Inn delivers higher profits than POLA THE BEAUTY, owing to depreciation of the head office's initial investment costs involved in the opening of POLA THE BEAUTY stores.

Beginning in 2005, the company opened POLA THE BEAUTY stores at a rate of 100 per year, culminating in a network of 500 by 2010. Then, based on such factors as store efficiency, the company slowed the pace to 30 new stores a year. Consequently, an upward ratio of depreciated POLA THE BEAUTY stores to total stores in operation will parallel expanding sales from existing stores, boosting the POLA THE BEAUTY contribution to profits and most likely pushing profitability above that of Esthe Inn.

(Seiko Sueyoshi, General Manager, Customer Development Division, POLA INC.)

Q6 What makes ORBIS's OIL-CUT formula so unique that other companies cannot duplicate it?

A It was ORBIS's own scientific formula that led to the industry's first oil-free cosmetics.

When natural plant and animal oils and other easily oxidized oil content go through the oxidation process, they develop into various types of skin damage, from dark spots and wrinkles to rough patches. That is why ORBIS has advocated oil-free skincare based on its OIL-CUT concept. Moisture is far more essential to skin than oil, so from our early days, we pursued research in this area, leading to the 1987 announcement of OIL-CUT (oil-free) skincare. The news trumped conventional ideas in the cosmetics industry, but we were convinced that the skin's own rejuvenating mechanism could be enhanced by enabling the skin to retain vital moisture and using the power of water to nurture the outermost layer of the epidermis. For items that cannot be made without oils—such as specialty skincare and makeup, including lipstick and foundation—we use oils processed and stabilized under proprietary techniques to make them less susceptible to oxidation. This scientific formula, unique to ORBIS, is crucial to the OIL-CUT concept and facilitates the development of products without easily oxidized oils in the ingredient list.

CLEAR series

(Tsuneo Machida, Representative Director and President, ORBIS Inc.)

Q7 Why does boosting the Internet sales ratio for ORBIS lead to higher profitability?

A Internet sales help the company cut costs, such as catalog production and mailing costs.

By raising the ratio of Internet sales to overall sales, ORBIS can trim expenses, such as publication and mailing costs for printed materials, particularly catalogs, as well as costs associated with call center operations. A positive side-benefit of lower printing-related costs is reduced impact on the environment.

We are now focusing on better one-to-one communication with our Internet customers, which should spur an increase in purchasing amounts and improve the rate of repeat customers. Complemented by step-by-step cost reductions, higher Internet sales will help us achieve higher profitability.

(Tsuneo Machida, Representative Director and President, ORBIS Inc.)

Q8 Is there a standard for implementing M&As?

A The deciding factors are a well-defined brand concept that complements the existing multi-brand strategy and a capacity for expansion in Asia.

The two recently acquired companies—H2O PLUS and Jurlique—represent distinctive global brands built on well-defined concepts. At the time of acquisition, the primary criteria were clear brand concepts and a growing presence in Asia, including China, which is a market of strategic interest to the POLA ORBIS Group. Another major criterion is to work out approaches to achieve anticipated synergies with existing operations within the Group in the "beauty and health" field.

In setting acquisition prices, we examine presented plans and apply several methods, including comparable company analysis and discounted cash flow analysis, to pinpoint a value. The opinions of several financial institutions are also integral to the decision-making process.

Naturally, any further M&As will depend on the opportunities that arise, but we will continue to consider this as a viable approach to Group development moving forward.

(Naoki Kume, Director, Finance/Management Planning Division)

Q9 How does the Company view shareholder returns?

A Our policy is to maintain stable dividends and to consider increases matched to profit growth.

We recognize that the return of profits to shareholders is an important management priority, and our basic policy with regard to dividends is to ensure a stable dividend with increases commensurate with profit improvement. In line with this policy, we are planning a dividend increase in fiscal 2012, corresponding to growth in consolidated operating income and taking into account recent revisions to the tax system and the Group's financial status.

From a liquidity perspective, we do not intend to execute any treasury stock buybacks at the present time.

(Naoki Kume, Director, Finance/Management Planning Division)

Financial Section

Contents

Four-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*1 (Except per share data)
Years ended December 31	2008	2009	2010	2011	2011
Operating results					
Net sales*2	¥170,838	¥162,332	¥165,253	¥166,657	$2,143,784
Operating income	10,868	9,706	12,270	12,853	165,339
Operating margin (%)	6.4	6.0	7.4	7.7	
Net income	6,559	4,059	7,086	8,039	103,419
Net income per share	127.91	79.16	137.36	145.43	1.87
Financial position					
Net assets	137,564	140,890	153,104	157,057	2,020,298
Total assets	180,664	181,909	187,771	193,027	2,482,987
Net assets per share	2,677.47	2,743.87	2,767.55	2,839.36	36.52
Cash flows					
Cash flows from operating activities	16,419	12,530	17,906	14,401	185,250
Cash flows from investing activities	(5,808)	(4,374)	(40,367)	(3,444)	(44,304)
Cash flows from financing activities	36	(1,125)	(2,789)	(4,093)	(52,653)
Cash and cash equivalents at end of year	61,803	68,817	43,507	50,246	646,342
Depreciation and amortization	4,602	4,973	5,361	5,374	69,134
Capital expenditure	5,655	8,639	6,245	5,048	64,934
Financial indicators					
Equity ratio (%)	76.0	77.4	81.5	81.3	
Return on equity (%)	4.9	2.9	4.8	5.2	
Return on assets (%)	5.2	5.7	6.6	7.0	
Price-earnings ratio (times)*3	—	—	12.3	14.3	
Number of employees*4	3,603	3,713	3,773	3,812	
Average number of temporary-hired workers	2,103	1,906	1,872	1,864	

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1=¥77.74 as of December 31, 2011.
*2 Net sales do not include consumption taxes.
*3 The price-earnings ratio is not shown for fiscal 2008 and 2009 as the stock was not listed.
*4 The number of employees is the number of people working for the POLA ORBIS Group.

Management's Discussion and Analysis

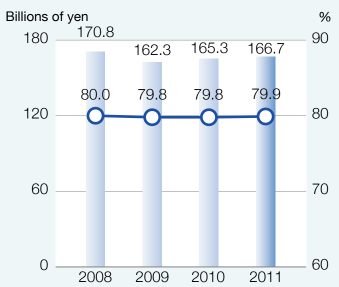
Summary of Business Results

In fiscal 2011, ended December 31, 2011, the domestic cosmetics market was characterized by flat trends after recovering somewhat from the Great East Japan Earthquake and associated disasters. In overseas cosmetics markets, the European financial crisis and fiscal tightening slowed global growth, although the general trend toward expansion continued, supported by ongoing growth in demand within Asia, especially in China and India.

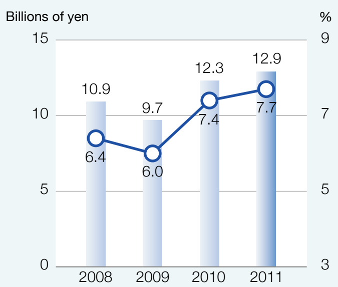
Navigating this market environment with a three-year management plan just launched this fiscal year, the Group endeavored to accurately identify changes on the business horizon, improve the profitability of domestic flagship brands and raise the profile of brands under development while promoting aggressive overseas development in Asia, especially China. As a result, the Company achieved an increase in sales and income for two concecutive periods.

Regarding Group status, in July 2011 POLA ORBIS HOLDINGS ("the Company") made H2O PLUS HOLDINGS, LLC ("H2O PLUS") a wholly owned subsidiary. The newly consolidated company's business results were included in the consolidated performance from the third quarter. Meanwhile, all stock in P.O. MEDIA SERVICE INC., the Group's commercial printing business, was sold in July 2011 with the aim of channeling management resources into the Beauty Care segment.

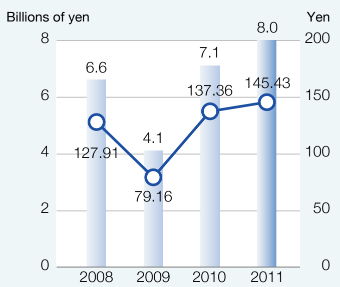
Net sales
Gross margin



Operating income
Operating margin



Net income
Net income per share



Analysis of Operating Results: Comparison of Fiscal 2011 and Fiscal 2010

Net sales

Net sales edged up 0.8% year on year, to ¥166,657 million, reflecting higher sales from flagship brand POLA and the inclusion of sales from H2O PLUS, which came under the scope of consolidation from the third quarter.

Cost of sales, and selling, general and administrative expenses

Cost of sales inched up 0.4% year on year, to ¥33,461 million, paralleling higher sales. The cost of sales ratio to net sales decreased 0.1 percentage point, to 20.1%, as the main cause of the increase in cost of sales—making H2O PLUS a wholly owned subsidiary—was almost totally offset by an improved ratio of typically higher-margin skincare sales to total sales at POLA and ORBIS. Consequently, gross profit rose 1.0%, to ¥133,196 million.

Selling, general and administrative expenses increased 0.6%, to ¥120,342 million. This slight upward movement reflects an increase in sales commissions at POLA, in line with higher sales, as well as elevated personnel costs and administrative expenses associated with the consolidation of H2O PLUS. The ratio of selling, general and administrative expenses to net sales dipped 0.2 percentage point from the previous fiscal year, improving to 72.2% due to the Group's activities, including cost reduction by improving operating efficiency.

Operating income

Operating income grew 4.8%, to ¥12,853 million, and the operating margin rose 0.3 percentage point, to 7.7%, compared with fiscal 2010 results.

Income before income taxes and minority interests

Income before income taxes and minority interests dropped 6.4% year on year, to ¥11,255 million. The primary reasons for this decrease were a ¥582 million increase in impairment loss, a ¥954 million loss on adjustment for changes of accounting standard for asset retirement obligations and a ¥467 million loss on disaster, which in total overshadowed a ¥144 million increase in interest and dividend income, a ¥289 million decrease in foreign exchange loss and ¥529 million in gain on sale of subsidiary's stocks.

Net income

Net income climbed 13.5%, to ¥8,039 million, buoyed primarily by a ¥1,812 million decline in corporate taxes, following the sale of a subsidiary's stocks and non-current assets.

Net income per share rose from ¥137.36 in fiscal 2010 to ¥145.43 in fiscal 2011. Return on equity also rose, from 4.8% to 5.2%.

Reduced income taxes

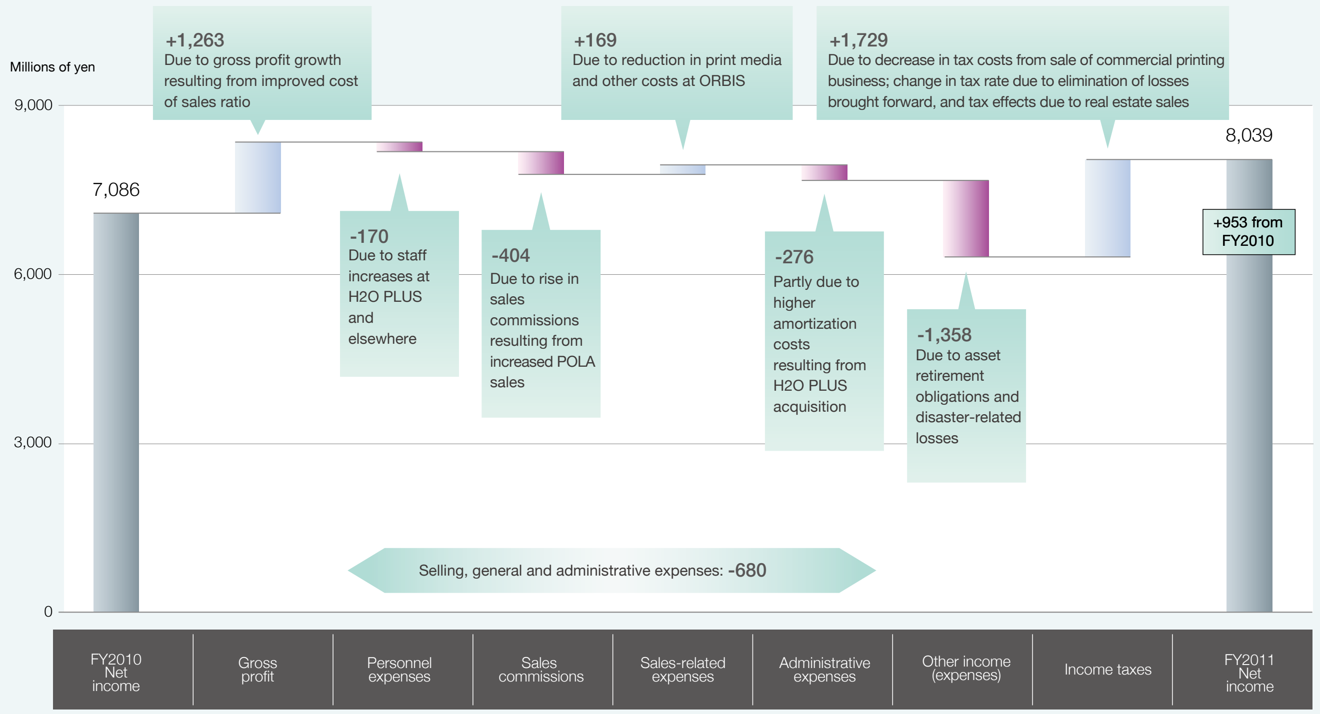
Income Taxes	· Tax rate: FY2010: 41.9% ⇒ FY2011: 28.7% · Tax effects due to real estate sales: -¥1,427 million · Change in effective tax rate due to elimination of losses brought forward: -¥610 million

Business segment performance

Effective from fiscal 2011, the Group adopted the management approach described in "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and has divided the Group's businesses into two reportable segments: "Beauty Care" and "Real Estate." Consequently, the previously disclosed

Factors Impacting Net Income

Positive impact Negative impact



segments "Cosmetics Business" and "Fashion Business" are now included under "Beauty Care," and "Pharmaceuticals Business" and "Other Business" are included under "Others."

Actual business results for fiscal 2010 have been stated according to current reportable segment classifications.

Beauty Care

The Beauty Care segment hinges on flagship brands POLA and ORBIS and five brands under development—pdc, FUTURE LABO, ORLANE, decencia and THREE. During the third quarter, the Group added H2O PLUS, a new brand, to its lineup.

In the POLA brand, efforts were focused on creating sales channels matched to market needs through the development of department store outlets and customer-attracting POLA THE BEAUTY stores, which integrate cosmetics, consulting and esthetic treatments. Efforts were also directed toward boosting customer satisfaction through measures to enhance the sales techniques and consulting skills of sales partners. The Great East Japan Earthquake in March took a toll on operations, mainly in eastern Japan. In April, however, new products were launched in the *B.A* series—a flagship series of the POLA brand—and sales in western Japan were robust. In addition, the *B.A RED* series—the entry-level series in the *B.A* brand—and *B.A THE MASK*, based on a new formula, were launched in August and October, respectively. Through such ongoing efforts to bolster several series, domestic net sales grew year on year. In overseas markets, operations were impacted by yen appreciation. In Thailand, however, new product launches and sales promotion campaigns were successful, resulting in sharp sales growth compared with the previous year. In July, the Group established a consolidated overseas subsidiary in Shenyang, China, with a view to developing door-to-door sales operations.

In the ORBIS brand, the Group strove to increase the rate of repeat purchases and improve profitability, partly through renewing skincare products, bolstering Internet sales and streamlining sales costs. The business generated steady sales from the *NEW WHITENING* series, introduced in July, and the *EXCELLENT ENRICH* series, which was conceived as a skincare product for women in their 40s and older and was launched in December. However, ORBIS struggled to re-attract customers to its stores since the earthquake and tsunami disaster, and domestic net sales fell year on year. In overseas markets, the Group made full-fledged efforts to expand, which included the launch of Internet sales in China in July. Despite such efforts, overseas sales shrank year on year, as South Korean sales were impacted by concerns over rumored radioactive contamination after the disaster, and by yen appreciation.

Brands under development posted higher sales than in the previous fiscal year, mainly due to robust sales of products under the THREE and pdc labels. In addition, H2O PLUS performed well in China, Hong Kong and other parts of Asia, as well as in North America, leading to year-on-year sales growth.

As a result of the above, net sales—sales to external customers—generated by the Beauty Care segment for fiscal 2011 reached ¥154,778 million, edging up 1.1% year on year, while operating income totaled ¥10,787 million, up 6.1%.

Real Estate

The Real Estate segment concentrates on the leasing of office buildings in major cities. Current efforts are directed toward sustaining rents while also aiming for higher rents and raising occupancy rates by creating attractive office environments. In fiscal 2011, the business environment remained harsh, with an ongoing downward trend in rents. Nevertheless, the Group made steady progress with tenancy contracts for rental apartments and other redeveloped properties, resulting in segment performance on a par with the previous year.

As a result of the above, net sales—sales to external customers—generated by the Real Estate segment for fiscal 2011 totaled ¥3,089 million, down 0.4% year on year, while operating income reached ¥1,283 million, down 1.6%.

Others

The Others segment comprises the pharmaceuticals, building maintenance and printing businesses. In July, all of the stock in the consolidated subsidiary P.O. MEDIA SERVICE INC. was sold. With this move, the Group withdrew from the commercial printing business from the third quarter of fiscal 2011.

The pharmaceuticals business draws on results accumulated by Group companies in research related to cosmetics and quasi-pharmaceuticals to develop and sell new drugs for dermatological conditions. During fiscal 2011, an increase in *Lulicon* customers, coupled with brisk sales of generic drugs, resulted in year-on-year growth.

The building maintenance business caters primarily to the needs of Group companies. In fiscal 2011, a drop in orders due to the impact of the earthquake and tsunami disaster resulted in a year-on-year decline.

As a result of the above, net sales—sales to external customers—generated by the Others segment for fiscal 2011 totaled ¥8,790 million, down 3.0% year on year, while operating income reached ¥501 million, up 124.9%.

Analysis of Financial Position

Assets, liabilities and net assets

Assets

As of December 31, 2011, total assets stood at ¥193,027 million, up 2.8% from the end of the previous fiscal year.

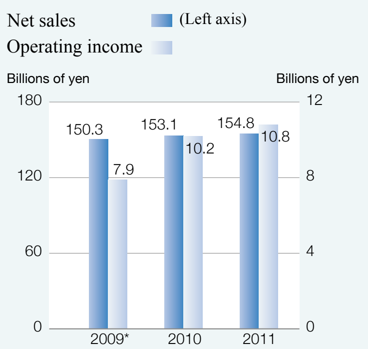
Total current assets rose 3.6% from December 31, 2010, to ¥111,093 million, with key changes including a ¥16,001 million increase in cash and deposits, which offset a ¥13,757 million decrease in short-term investments in securities owing to redemption of maturing bond securities and investment funds.

Net property, plant and equipment settled at ¥49,420 million, 4.3% less than at December 31, 2010.

Net intangible assets jumped 193.2% from December 31, 2010, to ¥12,137 million, primarily because of a ¥3,583 million increase in goodwill arising from the acquisition of H2O PLUS HOLDINGS, LLC and the booking of ¥4,153 million in trademark rights.

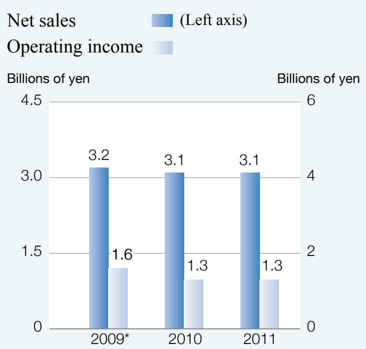
Total investments and other assets reached ¥20,376 million, down 17.7% from December 31, 2010. This decrease was mainly attributable to a ¥3,956 million reduction in investments in securities.

Beauty Care



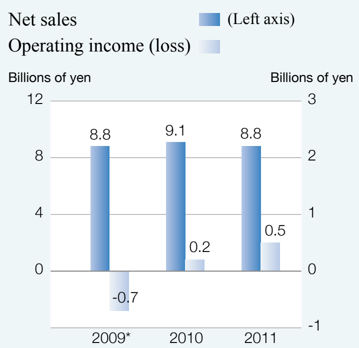
* Amounts for fiscal 2009 are unaudited and provided for reference only.

Real Estate



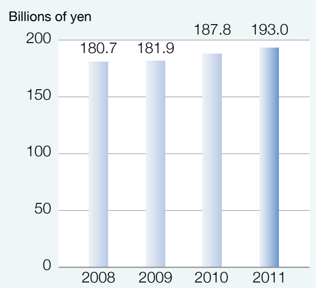
* Amounts for fiscal 2009 are unaudited and provided for reference only.

Others

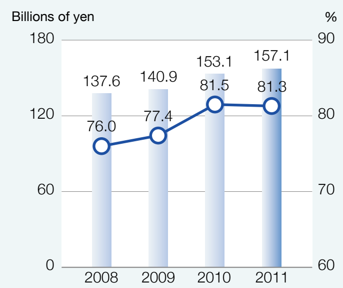


* Amounts for fiscal 2009 are unaudited and provided for reference only.

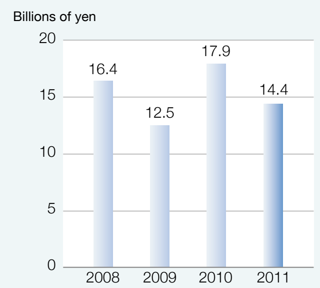
Total assets



Net assets
Equity ratio



Cash flows from operating activities



Liabilities

As of December 31, 2011, total liabilities were ¥35,969 million, up 3.8% from the end of the previous fiscal year.

Total current liabilities edged up 0.7% from December 31, 2010, to ¥23,788 million, with key changes including a ¥688 million increase in income taxes payable due to elimination of losses brought forward, and a ¥655 million decrease in notes and accounts payable–trade.

Total non-current liabilities rose 10.3%, to ¥12,180 million. This was largely due to a ¥1,223 million increase in "other," owing to the booking of asset retirement obligations associated with the adoption of Accounting Standard for Asset Retirement Obligations, and to a ¥511 million decrease in provision for retirement benefits.

Net assets

As of December 31, 2011, total net assets were ¥157,057 million, up 2.6% from the end of the previous fiscal year. The primary component of this change was a ¥4,723 million increase in retained earnings.

Consequently, net assets per share jumped ¥71.81 from the end of fiscal 2010 to ¥2,839.36 at the end of fiscal 2011. The equity ratio slipped 0.2 percentage point, to 81.3%.

Cash flows

The balance of cash and cash equivalents as of December 31, 2011 was ¥50,246 million, up ¥6,738 million, from the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities dropped 19.6%, to ¥14,401 million. The primary components contributing to an increase in net cash were ¥11,255 million in income before income taxes and minority interests, ¥5,359 million in depreciation and amortization, and a ¥954 million non-cash adjustment associated with the adoption of Accounting Standard for Asset Retirement Obligations. Major components leading to a decrease in net cash were ¥2,339 million in income taxes paid and a ¥1,215 million increase in notes and accounts receivable–trade.

Cash flows from investing activities

Net cash used in investing activities declined 91.5%, to ¥3,444 million. This decrease is mainly attributable to ¥48,800 million in proceeds from sales and redemption of short-term investments in securities. The proceeds largely offset the ¥30,897 million in purchase of short-term investments in securities as well as the ¥9,476 million in purchase of investments in securities for investing surplus capital in line with investment plans. In addition, they offset the ¥8,923 million in purchase of investment in subsidiary due to the acquisition of H2O PLUS HOLDINGS, LLC and the ¥2,421 million used to purchase property, plant and equipment accompanying the renewal of production facilities.

Cash flows from financing activities

Net cash used in financing activities rose 46.7%, to ¥4,093 million. The increase was primarily attributable to the application of ¥3,300 million in cash dividends paid.

Sources of funds and policy on fund liquidity

Sources of working capital and capital expenditure for Group operations are internal funds and bank loans. Of funds raised from external sources, interest-bearing debt reached ¥3,063 million as of December 31, 2011, up ¥9 million from a year earlier, as a ¥262 million increase in lease obligations overshadowed a decrease of ¥253 million in short-term loans payable through repayment of overseas subsidiary bank loans. The Company introduced a cash management system in fiscal 2010 to boost fund efficiency for the whole Group by concentrating funding operations for subsidiaries at the Company.

The Company adheres to fund management regulations and standards to ensure appropriate management of operating funds and surplus funds. Thus guided, the balance of cash and deposits stood at ¥50,679 million on December 31, 2011, up ¥16,001 million from a year earlier. This balance rose mainly because of inflow from redemption of maturing bond securities and investment funds, which offset an increase in loans and investments, paralleling the acquisition of H2O PLUS.

Basic Policy on Profit Distribution and Dividends for Fiscal Years 2011 and 2012

Profit distribution is an underlying principle of the Company's management. As such, the Company's basic policy is to pay stable and ongoing dividends to all of its shareholders.

The Company distributes retained earnings twice a year, through an interim dividend and a year-end dividend. Based on Article 454-5 of Japan's Companies Act and the Company's Articles of Incorporation, the General Meeting of Shareholders is responsible for approving the year-end dividend, while the Board of Directors is responsible for approving the interim dividend.

Based on the aforementioned policy, the Company plans to use retained earnings to pay an annual dividend per common share of ¥45.00, comprising an interim dividend of ¥20.00 and a year-end dividend of ¥25.00 for fiscal 2011. Internal reserves shall be invested to reinforce the Group's operating structure and support future business development. For fiscal 2012, taking into account earnings forecasts and other factors, the Company plans to increase its annual dividend per common share to ¥50.00, comprising an interim dividend of ¥25.00 and a year-end dividend of ¥25.00.

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 December 31, 2011, 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)

POLA INC., the core of the Group's Beauty Care segment, 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 LADY 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 makes 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) Cosmetics 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 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, 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 commercialization, the product may not necessarily be accepted by customers due to various reasons. 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) Manufacturing 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 within the Group responsible for procuring raw materials. However, if an unexpected situation occurs resulting from external factors, problems may arise in the procurement of necessary raw materials.

The Group's cosmetics are manufactured at three locations: in Japan, at POLA CHEMICAL INDUSTRIES INC.'s Fukuroi Factory and Shizuoka Factory, both in Shizuoka Prefecture, and in the United States at H2O PLUS HOLDINGS, LLC's Chicago Factory, in Illinois. Pharmaceutical products are made at two locations: in Japan, at KAYAKU CO., LTD.'s Saitama Factory and Tokorozawa Factory, both in Saitama Prefecture. We are undertaking efforts to verify quality control and quality maintenance. However, should any problems arise in product quality, the operating results and financial position of the Group may be adversely affected.

8) Overseas business activities

The Group's main sales points are in Japan, but Group companies have expanded into Asia, particularly China, as well as the BRICS (Brazil, Russia, India, China and South Africa), where market expansion is expected. The Group currently subscribes to a policy of further development overseas.

Since these overseas business activities contain the risk of social dislocation due to unexpected economic/political uncertainty, labor problems, terrorism/war, infectious diseases, etc., 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 yen 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 the 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, the use of an information security system, the 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 fiscal 2011, 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 natural 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 region.

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 region.

Furthermore, a large-scale earthquake as well as other disasters and accidents may occur in areas other than these two locations and interrupt the procurement of materials and components and the supply and sale of products, which might have an adverse effect on the operating results of the Group.

14) Spread of infectious diseases

If the spread of infectious diseases occurs, resulting in significant impact on society, service and sales activities must be voluntarily suspended and sales offices must be closed because of the nature 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, an enormous investment in R&D is needed before a new pharmaceutical product can get to market, and operating losses persisted for a long time up until fiscal 2010. In fiscal 2011, R&D investment on new pharmaceutical products turned a profit, showing operating income, thanks to enhanced efficiency in the investment process itself, mainly through joint development efforts with other companies. The Company aims to maintain the business's profitability and make every effort to increase its profits. However, a variety of potentially problematic risks could arise, such as a sudden change in the business environment, a delay in new pharmaceutical product development, and a shift in the management direction of partner companies involved in joint development with the Group's pharmaceuticals business. Such situations could return the business to an operating loss position, and if the loss expanded or persisted long term, it may adversely affect the operating results of the Group.

Outlook for Fiscal 2012

Although the Japanese economy has continued to recover gradually since the global financial crisis and the Great East Japan Earthquake disaster, the outlook for the business environment remains unclear, owing to such factors as ongoing yen appreciation and the European financial crisis. Against this backdrop, the Group is striving to respond rapidly to shifts in the market environment, promoting business activities in line with its medium-term management plan, and focusing on building an operating structure to support sustained growth over the medium to long term. The Company will work toward attaining its consolidated earnings targets by continuing to implement the Group's main strategic goals in its medium-term management plan—"improve the profitability of flagship brands and further promote the multi-brand strategy," "increase growth potential through global business expansion (overseas expansion by leveraging the Group's strengths)," and "reinforce the operating structure."

After the acquisition of shares in Jurlique International Pty Ltd, an Australian cosmetics company, has been finalized, the Group will assess the amount by which the purchase is likely to impact earnings, and will make a prompt disclosure in the event of forecast revisions.

For the fiscal year ending December 31, 2012, the Group forecasts, on a consolidated basis, net sales of ¥172,000 million, up 3.2% year on year, operating income of ¥13,700 million, up 6.6%, and net income of ¥7,000 million, down 12.9%.

Fiscal 2012 performance forecasts

Millions of yen

Consolidated	FY2012 Full year	YoY change Amount	YoY change %
Net sales	¥172,000	5,342	3.2%
Beauty care	160,200	5,421	3.5%
Real estate	2,900	-189	-6.1%
Others	8,900	109	1.2%
Operating income	13,700	846	6.6%
Beauty care	12,000	1,212	11.2%
Real estate	1,100	-183	-14.3%
Others	300	-201	-40.2%
Reconciliations	300	19	7.1%
Net income	7,000	-1,039	-12.9%

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.

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.

Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

December 31

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 3) 2011
Assets			
Current assets			
Cash and deposits (Notes 4, 5 and 18)	¥ 50,679	¥ 34,678	$ 651,910
Notes and accounts receivable – trade (Note 18)	20,719	19,543	266,528
Short-term investments in securities (Notes 4, 18 and 19)	18,412	32,169	236,847
Merchandise and finished goods	9,664	9,421	124,313
Work in process	1,648	1,644	21,211
Raw materials and supplies	4,351	4,276	55,973
Deferred tax assets (Note 15)	3,478	2,917	44,746
Other	2,208	2,653	28,402
Allowance for doubtful accounts	(69)	(74)	(890)
Total current assets	111,093	107,230	1,429,043
Property, plant and equipment (Note 13)			
Buildings and structures	57,120	58,954	734,765
Machinery, equipment and vehicles	11,834	11,972	152,231
Land	20,761	22,296	267,068
Leased assets	2,893	1,712	37,220
Construction in progress	317	302	4,078
Other	19,172	19,029	246,617
Total property, plant and equipment	112,099	114,268	1,441,982
Accumulated depreciation	(62,679)	(62,616)	(806,269)
Net property, plant and equipment	49,420	51,651	635,713
Intangible assets			
Goodwill, net (Note 22)	3,583	—	46,098
Other intangible assets, net (Note 13)	8,553	4,140	110,026
Net intangible assets	12,137	4,140	156,125
Investments and other assets			
Investments in securities (Notes 18 and 19)	13,582	17,538	174,719
Long-term loans receivable	57	51	736
Deferred tax assets (Note 15)	3,415	3,748	43,928
Other	3,486	3,563	44,850
Allowance for doubtful accounts	(165)	(151)	(2,130)
Total investments and other assets	20,376	24,750	262,105
Total assets	¥193,027	¥187,771	$2,482,987

See notes to consolidated financial statements.

December 31

	Millions of yen 2011	Millions of yen 2010	Thousands of U.S. dollars (Note 3) 2011
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 18)	¥ 2,894	¥ 3,549	$ 37,229
Short-term loans payable (Notes 6 and 18)	1,500	1,753	19,295
Lease obligations (Note 6)	623	425	8,016
Accounts payable – other (Notes 18 and 20)	11,391	10,848	146,537
Income taxes payable	1,806	1,118	23,241
Provision for bonuses	1,561	1,653	20,090
Provision for directors' bonuses	45	41	587
Provision for sales returns	76	90	984
Provision for point program	1,605	1,700	20,647
Provision for loss on business liquidation	—	32	—
Other	2,283	2,411	29,376
Total current liabilities	23,788	23,623	306,006
Non-current liabilities			
Lease obligations (Note 6)	939	875	12,090
Provision for retirement benefits (Note 8)	6,795	7,306	87,413
Provision for directors' retirement benefits	367	325	4,725
Provision for environmental measures	132	132	1,703
Deferred tax liabilities	317	—	4,089
Other	3,627	2,404	46,660
Total non-current liabilities	12,180	11,044	156,682
Total liabilities	35,969	34,667	462,689
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, 2011 and 57,284,039 shares at December 31, 2010	10,000	10,000	128,633
Capital surplus	90,718	90,718	1,166,944
Retained earnings	59,469	54,746	764,978
Treasury stock, at cost			
(2,000,000 shares at December 31, 2011 and 2,000,000 shares at December 31, 2010)	(2,199)	(2,199)	(28,288)
Total shareholders' equity	157,988	153,265	2,032,267
Accumulated other comprehensive income (Note 14)			
Unrealized gain (loss) on available-for-sale securities	(35)	210	(457)
Deferred gain (loss) on hedges	9	—	121
Foreign currency translation adjustments	(991)	(475)	(12,747)
Total accumulated other comprehensive income	(1,017)	(264)	(13,084)
Minority interests	86	103	1,115
Total net assets	157,057	153,104	2,020,298
Total liabilities and net assets	¥193,027	¥187,771	$2,482,987

See notes to consolidated financial statements.

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)
	2011	2010	2009	2011
Net sales (Notes 17 and 21)	¥166,657	¥165,253	¥162,332	$2,143,784
Cost of sales (Notes 10, 11, 17 and 21)	33,461	33,321	32,843	430,431
Gross profit	133,196	131,932	129,488	1,713,352
Selling, general and administrative expenses (Notes 10, 12, 17, 21 and 23)	120,342	119,661	119,782	1,548,013
Operating income	12,853	12,270	9,706	165,339
Other income (expenses) (Notes 13 and 17)				
Interest and dividend income	565	420	350	7,271
Interest expense	(53)	(103)	(120)	(685)
Foreign exchange gain (loss)	(121)	(410)	226	(1,562)
Equity in losses of affiliates	(24)	—	(1)	(311)
Gain on sale of subsidiary's stocks	529	—	—	6,813
Loss on disposal of non-current assets	(389)	(235)	(412)	(5,008)
Impairment loss	(754)	(172)	(387)	(9,710)
Loss on disaster	(467)	—	—	(6,009)
Loss on adjustment for changes of accounting standard for asset retirement obligations	(954)	—	—	(12,272)
Other, net	71	262	(904)	924
	(1,597)	(239)	(1,249)	(20,550)
Income before income taxes and minority interests	11,255	12,030	8,456	144,788
Income taxes (Note 15)				
Current	3,492	1,757	1,538	44,929
Deferred	(266)	3,281	2,945	(3,427)
	3,226	5,038	4,483	41,502
Income before minority interests	8,029	6,992	3,972	103,286
Minority interests in net loss of consolidated subsidiaries	(10)	(94)	(87)	(133)
Net income	¥ 8,039	¥ 7,086	¥ 4,059	$ 103,419

	Yen			U.S. dollars (Note 3)
Per share information (Note 23)				
Basic net income per common share	¥145.43	¥137.36	¥79.16	$1.87
Weighted average common shares outstanding	55,284,039	51,591,731	51,284,039	
Cash dividends declared per common share	¥ 45.00	¥ 40.00	¥20.00	$0.57

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Year ended December 31

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2011	2011
Income before minority interests	¥8,029	$103,286
Other comprehensive income (Note 14)		
Unrealized gain (loss) on available-for-sale securities	(246)	(3,168)
Deferred gain (loss) on hedges	9	121
Foreign currency translation adjustments	(521)	(6,712)
Total other comprehensive income	(758)	(9,759)
Comprehensive income (Note 14)	¥7,270	$ 93,527
Comprehensive income attributable to:		
Owners of the parent	¥7,287	$ 93,737
Minority interests	¥ (16)	$ (210)

See notes to consolidated financial statements.

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	Accumulated other comprehensive income (Note 14)	Minority interests	**Total net assets**
Balance at December 31, 2008	161,592	¥10,000	¥203,036	¥45,650	¥(121,293)	¥ (83)	¥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
Accumulated other comprehensive income								
Change in unrealized gain (loss) on available-for-sale securities						507		507
Deferred gain (loss) on hedges								—
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)	287	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								—
Accumulated other comprehensive income								
Change in unrealized gain (loss) on available-for-sale securities						(46)		(46)
Deferred gain (loss) on hedges								
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)	(264)	103	153,104
Dividends from retained earnings				(3,317)				(3,317)
Net income				8,039				8,039
Disposal of treasury stock								—
Retirement of treasury stock								—
Change in scope of consolidation								—
Accumulated other comprehensive income								
Change in unrealized gain (loss) on available-for-sale securities						(246)		(246)
Deferred gain (loss) on hedges						9		9
Foreign currency translation adjustments						(515)		(515)
Minority interests							(16)	(16)
Balance at December 31, 2011	57,284	¥10,000	¥ 90,718	¥59,469	¥ (2,199)	¥(1,017)	¥ 86	¥157,057

Consolidated Statements of Changes in Net Assets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

	Thousands of U.S. dollars (Note 3)						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 14)	Minority interests	**Total net assets**
Balance at December 31, 2010	$128,633	$1,166,944	$704,226	$(28,288)	$ (3,401)	$1,325	$1,969,439
Dividends from retained earnings			(42,668)				(42,668)
Net income			103,419				103,419
Disposal of treasury stock							—
Retirement of treasury stock							—
Change in scope of consolidation							—
Accumulated other comprehensive income							
Change in unrealized gain (loss) on available-for-sale securities					(3,168)		(3,168)
Deferred gain (loss) on hedges					121		121
Foreign currency translation adjustments					(6,635)		(6,635)
Minority interests						(210)	(210)
Balance at December 31, 2011	$128,633	$1,166,944	$764,978	$(28,288)	$(13,084)	$1,115	$2,020,298

See notes to consolidated financial statements.

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)
	2011	2010	2009	2011
Cash flows from operating activities				
Income before income taxes and minority interests	¥11,255	¥12,030	¥ 8,456	$144,788
Adjustments to reconcile income before income taxes and minority interests to net cash flows from operating activities:				
Depreciation and amortization	5,359	5,019	4,912	68,936
Impairment loss	754	172	387	9,710
Non-recurring depreciation on non-current assets	15	341	61	197
Amortization of goodwill	91	80	80	1,180
Gain on sale of subsidiary's stocks	(529)	—	—	(6,813)
Gain on sales of non-current assets	(3)	(20)	(30)	(48)
Loss on disposal of non-current assets	389	235	412	5,008
Loss on disaster	467	—	—	6,009
Loss on adjustment for changes of accounting standard for asset retirement obligations	954	—	—	12,272
Increase (decrease) in allowance for doubtful accounts	5	(33)	(2)	69
Decrease in provision for retirement benefits	(425)	(434)	(295)	(5,469)
Increase (decrease) in provision for loss on business liquidation	(28)	(6)	19	(367)
Increase (decrease) in other provisions	(139)	689	(576)	(1,797)
Interest and dividend income	(565)	(420)	(350)	(7,271)
Interest expense	53	103	120	685
Foreign exchange loss (gain)	95	307	(142)	1,225
Reversal of foreign currency translation adjustments	—	(661)	—	—
Equity in losses of affiliates	24	—	1	311
Changes in operating assets and liabilities				
Decrease (increase) in notes and accounts receivable – trade	(1,215)	(734)	590	(15,632)
Decrease in inventories	62	1,454	314	801
Increase (decrease) in notes and accounts payable – trade	(388)	289	(319)	(5,002)
Increase (decrease) in consumption taxes payable	(210)	481	(178)	(2,712)
Decrease (increase) in other assets	(47)	(97)	271	(606)
Increase (decrease) in other liabilities	476	(155)	(450)	6,133
Other	97	38	855	1,248
Subtotal	16,547	18,681	14,137	212,855
Interest and dividends received	637	378	352	8,197
Interest paid	(36)	(103)	(97)	(471)
Income taxes paid	(2,339)	(1,049)	(1,810)	(30,088)
Payments for loss on disaster	(407)	—	—	(5,243)
Other payments	—	—	(50)	—
Net cash provided by operating activities	¥14,401	¥17,906	¥12,530	$185,250

See notes to consolidated financial statements.

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2011	2010	2009	2011
Cash flows from investing activities				
Payments into time deposits	¥ (1,281)	¥ (1,013)	¥ (2,454)	$ (16,488)
Proceeds from withdrawal of time deposits	989	2,315	4,858	12,733
Purchase of short-term investments in securities	(30,897)	(34,857)	(4)	(397,452)
Proceeds from sales and redemption of short-term investments in securities	48,800	22,146	1,402	627,739
Purchase of property, plant and equipment	(2,421)	(4,095)	(6,588)	(31,148)
Proceeds from sales of property, plant and equipment	1,310	53	122	16,855
Purchase of intangible assets	(1,641)	(1,191)	(1,360)	(21,114)
Purchase of investments in securities	(9,476)	(23,484)	(0)	(121,902)
Proceeds from sales of investments in securities	19	25	147	248
Payments for disposal of non-current assets	(448)	(104)	(206)	(5,764)
Purchase of long-term prepaid expenses	(76)	(85)	(281)	(983)
Payments for lease and guarantee deposits	(171)	(318)	(207)	(2,201)
Proceeds from collection of lease and guarantee deposits	162	179	157	2,095
Purchase of investment in subsidiary	(8,923)	—	—	(114,785)
Proceeds from sale of investment in subsidiary	629	—	—	8,094
Other	(17)	63	38	(228)
Net cash used in investing activities	(3,444)	(40,367)	(4,374)	(44,304)
Cash flows from financing activities				
Net increase (decrease) in short-term loans payable	(254)	(8,232)	—	(3,277)
Cash dividends paid	(3,300)	(1,025)	(1,025)	(42,450)
Cash dividends paid to minority shareholders	—	(3)	—	—
Repayments of lease obligations	(538)	(303)	(99)	(6,924)
Proceeds from disposal of treasury stock	—	6,775	—	—
Net cash used in financing activities	(4,093)	(2,789)	(1,125)	(52,653)
Effect of exchange rate changes on cash and cash equivalents	(124)	(60)	(15)	(1,606)
Net increase (decrease) in cash and cash equivalents	6,738	(25,310)	7,014	86,685
Cash and cash equivalents at beginning of year (Note 4)	43,507	68,817	61,803	559,656
Cash and cash equivalents at end of year (Note 4)	¥50,246	¥43,507	¥68,817	$646,342

See notes to consolidated financial statements.

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").

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended December 31, 2011 ("fiscal 2011") and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in net assets. Information with respect to other comprehensive income for the year ended December 31, 2010 ("fiscal 2010") is disclosed in Note 14.

Certain amounts in the consolidated financial statements of the prior years have been reclassified to conform to the current year's presentation for comparative purposes. 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 accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All companies included in the scope of consolidation have a fiscal year ending December 31.

Under the control or influence concept, those companies in which the Company, directly or indirectly, can control over their operations are consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for using the equity method. All significant inter-company balances, transactions and material unrealized profit included in assets resulting from the inter-company transactions have been eliminated in consolidation.

29 subsidiaries were included in the scope of consolidation at December 31, 2011 (26 and 27 at December 31, 2010 and 2009, respectively). THAI POLA CO., LTD. was a non-consolidated subsidiary 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 Group had no significant impact on the consolidated financial statements. One affiliated company was accounted for using the equity method at December 31, 2011. There were no affiliates at December 31, 2010 and 2009.

Changes in significant subsidiaries and affiliates in fiscal 2011 compared to fiscal 2010 are as following:

H2O PLUS HOLDINGS, LLC; H2O PLUS, LLC: CSW H2O Holdings, Inc.; and H2O PLUS CANADA CORP. were included in the scope of consolidation following the acquisition of all outstanding shares in H2O PLUS HOLDINGS, LLC. POLA CHINA BEAUTY CO., LTD. was newly established and included in the scope of consolidation.

POLA (SHANGHAI) CO., LTD. was excluded from the scope of consolidation as it was merged with POLA TRADING (SHANGHAI) CO., LTD. In addition, the Group sold its shares in P.O. MEDIA SERVICE INC. and excluded it from the scope of consolidation.

B2O IMPORT AND TRADE OF COSMETICS AND PERFUMES LIMITED was newly established and accounted for using the equity method.

Changes in significant subsidiaries in fiscal 2010 compared to fiscal 2009 are as following:

ORBIS CHINA HONG KONG LIMITED was newly established and included in the scope of consolidation.

HYUNWOO CO., LTD. and POLA KOREA INC. were excluded from the scope of consolidation due to liquidation.

1.3. Unification of accounting policies applied to foreign subsidiaries

According to Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" (issued on May 17, 2006), the Company and its consolidated subsidiaries 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") are used as adjusted for certain items unless they are not material. They are including the following:

1. Amortization of goodwill
2. Scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity
3. Expensing capitalized development costs of R&D
4. Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
5. Recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated

1.4. Business combination

The purchase method of accounting is used to account for acquired business. 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 (i.e. bargain purchase) after purchased businesses' identifiable assets and liabilities are measured at their fair value at the acquisition date. Goodwill is amortized using the straight-line method over 20 years. Negative goodwill is recognized in profit or loss in the period in which the business combination took place.

Goodwill or negative goodwill recognized prior to fiscal 2011 is amortized on 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.

1.5. 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.

1.6. 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.

1.7. 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.

1.8. 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.

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

1.9. 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.

1.10. 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.

1.11. 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 individual asset or asset group is impaired if its carrying amount exceeds the amount to be recovered through use or sale of such asset or asset group.

1.12. 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).

1.13. 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.

1.14. 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.

1.15. Provisions

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.

Provision for sales returns

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

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.

Provision for loss on business liquidation

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

Provision for environmental measures

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

1.16. Research and development costs

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

1.17. Income taxes

Income taxes are accounted for using the asset and liability approach. 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.

1.18. Consumption tax and local consumption tax

The tax-exclusion accounting method is applied.

1.19. 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 55,284 thousand shares in fiscal 2011. (51,591 thousand 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 2011, 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.

1.20. 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.

1.21. Derivative financial instruments

The Group hedges the risk arising from its exposure to fluctuations in foreign currency exchange rates. Foreign currency options are utilized to reduce those risks. The Group does not enter into derivatives for trading or speculative purposes. Derivative instruments are stated at fair value, and accounted for using deferred hedge accounting. Recognition of gains and losses resulting from changes in the fair values of derivative financial instruments are deferred until the related losses and gains on the hedged items are recognized if the derivative financial instruments are used as hedges and meet certain hedging criteria.

Note 2 Changes in Accounting Policy and Disclosures

Newly adopted accounting policies and disclosures in fiscal 2011

2.1. Accounting standard for asset retirement obligations

Effective from fiscal 2011, the Group adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008).

As a result, operating income declined by ¥66 million (U.S.$859 thousand), and income before income taxes and minority interests decreased by ¥1,032 million (U.S.$13,277 thousand) for the year ended December 31, 2011.

2.2. Accounting standard for presentation of comprehensive income

Effective from fiscal 2011, the Group adopted "Accounting Standard for Presentation of Comprehensive Income"(ASBJ Statement No. 25, issued on June 30, 2010) and a related amendment.

Accumulated other comprehensive income and total accumulated other comprehensive income are newly presented in the consolidated balance sheets and the consolidated statements of changes in net assets. Information with respect to other comprehensive income for fiscal 2010 is disclosed in Note 14.

Newly adopted accounting policies and disclosures in fiscal 2010

2.3. 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.

Note 3 U.S. Dollar Amounts

The accompanying consolidated financial statements are presented 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 = ¥77.74, the approximate rate of exchange prevailing at December 31, 2011. 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

4.1. Cash and cash equivalents consist of the following:

	Millions of yen			Thousands of U.S. dollars
December 31	2011	2010	2009	2011
Cash and deposits	¥50,679	¥34,678	¥42,132	$651,910
Short-term investments in securities	18,412	32,169	30,984	236,847
Less:				
Time deposits with maturities exceeding three months	(1,432)	(1,170)	(2,480)	(18,431)
Stocks and bonds with maturities exceeding three months	(17,412)	(22,169)	(1,819)	(223,984)
Cash and cash equivalents	¥50,246	¥43,507	¥68,817	$646,342

4.2. Cash flows from business combination

In fiscal 2011, the Company acquired all outstanding shares in H2O PLUS HOLDINGS, LLC ("H2O PLUS"). The assets and liabilities at the acquisition date, reconciliation from acquisition cost to net cash used for the purchase of investment in subsidiary are as follows:

	Millions of yen
Current assets	¥1,029
Non-current assets	8,935
Current liabilities	(857)
Non-current liabilities	(933)
Acquisition cost	8,174
Repayments of loans payable of H2O PLUS	838
Cash and cash equivalents of H2O PLUS	(89)
Net cash used for purchase of investment in H2O PLUS	¥8,923

In fiscal 2011, the Company sold all outstanding shares in P.O. MEDIA SERVICE INC. ("P.O. MEDIA"). The assets and liabilities at the date of sale, reconciliation from gain on sale of subsidiary's stock to net cash provided by proceeds from sale of investment in subsidiary are as follows:

	Millions of yen
Current assets	¥630
Non-current assets	407
Current liabilities	(724)
Non-current liabilities	(86)
Gain on sale of subsidiary's stock	529
Sales price in shares in P.O. MEDIA	756
Cash and cash equivalents of P.O. MEDIA	(126)
Net cash provided by proceeds from sale of investment in P.O. MEDIA	¥629

4.3. Significant non-cash transactions

Assets and liabilities related to finance lease transactions newly recorded were ¥800 million (U.S.$10,292 thousand) in fiscal 2011 (¥893 million and ¥819 million in fiscal 2010 and 2009, respectively).

Asset retirement obligations newly recorded were ¥1,374 million (U.S.$17,678 thousand) in fiscal 2011 due to the adoption of the accounting standard for asset retirement obligations.

Note 5 Pledged Assets

Assets pledged as collateral for operating transactions are as follows:

	Millions of yen		Thousands of U.S. dollars
December 31	2011	2010	2011
Cash and deposits	¥41	¥27	$534

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	2011	2010	2011
Short-term loans payable	¥1,500	¥1,753	$19,295
Lease obligations	1,563	1,300	20,106
Less: current portion	(623)	(425)	(8,016)
	¥ 939	¥ 875	$12,090

The weighted average interest rate of short-term loans payable and lease obligations is as follows:

December 31	2011	2010
Short-term loans payable	0.65%	1.21%
Lease obligations – current portion	2.25%	2.67%
Lease obligations – long term	2.23%	2.69%

At December 31, 2011, the annual maturities of lease obligations are as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2012	¥ 623	$ 8,016
2013	509	6,557
2014	322	4,143
2015	85	1,099
2016	12	157
Total	¥1,552	$19,973

Note 7 Contingent Liabilities

Contingent liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2011	2010	2011
Guarantees of loans			
Employees' mortgages	¥334	¥429	$4,303
Total	¥334	¥429	$4,303

Note 8 Retirement Benefits

8.1. Provision for retirement benefits consists of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2011	2010	2011
Projected benefit obligation	¥12,444	¥12,770	$160,073
Fair value of plan assets	(5,356)	(5,159)	(68,900)
Unfunded retirement benefit obligation	7,087	7,610	91,173
Unrecognized prior service cost	378	467	4,863
Unrecognized actuarial losses	(670)	(770)	(8,622)
Provision for retirement benefits	¥ 6,795	¥ 7,306	$ 87,413

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	2011	2010	2009	2011
Service cost	¥758	¥786	¥732	$ 9,756
Interest cost	178	186	242	2,298
Expected return on plan assets	(77)	(74)	(68)	(995)
Amortization of prior service cost	(89)	(89)	(75)	(1,149)
Amortization of actuarial losses	98	116	90	1,265
Additional lump-sum payment	7	5	48	95
Net periodic retirement benefit costs	¥876	¥931	¥970	$11,270

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	2011	2010	2009
Discount rate	1.50%	1.50%	1.50%
Expected rate of return on plan assets	1.50%	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, 2009	161,592	110,308
Increase	—	—
Decrease	(104,308)	(108,308)
Balance at December 31, 2010	57,284	2,000
Increase	—	—
Decrease	—	—
Balance at December 31, 2011	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, 2011

		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, 2011	Common stock	¥2,211	$28,445	¥40.00	$0.51	December 31, 2010	March 31, 2011
Board of Directors' Meeting on July 29, 2011	Common stock	¥1,105	$14,222	¥20.00	$0.26	June 30, 2011	September 12, 2011

Year ended December 31, 2010

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

Dividends with the record date in fiscal 2011 and the effective date in fiscal 2012

Year ended December 31, 2011

Resolution	Type of shares	Source of dividends	Millions of yen Total dividends	Thousands of U.S. dollars Total dividends	Yen Dividends per share	U.S. dollars Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 29, 2012	Common stock	Retained earnings	¥1,382	$17,778	¥25.00	$0.32	December 31, 2011	March 30, 2012

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

Year ended December 31, 2010

Resolution	Type of shares	Source of dividends	Millions of yen Total dividends	Yen Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 30, 2011	Common stock	Retained earnings	¥2,211	¥40.00	December 31, 2010	March 31, 2011

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥25.00 (U.S.$0.32) per share, aggregating to ¥1,382 million (U.S.$17,778 thousand), in respect of fiscal 2011 which is to be approved on March 29, 2012.

Note 10 Research and Development Costs

The costs of ¥3,629 million (U.S.$46,689 thousand), ¥3,652 million and ¥4,281 million for research and development were expensed for fiscal 2011, 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	2011	2010	2009	2011
Reversal of provision for sales returns	¥90	¥90	¥197	$1,159
Provision for sales returns	¥76	¥90	¥ 90	$ 984

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	2011	2010	2009	2011
Sales commission	¥ 43,477	¥ 43,073	¥ 43,390	$ 559,266
Promotion expenses	16,676	16,627	15,427	214,510
Advertising expenses	7,373	7,366	7,496	94,853
Packing and transportation expenses	4,438	4,562	4,556	57,088
Salaries, allowances and bonuses	17,882	17,645	18,253	230,025
Welfare expenses	2,869	2,764	2,689	36,909
Retirement benefit expenses	733	754	750	9,435
Provision for bonuses	1,331	1,428	1,149	17,125
Provision for point program	1,602	1,701	1,520	20,613
Depreciation and amortization	3,345	2,912	2,833	43,031
Amortization of goodwill	91	80	80	1,180
Other	20,521	20,745	21,635	263,972
Total	¥120,342	¥119,661	¥119,782	$1,548,013

Note 13 Other Income (Expenses)

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

	Millions of yen			Thousands of U.S. dollars
Years ended December 31	2011	2010	2009	2011
Buildings and structures	¥ 54	¥ 68	¥127	$ 695
Other property, plant and equipment	12	29	122	155
Intangible assets	35	5	71	457
Removal and demolition	255	104	66	3,283
Other, net	32	28	23	415
Total	¥389	¥235	¥412	$5,008

13.2. Loss on disaster of ¥467 million (U.S.$6,009 thousand) related to the Great East Japan Earthquake for fiscal 2011 consists of restoration expenses for non-current assets of ¥140 million (U.S.$1,807 thousand), donations to the earthquake-hit region of ¥134 million (U.S.$1,734 thousand) and other of ¥191 million (U.S.$2,467 thousand)

13.3. Gain on sale of subsidiary's stocks of ¥529 million (U.S.$6,813 thousand) arose from sales of shares in P.O. MEDIA SERVICE INC.

13.4. Impairment loss consists of the following:

	Millions of yen			Thousands of U.S. dollars
Years ended December 31	2011	2010	2009	2011
Domestic				
Stores	¥ 47	¥ 84	¥114	$ 617
Offices	17	28	169	224
Idle assets	—	38	—	—
Investment property	102	—	—	1,314
Non-current asset held for sale	550	—	—	7,085
Overseas				
Stores	36	20	38	468
Offices	—	1	65	—
Total	¥754	¥172	¥387	$9,710

(1) The recoverable amount of stores and offices was determined for the group of assets that generated cash inflows that were largely independent of the cash inflows from other assets or groups of assets. The recoverable amount of investment properties, asset held for sale and idle assets were determined for the individual asset.

(2) The recoverable amount of stores and offices was determined by using value-in-use based on the undiscounted future cash flows expected to be generated from the continued use. For stores and offices scheduled for closure, the fair value less costs to sell based on the expected amount for sale was used to determine the recoverable amount. The recoverable amount of investment properties is the higher of fair value less costs to sell based on real estate appraisal values and value in use based on the undiscounted future cash flows. The recoverable amount of assets held for sale and other assets was measured by using fair value less costs based on the expected amount for sale or real estate appraisal values. Value-in-use of stores and offices was assessed as zero as no future cash flows were expected to be generated.

13.5. "Other, net" mainly consists of the following:

	Millions of yen			Thousands of U.S. dollars
Years ended December 31	2011	2010	2009	2011
Gain on sales of non-current assets	—	¥537	¥ 30	—
Reversal of foreign currency translation adjustments	—	661	—	—
Loss on valuation of investments in securities	—	—	(848)	—
Loss on advanced depreciation deduction of non-current assets (1)	—	(517)	—	—
Non-recurring depreciation on non-current assets (2)	—	(341)	(61)	—
Other, net	¥71	(78)	(25)	$924
Total	¥71	¥262	¥(904)	$924

(1) Loss on advanced depreciation deduction of non-current assets of ¥517 million for fiscal 2010 consists of buildings and structures of ¥318 million, land of ¥198 million and other property, plant and equipment of ¥0 million. Loss on advanced depreciation deduction of non-current assets is the amount directly reduced from the acquisition cost of substitute assets.

(2) Non-recurring depreciation on non-current assets of ¥341 million for fiscal 2010 consist of buildings and structures of ¥335 million, machinery, equipment and vehicles of ¥1 million and other property, plant and equipment of ¥3 million. Buildings and structures of ¥61 million was recognized as non-recurring depreciation on non-current assets for 2009. 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.

Note 14 Comprehensive Income

Comprehensive income and other comprehensive income for fiscal 2010 consist of the following:

14.1. Comprehensive income:

	Millions of yen
	2010
Comprehensive income attributable to owners of the parent	¥6,534
Comprehensive income attributable to minority interests	(91)
Total	¥6,443

14.2. Other comprehensive income:

	Millions of yen
	2010
Unrealized gain (loss) on available-for-sale securities	¥ (46)
Foreign currency translation adjustments	(501)
Total	¥(548)

Note 15 Income Taxes

15.1. Deferred tax assets and liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2011	2010	2011
Deferred tax assets:			
Provision for bonuses	¥ 594	¥ 663	$ 7,469
Provision for retirement benefits	2,400	2,949	30,878
Loss on valuation of inventories	621	740	8,000
Loss on disposal of non-current assets	—	167	—
Impairment loss	14,435	17,591	185,685
Loss on valuation of investments in securities	302	388	3,887
Unrealized loss on available-for-sale securities	118	—	1,521
Non-recurring depreciation on non-current assets	—	155	—
Provision for point program	637	671	8,194
Unrealized inter-company profit	1,024	378	13,181
Net carry-forward of unused tax losses	7,864	6,141	101,170
Enterprise tax payable	226	268	2,916
Asset retirement obligations	487	—	6,273
Other	1,054	873	13,562
Less valuation allowance	(22,345)	(24,154)	(287,438)
Total deferred tax assets	7,422	6,835	95,482
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(163)	(169)	(2,108)
Restoration cost for asset retirement obligations	(124)	—	(1,604)
Goodwill, trademark rights and other intangible assets	(535)	—	(6,893)
Other	(22)	—	(291)
Total deferred tax liabilities	(847)	(169)	(10,897)
Deferred tax assets, net	¥6,575	¥6,666	$84,585

15.2. The reconciliations between the statutory tax rate and the effective tax rate are as follows:

	2011	2010	2009
Statutory income tax rate	40.7%	40.7%	40.7%
Expenditure not allowable for income tax purposes (entertainment expense, etc.)	1.3	1.1	1.5
Per capita inhabitants' tax	0.4	0.3	0.5
Increase (decrease) in valuation allowance	(10.7)	1.8	2.3
Adjustments to the book values of investments	(4.6)	—	4.0
Tax credits for research and development costs	(2.3)	—	—
Reduction in deferred tax assets at reporting date due to revision of tax law	3.8	—	—
Reversal of foreign currency translation adjustments	—	(2.2)	—
Other	0.1	0.2	3.9
Effective income tax rate	28.7%	41.9%	53.0%

15.3. Revision of deferred tax assets and liabilities due to change in statutory income tax rate.

On December 2, 2011, the "Act for Partial Revision of the Income Tax Act etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake" (Act No. 117 of 2011) were passed. Under these revisions, the statutory corporate tax rates will change effective from fiscal years beginning on or after April 1, 2012. Accordingly, the effective corporate tax rates of the Group at which deferred tax assets and liabilities arising from temporary differences are measured when the differences are expected to reverse are as follows: 40.7% until December 31, 2012; 38.0% from January 1, 2013 to December 31, 2015; and 35.6% after January 1, 2016 are applied to the years when the asset is realized or the liability is settled.

Net deferred tax assets declined by ¥408 million (U.S.$5,259 thousand), and deferred income tax expense recognized in fiscal 2011 increased by ¥432 million (U.S.$5,558 thousand) as a result of this change.

Note 16 Leases

(As a lessee)

16.1. Finance leases that do not transfer ownership

16.1.1. 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.

16.1.2. 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							
	2011				2010			
December 31	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	¥ 413	¥ 354	¥ 3	¥ 55	¥1,036	¥ 798	¥ 5	¥ 232
Machinery, equipment and vehicles	—	—	—	—	681	433	—	248
Other property, plant and equipment, including tools, furniture and fixtures	1,116	922	9	183	2,418	1,818	23	576
Intangible assets (software)	—	—	—	—	8	7	0	0
Total	¥1,529	¥1,277	¥12	¥238	¥4,144	¥3,058	¥29	¥1,056

	Thousands of U.S. dollars			
	2011			
December 31	Acquisition cost	Accumulated depreciation/ amortization	Accumulated impairment loss	Net book value
Buildings and structures	$ 5,312	$ 4,559	$ 42	$ 710
Machinery, equipment and vehicles				
Other property, plant and equipment, including tools, furniture and fixtures	14,356	11,870	123	2,362
Intangible assets (software)				
Total	$19,669	$16,429	$166	$3,073

Future minimum lease payments are as follows:

	Millions of yen			Thousands of U.S. dollars
December 31	2011	2010	2009	2011
Due within 1 year	¥208	¥ 698	¥1,167	$2,675
Due after 1 year	194	437	1,136	2,496
Total	¥402	¥1,136	¥2,304	$5,172

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

	Millions of yen		Thousands of U.S. dollars
December 31	2011	2010	2011
Allowance for impairment loss on leased assets	¥5	¥25	$74

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	2011	2010	2009	2011
Lease payments	¥627	¥1,250	¥1,596	$8,066
Reversal of impairment loss on leased assets	21	39	45	272
Depreciation and amortization	568	1,134	1,448	7,312
Interest expense	27	69	120	356
Impairment loss	¥ 1	¥ 13	¥ 56	$ 14

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.

16.2. 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	2011	2010	2009	2011
Due within 1 year	¥ 7	¥ 7	¥ 7	$100
Due after 1 year	3	11	19	44
Total	¥11	¥19	¥26	$144

Note 17 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).

17.1. Overview

The Group owns office buildings and residential properties for lease in Tokyo and other areas. Net rental income was ¥1,504 million (U.S.$19,356 thousand) in fiscal 2011, (¥1,507 million in fiscal 2010) (rental income is recorded under sales and non-other income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and non-other expenses). Impairment loss of ¥606 million (U.S.$7,798 thousand) in fiscal 2011 (¥38 million in fiscal 2010), loss on disaster of ¥83 million (U.S.$1,061 thousand) in fiscal 2011 and non-recurring depreciation of ¥341 million from investment and rental properties in fiscal 2010 were recorded under other losses.

17.2. Fair value of investment properties

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

December 31, 2011	Millions of yen		
	Carrying amount		Fair value
Balance at December 31, 2010	Net increase	Balance at December 31, 2011	At December 31, 2011
¥24,067	¥(2,087)	¥21,980	¥41,381

December 31, 2011	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

December 31, 2011	Thousands of U.S. dollars		
	Carrying amount		Fair value
Balance at December 31, 2010	Net increase	Balance at December 31, 2011	At December 31, 2011
$309,584	$(26,847)	$282,737	$532,306

1. The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.
2. Components of change

Increase: In fiscal 2011: Refurbishment of office building for lease: ¥185 million (U.S.$2,387 thousand)
Transfer due to changes in the use of properties: ¥146 million (U.S.$1,884 thousand)
In fiscal 2010: Acquisition of residential properties for lease: ¥1,393 million
Refurbishment of office buildings for lease: ¥244 million

Decrease: In fiscal 2011: Sales of office building and idle assets: ¥1,222 million (U.S.$15,723 thousand)
Impairment loss and non-recurring depreciation on office buildings and idle assets: ¥621 million (U.S.$7,996 thousand)
Depreciation on office buildings and residential properties for lease: ¥571 million (U.S.$7,352 thousand)
In fiscal 2010: Impairment loss and non-recurring depreciation on idle assets: ¥373 million
Depreciation on office buildings and residential properties for lease: ¥588 million

3. Method for calculating fair values

The fair values of major properties are determined by the amounts using appraisal certificates provided by independent real estate assessors. For other properties, however, the fair value of land is determined by the amount adjusted using the indices considered to properly reflecting market price, and the fair values of depreciable assets such as buildings are determined by the carrying amounts on the consolidated balance sheets.

Note 18 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).

18.1. Overview of financial instruments

18.1.1. 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 from transactions denominated in foreign currencies. The Group does not enter into derivative transactions for speculative or trading purposes.

18.1.2. 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.

18.1.3. 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 20 "Derivative transactions."

18.2. Fair value of financial instruments

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

	Millions of yen		
	2011		
December 31	Carrying amount	Fair value	Difference
(i) Cash and deposits	¥ 50,679	¥ 50,679	—
(ii) Notes and accounts receivable – trade (*1)	20,650	20,650	—
(iii) Investments in securities			
Held-to-maturity securities	29,312	28,694	¥(617)
Available-for-sale securities	2,446	2,446	—
Total assets	¥103,089	¥102,471	¥(617)
(i) Notes and accounts payable – trade	2,894	2,894	—
(ii) Short-term loans payable	1,500	1,500	—
(iii) Accounts payable – other	11,391	11,391	—
Total liabilities	¥ 15,786	¥ 15,786	—
Derivative transactions (*2)	¥ 15	¥ 15	—

	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		
	2011		
December 31	Carrying amount	Fair value	Difference
(i) Cash and deposits	$ 651,910	$ 651,910	—
(ii) Notes and accounts receivable – trade (*1)	265,638	265,638	—
(iii) Investments in securities			
Held-to-maturity securities	377,058	369,133	$(7,945)
Available-for-sale securities	31,470	31,470	—
Total assets	$1,326,077	$1,318,132	$(7,945)
(i) Notes and accounts payable – trade	37,229	37,229	—
(ii) Short-term loans payable	19,295	19,295	—
(iii) Accounts payable – other	146,537	146,537	—
Total liabilities	$ 203,061	$ 203,061	—
Derivative transactions (*2)	$ 204	$ 204	—

(*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 19 "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 based on the quoted price provided by financial institutions.

For further information, refer to Note 20 "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
	2011	2010	2011
December 31	Carrying amount	Carrying amount	Carrying amount
Unlisted stock	¥ 60	¥ 32	$ 779
Capital contribution to investment in a limited partnership	175	189	2,259
Total	¥236	¥221	$3,038

These financial instruments are not included in 3 "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 is as follows:

	Millions of yen			
	2011			
December 31	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	¥50,679	—	—	—
Notes and accounts receivable – trade	20,650	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	800	¥ 1,000	—	—
Held-to-maturity debt securities (other)	16,612	10,900	—	—
Available-for-sale securities with maturities (other)	1,008		¥167	—
Total	¥89,751	¥11,900	¥167	—

	Millions of yen			
	2010			
December 31	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			
	2011			
December 31	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	$ 651,910	—	—	—
Notes and accounts receivable – trade	265,638	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	10,294	$ 12,863	—	—
Held-to-maturity debt securities (other)	213,689	140,210	—	—
Available-for-sale securities with maturities (other)	12,974	—	$2,148	—
Total	$1,154,506	$153,074	$2,148	—

4. For the repayment schedule of lease obligations at December 31, 2011 and 2010, refer to Note 6 "Short-term and Long-term Debt."

Note 19 Investments in Securities

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

	Millions of yen					
	2011			2010		
December 31	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount						
Corporate bonds	¥ 1,800	¥ 1,826	¥ 26	¥ 6,311	¥ 6,369	¥ 57
Other	4,800	4,821	21	13,031	13,117	85
Subtotal	6,600	6,648	47	19,343	19,486	143
Securities with carrying amount exceeding fair value						
Corporate bonds	—	—	—	5,699	5,692	(7)
Other	22,712	22,046	(665)	20,018	19,924	(93)
Subtotal	22,712	22,046	(665)	25,718	25,617	(100)
Total	¥29,312	¥28,694	¥(617)	¥45,061	¥45,104	¥ 42

	Thousands of U.S. dollars		
	2011		
December 31	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount			
Corporate bonds	$ 23,158	$ 23,492	$ 334
Other	61,747	62,026	279
Subtotal	84,905	85,518	613
Securities with carrying amount exceeding fair value			
Corporate bonds			
Other	292,193	283,594	(8,559)
Subtotal	292,193	283,594	(8,559)
Total	$377,058	$369,113	$(7,945)

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

	Millions of yen					
	2011			2010		
December 31	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost						
Stock	¥ 593	¥ 133	¥459	¥ 548	¥ 133	¥414
Other	—	—	—	732	730	2
Subtotal	593	133	459	1,280	863	416
Securities with acquisition cost exceeding carrying amount						
Stock	852	1,178	(326)	1,144	1,178	(33)
Other	1,000	1,000	—	2,000	2,000	—
Subtotal	1,852	2,178	(326)	3,145	3,179	(33)
Total	¥2,446	¥2,312	¥133	¥4,425	¥4,042	¥382

	Thousands of U.S. dollars		
	2011		
December 31	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost			
Stock	$ 7,635	$ 1,720	$5,915
Other	—	—	—
Subtotal	7,635	1,720	5,915
Securities with acquisition cost exceeding carrying amount			
Stock	10,971	15,165	(4,194)
Other	12,863	12,863	—
Subtotal	23,834	28,029	(4,194)
Total	$31,470	$29,749	$1,721

Unlisted stock of ¥60 million (U.S.$779 thousand) at December 31, 2011 (¥32 million at December 31, 2010) and capital contribution to investment in a limited partnership of ¥175 million (U.S.$2,259 thousand) at December 31, 2011 (¥189 million at December 31, 2010) 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.

Investment in affiliates of ¥57 million (U.S.$736 thousand) which is accounted for using the equity method was included in unlisted stock in fiscal 2011.

19.3. Available-for-sale securities sold during fiscal 2011, 2010 and 2009 consist of the following:

	Millions of yen								
	2011			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	Amount sold	Aggregate gains on sales of securities	Aggregate losses on sales of securities
Stock	¥14	—	¥14	¥ 11	¥1	¥ 0	¥ 10	—	¥1
Other	—	—	—	247	5	27	138	¥37	2
Total	¥14	—	¥14	¥258	¥6	¥27	¥149	¥37	¥3

	Thousands of U.S. dollars		
	2011		
Year ended December 31	Amount sold	Aggregate gains on sales of securities	Aggregate losses on sales of securities
Stock	$182	—	$188
Other	—	—	—
Total	$182	—	$188

Note 20 Derivative Transactions

Derivative transactions related to a foreign currency to which hedge accounting is applied consist of the following:

			Millions of yen			Thousands of U.S. dollars		
December 31			2011			2011		
Accounting method	Hedging instruments	Hedged item	Contract amount	Maturity over 1 year	Fair value (1)	Contract amount	Maturity over 1 year	Fair value (1)
Deferred hedge accounting basis	Foreign currency options (2)							
	Sell (Put)							
	Australian dollar	Forecasted foreign currency transaction	¥12,812	—	¥ (1)	$164,806	—	$ (21)
	Purchase (Call)							
	Australian dollar	Forecasted foreign currency transaction	13,326	—	17	171,421	—	226
	Total		¥26,138	—	¥15	$336,228		$204

(1) The fair value is determined on the quoted prices provided by financial institutions.
(2) No premium is paid to the broker in the foreign currency options.

Derivative transactions related to a foreign currency to which hedge accounting is not applied consist of the following:

	Millions of yen			
	2010			
December 31	Contract amount	Maturity over 1 year	Fair value (*)	Unrealized gain/loss
Non-market transactions				
Foreign exchange forwards				
Purchase				
Euro	¥ 69	—	¥ (21)	¥ (21)
Total	¥ 69	—	¥ (21)	¥ (21)

(*) The fair value is determined on forward exchange rate.

Note 21 Segment Information

Effective from fiscal 2011, the Group adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008).

21.1. General information about reportable segments

A reportable segment is a component of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance. The Group primarily develops, manufactures and markets cosmetics and related products. It promotes a multi-brand strategy of holding a range of brands and winning market share for each of its high profile brands in order to satisfy the diversifying needs of its customers based on their values. Comprehensive strategies are planned and products are marketed by each brand name in Japan and overseas. In addition to its cosmetics business, a variety of businesses is conducted to contribute to the Group's profits. Therefore, reportable segments consist of the Beauty Care business, the Group's core business, and the Real Estate business, which indirectly supports the Group's core business. The Beauty Care business manufactures and markets cosmetics and health foods and sells fashion items (women's underwear, women's apparel and jewelry) under the following brand names: *POLA, ORBIS, pdc, FUTURE LABO, ORLANE JAPON, decencia, THREE, and H2O PLUS*. The Real Estate business is engaged in the leasing of office buildings and residential properties.

21.2. Calculation method for net sales, income (loss), assets and other items by reportable segment

The accounting policies and measures for the Group's reportable business segments are generally the same as described in Note 1. Segment income is based on operating income. The amounts of inter-segment unrealized profit and transfer are calculated based on market prices.

21.3. Information about net sales and income (loss) by reportable segment

	Millions of yen						
	2011						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	¥154,778	¥3,089	¥157,867	¥8,790	¥166,657	—	¥166,557
Inter-segment sales or transfers	100	659	759	5,781	6,541	¥(6,541)	—
Total	154,878	3,748	158,627	14,571	173,199	(6,541)	166,657
Segment income	10,787	1,283	12,071	501	12,573	280	12.853
Segment assets	111,405	28,512	139,917	10,367	150,285	42,742	193,027
Other items							
Depreciation and amortization	4,339	637	4,977	282	5,260	113	5,374
Amortization of goodwill	91	—	91	—	91	—	91
Increase in property, plant and equipment and intangible assets	¥ 4,516	¥ 273	¥ 4,790	¥ 193	¥ 4,983	¥ 64	¥ 5,048

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the pharmaceuticals, building maintenance and printing businesses.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥280 million (U.S.$3,602 thousand) includes inter-segment transaction eliminations of ¥2,351 million (U.S.$30,247 thousand) minus corporate expenses of ¥2,071 million (U.S.$26,644 thousand), not allocated to each segment. Corporate expenses are primarily the Company's administrative expenses not allocated to reportable segments.
(2) The segment assets reconciliation of ¥42,742 million (U.S.$549,809 thousand) includes corporate assets of ¥88,517 million (U.S.$1,138,635 thousand), not allocated to each segment, minus inter-segment eliminations of ¥45,775 million (U.S.$588,825 thousand). Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment, and intangible assets are depreciation and amortization, and increases in property, plant and equipment, and intangible assets related to corporate assets and inter-segment eliminations, respectively.
3. Segment income is adjusted for operating income reported in the consolidated statements of income.
4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment, and intangible assets, respectively.
5. Depreciation and amortization in the Beauty Care segment includes non-recurring depreciation on non-current assets of ¥15 million (U.S.$197 thousand).

	Millions of yen						
	2010						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	¥153,091	¥3,102	¥156,194	¥9,059	¥165,253	—	¥165,253
Inter-segment sales or transfers	56	631	688	7,150	7,838	¥(7,838)	—
Total	153,148	3,734	156,882	16,209	173,092	(7,838)	165,253
Segment income	10,165	1,304	11,470	223	11,693	576	12,270
Segment assets	105,070	28,856	133,926	15,253	149,179	38,592	187,771
Other items							
Depreciation and amortization	4,082	561	4,643	345	4,989	372	5,361
Amortization of goodwill	—	—	—	80	80	—	80
Increase in property, plant and equipment and intangible assets	¥ 3,799	¥2,249	¥ 6,049	¥ 211	¥ 6,260	¥ (15)	¥ 6,245

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the pharmaceuticals, building maintenance and printing businesses.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥576 million includes inter-segment transaction eliminations of ¥2,483 million minus corporate expenses of ¥1,906 million, not allocated to each segment. Corporate expenses are primarily the Company's administrative expenses not allocated to reportable segments.
(2) The segment assets reconciliation of ¥38,592 million includes corporate assets of ¥78,180 million, not allocated to each segment, minus inter-segment eliminations of ¥39,588 million. Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment and intangible assets are depreciation and amortization, and increases in property, plant and equipment, and intangible assets related to corporate assets and inter-segment eliminations, respectively.
3. Segment income is adjusted for operating income reported in the consolidated statements of income.
4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment, and intangible assets, respectively.
5. Depreciation and amortization in the Beauty Care segment includes non-recurring depreciation on non-current assets of ¥341 million.

	Thousands of U.S. dollars						
	2011						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	$1,990,975	$39,736	$2,030,712	$113,071	$2,143,784	—	$2,143,784
Inter-segment sales or transfers	1,291	8,483	9,775	74,373	84,148	$(84,148)	—
Total	1,992,267	48,220	2,040,487	187,444	2,227,932	(84,148)	2,143,784
Segment income	138,767	16,513	155,281	6,454	161,736	3,602	165,339
Segment assets	1,433,048	366,769	1,799,818	133,358	1,933,177	549,809	2,482,987
Other items							
Depreciation and amortization	55,825	8,205	64,031	3,637	67,668	1,465	69,134
Amortization of goodwill	1,180	—	1,180	—	1,180	—	1,180
Increase in property, plant and equipment and intangible assets	$ 58,103	$ 3,516	$ 61,619	$ 2,488	$ 64,107	$ 831	$ 64,938

21.4. Information related to reportable segment

21.4.1. Sales information by product and service

	Millions of yen			
	2011			
Year ended December 31	Cosmetics	Fashion	Others	Total
Sales to external customers	¥141,453	¥13,324	¥11,879	¥166,657

	Thousands of U.S. dollars			
	2011			
Year ended December 31	Cosmetics	Fashion	Others	Total
Sales to external customers	$1,819,572	$171,403	$152,808	$2,143,784

21.4.2. Information by geographical area

Information by geographical area 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 2011.

21.4.3. Information by customer

Information by customer is omitted, as there are no external customers for which sales account for more than 10% of net sales presented in consolidated statements of income for fiscal 2011.

21.5. Information about impairment loss of non-current assets by reportable segment

	Millions of yen					
	2011					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥101	¥649	¥751	—	¥3	¥754

	Thousands of U.S. dollars					
	2011					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	$1,310	$8,356	$9,667	—	$42	$9,710

21.6. Information about amortization and balance of goodwill by reportable segment

	Millions of yen					
	2011					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥ 91	—	¥ 91	—	—	¥ 91
Goodwill	¥3,583	—	¥3,583	—	—	¥3,583

	Thousands of U.S. dollars					
	2011					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	$ 1,180	—	$ 1,180	—	—	$ 1,180
Goodwill	$46,098	—	$46,098	—	—	$46,098

21.7.Segment information under former accounting standard

21.7.1. Business segment information

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

	Millions of yen							
	2010							
Year ended or at December 31	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
Inter-segment 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

	Millions of yen							
	2009							
Year ended or at December 31	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
Inter-segment 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

Notes: 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 operating expenses not allocated to each segment (¥1,906 million and ¥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 and ¥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 and ¥61 million for fiscal 2010 and 2009, respectively).

21.7.2. 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.

21.7.3. Overseas sales

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

Note 22 Business Combination

Business Combination—Acquisition of H2O PLUS HOLDINGS, LLC

On May 29, 2011, the Company's Board of Directors approved a definitive agreement to acquire directly and indirectly all outstanding shares of H2O PLUS HOLDINGS, LLC ("H2O PLUS"), a Chicago-based leading developer, manufacturer and marketer of sea-derived natural skincare products mainly in North America and Asia. Following the acquisition, H2O PLUS was made a wholly owned subsidiary of the Company on July 1, 2011. As a result of the transaction, CSW H2O Holdings, Inc., a pure holding company of H2O PLUS, and H2O PLUS, LLC and H2O PLUS CANADA CORP., two subsidiaries of H2O PLUS, have also become wholly owned subsidiaries of the Company.

22.1. Outline of business combination

22.1.1. Names and main businesses of acquired companies

a. H2O PLUS HOLDINGS, LLC

(a) Name:	H2O PLUS HOLDINGS, LLC
(b) Business:	Holding company (manufacture and marketing of cosmetics products via subsidiary)
(c) Capital:	US$35,663 thousand (At December 31, 2010)

b. CSW H2O Holdings, Inc.

(a) Name:	CSW H2O Holdings, Inc.
(b) Business:	Holding company
(c) Capital:	US$17,000 thousand (At December 31, 2010)

c. H2O PLUS, LLC

(a) Name:	H2O PLUS, LLC
(b) Business:	Manufacture and marketing of cosmetics products
(c) Capital:	US$35,663 thousand (At December 31, 2010)

d. H2O PLUS CANADA CORP.

(a) Name:	H2O PLUS CANADA CORP.
(b) Business:	Marketing of cosmetics products
(c) Capital:	C$8,802 thousand (At December 31, 2010)

22.1.2. Names of selling investor groups and individuals

a. Williams Capital Partners, L.P.
b. NMS Fund, LP
c. Directors and Former Directors of H2O PLUS

22.1.3. Reason for business combination

To become a highly profitable global company — the Company's long-term strategic goal — by strengthening its global business base through the acquisition of H2O PLUS, which has developed retail points of distribution in 22 countries, mainly in North America and Asia, and three other companies, as of July 1, 2011.

22.1.4. Date of business combination

July 1, 2011

22.1.5. Legal method used for business combination

Purchase of Shares in Cash

22.1.6. Names of companies and percentage of voting rights acquired after business combination

a. H2O PLUS HOLDINGS, LLC 100%
b. CSW H2O Holdings, Inc. 100%
c. H2O PLUS, LLC 100%
d. H2O PLUS CANADA CORP. 100%

22.1.7. Identification of acquirer

POLA ORBIS HOLDINGS INC. is identified as the acquirer, as it acquired all outstanding shares of H2O PLUS HOLDINGS, LLC, directly and indirectly, and retained 100 per cent of the voting rights in H2O PLUS HOLDINGS, LLC, and three other companies.

22.2. Period for which the financial results of the acquired companies are included in the consolidated financial statements

From July 1, 2011 through December 31, 2011

22.3. Breakdown of acquisition cost

		Millions of yen
Purchase consideration	Cash	¥7,797
Acquisition-related costs	Advisory fees	377
Acquisition cost		¥8,174

22.4. Information regarding allocation of acquisition cost

22.4.1. Breakdown of significant assets acquired and liabilities assumed at the acquisition date

	Thousands of U.S. dollars
Current assets	$ 12,631
Non-current assets	109,625
Total assets	$122,256
Current liabilities	10,519
Non-current liabilities	11,456
Total liabilities	$ 21,975

Significant intangible assets excluding goodwill after allocation consist of the following:

	Thousands of U.S. dollars
Trademark rights (Indefinite-lived intangible asset)	$30,433
Customer-related intangible assets	$22,994
(Amortized by weighted-average method over 13 years)	

22.4.2. Amount of goodwill recognized, reason for recognition, amortization method and period

a. Amount of goodwill recognized	¥3,675 million
b. Reason for recognition	The amount of goodwill recognized is attributable to reasonable estimates of future earnings potential, including expected synergies, as a result of anticipated business development.
c. Amortization method and period	Using the straight-line method over 20 years.

22.5. Estimated impact on the consolidated results for fiscal 2011 assuming the acquisition had been completed as of the beginning of fiscal 2011 and calculation method

	Millions of yen
Net sales	¥1,461
Operating loss	¥ (106)

(Calculation Method and Significant Assumptions for the Estimated Amounts)

1) The estimated impact is the difference between the net sales and operating income (loss) of the acquired companies assuming the acquisition had been completed as of the beginning of fiscal 2011 and the net sales and operating income (loss) included in the consolidated statements of income. The advisory fees relating to the combination paid by H2O PLUS HOLDINGS, LLC and three other companies have not been included in the difference.
2) The estimated amounts in Japanese yen shown above are converted using the average exchange rate from January 1, 2011 through June 30, 2011, ¥82.04 to US$1.
3) The estimated amounts above are not audited.

Note 23 Per Share Information

For fiscal 2011, 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 as 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.

Net income per share and assumptions used for calculations are as follows:

	Millions of yen			Thousands of U.S. dollars
Years ended December 31	2011	2010	2009	2011
Numerator:				
Net income attributable to common stock	¥8,039	¥ 7,086	¥ 4,059	$103,419
Denominator:				
Weighted average common shares outstanding (thousands of shares)	55,284	51,591	51,284	
	Yen			U.S. dollars
Basic net income per share	¥145.43	¥137.36	¥79.16	$1.87

Net assets per share and assumptions used for calculations are as follows:

	Millions of yen		Thousands of U.S. dollars
At December 31	2011	2010	2011
Numerator:			
Total net assets	¥157,057	¥153,104	$2,020,298
Amount deducted from total net assets	86	103	1,115
[Of which, minority interests]	(86)	(103)	(1,115)
Net assets attributable to common stock	¥156,971	¥153,001	$2,019,183
Denominator:			
Common shares issued (thousands of shares)	57,284	57,284	
Treasury stock (thousands of shares)	2,000	2,000	
Common shares outstanding used in the calculation of net assets per share (thousands of shares)	55,284	55,284	
	Yen		U.S. dollars
Net assets per share	¥2,839.00	¥2,767.00	$36.52

Note 24 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. 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 in fiscal 2010.

There were no related party transactions in fiscal 2011.

Note 25 Significant Subsequent Events

25.1. Establishment of significant subsidiary and business combination

On November 30, 2011, the Company's Board of Directors approved a definitive agreement to acquire all outstanding shares in Jurlique International Pty Ltd. ("Jurlique"), an Australia-based leading developer, manufacturer and marketer of natural organic skin and body care products, mainly operating in Asia, the United States and Europe. In addition, the Board also approved a resolution to establish two special purpose companies (SPCs) in Australia for acquiring all outstanding shares in Jurlique. The two SPCs were established on December 19, 2011. Following their establishment, the procedure for investing in the two SPCs was finalized on January 31, 2012. The acquisition of shares in Jurlique was completed on February 3, 2012. Jurlique and the two SPCs became specific subsidiaries defined in Cabinet Office Ordinance on Disclosure of Corporate Affairs, etc. (Article 19 (10)), under which a subsidiary is defined as a specific subsidiary when its capital is more than 10% of its parent's capital, and shall be filed with the Director of the Kanto Local Finance Bureau when changes in specific subsidiaries.

25.1.1. Establishment of significant subsidiary

(1) Reason for establishment

Two special purpose companies (SPCs) were established in Australia to acquire all outstanding shares in Jurlique.

(2) Outline of SPCs

i) Pola Orbis Jurlique Holdings Pty Ltd.

a. Name:	Pola Orbis Jurlique Holdings Pty Ltd.
b. Business:	Holding company
c. Capital:	A$189,300 thousand
d. Established date:	December 19, 2011
e. Investment date:	January 31, 2012

ii) Pola Orbis Jurlique Pty Ltd.

a. Name:	Pola Orbis Jurlique Pty Ltd.
b. Business:	Holding company
c. Capital:	A$338,800 thousand
d. Established date:	December 19, 2011

(3) Details on Acquisition of SPCs

i) Pola Orbis Jurlique Holdings Pty Ltd.

a. Acquisition cost:	A$339,300 thousand
b. Ownership ratio:	100%

ii) Pola Orbis Jurlique Pty Ltd.

a. Acquisition cost:	A$338,800 thousand
	(A$338,800 thousand)*
b. Ownership ratio:	100% (100%)*

*The figures in parentheses are the acquisition cost of the shares that the Company indirectly holds in Pola Orbis Jurlique Pty Ltd and the ownership ratio.

25.1.2. Business combination-acquisition of Jurlique

(1) Outline of business combination

i) Name and main business of acquired company

a. Name:	Jurlique International Pty Ltd.
b. Business:	Manufacturing and marketing of cosmetics products
c. Capital:	A$72,389 thousand (At June 26, 2011)

ii) Names of selling investor groups and individuals

a. JJHP, LLC

b. CPH Products Pty Limited

c. Ulrike Klein Investments Pty Limited

d. Other entities and Directors of Jurlique

iii) Reason for business combination

To become a highly profitable global company—the Company's long-term strategic goal—by strengthening its global business base through the acquisition of Jurlique, which has nine subsidiaries in five countries, and has developed retail points of distribution in 20 countries and regions, mainly in Asia, the United States and Europe. (The figures are as of November 30, 2011.)

iv) Date of business combination

February 3, 2012

v) Legal method used for business combination

Purchase of shares in cash

vi) Names of companies and percentage of voting rights after business combination

a. Jurlique International Pty Ltd 100%

(2) Breakdown of acquisition cost

		Millions of yen	
Purchase consideration	Cash	¥22,700	(Estimated)
Expenses directly related to acquisition	Advisory fees	¥500	(Estimated)
Acquisition cost		¥23,200	(Estimated)

1) Purchase consideration and the expenses directly related to the acquisition are provisional as of December 31, 2011.

2) Amount of assets acquired, liabilities assumed and goodwill recognized on the acquisition date, amortization method and period of goodwill have not yet determined as of the time of disclosure of this report.

25.2. Termination of directors' retirement benefit plan and introduction of stock-based compensation plan

On February 28, 2012, the Company's Board of Directors approved a resolution under which the directors' retirement benefit plan was terminated and a stock-based compensation plan to the directors of the Company and its subsidiaries was introduced. This resolution was also approved at the General Meeting of Shareholders on March 29, 2012.

Under the resolution, the stock-based compensation plan based on Article 361 of the Japanese Corporate Law is described as follows:

· The Company grants stock options to the Company's directors and its subsidiaries' directors in the form of new share subscription rights.

· The stock options granted to the directors will be transferred from the treasury stock of the Company on the exercise of stock options.

· The maximum number of shares to be issued is 70,000 common shares.

· One yen per share will be contributed to the capital on the exercise of stock options.

· The exercise period of the options is within 30 years from the next date granted. The stock options granted vest after directors' retirement and have a 15-year life.

Report of Independent Auditors

ERNST & YOUNG

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Tel: +81 3 3503 1100
Fax: +81 3 3503 1197

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, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for each of the three years in the period ended December 31, 2011, 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, 2011 and 2010, and the consolidated results of their operations and their cash flows for the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 25 to the consolidated financial statements, on January 31, 2012, the Company finalized the procedures for investing in two SPCs, established in order to acquire all outstanding shares in Jurlique International Pty Ltd. The acquisition of the shares in Jurlique International Pty Ltd. was completed on February 3, 2012.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2011 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, 2012

A member firm of Ernst & Young Global Limited

Corporate Information (As of December 31, 2011)

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	3,812 (for the Group) 80 (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 listing	Tokyo Stock Exchange, First Section
TSE code	4927
Share register	1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation

Major Group companies (As of March 31, 2012)

Beauty Care business

- POLA INC.
- ORBIS Inc.
- POLA CHEMICAL INDUSTRIES INC.
- Jurlique International Pty Ltd
- H2O PLUS HOLDINGS, LLC
- pdc INC.
- FUTURE LABO INC.
- MEDI LABO INC.
- ORLANE JAPON INC.
- decencia INC.
- ACRO INC.

Real Estate business

- P.O. REAL ESTATE INC.

Other businesses

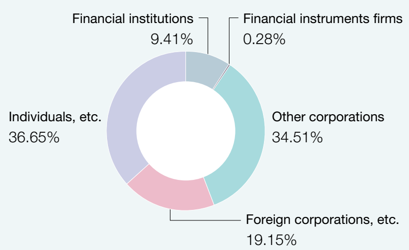
- POLA PHARMA INC.
- KAYAKU CO., LTD.
- P.O. TECHNO SERVICE INC.

Stock Information (As of December 31, 2011)

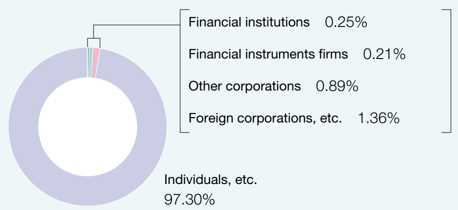
Total number of authorized shares	200,000,000 shares
Total number of issued shares	57,284,039 shares
Number of shareholders	11,583

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	12,774	23.1
Japan Trustee Services Bank, Ltd. (Trust Account)	1,719	3.1
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	1,306	2.4
Naoko Nakamura	1,192	2.2
POLA ORBIS HOLDINGS Employees' Stockholding	1,094	2.0
The Master Trust Bank of Japan, Ltd. (Trust Account)	976	1.8
SSBT OD05 OMNIBUS ACCOUNT - TREATY CLIENTS	940	1.7
Northern Trust Co AVFC Re Northern Trust Guernsey. Irish Clients.	870	1.6
The Bank of New York Treaty JASDEC Account	588	1.1

Notes: 1. The 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. The percentage of shareholding is calculated by deducting shares of treasury stock.

POLA ORBIS HOLDINGS

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