

Summary of Financial Results

For the Fiscal Year Ended December 31, 2011 (Consolidated)

These financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan. The following English translation is based on the original Japanese-language document.

February 14, 2012

POLA ORBIS HOLDINGS INC.

Listing: Tokyo Stock Exchange, First Section (Code No.: 4927)
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 Annual Meeting of Shareholders: March 29, 2012
 Filing Date of Securities Report: March 29, 2012
 Start of Cash Dividend Payment: March 30, 2012
 Supplemental Materials Prepared for Yearly Financial Results: Yes
 Conference Presentation for Yearly Financial Results: Yes (for analysts)

(Amounts less than one million yen have been truncated)

1. Consolidated Performance for the Fiscal Year Ended December 31, 2011

(January 1, 2011–December 31, 2011)

(1) Consolidated Operating Results

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2011	166,657	0.8	12,853	4.8	13,322	8.8	8,039	13.5
FY2010	165,253	1.8	12,270	26.4	12,247	18.1	7,086	74.6

Note: Comprehensive income: FY2011: ¥7,270 million (12.8%); FY2010: ¥6,443 million (—%)

	Net Income Per Share	Diluted Net Income Per Share	Return on Shareholders' Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
FY2011	145.43	—	5.2	7.0	7.7
FY2010	137.36	—	4.8	6.6	7.4

Reference: Equity in losses (earnings) of affiliates: FY2011: ¥(24) million; FY2010: ¥— million

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
At December 31	Millions of yen	Millions of yen	%	Yen
FY2011	193,027	157,057	81.3	2,839.36
FY2010	187,771	153,104	81.5	2,767.55

Reference: Equity capital: At December 31, 2011: ¥156,971 million; At December 31, 2010: ¥153,001 million

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2011	14,401	(3,444)	(4,093)	50,246
FY2010	17,906	(40,367)	(2,789)	43,507

2. Dividends

	Annual Cash Dividends Per Share					Total Dividends Paid (Annual)	Payout Ratio (Consolidated)	Dividends to Net Assets (Consolidated)
	Q1-end	Q2-end	Q3-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2010	—	0.00	—	40.00	40.00	2,211	29.1	1.5
FY2011	—	20.00	—	25.00	45.00	2,487	30.9	1.6
FY2012 (Forecast)	—	25.00	—	25.00	50.00		39.5	

3. Consolidated Performance Forecast for the Fiscal Year Ending December 31, 2012

(January 1, 2012–December 31, 2012)

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income Per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	82,200	4.1	5,500	(0.6)	5,800	(2.7)	2,700	(9.7)	48.84
Full Year	172,000	3.2	13,700	6.6	14,200	6.6	7,000	(12.9)	126.62

4. Other Information

- (1) Changes in significant subsidiaries during the current year (changes in specific subsidiaries resulting in changes in the scope of consolidation) : Yes

Newly established: POLA CHINA BEAUTY CO., LTD.

Newly acquired: H2O PLUS HOLDINGS, LLC

H2O PLUS, LLC

CSW H2O Holdings, Inc.

Note: Please refer to “Basis for Preparation of Consolidated Financial Statements” on page 18 for further detailed information.

- (2) Changes in accounting policies, procedures, and presentation methods

1) Changes associated with revision of accounting standards : Yes

2) Changes other than (2)-1) : None

Note: Please refer to “Changes in Basis for Preparation of Consolidated Financial Statements” on page 20 for further detailed information.

- (3) Number of shares issued and outstanding (common stock)

- 1) Number of shares issued and outstanding at the end of each period (including treasury stock)

At December 31, 2011 57,284,039 shares

At December 31, 2010 57,284,039 shares

- 2) Number of shares of treasury stock at the end of each period

At December 31, 2011 2,000,000 shares

At December 31, 2010 2,000,000 shares

- 3) Average number of shares issued and outstanding in each period

Fiscal year ended December 31, 2011 55,284,039 shares

Fiscal year ended December 31, 2010 51,591,731 shares

Note: Please refer to “Per Share Information” on page 27 for the number of shares used as a basis for calculation of the consolidated net income per share.

(Reference) Summary of Non-consolidated Financial Performance**1. Non-consolidated Financial Performance for the Fiscal Year Ended December 31, 2011**

(January 1, 2011–December 31, 2011)

(1) Operating Results

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2011	5,180	(2.9)	2,764	(11.1)	3,425	(4.1)	1,905	(18.2)
FY2010	5,336	(1.3)	3,109	(0.3)	3,570	0.7	2,330	—

	Net Income Per Share	Diluted Net Income Per Share
	Yen	Yen
FY2011	34.47	—
FY2010	45.17	—

(2) Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
At December 31	Millions of yen	Millions of yen	%	Yen
FY2011	168,774	120,892	71.6	2,186.75
FY2010	161,032	122,539	76.1	2,216.54

Reference: Equity capital: At December 31, 2011: ¥120,892 million; At December 31, 2010: ¥122,539 million

Information Regarding Audit Procedures

At the time of disclosure of this report, audit procedures for the financial statements pursuant to the Financial Instruments and Exchange Act have not been completed.

Explanation of Appropriate Use of Performance Forecast and Other Special Items

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. For performance projections, please refer to “1. Operating Performance (1) Analysis of Consolidated Operating Results (Outlook for Fiscal 2012)” on page 4.

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1. Operating Performance

(1) Analysis of Consolidated Operating Results

Operating results for fiscal 2011

In the fiscal year ended December 31, 2011, the Japanese economy was impacted by the Great East Japan Earthquake that struck in March. However, exports and manufacturing activity recovered from the latter half of the second quarter. This led to an improvement in corporate earnings and a rebound in consumer sentiment, putting the economy back on track for a gradual recovery. Nevertheless, the outlook is still uncertain, with the risk of a slowdown due to electric power shortages and radioactive contamination issues since the earthquake and tsunami disaster, in addition to other factors such as Europe's financial crisis and ongoing yen appreciation.

In the domestic cosmetics market, trends are expected to remain flat from this point on, having recovered since the disaster. In overseas cosmetics markets, the European financial crisis and fiscal tightening appear to be slowing global growth, although the general trend toward expansion looks set to continue, 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. In addition, the Group acquired U.S. cosmetics company H2O PLUS HOLDINGS, LLC, as a wholly owned subsidiary in July, and has included its earnings in the Group's consolidated statements from this third quarter. In addition, consolidated subsidiary POLA INC. established its second overseas subsidiary in China in July and entered into a share purchase agreement to acquire shares in Jurlique International Pty Ltd, an Australian cosmetics company in November. Through such measures, the Group made concerted efforts to expand into overseas markets.

The Group also sold all of the stock in its commercial printing company in July, with the aim of channeling management resources into the Beauty Care segment.

As a result of the above, the Group achieved the following consolidated operating results for fiscal 2011.

<u>Operating Results Overview</u>		(Millions of yen)		
Twelve Months Ended December 31				
	2010	2011	Year-on-Year	
			Amount Change	Percent Change (%)
Net Sales	¥165,253	¥166,657	¥1,404	0.8
Operating Income	12,270	12,853	582	4.8
Ordinary Income	12,247	13,322	1,075	8.8
Net Income	¥ 7,086	¥ 8,039	¥ 953	13.5

Operating Results by Segment

Net Sales (Segment Sales to External Customers)		(Millions of yen)		
Twelve Months Ended December 31				
	2010	2011	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥153,091	¥154,778	¥1,686	1.1
Real Estate	3,102	3,089	(13)	(0.4)
Others	9,059	8,790	(268)	(3.0)
Total	¥165,253	¥166,657	¥1,404	0.8

Segment Income (Operating Income)		(Millions of yen)		
Twelve Months Ended December 31				
	2010	2011	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥10,165	¥10,787	¥621	6.1
Real Estate	1,304	1,283	(20)	(1.6)
Others	223	501	278	124.9
Reconciliations of Segment Income (Note)	576	280	(296)	(51.4)
Total	¥12,270	¥12,853	¥582	4.8

Note: Reconciliations of segment income refer to elimination of profits arising from inter-company transactions and expenses not allocated to reportable segments. Please see note 2 in “3. Information about Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment” on page 23 for the fiscal 2011 details of reconciliations of segment income.

Effective from the fiscal year ended December 31, 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 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 the flagship brands **POLA** and **ORBIS** and five brands under development—**pdc**, **FUTURE LABO**, **ORLANE JAPON**, **decencia**, and **THREE**. During the third quarter, the Group added **H2O PLUS**, a new brand, to its lineup.

In the POLA-brand cosmetics business, 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, counseling 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 East Japan. In April, however, new products were launched in the **B.A** series—the flagship **POLA** brand series—and sales in West Japan were robust. In addition, the **B.A RED** series—the entry-level series in **B.A**—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 POLA-brand fashion business, sales of lifestyle and healthcare products, as well as body fashion products (mainly underwear and nightwear), were brisk, but a slump in jewelry and apparel sales, combined with other factors, led to a year-on-year decline.

In the ORBIS-brand cosmetics business, the Group strove to increase the rate of repeat purchases and improve profitability, partly through renewing skincare cosmetics products, the bolstering of 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 forties and older and was launched in December. However, the Group 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.

In the ORBIS-brand fashion business, sales grew year on year, owing partly to strong sales of ladies' functional undergarments launched in April and the launch of products suited to the energy-saving needs of consumers.

Brands under development posted higher sales than in the corresponding period a year ago, mainly due to robust sales of products under the **THREE** and **pd** labels. In addition, the **H2O PLUS** brand 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. Another area of focus is the rental residential properties business, which the segment has engaged in since the previous fiscal year. This business spotlights new-model condominiums that are perfect for families with young children. In the fiscal year ended December 31, 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. Thus far, two products—**Lulicon**, an antifungal agent for topical application, and **DIVIGEL**, a treatment for menopausal symptoms—have successfully been brought to market. In addition, existing ethical pharmaceuticals, such as the laxative **Aloesenn**, have been supplied to medical institutions, including universities, hospitals and private practices, throughout Japan. 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. During fiscal 2011, efforts included the stepping up of sales activities to sign up new customers and expand orders from outside the Group. However, 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%.

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%, ordinary income of ¥14,200 million, up 6.6%, and net income of ¥7,000 million, down 12.9%.

(2) Analysis of Financial Position

1) Assets, liabilities, and net assets

As of December 31, 2011, total assets stood at ¥193,027 million, up 2.8%, or ¥5,255 million, from December 31, 2010, the end of the previous fiscal year. The primary increases were ¥16,001 million in cash and deposits, ¥3,583 million in goodwill arising from the acquisition of H2O PLUS HOLDINGS, LLC and ¥4,413 million in other intangible assets. The main decreases were ¥13,757 million in short-term investments in securities due to the redemption of maturing bond securities and an investment fund, and ¥3,956 million in investment securities.

Total liabilities amounted to ¥35,969 million, up 3.8%, or ¥1,301 million, from December 31, 2010. The primary increases were ¥688 million in income taxes payable due to elimination of losses brought forward and ¥1,223 million in “other” under non-current liabilities, owing to the booking of asset retirement obligations associated with the adoption of Accounting Standard for Asset Retirement Obligations. The main decreases were ¥655 million in notes and accounts payable—trade, and ¥511 million in provision for retirement benefits.

Net assets amounted to ¥157,057 million, up 2.6%, or ¥3,953 million, from December 31, 2010. The primary increase that contributed to net assets was net income of ¥8,039 million, and the main decrease was ¥3,317 million in dividends from retained earnings.

2) 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.

The status of cash flows from operating activities, investing activities and financing activities for fiscal 2011, and noteworthy increases and decreases to these cash flows, are described below.

Cash flows from operating activities

Net cash provided by operating activities dropped 19.6% from the corresponding period a year ago, to ¥14,401 million. The primary components contributing to an increase in net cash were ¥11,255 million in income before income taxes, ¥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% from the corresponding period a year ago, 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 investments in subsidiaries due to the acquisition of H2O PLUS HOLDINGS, LLC, 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% from the corresponding period a year ago, to ¥4,093 million. The increase was primarily attributable to the application of ¥3,300 million in cash dividends paid.

(Reference) Cash flow related indicators

	FY2008	FY2009	FY2010	FY2011
Equity ratio (%)	76.0	77.4	81.5	81.3
Equity ratio based on market value (%)	—	—	49.6	59.6
Cash flow/Interest-bearing debt ratio (years)	0.6	0.9	0.2	0.2
Interest coverage ratio (times)	114.7	128.5	173.5	392.8

Equity ratio = Shareholders’ equity/Total assets

Equity ratio based on market value = Market capitalization/Total assets

Cash flow/Interest-bearing debt ratio = Interest-bearing debt/Cash flow

Interest coverage ratio = Cash flow/Interest payments

Notes: 1. All indicators were calculated using consolidated financial figures.

2. Market capitalization was calculated based on the number of shares issued and outstanding, excluding treasury stock.

3. Market capitalization for fiscal 2008 and fiscal 2009 was not calculated, as no stock market prices were available.

4. Cash flow refers to cash flows from operating activities.

5. Interest-bearing debt includes all debts on which we pay interest among the debts shown on the consolidated balance sheets.

(3) 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 abovementioned 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.

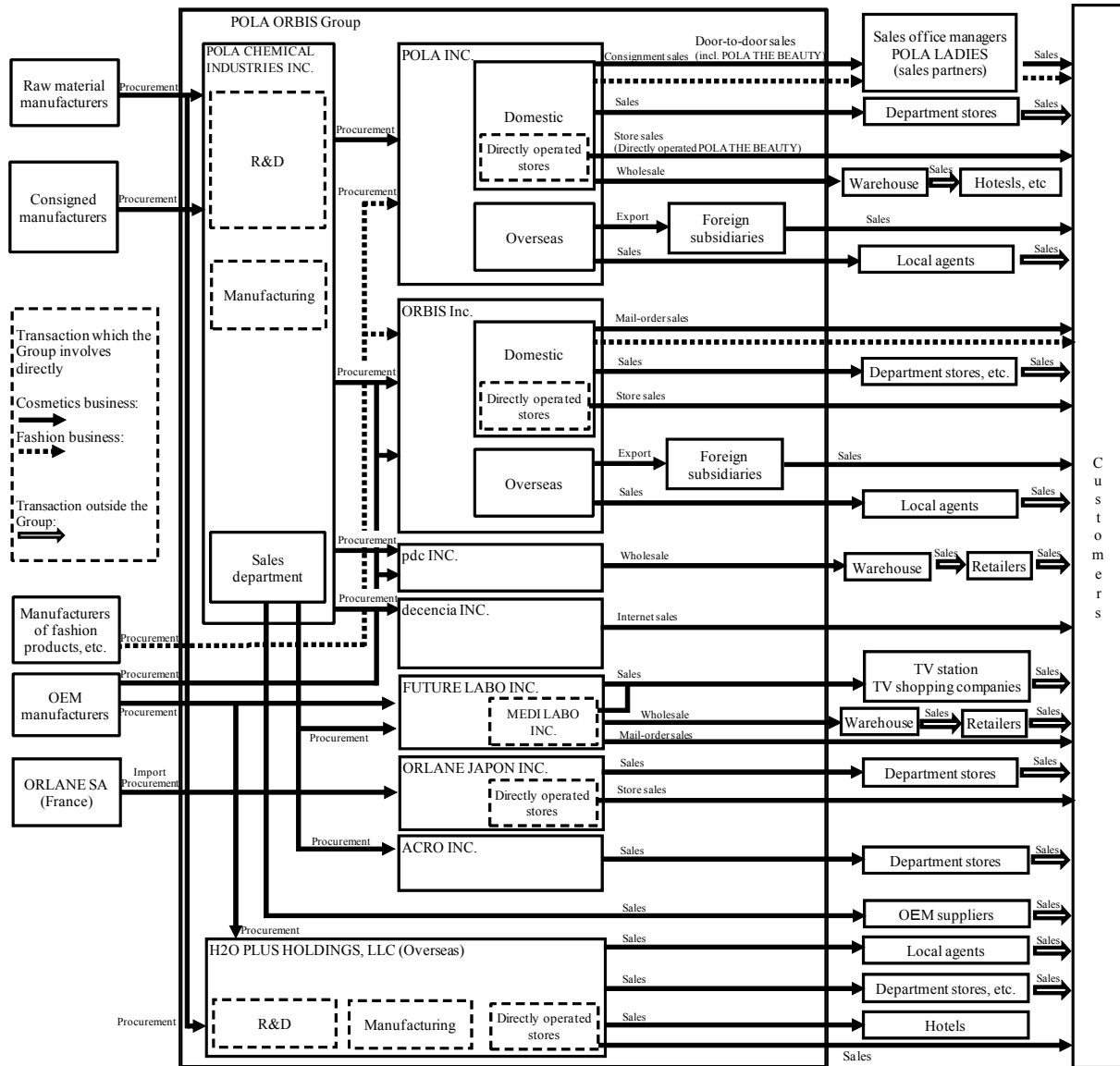
(4) Risk Factors

This section has been truncated, as there were no material changes in the business risks mentioned in the Company's recent securities report and quarterly securities report for the first quarter.

2. Corporate Group

The new organization chart below relates to the Beauty Care segment. The new chart reflects material changes that have been made with regard to the Business Details section of the segment since the submission of the securities report on March 30, 2011.

Organization Chart



For "Status of Subsidiaries and Affiliates," please refer to "1. Scope of consolidation" within "(6) Basis for Preparation of Consolidated Financial Statements" on Page 18, which provides details on changes in significant subsidiaries during the current fiscal year. The rest of this section has been truncated as no other material changes were made to the Organization Chart with regard to the Business Details section or the Status of Subsidiaries and Affiliates section in the securities report, submitted on March 30, 2011.

3. Management Policies

(1) Basic Management Policy

Although the independent and autonomous management of each Group company is fully recognized, the Company sets out a shared management policy for these companies to underpin their operations. Those plans must be approved by the Board of Directors of the Company following deliberation within the Group. The approved plans will be disclosed to the entire Group.

(2) Management Indicators

Increasing net income per share is a key management indicator for the Group.

(3) Medium- to Long-term Management Strategy and Issues to be Addressed

Guided by POLA ORBIS group's long-term vision of "becoming a Group with a global presence," the main strategic goals of the Group are to "improve the profitability of flagship brands and further promote the multi-brand strategy" in Japan and "increase profits along with steady expansion and revenue growth in both domestic and overseas markets." In order to realize this vision and these strategies, and to achieve sustained business development, the Group has been addressing the following issues.

1) Improve the profitability of flagship brands (steadily expand the Group's earning base) and further promote the multi-brand strategy (increase the market share of brands under development) in Japan.

Since the global financial crisis, which emerged in the second half of 2008, various factors, including the European financial crisis originating in Greece, have exerted downward pressure on the domestic cosmetics sector, which is the Group's main focus of operations. During a protracted economic slump, the sector was impacted by the Great East Japan Earthquake in March 2011 as well as by other issues. As a result, conditions have remained harsh. However, aggregate cosmetics shipments declined only 1.2% year on year, while total skincare cosmetics shipments decreased merely 0.6%, from January through November 2011, according to the Office of Current Survey for Mining and Manufacturing within the Ministry of Economy, Trade and Industry (METI). Such trends show that shipments of skincare cosmetics, a key focus area for the Group, are recovering to a level on a par with the previous year, providing some positive signs.

In this market environment, the Group believes that promoting its multi-brand and multi-channel strategy is an effective way to expanding its market share. The Group offers a number of unique brands to respond to the diversifying values of consumers and to provide enhanced levels of quality to its customers throughout their lifetimes. To establish an appropriate operating framework for this strategy, the Group has adopted a pure holding company structure. The Group draws from its operating structure to improve the profitability of its flagship *POLA* and *ORBIS* brands and to invest its profits in brands under development as well as in overseas market expansion, including through M&A. The Group believes that such efforts are best suited to its operations.

The primary measures to improve the profitability of flagship brands and strengthen the multi-brand strategy are as follows:

- Shift to a business model that matches the lifestyle needs of *POLA* brand customers.
 - Increase the number of customer-attracting POLA THE BEAUTY stores and outlets in department stores, in addition to maintaining the traditional door-to-door sales channel.
- Rebuild *ORBIS* brands.
 - Revise targeting policy and refocus on customer needs through enhanced communication with customers, in order to increase annual purchase amount per customer and boost profitability.
- Expand the market share of brands under development that are expected to have more customer loyalty.
 - Expand the market share of five brands under development (*pdc*, *FUTURE LABO*, *ORLANE JAPON*, *decencia*, and *THREE*) and engage in M&A activity.

Based on these measures, the Group aims to achieve stable sales growth and increased profitability in the domestic market.

2) Increase growth potential through global business expansion (overseas expansion by leveraging the Group's strengths)

Despite some recent positive signs, the cosmetics market in Japan is maturing. Amid projections of an even more challenging environment in the domestic cosmetics market, the Group believes that maintaining and reinforcing its competitiveness in the domestic market while expanding its business overseas are essential for achieving high rates of growth. In recent years, the cosmetics markets in Asia and the BRICS countries, particularly China, have seen significant expansion. The success or failure of efforts to expand in China now has a major impact in terms of developing a business presence in the global cosmetics market.

The Group's main strategies for overseas expansion are as follows:

- Actively roll out the flagship **POLA** and **ORBIS** brands overseas, primarily in China, other markets in Asia, and Russia (create business models underpinned by direct marketing and tailored to the characteristics of each country).
- Reinforce Asian operations and further expand into emerging markets by leveraging the H2O PLUS and Jurlique brand acquired through an M&A, while also focusing on new M&As, corporate alliances and other initiatives.
- Promote overseas expansion by leveraging R&D technologies and the results of such research (through corporate alliances and M&A).

Based on these initiatives, the Group aims to expand its overseas sales.

3) Reinforce the operating structure

The Group needs to increase brand recognition for all offerings and further enhance its accumulated strengths and utilize them in its operations to support global business development and a multi-brand strategy. From an organizational perspective, it is also important to build an operating structure to support healthy business expansion based on independent and autonomous management for each Group company. The Group aims to actively invest to establish this type of operating structure.

The Group's key strategies for reinforcing the operating structure are as follows:

- Enhance R&D technologies.
 - Leverage material development capabilities accumulated through R&D efforts to focus on such R&D activities as anti-aging skincare and whitening, a key strength.
- Actively engage in selection and concentration.
 - Establish criteria for withdrawing from unprofitable businesses and conduct regular monitoring of investments to prevent inefficient investment.
- Implement process management
 - Establish evaluation measures such as key performance indicators (KPIs) for each business/company of the Group, and thoroughly implement a framework and evaluation system focused on improving business processes.
- Develop human resources through training.
 - Implement an ongoing training program across the Group to cultivate personnel capable of supporting global business development as well as future managers.

Through these strategies, the Group aims to enhance customer perceptions of each brand, while reinforcing its operating structure and developing businesses with more efficient and streamlined operations.

4. Consolidated Financial Statements**(1) Consolidated Balance Sheets**

(Millions of yen)

	FY2010 December 31, 2010	FY2011 December 31, 2011
Assets		
Current assets		
Cash and deposits	¥ 34,678	¥ 50,679
Notes and accounts receivable – trade	19,543	20,719
Short-term investments in securities	32,169	18,412
Merchandise and finished goods	9,421	9,664
Work in process	1,644	1,648
Raw materials and supplies	4,276	4,351
Deferred tax assets	2,917	3,478
Other	2,653	2,208
Allowance for doubtful accounts	(74)	(69)
Total current assets	107,230	111,093
Non-current assets		
Property, plant and equipment		
Buildings and structures	58,954	57,120
Accumulated depreciation	(41,817)	(40,985)
Buildings and structures, net	17,136	16,134
Machinery, equipment and vehicles	11,972	11,834
Accumulated depreciation	(10,527)	(10,349)
Machinery, equipment and vehicles, net	1,445	1,484
Land	22,296	20,761
Leased assets	1,712	2,893
Accumulated depreciation	(434)	(1,188)
Leased assets, net	1,278	1,704
Construction in progress	302	317
Other	19,029	19,172
Accumulated depreciation	(9,837)	(10,155)
Other, net	9,191	9,016
Total property, plant and equipment	51,651	49,420
Intangible assets		
Goodwill	—	3,583
Other	4,140	8,553
Total intangible assets	4,140	12,137
Investments and other assets		
Investments in securities	17,538	13,582
Long-term loans receivable	51	57
Deferred tax assets	3,748	3,415
Other	3,563	3,486
Allowance for doubtful accounts	(151)	(165)
Total investments and other assets	24,750	20,376
Total non-current assets	80,541	81,933
Total assets	¥187,771	¥193,027

(Millions of yen)

	FY2010 December 31, 2010	FY2011 December 31, 2011
Liabilities		
Current liabilities		
Notes and accounts payable – trade	¥ 3,549	¥ 2,894
Short-term loans payable	1,753	1,500
Lease obligations	425	623
Accounts payable – other	10,848	11,391
Income taxes payable	1,118	1,806
Provision for bonuses	1,653	1,561
Provision for directors' bonuses	41	45
Provision for sales returns	90	76
Provision for point program	1,700	1,605
Provision for loss on business liquidation	32	—
Other	2,411	2,283
Total current liabilities	23,623	23,788
Non-current liabilities		
Lease obligations	875	939
Provision for retirement benefits	7,306	6,795
Provision for directors' retirement benefits	325	367
Provision for environmental measures	132	132
Deferred tax liabilities	—	317
Other	2,404	3,627
Total non-current liabilities	11,044	12,180
Total liabilities	34,667	35,969
Net assets		
Shareholders' equity		
Common stock	10,000	10,000
Capital surplus	90,718	90,718
Retained earnings	54,746	59,469
Treasury stock	(2,199)	(2,199)
Total shareholders' equity	153,265	157,988
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities	210	(35)
Deferred gains or losses on hedges	—	9
Foreign currency translation adjustments	(475)	(991)
Total accumulated other comprehensive income (loss)	(264)	(1,017)
Minority interests	103	86
Total net assets	153,104	157,057
Total liabilities and net assets	¥187,771	¥193,027

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income (Loss)
(Consolidated Statements of Income)

(Millions of yen)

	Twelve Months Ended December 31	
	FY2010 (January 1, 2010– December 31, 2010)	FY2011 (January 1, 2011– December 31, 2011)
Net sales	¥165,253	¥166,657
Cost of sales	33,321	33,461
Gross profit	131,932	133,196
Selling, general and administrative expenses		
Sales commission	43,073	43,477
Promotion expenses	16,627	16,676
Packing and transportation expenses	4,562	4,438
Advertising expenses	7,366	7,373
Salaries, allowances and bonuses	17,645	17,882
Welfare expenses	2,764	2,869
Retirement benefit expenses	754	733
Provision for bonuses	1,428	1,331
Provision for point program	1,701	1,602
Depreciation and amortization	2,912	3,345
Amortization of goodwill	80	91
Other	20,745	20,521
Total selling, general and administrative expenses	119,661	120,342
Operating income	12,270	12,853
Non-operating income		
Interest income	380	524
Dividend income	40	40
Other	308	264
Total non-operating income	729	829
Non-operating expenses		
Interest expense	103	53
Equity in losses of affiliates	—	24
Foreign exchange losses	410	121
Taxes and dues	—	46
Office transfer expenses	72	—
Other	164	114
Total non-operating expenses	752	359
Ordinary income	¥ 12,247	¥ 13,322

(Millions of yen)

	Twelve Months Ended December 31	
	FY2010 (January 1, 2010– December 31, 2010)	FY2011 (January 1, 2011– December 31, 2011)
Extraordinary income		
Gain on sales of non-current assets	¥ 538	—
Gain on sales of subsidiaries' stocks	—	¥ 529
Reversal of foreign currency translation adjustments	661	—
Other	126	40
Total extraordinary income	1,327	569
Extraordinary losses		
Loss on disposal of non-current assets	235	389
Loss on advanced depreciation deduction of non-current assets	517	—
Impairment loss	172	754
Non-recurring depreciation on non-current assets	341	—
Loss on disaster	—	467
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	954
Other	277	71
Total extraordinary losses	1,544	2,636
Income before income taxes	12,030	11,255
Income taxes – current	1,757	3,492
Income taxes – deferred	3,281	(266)
Total income taxes	5,038	3,226
Income before minority interests	—	8,029
Minority interests in net loss of consolidated subsidiaries	(94)	(10)
Net income	¥7,086	¥8,039

(Consolidated Statements of Comprehensive Income (Loss))

(Millions of yen)

	Twelve Months Ended December 31	
	FY2010 (January 1, 2010– December 31, 2010)	FY2011 (January 1, 2011– December 31, 2011)
Income before minority interests	—	¥8,029
Other comprehensive income (loss)		
Valuation difference on available-for-sale securities	—	(246)
Deferred gain or loss on hedges	—	9
Foreign currency translation adjustments	—	(521)
Total other comprehensive income (loss)	—	(758)
Comprehensive income	—	7,270
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	—	7,287
Comprehensive income attributable to minority interests	—	¥ (16)

(3) Consolidated Statements of Changes in Net Assets

(Millions of yen)

	Twelve Months Ended December 31	
	FY2010 (January 1, 2010– December 31, 2010)	FY2011 (January 1, 2011– December 31, 2011)
Shareholders' equity		
Common stock		
Balance at the beginning of the period	¥ 10,000	¥ 10,000
Balance at the end of the period	10,000	10,000
Capital surplus		
Balance at the beginning of the period	203,036	90,718
Changes of items during the period		
Disposal of treasury stock	2,376	—
Retirement of treasury stock	(114,695)	—
Total changes of items during the period	(112,318)	—
Balance at the end of the period	90,718	90,718
Retained earnings		
Balance at the beginning of the period	48,685	54,746
Changes of items during the period		
Dividends from retained earnings	(1,025)	(3,317)
Net income	7,086	8,039
Total changes of items during the period	6,060	4,722
Balance at the end of the period	54,746	59,469
Treasury stock		
Balance at the beginning of the period	(121,293)	(2,199)
Changes of items during the period		
Disposal of treasury stock	4,398	—
Retirement of treasury stock	114,695	—
Total changes of items during the period	119,093	—
Balance at the end of the period	(2,199)	(2,199)
Total shareholders' equity		
Balance at the beginning of the period	140,429	153,265
Changes of items during the period		
Dividends from retained earnings	(1,025)	(3,317)
Net income	7,086	8,039
Disposal of treasury stock	6,775	—
Retirement of treasury stock	—	—
Total changes of items during the period	12,836	4,722
Balance at the end of the period	153,265	157,988
Accumulated other comprehensive income (loss)		
Valuation difference on available-for-sale securities		
Balance at the beginning of the period	257	210
Changes of items during the period		
Net changes of items other than shareholders' equity	(46)	(246)
Total changes of items during the period	(46)	(246)
Balance at the end of the period	210	(35)

(Millions of yen)

	Twelve Months Ended December 31	
	FY2010 (January 1, 2010– December 31, 2010)	FY2011 (January 1, 2011– December 31, 2011)
Deferred gains or losses on hedges		
Balance at the beginning of the period	—	—
Changes of items during the period		
Net changes of items other than shareholders' equity	—	9
Total changes of items during the period	—	9
Balance at the end of the period	—	9
Foreign currency translation adjustments		
Balance at the beginning of the period	29	(475)
Changes of items during the period		
Net changes of items other than shareholders' equity	(504)	(515)
Total changes of items during the period	(504)	(515)
Balance at the end of the period	(475)	(991)
Total accumulated other comprehensive income (loss)		
Balance at the beginning of the period	287	(264)
Changes of items during the period		
Net changes of items other than shareholders' equity	(551)	(752)
Total changes of items during the period	(551)	(752)
Balance at the end of the period	(264)	(1,017)
Minority interests		
Balance at the beginning of the period	173	103
Changes of items during the period		
Net changes of items other than shareholders' equity	(70)	(16)
Total changes of items during the period	(70)	(16)
Balance at the end of the period	103	86
Total net assets		
Balance at the beginning of the period	140,890	153,104
Changes of items during the period		
Dividends from retained earnings	(1,025)	(3,317)
Net income	7,086	8,039
Disposal of treasury stock	6,775	—
Retirement of treasury stock	—	—
Net changes of items other than shareholders' equity	(621)	(769)
Total changes of items during the period	12,214	3,953
Balance at the end of the period	¥153,104	¥157,057

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Twelve Months Ended December 31	
	FY2010 (January 1, 2010– December 31, 2010)	FY2011 (January 1, 2011– December 31, 2011)
Cash flows from operating activities		
Income before income taxes	¥12,030	¥11,255
Depreciation and amortization	5,019	5,359
Impairment loss	172	759
Non-recurring depreciation on non-current assets	341	15
Amortization of goodwill	80	91
Gain on sales of subsidiaries' stocks	—	(529)
Gain on sales of non-current assets	(20)	(3)
Loss on disposal of non-current assets	235	389
Loss on disaster	—	467
Loss on adjustment for changes of accounting standard for asset retirement obligations	—	954
Increase (decrease) in allowance for doubtful accounts	(33)	5
Decrease in provision for retirement benefits	(434)	(425)
Decrease in provision for loss on business liquidation	(6)	(28)
Increase (decrease) in other provision	689	(139)
Interest and dividend income	(420)	(565)
Interest expense	103	53
Foreign exchange losses	307	95
Reversal of foreign currency translation adjustments	(661)	—
Equity in losses of affiliates	—	24
Increase in notes and accounts receivable – trade	(734)	(1,215)
Decrease in inventories	1,454	62
Increase (decrease) in notes and accounts payable – trade	289	(388)
Increase (decrease) in consumption taxes payable	481	(210)
Increase in other assets	(97)	(47)
Increase (decrease) in other liabilities	(155)	476
Other	38	92
Subtotal	18,681	16,547
Interest and dividends received	378	637
Interest paid	(103)	(36)
Income taxes paid	(1,049)	(2,339)
Payments for loss on disaster	—	(407)
Net cash provided by operating activities	¥17,906	¥14,401

(Millions of yen)

	Twelve Months Ended December 31	
	FY2010 (January 1, 2010– December 31, 2010)	FY2011 (January 1, 2011– December 31, 2011)
Cash flows from investing activities		
Payments into time deposits	¥(1,013)	¥(1,281)
Proceeds from withdrawal of time deposits	2,315	989
Purchase of short-term investments in securities	(34,857)	(30,897)
Proceeds from sales and redemption of short-term investments in securities	22,146	48,800
Purchase of property, plant and equipment	(4,095)	(2,421)
Proceeds from sales of property, plant and equipment	53	1,310
Purchase of intangible assets	(1,191)	(1,641)
Purchase of investment securities	(23,484)	(9,476)
Proceeds from sales of investment securities	25	19
Payments for disposal of non-current assets	(104)	(448)
Purchase of long-term prepaid expenses	(85)	(76)
Payments for lease and guarantee deposits	(318)	(171)
Proceeds from collection of lease and guarantee deposits	179	162
Purchase of investments in subsidiaries	—	(8,923)
Proceeds from sales of investments in subsidiaries	—	629
Other	63	(17)
Net cash used in investing activities	(40,367)	(3,444)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(8,232)	(254)
Cash dividends paid	(1,025)	(3,300)
Cash dividends paid to minority shareholders	(3)	—
Repayments of lease obligations	(303)	(538)
Proceeds from disposal of treasury stock	6,775	—
Net cash used in financing activities	(2,789)	(4,093)
Effect of exchange rate change on cash and cash equivalents	(60)	(124)
Net increase (decrease) in cash and cash equivalents	(25,310)	6,738
Cash and cash equivalents at beginning of period	68,817	43,507
Cash and cash equivalents at end of period	¥43,507	¥50,246

(5) Going Concern Assumptions

None

(6) Basis for Preparation of Consolidated Financial Statements

Item	FY2010 (January 1, 2010–December 31, 2010)	FY2011 (January 1, 2011–December 31, 2011)
1. Scope of consolidation	<p>(1) Consolidated subsidiaries: 26 Principal subsidiaries: POLA INC. ORBIS Inc. POLA CHEMICAL INDUSTRIES INC. P.O. REAL ESTATE INC. and 22 other subsidiaries</p> <p>(Newly included: 1) ORBIS CHINA HONG KONG LIMITED was newly established during fiscal 2010. Therefore, it was included in the scope of consolidation in fiscal 2010.</p> <p>(Newly excluded: 2) HYUNWOO CO., LTD. and POLA KOREA, INC. were liquidated and thus excluded from the scope of consolidation in fiscal 2010.</p> <p>(2) Non-consolidated subsidiaries: None THAI POLA CO., LTD., which had been a non-consolidated subsidiary until December 31, 2009, was liquidated in fiscal 2010.</p>	<p>(1) Consolidated subsidiaries: 29 Principal subsidiaries: POLA INC. ORBIS Inc. POLA CHEMICAL INDUSTRIES INC. P.O. REAL ESTATE INC. and 25 other subsidiaries</p> <p>(Newly included: 5) H2O PLUS HOLDINGS, LLC, H2O PLUS, LLC, CSW H2O Holdings, Inc. and H2O PLUS CANADA CORP. were included in the scope of consolidation in fiscal 2011 following the acquisition. POLA CHINA BEAUTY CO., LTD. was newly established in fiscal 2011. Therefore, it was included in the scope of consolidation in fiscal 2011.</p> <p>(Newly excluded: 2) POLA (SHANGHAI) CO., LTD. was excluded from the scope of consolidation in fiscal 2011 as it was merged with POLA TRADING (SHANGHAI) CO., LTD. In addition, P.O. MEDIA SERVICE INC. was excluded from the scope of consolidation due to transfer of stock.</p> <p>(2) Non-consolidated subsidiaries: None</p>
2. Application of equity method	<p>(1) Equity method affiliates: None</p> <p>(2) Non-consolidated subsidiaries not accounted for by the equity method: None</p>	<p>(1) Equity method affiliates: (Newly included: 1) B2O IMPORT AND TRADE OF COSMETICS AND PERFUMES LIMITED was newly established in fiscal 2011, thus accounted for by the equity method.</p> <p>(2) Non-consolidated subsidiaries not accounted for by the equity method: None</p>

Item	FY2010 (January 1, 2010–December 31, 2010)	FY2011 (January 1, 2011–December 31, 2011)
3. Accounting standard (1) Amortization method and period for goodwill	—————	Goodwill is amortized using the straight-line method over 20 years.
(2) Significant accounting method for hedging activities	—————	<p>(1) Accounting method The deferred hedge accounting method is applied.</p> <p>(2) Hedging instruments and hedged items Hedging instruments: Foreign currency options Hedged items: Foreign currency transactions</p> <p>(3) Hedging policy Foreign currency transactions are used to reduce the risk of exchange-rate fluctuations within the scope of actual demand. Hedged items are identified by each transaction.</p> <p>(4) Hedge effectiveness assessment method Compare the variance between option price and market price of hedged items to assess hedge effectiveness.</p>
4. Amortization of goodwill and negative goodwill	Goodwill and negative goodwill for which it is possible to have a reasonable assessment are amortized using the straight-line method over the estimated years from the fiscal year in which they occur. Other than the above, goodwill and negative goodwill are amortized using the straight-line method over 4 years. Immaterial amounts of goodwill or negative goodwill, however, are recorded in profit or loss in the acquisition year.	—————

Items other than the aforementioned have been omitted as there were no material changes from those disclosed in the recent securities report filed on March 30, 2011.

(7) Changes in Basis for Preparation of Consolidated Financial Statements
(Changes in Accounting Policies)

FY2010 (January 1, 2010–December 31, 2010)	FY2011 (January 1, 2011–December 31, 2011)
—————	<p>1. Adoption of accounting standards related to asset retirement obligations</p> <p>Effective from the fiscal year ended December 31, 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).</p> <p>As a result, operating income and ordinary income each declined by ¥66 million, and income before income taxes decreased by ¥1,032 million.</p>

(Changes in Presentation Methods)

FY2010 (January 1, 2010–December 31, 2010)	FY2011 (January 1, 2011–December 31, 2011)
—————	—————
<p>(Consolidated statements of income)</p> <p>1. In fiscal 2009, “Taxes and dues” was presented as a separate item under non-operating expenses due to a decrease in materiality (¥27 million). In fiscal 2010, however, it is included in “Other.”</p> <p>2. In fiscal 2009, “Gain on sales of investment securities” was presented as a separate item under extraordinary income due to a decrease in materiality (¥5 million). In fiscal 2010, however, it is included in “Other.”</p> <p>3. In fiscal 2009, “Loss on business liquidation” was presented as a separate item under extraordinary loss due to a decrease in materiality (¥80 million). In fiscal 2010, however, it is included in “Other.”</p> <p>4. In fiscal 2009, “Non-recurring depreciation on non-current assets” (¥61 million) was included in “Other” under extraordinary loss. In fiscal 2010, however, it is presented as a separate item due to an increase in materiality.</p> <p style="text-align: center;">—————</p>	<p>(Consolidated statements of income)</p> <p>1. With the adoption of “Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements” (Cabinet Office Ordinance No. 5, issued on March 24, 2009), which is based on “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on December 26, 2008), the line item “Income before minority interests” is used in fiscal 2011.</p> <p>2. In fiscal 2010, “Taxes and dues” (¥27 million) was included in “Other” under non-operating expenses. In fiscal 2011, however, it is presented as a separate item due to an increase in materiality.</p> <p>3. In fiscal 2010, “Office transfer expenses” was presented as a separate item under non-operating expenses, due to a decrease in materiality (¥12 million). In fiscal 2011, however, it is included in “Other.”</p> <p>4. In fiscal 2010, “Gain on sales of non-current assets” was presented as a separate item under extraordinary income. In fiscal 2011, however, it is included in “Other” due to a decrease in materiality (¥7 million).</p> <p>5. In fiscal 2010, “Non-recurring depreciation on non-current assets” was presented as a separate item under extraordinary losses. In fiscal 2011, however, it is included in “Other” due to a decrease in materiality (¥15 million).</p>

FY2010 (January 1, 2010–December 31, 2010)	FY2011 (January 1, 2011–December 31, 2011)
(Consolidated statements of cash flows)	
1. In fiscal 2009, “Purchase of investment securities” (¥ (0) million) was included in “Other” under “Cash flows from operating activities”. In fiscal 2010, however, it is presented as a separate item due to an increase in materiality.	

(8) Notes to Consolidated Financial Statements**(Consolidated Statements of Comprehensive Income (Loss))**

Fiscal year ended December 31, 2011 (January 1, 2011–December 31, 2011)

1. Comprehensive income for fiscal 2010 (prior year)

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

2. Other comprehensive income (loss) for fiscal 2010 (prior year)

Valuation difference on available-for-sale securities	¥(46) million
Foreign currency translation adjustments	¥(501) million
Total	¥(548) million

Supplementary Information

Effective from the fiscal year ended December 31, 2011, the Group adopted “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, issued on June 30, 2010). However, the amounts of “Accumulated other comprehensive income” and “Total accumulated other comprehensive income (loss)” at December 31, 2010 indicate the amounts of “Valuation and translation adjustments” and “Total valuation and translation adjustments,” respectively.

(Segment Information)

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 products and related products. It promotes a multi-brand strategy of holding a range of brands and winning market shares 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*, *pd*, *FUTURE LABO*, *ORLANE JAPON*, *decencia*, *THREE*, and *H2O PLUS*. The Real Estate business is engaged in the leasing of office buildings and residential properties.

2. Calculation Method for Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment

The accounting method for the Group’s reportable business segments is generally the same as described in “Basis for Preparation of Consolidated Financial Statements” and “(7) Changes in Basis for Preparation of Consolidated Financial Statements” within “4. Consolidated financial statements” disclosed in the Company’s most recent Securities Report (filed on March 30, 2011).

Segment income is based on operating income. The amounts of inter-segment unrealized profit and transfer are calculated based on market prices.

3. Information about Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment
Fiscal Year Ended December 31, 2010 (January 1, 2010–December 31, 2010)

(Millions of yen)

	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount Shown on the Consolidated Financial Statements (Note 3)
	Beauty Care	Real Estate	Subtotal				
Net Sales							
Sales to External Customers	¥153,091	¥3,102	¥156,194	¥9,059	¥165,253	—	¥165,253
Intersegment 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 intersegment 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 intersegment 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 intersegment 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.

Fiscal Year Ended December 31, 2011 (January 1, 2011–December 31, 2011)

(Millions of yen)

	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount Shown on the Consolidated Financial Statements (Note 3)
	Beauty Care	Real Estate	Subtotal				
Net Sales							
Sales to External Customers	¥154,778	¥3,089	¥157,867	¥8,790	¥166,657	—	¥166,657
Intersegment 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 includes intersegment transaction eliminations of ¥2,351 million minus corporate expenses of ¥2,071 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 ¥42,742 million includes corporate assets of ¥88,517 million, not allocated to each segment, minus intersegment eliminations of ¥45,775 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 intersegment 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.

Supplementary Information

Effective from the fiscal year ended December 31, 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).

(Business Combination)

Fiscal Year Ended December 31, 2010 (January 1, 2010–December 31, 2010)

None

Fiscal Year Ended December 31, 2011 (January 1, 2011–December 31, 2011)

Business Combination—Acquisition of H2O PLUS HOLDINGS, LLC

On May 29, 2011, the Board of Directors of POLA ORBIS HOLDINGS INC. (the “Company”) 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.

1. Outline of Business Combination

1) Names and Main Businesses of Acquired Companies

a. H2O PLUS HOLDINGS, LLC

- (a) Name: H2O PLUS HOLDINGS, LLC
Holding company
- (b) Business: (manufacturing 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: Manufacturing 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)

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

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.

4) Date of Business Combination

July 1, 2011

5) Legal Method Used for Business Combination

Purchase of Shares in Cash

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% |

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 percent of the voting rights in H2O PLUS HOLDINGS, LLC, and three other companies.

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

3. Breakdown of Acquisition Cost

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

4. Information regarding Allocation of Acquisition Cost

1) Breakdown of Significant Assets Acquired and Liabilities Assumed via Corporate Combination

Current assets	US\$12,631 thousand
Non-current assets	US\$109,625 thousand
Total assets	US\$122,256 thousand

Current liabilities	US\$10,519 thousand
Non-current liabilities	US\$11,456 thousand
Total liabilities	US\$21,975 thousand

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

Trademark rights (non-amortization)	US\$30,433 thousand
Customer-related intangible assets (Amortized on weighted-average method over 13 years)	US\$22,994 thousand

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.

5. Estimated Impact on the Consolidated Results for FY2011 Assuming the Acquisition Had Been Completed as of the Beginning of FY2011 and Calculation Method

Net sales	¥1,461 million
Operating loss	¥(106) million

(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.

(Investment and Rental Property)

Fiscal Year Ended December 31, 2010 (January 1, 2010–December 31, 2010)

Supplementary Information

Effective from the fiscal year ended December 31, 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).

The Group owns office buildings and residential properties for lease in Tokyo and other areas. In fiscal 2010, net rental income was ¥1,507 million (rental income is recorded under sales and non-operating income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and non-operating expenses). Impairment loss of ¥38 million and non-recurring depreciation of ¥341 million are recorded under extraordinary losses from these leasing properties.

The carrying amounts on the consolidated balance sheets, net change during fiscal 2010, the fair value of those properties and the method used for calculating the fair value of investment and rental properties are stated below.

(Millions of yen)

Carrying Amount on Consolidated Balance Sheets			Fair Value at End of FY2010
Balance at End of FY2009	Change	Balance at End of FY2010	
¥23,417	¥649	¥24,067	¥45,348

Notes: 1. The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.

2. Components of change

Increase: Acquisition of residential properties for lease:	¥1,393 million
Refurbishment of office buildings for lease:	¥244 million
Decrease: 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 the major properties are determined at the amounts using appraisal certificates provided by outside real estate assessors. For the other properties, however, the fair value of land is determined at the amount adjusted using the indices that are considered to properly reflect market price. The fair values of depreciable assets such as buildings are determined at the carrying amounts. For the properties acquired in fiscal 2010, the fair values are determined at the carrying amounts due to minimal fluctuation on fair values.

Fiscal Year Ended December 31, 2011 (January 1, 2011–December 31, 2011)

The Group owns office buildings and residential properties for lease in Tokyo and other areas. In fiscal 2011, net rental income from investment and rental properties was ¥1,504 million (rental income is recorded under net sales and non-operating income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and non-operating expenses). Impairment loss of ¥606 million and loss on disaster of ¥83 million from investment and rental properties are recorded under extraordinary losses.

The carrying amounts on the consolidated balance sheets, net change during fiscal 2011, the fair values of investment and rental properties, and the method used for calculating the fair values of such properties are stated below.

(Millions of yen)

Carrying Amount on Consolidated Balance Sheets			Fair Value at End of FY2011
Balance at End of FY2010	Change	Balance at End of FY2011	
¥24,067	¥(2,087)	¥21,980	¥41,381

Notes: 1. The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.

2. Components of change

Increase: Refurbishment of office building for lease:	¥185 million
Transfer due to changes in the use of properties:	¥146 million
Decrease: Sales of office building and idle assets:	¥1,222 million
Impairment loss and non-recurring depreciation on office buildings and idle assets:	¥621 million
Depreciation on office buildings and residential properties for lease:	¥571 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 reflect market price, and the fair values of depreciable assets such as buildings are determined by the carrying amounts on the consolidated balance sheets.

(Per Share Information)

FY2010 (January 1, 2010–December 31, 2010)		FY2011 (January 1, 2011–December 31, 2011)	
Net assets per share	¥2,767.55	Net assets per share	¥2,839.36
Net income per share	¥137.36	Net income per share	¥145.43
Diluted net income per share has not been stated because there are no residual securities.		Diluted net income per share has not been stated because there are no residual securities.	

Note: Basis for calculation:

1. Net Assets per Share

Item	FY2010 (At December 31, 2010)	FY2011 (At December 31, 2011)
Total net assets (millions of yen)	¥153,104	¥157,057
Amount deducted from total net assets (millions of yen)	¥103	¥86
[Of which, minority interests (millions of yen)]	¥(103)	¥(86)
Net assets associated with common stock (millions of yen)	¥153,001	¥156,971
Number of shares of outstanding common stock	57,284,039	57,284,039
Number of treasury shares of common stock	2,000,000	2,000,000
Number of shares of common stock used in the calculation of net assets per share	55,284,039	55,284,039

2. Net Income per Share

Item	FY2010 (January 1, 2010– December 31, 2010)	FY2011 (January 1, 2011– December 31, 2011)
Net income (millions of yen)	¥7,086	¥8,039
Net income associated with common stock (millions of yen)	¥7,086	¥8,039
Amounts not attributable to shareholders of common stock (millions of yen)	—	—
Weighted average number of shares of common stock during the fiscal year	51,591,731	55,284,039

(Significant Subsequent Event)

Fiscal Year Ended December 31, 2010 (January 1, 2010–December 31, 2010)

None

Fiscal Year Ended December 31, 2011 (January 1, 2011–December 31, 2011)

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, as each of their capital is more than 10% of the Company's capital.

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.

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

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

Purchase consideration and the expenses directly related to the acquisition are not fixed but provisional.

3) Amount of Assets Acquired and Liabilities Assumed on the Combination Date and Breakdown Thereof
Not yet determined as of disclosure of this report.

4) Reason for and Amount of Goodwill Incurred, and Amortization Method and Period Thereof
Not yet determined as of disclosure of this report.

(Omission of Disclosures)

Disclosures of notes to Transactions with related parties, Leases, Fair value of financial instruments, Income taxes, Asset retirement obligations, Securities, Derivative transactions and Retirement benefits were omitted because the significance of disclosing such items in this document is deemed to be low.

5. Others

(1) Changes in Directors

None

(2) Others

None