POLA ORBIS HOLDINGS

Corporate Report 2020

Vision

To maximize the unique character of each brand, and become a global corporate group that enriches the lives of people around the world.

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Part 1: Strategy

Part 2: Sustainability

Part 3: Financial data

Editorial Policy
This report, incorporating non-financial information such as management's policies, strategies and the underlying basis for these decisions in addition to financial information, is intended to give stakeholders greater insight into our activities. In addition, it has been compiled with reference to the *International Integrated Reporting Framework*, issued by the International Integrated Reporting Council (IIRC), as well as *Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation*, prepared by Japan's Ministry of Economy, Trade and Industry.

Time Frame
This report focuses on activities and results achieved in fiscal 2020—the 12 months from January 1, 2020 to December 31, 2020—but some fiscal 2021 content is also included.

Scope
POLA ORBIS HOLDINGS INC. and consolidated subsidiaries

Disclaimer
Forecasts and other forward-looking statements in this report are predictions related to future results or events, except where the information is historical fact, and are based on assumptions made by the Company using information available at the time. The risks and uncertainties inherent in such assumptions may cause actual results to differ from stated expectations. Information related to the financial results for fiscal 2020 have been prepared on the basis of data available as of February 12, 2021.

WE SUPPORT

2021
健康経営優良法人
Health and productivity

4-1196-19-100-00

The POLA ORBIS Group joined the Roundtable on Sustainable Palm Oil (RSPO) in 2019 and has pledged to work toward a market transformation to make sustainable palm oil the norm.
Check our progress at https://www.rspo.org/members/9840

MSCI Japan Empowering Women Index (WIN)

A Message from the President

鈴木郷史
Satoshi Suzuki
Representative Director and President

The era of the individual is here.

We will simultaneously contribute to a sustainable society and achieve corporate growth by enabling all people under the Group umbrella to express themselves and demonstrate personal capabilities.

Changes in society heighten importance of individuals with outstanding capabilities

The most obvious events of 2020 were the relentless spread of COVID-19 and the social and economic impacts that the pandemic had on the global community. The pandemic also turned life upside down, and a "new normal" emerged. More time spent at home, paralleling several declarations of a state of emergency, gave people more opportunities to think about themselves and their families, aspects of life that had received less consideration than work and company responsibilities. I'm sure more than a few people entertained the idea of working by themselves or at least saw this opportunity as a chance to rethink one's own way of life.

I always try to use the Multiple Intelligence Research Center (MIRC), opened in 2018, to connect with researchers pursuing unique activities around the world, as well as with artists and young people. This interactive journey produced a theory close to the beliefs central to the perceptions and actions of Generation Z*, a demographic with a distinctive perspective on consumerism and work styles for the next 10 years. For example, this generation practices ethical consumerism, which prioritizes social consciousness over outward appearance and newness, supporting the circumstances and values that underpin this view. When choosing a company to work for, this generation is more interested in non-financial factors such as environmental, social and governance (ESG) criteria and Sustainable Development Goals (SDGs) than numerical values such as performance and financial footing. I realized that this is a generation of people who march to their own drum—not to that of a group, not to that of other people—and these individuals will eventually prop up society, ushering in the era of the individual. Changes in society wrought by the pandemic have clearly highlighted the importance of decisions and choices by individuals who look for social value. Signs heralding the era of the individual are quickly becoming more obvious.

A look back at the early days of POLA, when the sale of cosmetics was largely a man's occupation, reveals that a woman appeared and asked, "Would it be possible for a woman to do a sales job?" From that point on, POLA focused on a door-to-door sales format that enabled women to choose the hours they worked and supported their development as business owners. Beauty Directors, contracted for consignment sales, now number about 35,000 in Japan, and several have achieved annual sales in the ¥100 million range since starting business. Successful choices and decisions by people guide the organization's growth and effectively enhance overall capabilities. The POLA ORBIS Group has always valued their contributions, and this entrepreneurial spirit is a vital component of our corporate DNA today.

*Generation born after the mid-1990s

Time to create new Group image

As we faced the ramifications of COVID-19, we also became newly aware of the value employees bring to the POLA ORBIS Group. We want employees to constantly polish their abilities and, with acute sensitivity to customer needs and changing business conditions, they then help us evolve as a corporate group and reshape our market. This is our source of growth. Seeking to instill this concept among employees, we have promoted a human resources strategy—a person-centered management style—aimed at applying the personality and sensitivity cultivated by every employee to management practices. For example, in 2015, when we tweaked the competency criteria introduced in 2006 to develop human resources with the kind of people skills that motivate others and deliver fine-tuned responses to changes in the business environment, we adopted a competency requirement for *bi-ishiki* (esthetic sense), which is the capacity to be sensitive to beauty without relying on others to form such an awareness and to utilize that knowledge to exert a positive influence. On the business strategy front, we leverage the results of open innovation, including our in-house venture system, and also draw on the diversity of individuals' characteristics in the corporate venture capital program launched in 2018. Employees have the opportunity to meet young entrepreneurs in our investment portfolio, gaining exposure to fresh business perspectives. This fuels innovation. A fine example is the 2021 acquisition of all shares in tricot, Inc., a venture company that is building a presence through subscription sales of personalized supplements. tricot obviously adds a new dimension to our brand portfolio, but what I am really looking forward to is the chemical reaction it sparks between people—the catalyst for innovation. To date, in business and science circles, intuition and emotion were, if anything, downplayed, and I think they should be played up.

In early 2020, as we adapted to the pandemic environment, and commuting to offices and stores and providing face-to-face services to customers were noticeably restricted, employees of companies under the POLA ORBIS Group umbrella faced their respective responsibilities with imagination and creativity. They explored ideas they might never have considered otherwise or engaged in community activities or other local pursuits. I think the pandemic afforded many employees an opportunity to reflect on the true meaning of their work and the services they provide to customers from an individual's perspective rather than that of a corporate citizen. Every opportunity for reflection is a vital component shaping the next image that the Group will portray.

From a different standpoint, the spread of COVID-19 has perhaps also had a positive impact by fast-forwarding social change, that is, driving changes to meet new social needs. Changes not expected for five or 10 years are now reality. The embrace of digitization has zoomed ahead, along with work-style reforms and new consumer purchasing behavior. The era of the individual is upon us as well. All these changes would have come eventually but they happened because the pandemic made the need for these changes more urgent. To transform changes into chances, we all must continue to see the variable potential in every individual more than ever before. This will accelerate reforms and present solutions to issues of concern.

Looking back on fiscal 2020 results

The domestic cosmetics market was influenced by several factors in fiscal 2020. Inbound demand was way down, paralleling the spread of COVID-19. When the government declared states of emergency, shops closed, although temporarily, but even when restrictions were lifted, potential customers refrained from going out. Shops emphasizing face-to-face customer service saw a noticeable decrease in visitors as noncontact purchasing gained favor. Against this backdrop, POLA and brands under development with a store emphasis expedited measures to leverage e-commerce. For POLA, domestic sales over e-commerce channels soared 60% year on year, while THREE recorded a 90% surge. Overseas, demand in China recovered quickly, but the upswing in demand in other regions moved at a snail's pace.

Due to these factors, consolidated net sales in fiscal 2020 decreased 19.8% year on year, to ¥176.3 billion, and operating income decreased 55.8% year on year, to ¥13.7 billion.

Overview of medium-term management plan (2017–2020)

Under the four-year medium-term management plan launched in 2017, we rolled out strategies to improve domestic profitability, bring overseas operations solidly into the black and create growth brands for the future. The last year of the 10-year long-term vision announced in 2011 was also 2020, and while we set quantitative targets to reach by 2020—consolidated net sales of at least ¥250.0 billion, an operating margin of 13–15% and an overseas sales ratio of 20%—we did not reach these targets.

We have laid out five strategies:

1. Sustain stable growth of flagship brands to lead Group earnings
2. Bring overseas operations solidly into the black overall
3. Expand brands under development, create new brands, pursue M&A activity
4. Strengthen operations (reinforce R&D, human resources and governance)
5. Enhance capital efficiency and enrich shareholder returns

A look at the first strategy shows that POLA had decreases in domestic inbound and buyer demand that were compounded by reduced sales at stores—a primary sales channel—and consequently, with demand in Japan hugely impacted, net sales were down. This situation made it clear that POLA must adopt a new business model to use after COVID-19. That said, the company was able to achieve a certain degree of success by utilizing the launch of *Wrinkle Shot Serum* to raise brand profile and by expanding the brand's customer base. Meanwhile, ORBIS attracted new customers and increased unit prices. As for the second strategy, the focus was to lessen the red ink for overseas brands on the way to profitability. Restructuring at Jurlique and H2O PLUS began to deliver results, but progress was insufficient to pull these brands into the black in 2020, as initially hoped. Further steps will be required to address lingering issues.

However, POLA saw overseas business suddenly blossom, particularly in China, and the company will emphasize efforts to build its overseas operations into a future driver of growth. The third strategy presented a few positive points amid challenges. THREE struggled at domestic department stores but made inroads overseas, and DECENCIA posted double-digit growth. As for the strategy for strengthening operations from a long-term perspective—that is, to reinforce R&D, human resources and governance—we progressed steadily. Highlights include the creation of new quasi-drug products, a realigned R&D structure, the establishment of the Multiple Intelligence Research Center (MIRC) and the Frontier Research Center (FRC) to generate new value and the formation of voluntary nomination and compensation advisory committees chaired by outside directors. The fifth strategy seemed a success, as we achieved our ROE target ahead of schedule, in 2017, but then the ratio reversed course, paralleling a drop in earnings per share. Nevertheless, the payout ratio exceeded 60%.

Focusing on new medium-term management plan (2021–2023)

If these were normal circumstances, in 2021, we had planned to announce a long-term vision taking us to 2029 and the 100th anniversary of POLA's establishment, but we decided to postpone any long-term vision announcement for a year. Global economic trends were muddled by the pandemic in 2020, and the situation is no clearer in 2021, hindering efforts to predict and prepare for demand. New lifestyles have taken root, and consumers' purchasing behavior has been transformed. There will be no going back, with changes evolving from the "new normal" going forward. We will encounter challenges, and it will be extremely important to utilize digital transformation (DX), provide new products and services that match emerging consumer needs and cultivate new domains to overcome issues. To start, we will take a Groupwide perspective to solidly reinforce current businesses while working to address issues that still plague these businesses.

The three years of the new medium-term management plan, which kicked off in 2021, will be a time of recovery to put the Group back on a pre-COVID-19 performance track and set the stage for sustainable growth. The current business environment is characterized by the "new normal" of social distancing and noncontact as well as a huge paradigm shift in marketing channels. Against this backdrop, we have a great opportunity to leverage direct selling capabilities, emphasize our skincare expertise and showcase our multi-brand portfolio—POLA ORBIS Group strengths. To reach performance targets exceeding the results posted in 2019 by 2023, the last year of the new medium-term management plan, we must tackle short- to medium-term issues such as structural reform and improvement of sales channels, DX, human resources development and diversity, namely, the empowerment of women. At the same time, we see efforts to improve cost structure and work styles as continuing—not temporary—measures and will strive to greatly improve them.

Management Indicators for 2023

Net sales	Consolidated net sales	2023: ¥**215.0–225.0** billion CAGR: 7–9%
	Overseas sales ratio	2023: **20–25**% (Fiscal 2020: 15%) CAGR: 20–25%
	Domestic e-commerce sales ratio	2023: **30**% (Fiscal 2020: 24%)
Operating income	Operating margin	2023: **15**% or higher
	Operating income	CAGR: **30**% or higher
Capital efficiency	ROE	2023: **12**%
Shareholder returns	Consolidated payout ratio	**60**% or higher

We will implement five key strategies to reach our targets.

Strategy 1: Evolve domestic direct sales

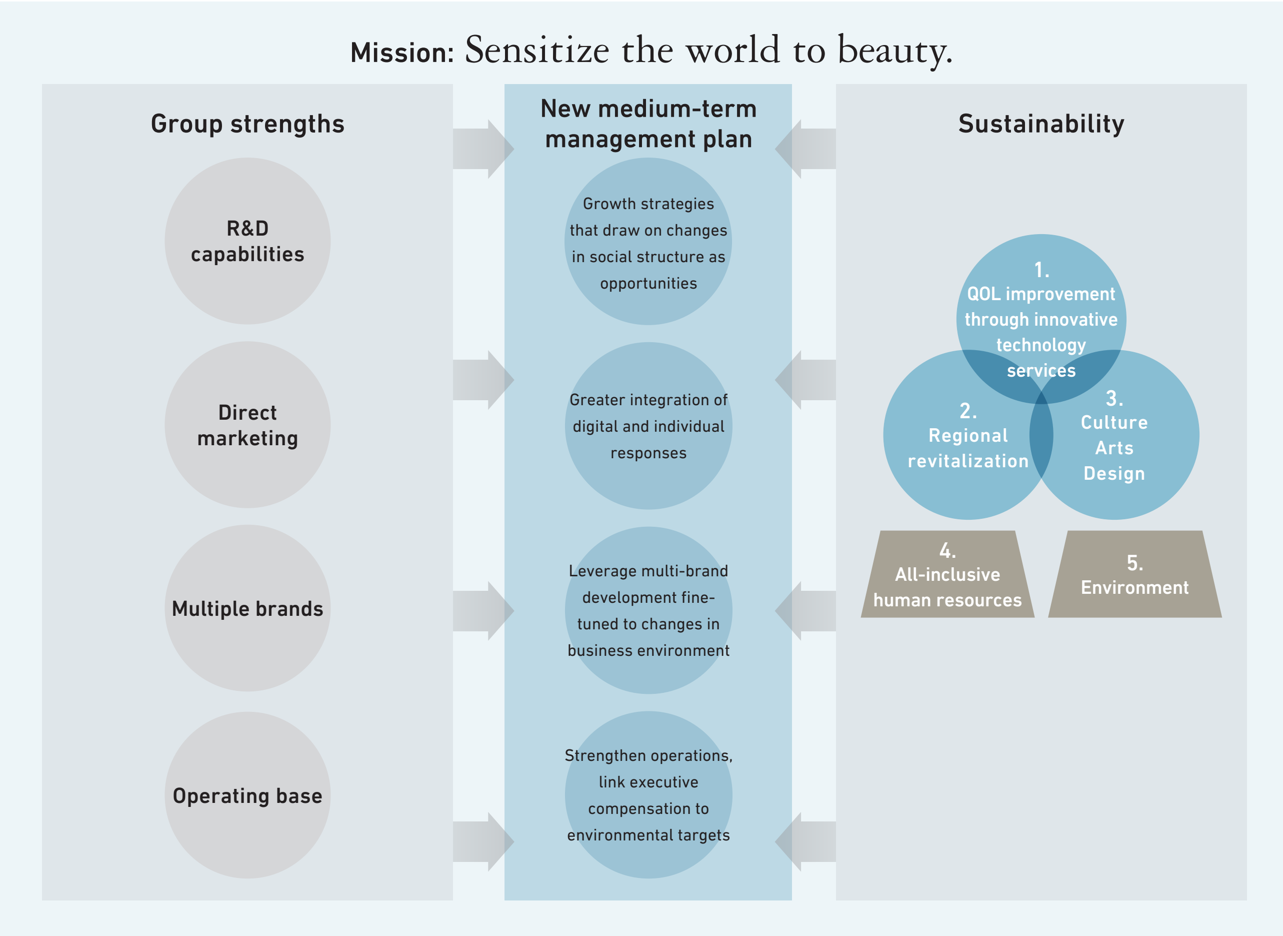
POLA will shift to a high-profit sales channel structure to realize sustainable growth. In domestic operations, the company will promote greater OMO (Online Merges with Offline), build a digital platform spanning all sales channels, integrate customer management and communication, which had been channel specific, and deepen engagement with customers, which has always been a POLA strength. A new platform will be configured for the consignment sales channel as well, underpinning an enhanced ability to provide online consultations, while also encouraging store visits through messaging that gives full play to the uniqueness of each store and Beauty Director.

For ORBIS, as a brand intricately linked to e-commerce, the company will enhance contact with customers primarily through its app and cement its presence as a skincare brand. Efforts will include a robust approach to a personalized skincare line using a newly developed IoT device installed in a mirror.

Strategy 2: Grow overseas businesses profitably

The scale of POLA's overseas operations has quadrupled over three years. Under the new medium-term management plan, China is a market of particular focus. The company will take a meticulous approach to showcase high-value-added POLA-only products and the value appeal of in-store facial treatments, rising above fierce competition in the e-commerce and offline markets as well. Another growth driver is the travel retail business across Asia. Challenging conditions persist everywhere due to a significant drop in international travel, but even against this backdrop, duty-free shops in China's cities are doing very well. POLA anticipates more widespread growth after the pandemic lessens and aims to accelerate business expansion with a newly established travel retail company that integrates travel retail business resources and the strengths of each brand in the POLA ORBIS Group's portfolio.

At Jurlique and H2O PLUS, cost structure improvements designed to return the businesses to profitability are more or less complete, but measures to boost cost efficiency will continue. Jurlique and H2O PLUS are working to expand their top lines, expecting to turn a profit in 2022 and 2023, respectively.



Strategy 3: Profit contribution from brands under development

ACRO is the company behind THREE, which is primarily available at stores and has thus been hugely impacted by COVID-related restrictions on in-person shopping, as well as other new brands. The company has embarked on radical restructuring across its brands and expects to return to the black by strategically shrinking its store network and replacing its brick-and-mortar structure with e-commerce access. On the products front, the company will strive to optimize logistics and reduce the product cost to re-energize growth of its brands while also improving profitability.

DECENCIA will work to boost brand recognition in the sensitive-skin market. Efforts will be directed into optimizing advertising expenses and reinforcing DECENCIA's position as a highly profitable brand specifically for e-commerce customers.

Strategy 4: Strengthen operations (R&D, sustainability)

In R&D, we welcome the establishment of the Technical Development Center (TDC), which will underpin more robust R&D throughout the Group. The Technical Development Center (TDC) will link research, development and production, utilizing leading-edge technology to fuel development of a larger number of high-value-added products in a shorter time. Two organizations revamped in 2018, the Multiple Intelligence Research Center (MIRC), which coordinates Group R&D strategy, and the Frontier Research Center (FRC), which handles basic research, are operating smoothly, and the establishment of the Technical Development Center (TDC) will complement existing capabilities and expedite commercialization of products. The resulting R&D structure will ensure a continuous stream of unparalleled and unprecedented products from the POLA ORBIS Group.

We will also strengthen operations from a sustainability perspective. We formulated a sustainability statement for the Group that targets both business growth and realization of a sustainable society. With this as our guide, we identified five points of materiality—1) quality of life improvement through innovative technology services, 2) regional revitalization, 3) culture, the arts, design, 4) all-inclusive human resources and 5) the environment—and established KPIs for each point. As a complement, we set the number of new businesses created as a new KPI linked to the promotion of diversity and the development of human resources, drawing on the individuality of employees. We will link these KPIs to management targets and medium- to long-term incentive evaluation criteria for corporate executives to boost efficiency.

With regard to the environment, we support the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and will step up our activities. We will also address human rights issues along our supply chains, promote enhanced corporate governance and combine these activities with Group strengths for greater impact. These efforts will lead to higher corporate value.

Strategy 5: Expand new brands and domains of "beauty"

Taking medium- to long-term perspectives on business growth, we are working to strengthen our portfolio and considering expansion into new business domains. Emphasis will be on extending the range of products and services in the domains of "beauty." Part of this approach was to organize a task force for business participation in the aesthetic medical domain. In addition, we are focusing corporate venture capital activities mainly on D2C (direct to customer) and beauty technology, tying up with companies in our investment portfolio and vigorously pursuing open innovation. tricot, Inc.—whose total shares were recently acquired by POLA ORBIS HOLDINGS—is a venture company offering personalized supplements under a subscription-style business model. The venture company launched a D2C brand and has know-how in digital marketing. Its strengths, combined with the Group's R&D capabilities, are sure to enrich our brand portfolio.

Rebuilding means setting off in a new direction

"Panta rhei." (Everything flows.) Nothing stays the same. The paradoxes of the philosopher Zeno tell us that chasing change is an endless pursuit. As someone in a top management position, I don't look at what was lost and try to get it back. Ideas are, by and large, forward looking, and I believe that rebuilding or regrouping to make a big leap forward is not done to offset what was lost but to set off in a new direction. The POLA ORBIS Group will be proactively receptive to all changes already seen as well as every change unseen, will bridge non-sequential gaps and turn changes into chances. Civilizations are developed by people. Culture reflects people. People are essential to progress and ideas.

By promoting a person-centered management style, we will put the individual capabilities of each and every employee to the best match in corporate activities and quickly reshape our business portfolio into a more visible format for stakeholders. You can expect great things from the POLA ORBIS Group.

Progress to Date

With refined sensitivity, we transform with the times.

The POLA ORBIS Group has been quick to identify changing market and customer needs and constantly transform to meet new requirements. The ability of each and every employee to understand evolving perceptions of beauty is a vital strength that we will draw on while maximizing R&D and direct marketing capabilities to achieve further growth.

1929 — 1979 Growth of sales channels of door-to-door business

Active participation of women in society
As Japan welcomes more active participation of women in society, POLA embarks on what is now a 91-year history in the cosmetics business with expansion of its door-to-door business.

POLA

1929 Shinobu Suzuki founds the business in Shizuoka Prefecture.
1940 POLA CHEMICAL INDUSTRIES, INC. is established.
1946 The current POLA INC. is established.

Mortar used by the Company's founder

1980 — 1999 Business diversification

Diversifying lifestyles
Business activities becoming more diversified to match changing lifestyles. ORBIS is established and will later develop into a flagship brand.

1981 Fashion business is launched.
1989 Department store business is launched.

ORBIS

1984 ORBIS Inc. is established.
1988 Mail-order business is launched.
1999 Internet order system is launched.

ORBIS' first generation 100% oil-free series

2000 — 2004 More sales channel variety

Fragmentation of needs
New ways to shop appear with advances in information technology.
Sales channels expand in response to changes in society.

2000 Begins steps to transform sales approach of door-to-door business.
2004 POLA enters the Chinese market.

2000 ORBIS THE SHOP is launched.

2001 ORBIS commences international sales.

2005 — 2010 Multi-brand strategy

Multi-brand emphasis
Launches multiple brands matched to diversifying customer needs.

2006 POLA ORBIS HOLDINGS INC. is established and the Group transitions to a pure holding company system in September.

POLA ORBIS HOLDINGS

2010 POLA ORBIS HOLDINGS INC. is listed on the Tokyo Stock Exchange, First Section, in December.

2005 POLA THE BEAUTY stores are launched.

2006 ORBIS enters the Taiwanese market.
2008 ORBIS enters the Chinese market.

Brands under Development

2007–2008
decencia INC. is established. DECENCIA
ACRO INC. is established. THREE

2011 — 2013 Accelerated growth through stock listing

New stage of growth
Drafts long-term vision and medium-term management plan, prompted by stock listing. Acquires H2O PLUS and Jurlique brands.

2011–2013 Medium-Term Management Plan

Management Indicators (Results)
- Consolidated net sales — CAGR 5.0%
- Higher operating income paralleling higher net sales — CAGR 9.3%
- Industry-leading profitability — Operating margin 8.4% (11.4% for domestic business) (FY2013)

Growth Strategies
1. Generate stable profits with flagship brands
2. Accelerate growth of the portfolio of brands under development
3. Develop the Group's presence overseas by leveraging its strengths
4. Reinforce R&D capabilities
5. Reinforce the operating base

Overseas Brands

2011 The Group acquires H2O PLUS HOLDINGS, INC. in July. H2O+
2012 The Group acquires Jurlique International Pty. Ltd. in February. Jurlique

2014 — 2016 Second stage of medium-term management plan

Dramatic improvement in domestic profitability
Laying of stable foundation for domestic operations geared toward realization of long-term vision.

2014–2016 Medium-Term Management Plan

Management Indicators (Results)
- Consolidated net sales — CAGR 4.5% — ¥218.4 billion in FY2016
- Overseas sales ratio 8.7% in FY2016
- Operating income — CAGR 18.9%
- Operating income 12.3% in FY2016
- Capital efficiency — ROE 9.0% in FY2016

Growth Strategies
1. Sustain stable growth of flagship brands to lead Group earnings
2. Sales growth and monetization of brands under development
3. Overseas brands contributing to profitability through high sales growth
4. Restructure overseas expansion of flagship brands
5. Strengthen operations (human resources, R&D and production)
6. Improve capital efficiency and shareholder returns

2014 THREE commences international sales.
2016 First quasi-drug to improve wrinkles approved in Japan.

2017 — 2020 Seeking to be a highly profitable global company

Working toward long-term vision
Positioned to achieve remarkable progress toward becoming a highly profitable global company.

2017–2020 Medium-Term Management Plan

Management Indicators (Results)
- Consolidated net sales — CAGR −5.2% — ¥176.3 billion in FY2020
- Operating income — CAGR −15.4%
- Operating margin — 7.8% in FY2020
- Capital efficiency — ROE 2.6% in FY2020
- Shareholder returns — Consolidated payout ratio: Over 60%

Growth Strategies
1. Sustain stable growth of flagship brands to lead Group earnings
2. Bring overseas operations solidly into black overall
3. Expand brands under development, create new brands, pursue M&A activity
4. Strengthen operations (reinforce R&D, human resources and governance)
5. Enhance capital efficiency and enrich shareholder returns

2017 POLA launches *Wrinkle Shot Serum*.
2018 Group's R&D structure realigned and research oversight function consolidated at Multiple Intelligence Research Center
2018 ACRO launches three new brands.
Amplitude ITRIM FIVEISM THREE

Toward a new stage of growth

Work through 2021–2023 Medium-Term Management Plan

Environmental/Social/Governance Efforts

1937 POLA hires its first POLA LADIES.
1979 The current POLA Foundation for the Promotion of Traditional Japanese Culture is established.

1985 POLA introduces product refills.
1990 ORBIS introduces simplified packaging.
1996 The current POLA Art Foundation is established.
1998 The Shizuoka and Fukuroi factories obtain ISO 9001 certification (quality-related).

2000 The Shizuoka and Fukuroi factories obtain ISO 14001 certification (environment-related).
2002 POLA dubs 2002 "Year of Re-Establishment." Formulates corporate philosophy "POLA VALUE."
2005 In-house training across the Group. Introduction of Future Study Program and Top Management Development Program (currently, Business Innovation Academy).

2008 Appoints outside corporate auditor.
2009 Seeking to energize local industry, POLA initiates the "3-9 Project."
2009 Creates Groupwide risk management structure.
2010 POLA obtains "Kurumin" certification mark from Japan's Ministry of Health, Labour and Welfare for efforts supporting development of the next generation.

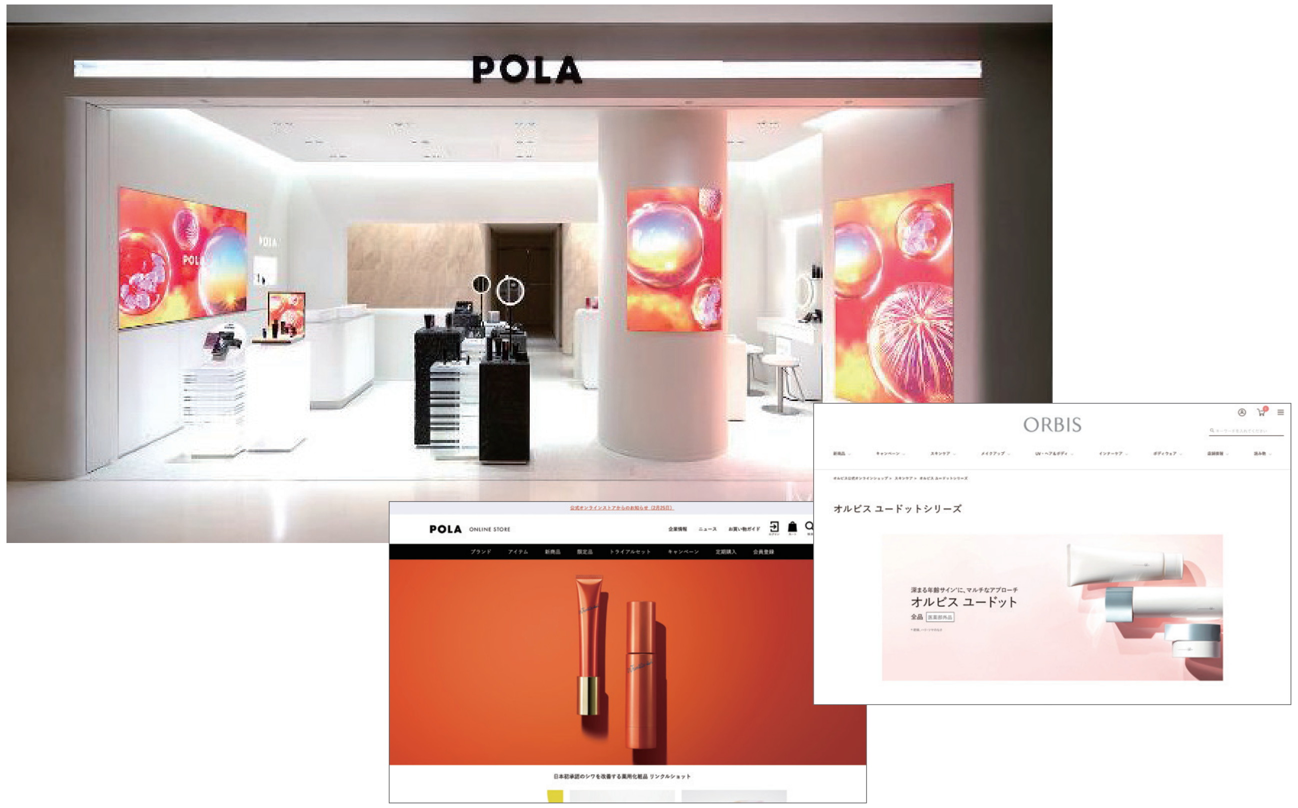
2011 Group companies embark on activities to support reconstruction in areas affected by the Great East Japan Earthquake.
2011 Opens stakeholder dialogue.
2012 ORBIS introduces employee code of conduct, dubbed "ORBIS STYLE."
2013 Introduces corporate officer system.

2015 Appoints outside directors.
2015 Measures and redefines director competencies.
2015 Elevates level of communication with shareholders (captures first Best IR Award).
2016 Puts together Corporate Governance Report and forms Basic Policy on Corporate Governance.
2016 Initiates Board of Directors' effectiveness evaluation.

2017 Formulates new Group philosophy.
2017 Becomes signatory to UN Global Compact.
2017 Formulates Group Code of Conduct.
2017 Captures Best IR Award for second time.
2018 Introduces senior corporate officer system.
2018 Establishes Group human rights policy. Initiates human rights due diligence.
2018 Begins CSR procurement activities.
2019 Establishes voluntary advisory committees to focus on nomination and appointment of executives and associated compensation.
2020 Adds reduction of CO_2 emissions to medium- to long-term incentive evaluation criteria (2021–2023) for corporate officers.

Strengths of the POLA ORBIS Group

Direct ties with customers are the pivotal resource of the POLA ORBIS Group.
Efforts are made to pinpoint even the slightest change in customer lifestyles and beauty care needs, including preferences for cosmetics, and then anticipate market conditions and social trends, operations that evolve to meet changing times and consumer preferences.
The spirit of this evolution infuses the Group like DNA—a quality that runs through its generations—all the way back to POLA's establishment in 1929.



Direct Marketing

The Group's most vital business resources are its direct ties to customers. Reflecting on this, POLA and ORBIS, our flagship brands, have integrated this idea into their respective brand concepts, while fine-tuning sales channels to facilitate direct contacts.

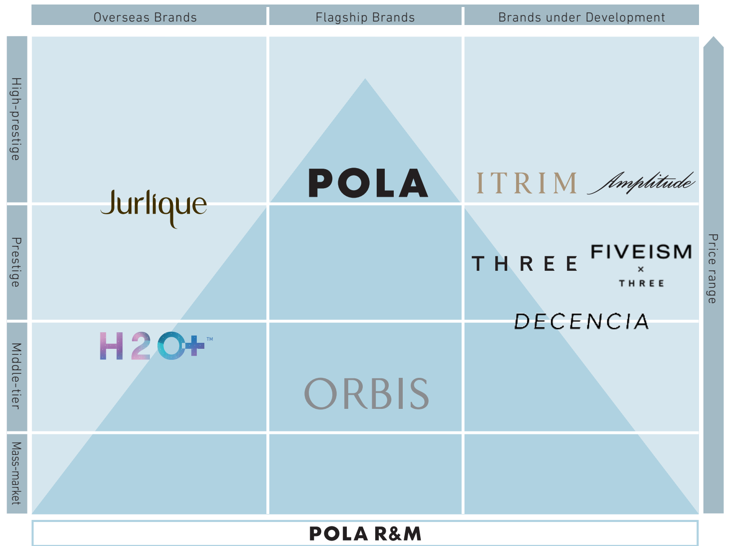
POLA's strength is its ability to provide face-to-face consultations and aesthetic services through its network of about 35,000 Beauty Directors across Japan. While the pandemic restricted meeting customers in person and providing them services, the circumstances cast new light on the inherent value of direct contact between customers and Beauty Directors.

ORBIS, while focused on mail-order sales, acknowledges that one-to-one communication cements a strong connection between the brand and customers. The company is thus able to anticipate and provide information and products matched to the different purchasing cycle of each customer. This approach has consistently earned high marks on the Japanese Customer Satisfaction Index (No. 1 in own brand of mail order in 2020, for sixth straight year), compiled by Service Productivity & Innovation for Growth.

These direct-selling channels enable each company to manage information on nearly all respective customers in-house. With this information, the companies have built a database of more than 19 million entries on the condition of Japanese women's skin and collected other useful information, such as customers' purchasing history and profiles. This diverse information is analyzed, and pertinent results are used in R&D, product planning and marketing, allowing POLA and ORBIS to build strong, trusting relationships with customers and secure brand loyalty and extremely high repeat purchase rates not only from an in-house perspective but also from an industry perspective. In addition, this approach helps curb investments such as advertising and promotional expenses, otherwise necessary to capture the attention of new customers, which leads to a higher profit margin.

Multiple Brands

Today, with customer perceptions and lifestyles becoming increasingly diversified, a single-brand approach targeting as many customers as possible dilutes the brand concept and weakens image cohesiveness. As of 2020, to constantly address lifestyles and values that change with the times, the POLA ORBIS Group had built a portfolio—shown on the right—of nine brands, each with its own concept, price range and sales channels. Each brand has its own unique characteristics and drives brand loyalty higher by polishing brand identity through independent management. The goal is to enhance sustainability and economic rationality whether the brand is small or flagship. The pandemic revealed that a collection of small economic units is stronger than a large economic block. In April 2021, we turned tricot Inc. into a subsidiary. Going forward, we will continue to strengthen our portfolio and make the Group more diverse.



Research and Development Capabilities

The Group's biggest strength from an R&D perspective is the concentration of corporate resources into products that fight the two biggest skincare concerns of women—dark spots and wrinkles. The reason is research and development capabilities are particularly vital in this domain. Particular attention is directed toward basic research into the areas of anti-aging and skin-brightening and the development of new materials, and efforts have generated original ingredients, patents and other materials available only to the Group. For example, the Group pioneered the world's first application of hyaluronic acid in cosmetics in the 1980s and brought these products to market. More recently, in 2017, the Group debuted the industry's first quasi-drug to improve wrinkles, and in 2019, launched quasi-drug products featuring a new active ingredient for skin-brightening, the first on the market in some 10 years. In 2020, POLA came to the belief that the positive power we create through our lifestyles and environments is the key to expanding our true beauty. The company launched the new *B.A* series, based on the Epi-Firmness Network theory*, which applies a process for firming the skin.

The Group's R&D structure was invigorated in 2018 with the establishment of the Multiple Intelligence Research Center (MIRC), which coordinates overall R&D strategies, and the Frontier Research Center (FRC), which handles basic research. Efforts are further reinforced through robust alliances with external specialist organizations, enthusiastic ventures into science and the pursuit of open innovation.

In addition, we will see to the creation of the Technical Development Center (TDC) to bring high-value-added products featuring advanced technology to market sooner than previously. These facilities will focus on R&D that translates into products of even higher added value and ensures the quick and constant debut of distinctive products.

*The concept for forming a cosmetic layer (network) that firms the skin.

B.A series

Wrinkle Shot Serum

Environment around Us (Recognizing and Responding to Opportunities and Risks)

Responding with fine-tuned sensitivity to changing times

POLA ORBIS HOLDINGS utilizes the Board of Directors, which comprises directors from the Company as well as executives from major Group companies, to receive advice from outside directors with excellent insights and to discuss long-term management issues.

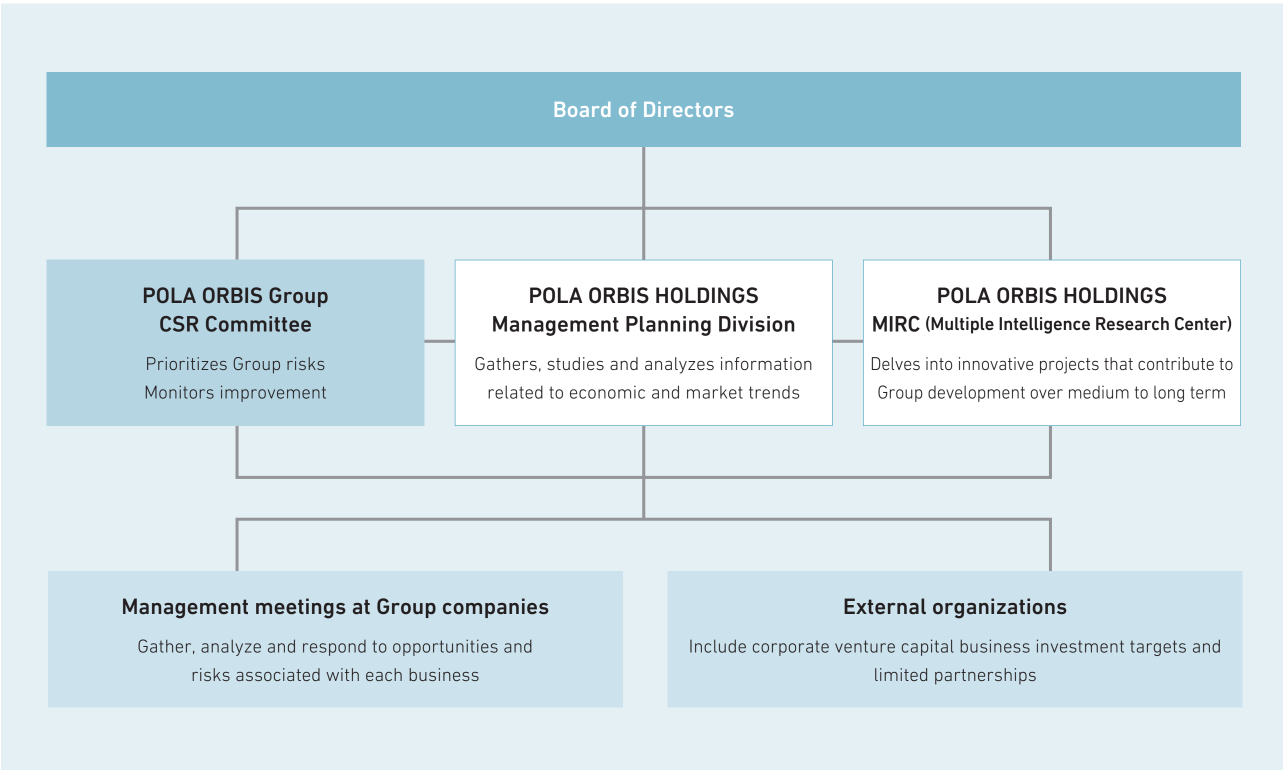
For risks, the Group CSR Committee, which meets regularly, prepares an exhaustive list of risks, given prevailing social circumstances, prioritizes these risks according to the level of impact potentially exerted on business activities and the frequency of occurrence, and tracks their status. Directly below the Board of Directors, this committee includes participation by directors and division managers responsible for corporate planning at each Group company. In addition, the committee addresses risks that extend Groupwide, using the results of employee satisfaction surveys. Theme-specific risks are assigned to the operating or holding company division, committee or subcommittee responsible for that kind of risk, and improvement plans are drafted and implemented accordingly. The content of these plans is discussed by the Group CSR Committee and officially approved by the Board of Directors. Reports on the status of improvement plans are provided to the Board of Directors quarterly.

At each operating company, risks unique to respective operations and risks already apparent are listed up, prioritized and then tracked at management meetings. Progress on efforts to mitigate risks is shared with the Group CSR Committee.

For business-related opportunities, the POLA ORBIS HOLDINGS Management Planning Division analyzes possible business pursuits from various angles, including those of the social environment, market trends and the target customer's sense of values, at home and abroad, and drafts the investment plans and growth strategies necessary to achieve goals stated in the medium-term management plan. This office monitors market trends and the social environment to facilitate the best decisions on additional investment during any given fiscal year to successfully capitalize on emerging opportunities and risks.

The Multiple Intelligence Research Center (MIRC) delves into innovative projects with the potential to contribute to Group development over the medium to long term and explores trends and demands related to technology, society and culture in Japan and overseas.

Opportunity and risk management system



Defining opportunities and risks, and efforts to minimize risks

Key business-related opportunities

Item	Details	Measures
Research and development	Steady announcement of products realized through results of highly original research	• Promote new value creation through MIRC and FRC • Establish TDC
Global economy	Growth of cosmetics market in China	• Establish new company to oversee Group's travel retail business • Expand store network in China (POLA) • Reinforce e-commerce operations
Digital marketing	Increase of marketing methods using social media	• Enhance digital consultation format • Strengthen e-commerce and promote OMO*
Changing consumer awareness	Increase of products tailored to personal preferences	• Apply AI to *APEX* line to promote personalized skincare, including options for men (POLA) • Use smartphone apps to facilitate digital consultations (ORBIS) • Promote personalized skincare service using "skin mirror," an IoT device that measures the condition of skin (ORBIS)
	Sustainability attitudes of millennials and Generation Z	• Promote new value creation through MIRC • Launch sustainable products
Decrease in domestic population (low birthrate, graying of society)	• Decrease in job openings, particularly in rural areas and for non-regular employees • More elderly • Empowerment of women	• Reform work system • Acquire wider recognition among target customer segments • Run online recruitment forums • Improve area influence of Beauty Directors (POLA)

*Online Merges with Offline

Key business-related risks

Item	Details	Measures
Erosion of brand value	Possibility that brand image will be eroded if human rights-related issues emerge along supply chain	• Emphasize CSR procurement • Purchase certified palm oil
Securing sales partners (shop owners/ managers and Beauty Directors)	POLA might have difficulty securing sales partners due to such factors as a changing labor environment	• Run online recruitment forums • Consider partnerships other than consignment sales contracts
Strategic investment activities	Possibility that companies added to consolidation through M&A will not generate results anticipated at time of M&A and lead to booking of impairment losses	• Practice highly accurate due diligence and calculate fair and reasonable stock value
Cosmetics market environment	Domestic cosmetics market reaching maturity, heralding possible impact on businesses that cannot respond to changes in competitive environment	• Reinforce overwhelming strength in Japan • Actively expand presence overseas
Research and development	Possibility that results of research will not be as successful as expected	• Speed up development through establishment of TDC
Production and quality assurance	Possibility that raw materials cannot be procured or that products meeting customers' requirements for quality cannot be produced	• Create Group quality control system monitored by Quality Assurance Committee
Overseas business activities (global economic instability, etc.)	Possibility that business activities may not proceed as planned due to such circumstances as economic/political instability, labor unrest or occurrence of terrorism/conflict	• Strengthen external alliances • Collect information through MIRC
Limit on protection of intellectual property rights	Possibility that intellectual property is used illegally by an outside party to produce counterfeit items or that member of Group infringes upon intellectual property of an outside party	• Secure patent/trademark rights in activity hubs at home and abroad • Monitor activities to prevent the Group's rights from being infringed upon and to prevent infringement of outside parties' rights
Information security	Possibility that personal information or confidential information will be leaked	• Establish information security system • Educate all directors and all employees about importance of information security
Disasters	Possibility that supply of finished products will be delayed due to large earthquake severe enough to affect operations at production facilities	• For items deemed key from a business continuity perspective, maintain inventory of products and materials and stay in constant contact with contracted factories
Spread of infectious diseases	Possibility that business results will be impacted by measures to prevent spread of infection such as avoidance of face-to-face contact with customers or temporary store closure	• Strengthen capability to provide digital consultations • Reinforce e-commerce operations
Climate change	Possibility that procurement of materials will become more difficult due to impact of such issues as global warming and changes to ecosystems	• Strive to reduce CO_2 emissions • Switch to renewable energy
Decrease in domestic population (low birthrate, graying of society)	Possibility that shrinking population and society of fewer children and more elderly will hamper access to needed workforce	• Expand overseas • Promote e-commerce • Reform work system

Special Feature: New Medium-Term Management Plan

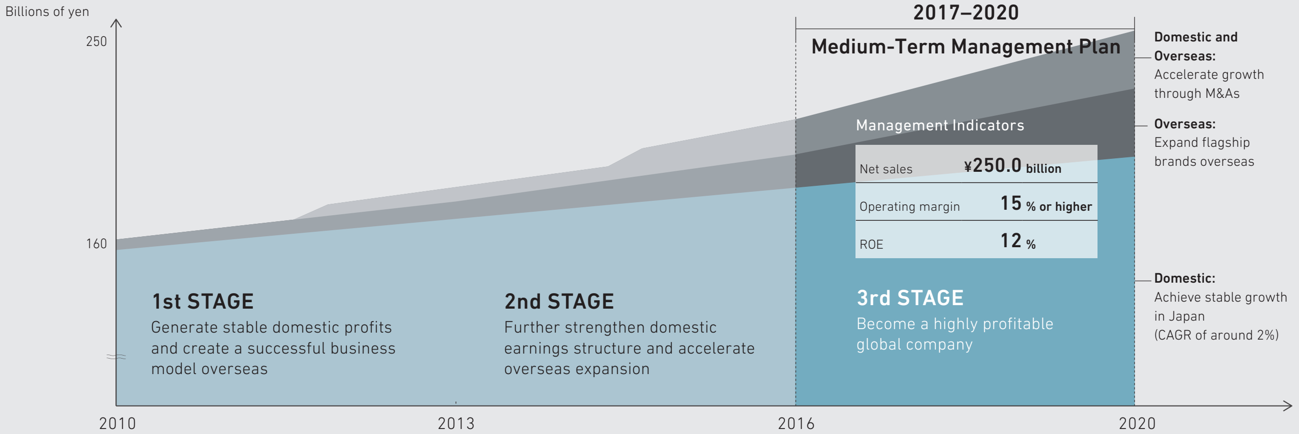
In 2011, we announced our long-term vision to become a highly profitable global company by 2020. Our 2017–2020 Medium-Term Management Plan was the final stage of this vision.
Our new long-term vision was originally scheduled to start in 2021. However, we have decided to postpone the announcement of the vision by one year in the belief that we should place priority on establishing a firm foothold in the rapidly changing business environment. In the meantime, we have formulated a new medium-term management plan aimed at addressing short- and medium-term issues and building a portfolio that will lead to long-term growth.

Review of Previous Medium-Term Management Plan

Under our 2017–2020 Medium-Term Management Plan, we worked to improve profitability in Japan, promote a solid shift toward overall profitability from overseas operations and build a brand structure for next-generation growth.

Review of 2020 Long-Term Vision and Management Indicators

Consolidated net sales



1st STAGE — 2013 results

Net sales	¥191.3 billion
Operating margin	8.4 %
ROE	4.3 %

2nd STAGE — 2016 results

Net sales	¥218.4 billion
Operating margin	12.3 %
ROE	9.0 %

3rd STAGE — 2020 results

Net sales	¥176.3 billion
Operating margin	7.8 %
ROE	2.6 %

Review of growth strategies

While challenges in promoting a solid shift toward overall profitability from overseas operations remain, we achieved impressive results in expanding our overseas operations and broadening POLA's brand recognition and customer base. We also made good progress in rebranding ORBIS and creating new brands.

Strategies		Evaluation
Strategy 1 Sustain stable growth of flagship brands to lead Group earnings	Partially achieved	• POLA: Could not offset decreases in inbound demand and buyer demand • ORBIS: Acquired new customers and increased unit price • Sales declined significantly, especially in retail stores, due to store closures and people's tendency to avoid going out due to COVID-19
Strategy 2 Bring overseas operations solidly into the black overall	Not achieved	• Achieved strong growth for POLA in mainland China and in the travel retail market • Failed to achieve a profit in 2020, despite progress on structural reforms for overseas brands
Strategy 3 Expand brands under development, create new brands, pursue M&A activity	Partially achieved	• Expanded THREE business overseas and set DECENCIA on a growth trajectory • Up-front investment phase for new brands
Strategy 4 Strengthen operations (reinforce R&D, human resources and governance)	Achieved	• Creation of new quasi-drugs progressed steadily • Renewed R&D structure, establishing MIRC and FRC to generate new value • Established the Nomination and Compensation Advisory Committee, chaired by an outside director
Strategy 5 Enhance capital efficiency and enrich shareholder returns	Partially achieved	• Achieved ROE target in 2017 but have fallen short since, due to a decline in EPS • Paid dividends at a payout ratio of 60% or higher

Overview of 2021–2023 Medium-Term Management Plan

Our Operating Environment

Amid the rapidly changing external environment and accelerating trends, we will further evolve our strengths—namely, direct sales, skincare and multiple brands—and work to resolve issues for sustainable growth.

Channel shift caused by "new normal"

Storefront operations

E-commerce

Acceleration of DX

Increasing speed of DX

Decrease in inbound demand

Inbound demand
Demand in mainland China

Diversification of values and emergence of new needs

Pursuit of intrinsic quality
Self-expression
Increased demand for skincare
Work-style reforms
Diversity

Evolve our strengths in response to sudden changes in the external environment and return to a growth trajectory

"Direct sales," "Skincare," "Multiple brands"

Short- to medium-term issues to be addressed promptly

Structural reform of channels	DX	Accelerate development of the mainland China and travel retail markets	Research and development/ Human resources development/ Women's advancement/ Search for new business

In addition, promote rationalization across all areas, including cost structure and work styles

2021–2023 Medium-Term Management Plan

Key strategies

- Strategy 1 Evolve domestic direct sales
- Strategy 2 Grow overseas businesses profitably
- Strategy 3 Profit contribution from brands under development
- Strategy 4 Strengthen operations
- Strategy 5 Expand new brands and domains of "beauty"

2023 management indicators

Net sales

Consolidated net sales	Overseas sales ratio	Domestic e-commerce sales ratio
¥215.0–225.0 billion CAGR 7–9%	20–25% (15% in fiscal 2020) CAGR 20–25%	30% (24% in fiscal 2020)

Operating income

Operating margin	Operating income
15% or higher	CAGR 30% or higher

Capital efficiency

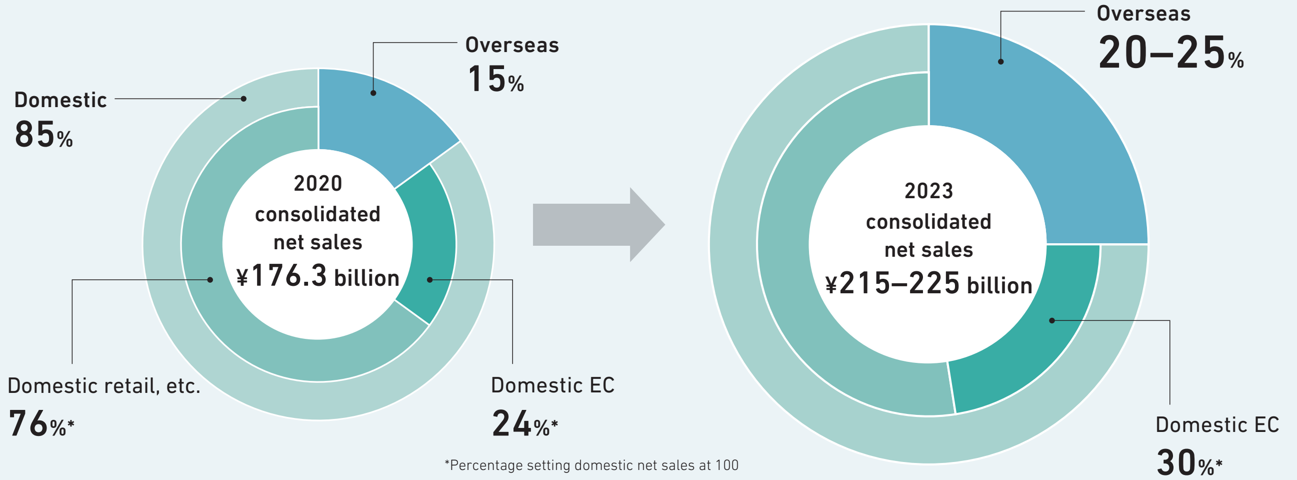
ROE
12%

Shareholder returns

Consolidated payout ratio
60% or higher

Overview of 2021–2023 Medium-Term Management Plan

Group sales breakdown



*Percentage setting domestic net sales at 100

Channel restructuring and digital transformation Strategy 1 Strategy 3

POLA Promote OMO strategy

At POLA, we will combine online and offline channels and build a cross-channel digital platform. Our aim is to enhance customer engagement and convenience by integrating customer management and communication on our new OMO platform. We will provide more personalized customer service by utilizing accumulated customer information such as service history and skin data. We will also introduce nearby stores to EC customers to realize a seamless brand experience that transcends sales channels.

ORBIS Increase e-commerce ratio

For the ORBIS brand, we will accelerate the shift to e-commerce. Our aim is to increase the EC sales ratio* from 59% at the end of 2020 to 70% during the period of the new medium-term management plan. In addition to a purchasing function, we have set up an app that provides original ORBIS content and beauty information—including personal color diagnosis and future skin simulation using AI—as the center of our communication with customers. In these ways, we will work to maximize lifetime value and improve profitability through more personalized communication.

*Percentage of domestic sales

EC sales ratio

2020	2023
59%	70%

THREE DECENCIA

Shift channels and focus on strengths

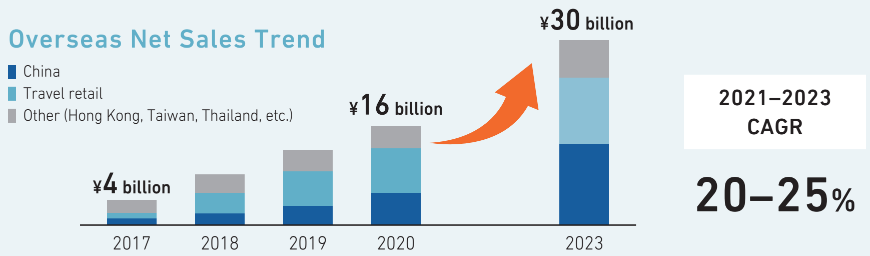
For the THREE brand, we will clarify the roles of online and offline. Online is a customer contact point for convenient purchasing and offline is a contact point to provide brand experience. We will also strategically reduce the number of stores, improve store efficiency and increase the EC ratio to enhance profitability. For the DECENCIA brand, we will continue to specialize in online sales to expand revenue, aiming to make DECENCIA a highly profitable brand with an operating margin of 20% in the long term.

Overseas expansion Strategy 2

POLA Expand China and travel retail businesses

POLA's overseas sales jumped around fourfold over the period of the 2017–2020 Medium-Term Management Plan as brand recognition in China expanded on the back of inbound tourism. Under our new medium-term management plan, we will focus on the China and travel retail businesses.

Overseas Net Sales Trend




Store at HDC Shilla in South Korea

China

- Increase investments and strengthen digital marketing
- Continue to aggressively open stores in prime locations and prestige stores ⇒ Aim for 110 stores (about twice the current number)

Travel retail

- Maximize our competitiveness in high-growth channels by integrating the Group's travel retail businesses with a new company

Jurlique H2O+ Increase revenue to return to profitability

Seeking to return the Jurlique and H2O PLUS brands to profitability, we have been promoting various structural reforms, including organizational downsizing and closure of unprofitable stores. For Jurlique, we will focus on the key market of China, while for H2O PLUS, we will strengthen its appeal in the "clean beauty" category to establish a solid brand position in the U.S. skincare market. We will also work to increase revenue with the aims of making Jurlique profitable in 2022 and H2O PLUS profitable in 2023.

Research & Development Strategy 4

We will establish the Technical Development Center (TDC) to strengthen the technology development capabilities of the entire Group. In collaboration with MIRC, which oversees our R&D strategy, as well as FRC, which conducts basic research, we will link research, development and production to realize a system that enables us to develop and launch high-value-added products using cutting-edge technologies more quickly than before. We will continue allocating approximately 2% of consolidated net sales to investments in R&D.

Domain expansion Strategy 5

To achieve medium- to long-term business growth, we will strengthen our portfolio and consider expanding our business into new domains. In addition to increasing our range of products and services in the domains of "beauty," we will pursue open innovation through corporate venture capital (CVC) and other means.

tricot Acquisition of shares in tricot Inc., which sells personalized supplements and skincare products

In April 2021, we made tricot Inc., an investment target of our CVC business, a wholly owned subsidiary. tricot is a venture company that develops the *FUJIMI* brand of supplements and face masks customized to each individual's skin type and offered by subscription. In addition to utilizing our own R&D technology and track record, we anticipate the alliance to generate synergies in production and logistics. It will also give us brands and products that accurately reflect changes in beauty values, as well as the ability to address changes and the human assets to make such changes a reality, thus making our brand portfolio stronger and more distinctive.

Financial Strategies

Seeking sustainable corporate activities and sustainable business growth

We will seek to raise capital efficiency by achieving net income growth that exceeds operating income growth while also enhancing return to shareholders through a basic policy targeting a consolidated payout ratio of at least 60%. These are the two sides of higher corporate value.

Message from director in charge of finance

Listed companies have a duty to create capital efficiency at a level that exceeds capital cost and to boost corporate value. More specifically, we must acknowledge ROE as a key performance indicator and implement strategies from the two perspectives shown below to improve ROE.

1. Increase profit attributable to owners of parent
2. Enhance the efficiency of net assets

Growth investment aimed at higher net income, and improved profitability

Higher net income hinges on two factors. One is growth investment, the groundwork for sustainable growth. The other is improved profitability.

The purpose of growth investment is twofold: to create sustainable, stable growth as well as new growth. POLA will continue to open stores as part of its strategy to accelerate global growth, which hinges on favorable demand conditions in China as well as the travel retail business, and will invest in OMO to build a cross-channel digital platform for domestic operations. ORBIS will maintain its investment focus on marketing to speed up digital transformation and return to a growth track.

Also, seeking to ensure business growth over the medium to long term, we are considering steps to reinforce our portfolio and expand into new domains. As part of this approach, in April 2021, we acquired all shares in tricot, Inc., which was a portfolio company in our corporate venture capital business. We expect this change in investment status to enrich the distinctive quality of our brand portfolio.

On the R&D front, we will establish the Technical Development Center to enhance technology development capabilities within the Group. The facility will combine research, development and production activities under one structure and thus expedite efforts to bring to market in a shorter time high-value-added products featuring the latest technology.

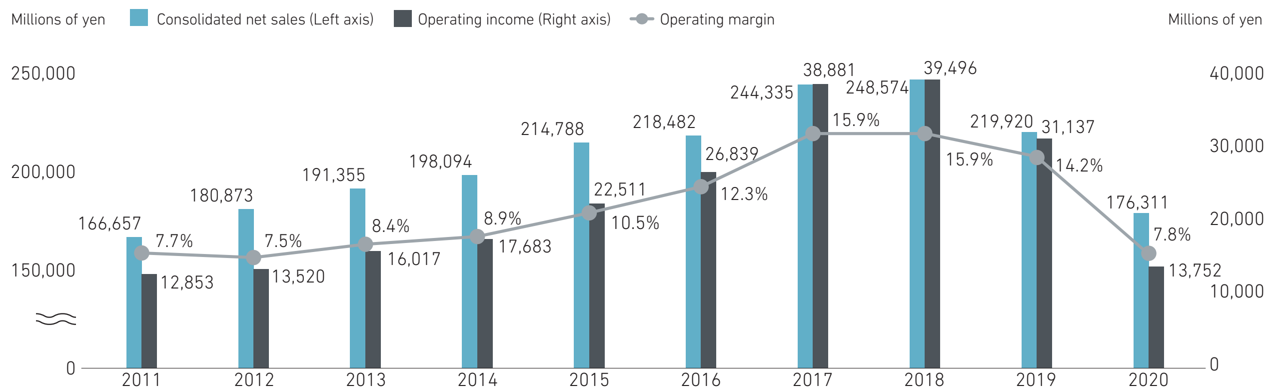
From a profitability perspective, the priority is to get overseas brands into the black. We have made headway on structural reforms, including organizational downsizing and the closing of unprofitable stores overseas, to reverse losses. In fiscal 2020, sales were negatively impacted by consequences of the COVID-19 pandemic, but we were able to lessen the losses, thanks to successful restructuring. To deal with a reduced break-even point, we will expand the top line during the new medium-term management plan and turn a profit as overseas brands chart new growth. Our approach for ACRO, the brand under development, will also emphasize comprehensive restructuring, including strategic concentration of store networks and a review of stock-keeping units, to boost profitability. On a Groupwide basis, we will continue efforts to improve the cost of sales ratio and hold any rise in selling, general and administrative expenses below the sales growth ratio. This plan should lead to annual operating income growth of 30% or higher. Also, we will achieve net income growth exceeding operating income growth, as improving profitability from overseas operations pushes the effective tax rate down.

Enhanced return to shareholders

To increase the efficiency of net assets, we will prioritize return to shareholders in line with our dividend policy, which hinges on a consolidated payout ratio of 60% or higher, and efforts to enrich return to shareholders through stable profit growth. The annual dividend for fiscal 2020 was set at ¥50 per share, which translated into a payout ratio of 238.8%. With regard to treasury stock, our policy is to consider buybacks based on such factors as investment strategies, market prices and the liquidity of Company shares. Going forward, we will strive to maximize management resources and raise corporate value over the long term.

Akira Fujii
Director,
POLA ORBIS HOLDINGS INC.

Changes in consolidated net sales and operating income



Note: Figures for the fiscal year ended December 31, 2016, reflect retroactive application due to changes in accounting standards in Australia.

Improve capital efficiency

Set ROE target of 12% in 2023 in medium-term management plan.

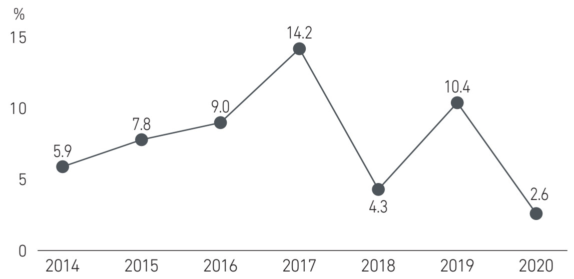
EPS Earnings per share

- Operating income: CAGR 30% or higher
- Realize net income growth higher than operating income growth → Lower effective tax rate by reducing loss in overseas business

BPS Book value per share

- Enrich shareholder returns → Consolidated payout ratio of 60% or higher, and stably increase income and dividend distribution
- Growth investments with financial efficiency in mind

Return on equity



Note: Figures for the fiscal year ended December 31, 2016, reflect retroactive application due to changes in accounting standards in Australia.

Enrich shareholder returns

In line with two basic policies—a payout ratio of at least 60% and a fuller return through profit growth—we are planning for an annual dividend of ¥51 per share for fiscal 2021. This will translate into a payout ratio of 99.8%.

With regard to treasury stock, we will consider buybacks based on market prices, the liquidity of Company shares and the business environment.

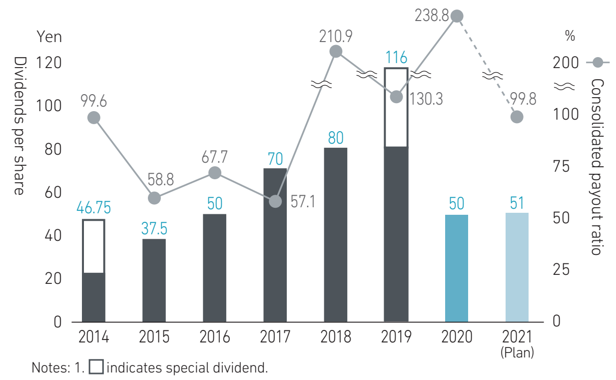
Basic policies

- With a policy of a consolidated payout ratio of 60% or higher, enhance shareholder returns by realizing stable profit growth
- Purchases of treasury stock shall be considered based on our investment strategies, market prices and the liquidity of the Company's shares

Shareholder return policy for fiscal 2021

Dividends per share (Forecast)	Annual dividend: ¥51 Comprising ¥20 interim and ¥31 year-end dividends Consolidated payout ratio: 99.8%
Treasury stock buyback	Decisions based on business environment

Annual dividend and consolidated payout ratio



Notes: 1. □ indicates special dividend.
2. A four-for-one stock split was executed on April 1, 2017. Dividends per share before this stock split have been restated as if the stock split had already occurred.

Non-Financial Strategies

Continuing to grow as a company that helps create a sustainable society

We aim to balance efforts to realize a sustainable society with business growth by drawing on our strengths and defining and addressing non-financial materiality issues.

Connections between the Group strengths and non-financial materiality

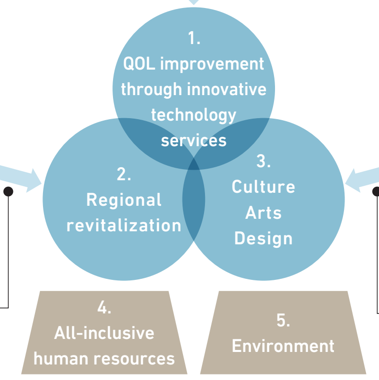
Non-financial materiality

1. Quality of life improvement through innovative technology services
2. Regional revitalization
3. Culture, the Arts, Design
4. All-inclusive human resources
5. Environment

Strength
R&D Capabilities

Aim
Improve quality of life for customers

Results
Attracted new customers through sustained innovation
Built stable growth platform



Strength
Direct Marketing

Aim
Enhance regional presence and cultivate base of future customers

Results
Increased number of regional sales structures with influential power
Joint efforts with local governments

Strength
Multiple Brands

Aim
Stimulate customer sensitivity to beauty and enrich people's lives

Results
Trendy products and services
Heightened sensitivity to beauty among employees

Policy formulation process for our sustainability activities

We sift through global trends and issues derived from analyses by rating agencies and assign a weight (importance) to these issues from both business and stakeholder perspectives. We set a KPI for each materiality issue identified through this process and track progress toward goals.

In 2020, we updated our non-financial indicators for 2029, the 100th anniversary of our founding, to target greater sustainability in light of significant changes in the social environment in the COVID and post-COVID worlds. First, the Group CSR Committee decided to add indicators related to employee work-style reforms and the percentage of female executives, as well as to raise the real CO_2 emissions target in line with the SBT* 1.5°C scenario. These decisions were approved by the Board of Directors. The Board also resolved to set non-financial KPIs as medium- to long-term incentives for officers. This outcome followed lively debate about various factors, including the need to consider mechanisms to improve productivity and employee safety and satisfaction, as well as the belief that increasing the percentage of female executives requires more than simply taking action to motivate female employees.

*Greenhouse gas emission reduction target that companies set with a yearly target between five and 15 years to meet a standard required under the Paris Agreement (to limit global warming well below 2°C, preferably to 1.5°C, compared with preindustrial levels).

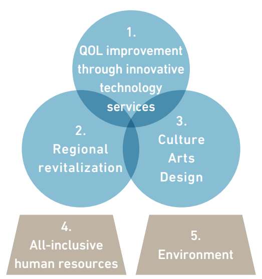
1 Compiling an issue list → **2 Identifying materiality issues** → **3 Defining five categories** → **4 Approval at the Board of Directors**

- Checking the Group's current situation
- Global trends
- Analysis by ESG/SRI investment evaluation (including SDGs)

Ranking the issues

Business perspective × Stakeholder perspective

1 Continuously providing our customers with unique and original value
2 Cultivating the sensitivity and individuality of our employees (the organization)
3 Coexisting with the surrounding natural and social environments
4 Working to maintain and improve trust for the sake of Group growth



Set non-financial KPIs in five categories

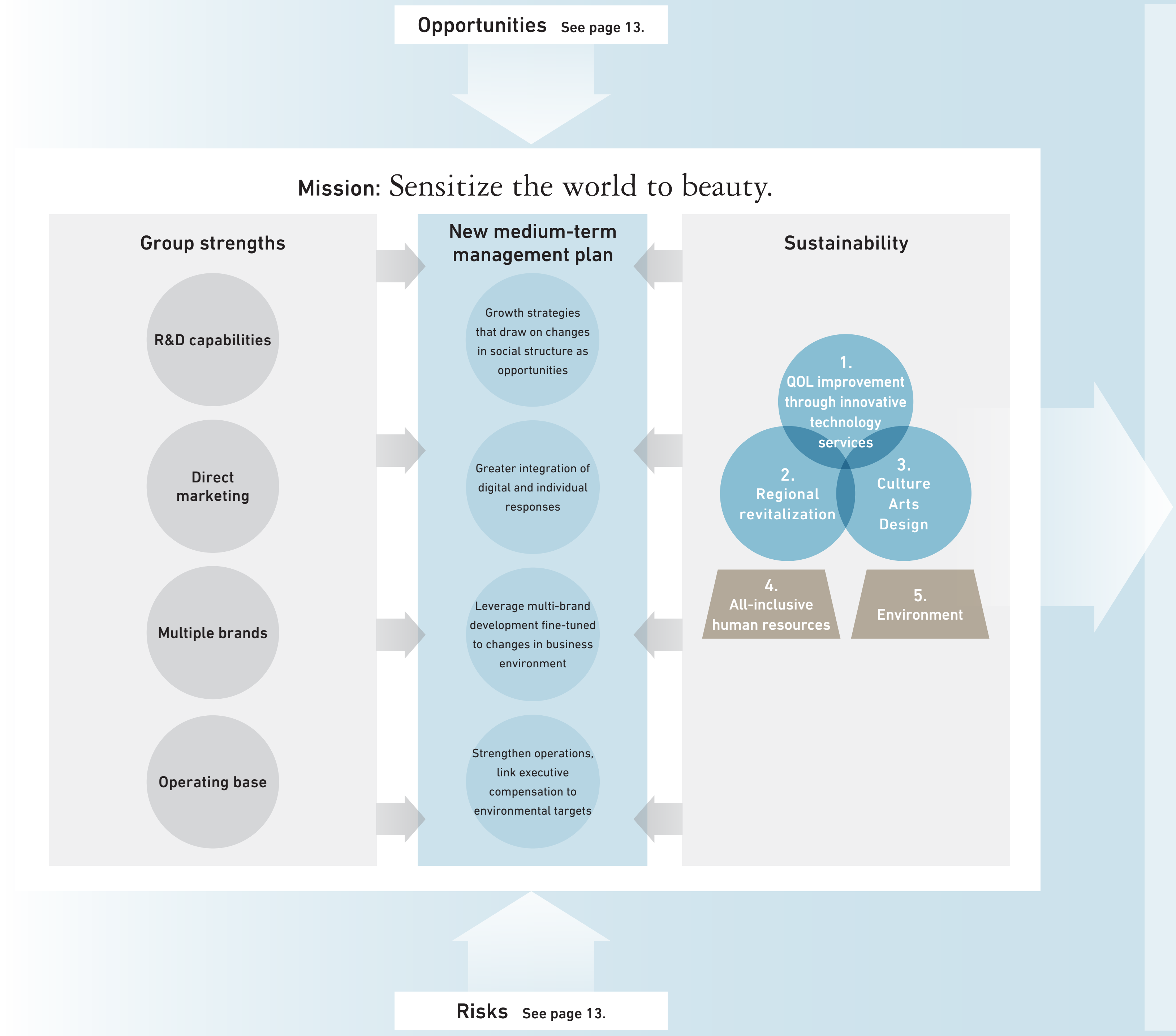
Five non-financial materiality categories and results/KPIs

Item		Explanation	2020 Actual Numbers	Action plan for 2021	Target for 2029
1. QOL improvement through innovative technology services (See pages 36, 37)	(1) Number of new businesses created*1	Develop new services and new fields to meet diversifying needs	Start in 2021	Consider M&A and CVC investment targets; encourage employees to develop new businesses	10 in total (2023 target)
	(2) Enhance work-life balance*1	Improve productivity by diversifying work styles	Start in 2021	Examine job satisfaction/engagement indicators	Set targets in 2021
	(3) Brand recognition and loyalty	Leverage brand characteristics to improve customer QOL	Researched by brand	Emphasize customer communication that embodies brand concepts	Set targets for each brand
	(4) Number of research awards won at home and abroad	Develop seeds for high-value-added proposals	5 (cumulative from 2018)	Take a positive approach to making presentations at academic conferences and submit papers in Japan and overseas	10 in total
	(5) Number of researchers in cutting-edge dermatology research	Develop human resources to expand skin-related research	68 (as of December 31, 2020)	Hire specialists in such areas as dermatology, formulation and data analysis	120
2. Regional revitalization (See pages 38, 39)	(6) Number of regional entrepreneur owners	Foster human resources who influence economic activities	504 (as of December 31, 2020)	Conduct online training of POLA shop owners and hold online recruitment forums	1,200
	(7) Number of initiatives contributing to the local economy*2	Realize collaboration to revitalize regional economies	27 (as of December 31, 2020)	Use online tools, etc., to plan and hold regional support events	78
3. Culture Arts Design (See pages 40, 41)	(8) Number of new brand experiences created that utilized art*2	Develop innovative, trendy products and services	14 (2020 only)	Hold new product launches and develop packaging incorporating artistic elements	20
	(9) Number of participants in liberal arts workshops*2	Cultivate aesthetic sense and personal tastes and give back to society	3,852 (cumulative from 2018)	Provide stakeholders with free art workshops and other opportunities to experience art	550,000
4. All-inclusive human resources (See pages 42–47)	(10) Percentage of female executives*1	Monitor and manage Group target values	27.1%	Promote diversity through management leadership	30–50%
	(11) Percentage of female managers		46.9%	Cultivate system/atmosphere allowing female employees to design career plans	50% or higher
	(12) Percentage of candidates to become management executives	Establish/reinforce pipeline for people with management potential	70.5% (as of December 31, 2020)	Examine strategic personnel measures (Talent Development Committee)	200%
	(13) Number of people leaving the company for health reasons	Achieve balance between sickness prevention/treatment and work	Undisclosed	Improve health management skills and provide health advice	0
5. Environment (See pages 48, 49)	(14) CO_2 emissions (Scope 1 and 2)*2	Actual emissions conforming to SBT 1.5°C scenario	Down 13% (from 2019)	Switch to green power at Fukuroi Factory of POLA CHEMICAL INDUSTRIES	Down 42% (from 2019)
	(15) Water consumption	Scope 1 and 2 per unit of sales	Up 5% (from 2019)	Make capital investments and take water-saving measures in factories	Down 26% (from 2019)
	(16) Waste	Scope 1 and 2 per unit of sales	Down 18% (from 2015)	Set inventory ratio targets for relevant departments and reduce industrial waste	Down 26% (from 2015)

*1: Item added for 2021
*2: Target revised upward for 2021

Value Creation Process of the POLA ORBIS Group

Amid the rapidly changing external environment, we are seizing opportunities and monitoring risks while leveraging our human resources and other capital assets to develop our business.
We have concluded that achieving growth will be difficult with our current business operation due to the prolonged COVID-19 pandemic. For this reason, we are aiming to make growth more certain and sustainable by adding a long-term perspective on sustainability to our medium-term management plan for business recovery.



Financial Indicators

Net sales	Consolidated net sales	¥215.0–225.0 billion in fiscal 2023 CAGR 7–9%
	Overseas sales ratio	20–25% in fiscal 2023 (15% in fiscal 2020) CAGR 20–25%
	Domestic e-commerce sales ratio	30% in fiscal 2023 (24% in fiscal 2020)
Operating income	Operating margin	15% or higher in fiscal 2023
	Operating income	CAGR 30% or higher
Capital efficiency	ROE	12% in fiscal 2023
Shareholder returns	Consolidated payout ratio	60% or higher

Sustainability and Non-Financial Indicators

1	Number of new businesses created	10 in total (2023 target)
	Enhance work-life balance	Set targets in 2021
	Brand recognition and loyalty	Set targets for each brand
	Number of research awards won at home and abroad	10 in total
	Number of researchers in cutting-edge dermatology research	120
2	Number of regional entrepreneur owners	1,200
	Number of initiatives contributing to the local economy	78
3	Number of new brand experiences created that utilized art	20
	Number of participants in liberal arts workshops	550,000
4	Percentage of female executives	30–50%
	Percentage of female managers	50% or higher
	Percentage of candidates to become management executives	200%
	Number of people leaving the company for health reasons	0
5	CO_2 emissions (Scope 1 and 2)	Down 42% (from 2019)
	Water consumption	Down 26% (from 2019)
	Waste	Down 26% (from 2015)

(Through 2029)

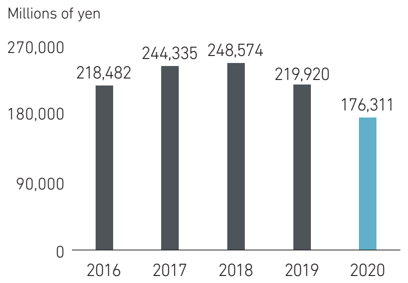
Realizing Our Vision

We will maximize the unique character of each brand, and become a global corporate group that enriches the lives of people around the world.

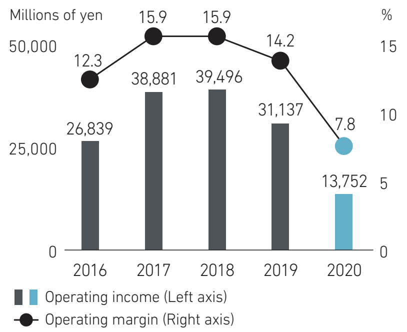
Financial and Non-Financial Highlights

Financial Capital

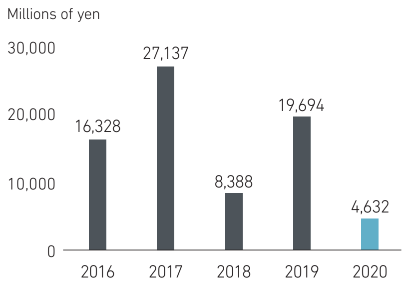
■ Net sales
¥176,311 million



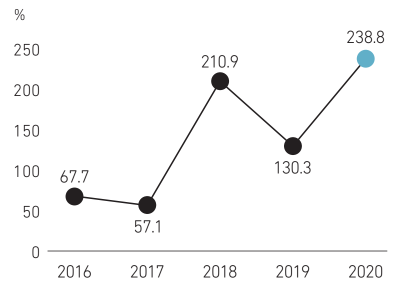
■ Operating income/ Operating margin
¥13,752 million/7.8%



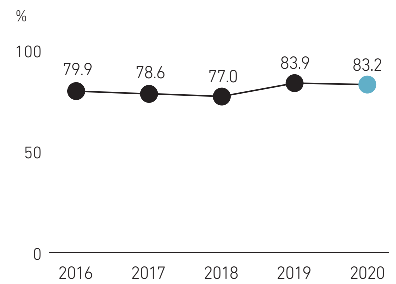
■ Profit attributable to owners of parent
¥4,632 million



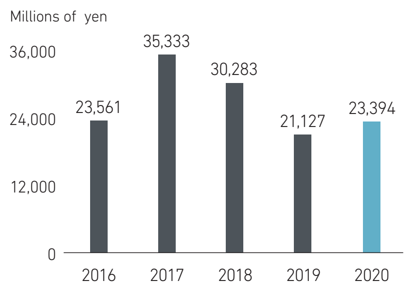
■ Payout ratio
238.8%



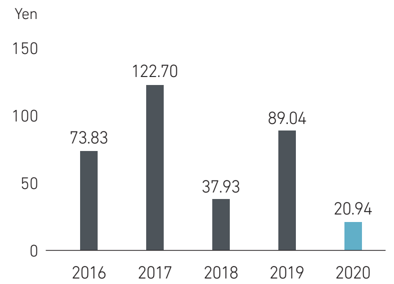
■ Equity ratio
83.2%



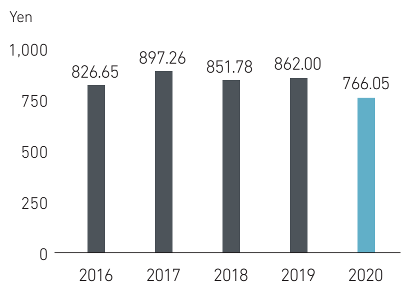
■ Cash flows from operating activities
¥23,394 million



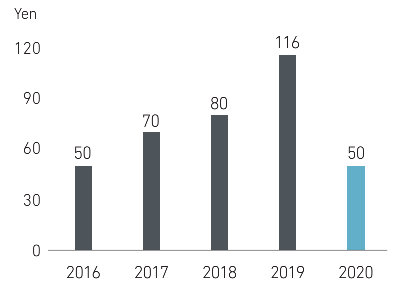
■ Net income per share
¥20.94



■ Net assets per share
¥766.05

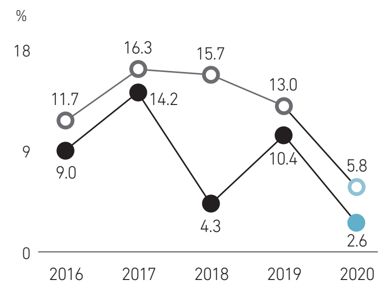


■ Cash dividends per share
¥50

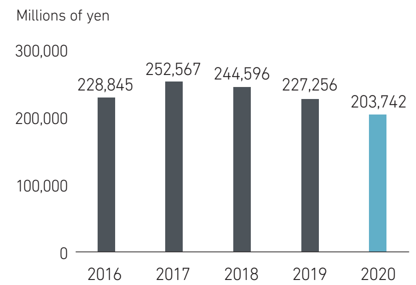


■ Return on equity/ Return on assets
2.6%/5.8%

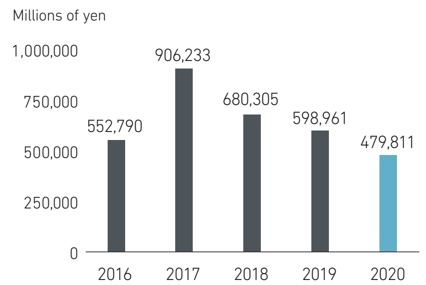
ROE
ROA



■ Total assets
¥203,742 million



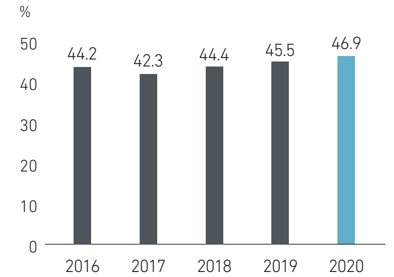
■ Total market value
¥479,811 million



Notes: 1. Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment following revisions to accounting standards in Australia.
2. A four-for-one stock split was executed on April 1, 2017. Per-share information is calculated on the assumption this stock split took place at the beginning of fiscal 2016.

Non-Financial Capital

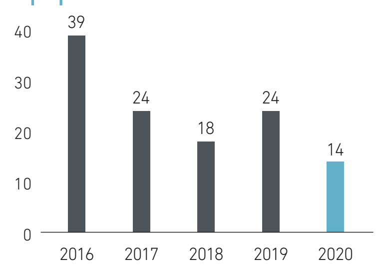
■ Percentage of female managers
46.9%



■ Percentage of executives who completed the Business Innovation Academy course to the total number of executives in the Group
31.3%

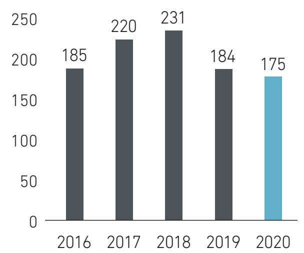
Notes: 1. Excludes part-time directors and outside directors
2. The course was called the Top Management Development Program through 2017.

■ Number of papers presented at scientific conferences by POLA CHEMICAL INDUSTRIES
14



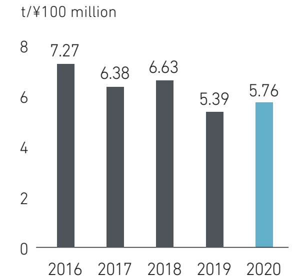
Note: Number in 2020 impacted by COVID-19 pandemic as conferences were postponed or canceled

■ Number of POLA Grand Owners*
175



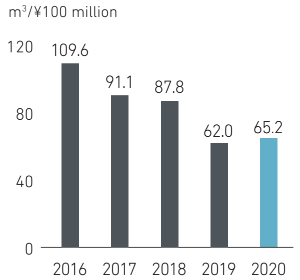
*Group leaders with monthly sales of over ¥10 million
Recognized from actual results achieved from July through December 2020

■ CO_2 emissions (Scope 1 and 2)
5.76 t/¥100 million



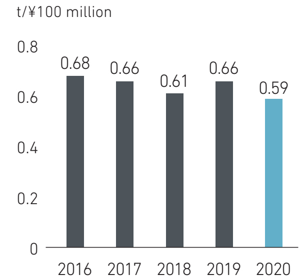
Notes: 1. On a per unit of sales basis
2. Dramatic decrease due to sale of pharmaceuticals company under Group umbrella in 2019
For 2020, estimates are used since third-party confirmation is in process.

■ Water consumption
65.2 m^3/¥100 million



Notes: 1. On a per unit of sales basis
2. Dramatic decrease due to sale of pharmaceuticals company under Group umbrella in 2019

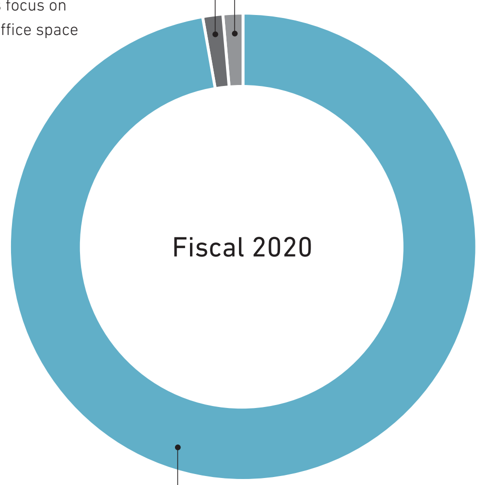
■ Waste
0.59 t/¥100 million



Note: On a per unit of sales basis

Business Structure and Brand Portfolio

Net sales by business segment

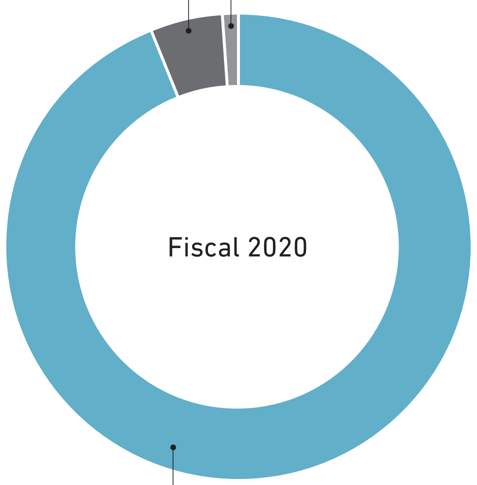


Real Estate
¥2,291 million
Business focus on leasing office space

Others
¥2,361 million
Building maintenance businesses

Beauty Care
¥171,658 million
Core business built on nine cosmetics brands, with emphasis on POLA and ORBIS

Operating income by business segment

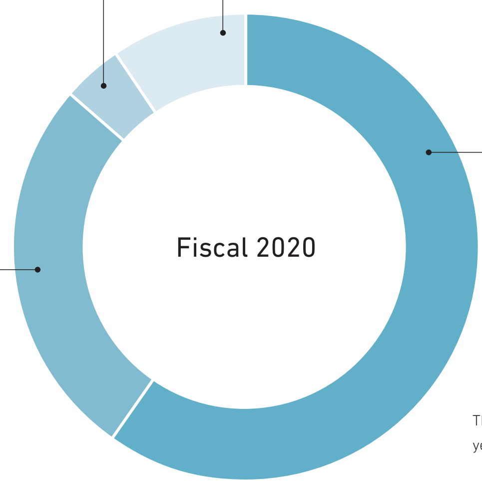


Real Estate
¥710 million

Others
¥128 million

Beauty Care
¥12,965 million

Beauty Care business sales by brand



Brands under Development
¥16,186 million (-16.7%)

Overseas Brands
¥7,166 million (-22.4%)

POLA
¥102,888 million (-24.1%)

ORBIS
¥45,415 million (-10.5%)

The percentage in parentheses indicates year-on-year change.

Flagship Brands

POLA

ORBIS

Overseas Brands

Jurlique

H2O+

Brands under Development

THREE

DECENCIA

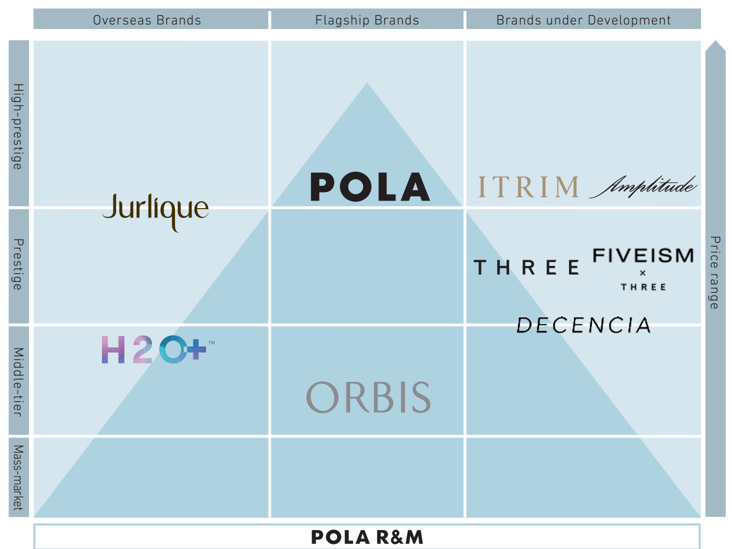
Amplitude

ITRIM

FIVEISM × THREE

Brand portfolio

The POLA ORBIS Group pursues businesses related to beauty and health, centering on cosmetics, a segment that dates back to 1929 and the establishment of POLA INC. As of 2020, the Group's cosmetics portfolio centers on POLA and ORBIS but comprises nine brands in total, each with its own concept, sales channels, price range and distinctive appeal matched to diversifying customer lifestyles and needs.



Changes in Beauty Care business sales by brand over the past five years (2016–2020)

Millions of yen

	2016	2017	2018	2019	2020
POLA	116,126	144,012	150,183	135,502	102,888
ORBIS	55,857	53,066	51,051	50,726	45,415
Overseas Brands	15,665	15,075	12,428	9,235	7,166
Brands under Development	14,796	14,978	17,544	19,421	16,186

Growth Strategies by Brand
(Flagship Brands)

POLA

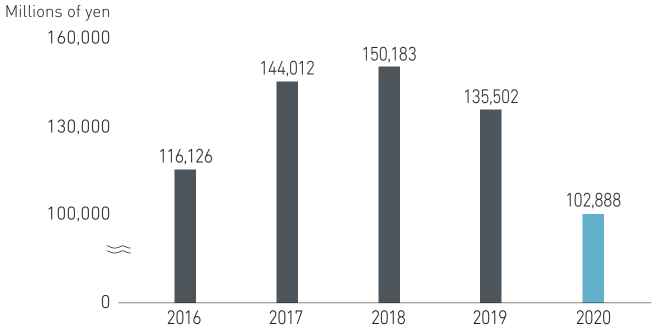
High-prestige skincare brand specializing in anti-aging and skin-brightening fields

Sales channels	Consignment sales (POLA THE BEAUTY, Esthe Inn, conventional door-to-door business), department stores, directly operated retail stores, travel retail and e-commerce
Market presence	Japan, China, South Korea, Hong Kong, Macao, Taiwan, Thailand, Singapore


B.A series *White Shot* series *Wrinkle Shot* series

Net sales

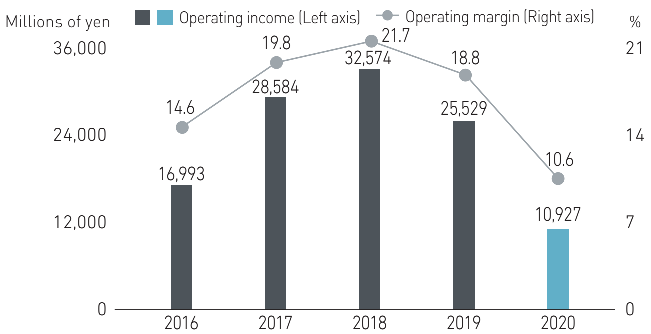
¥ **102,888** million (down 24.1%)



Note: Consolidated basis

Operating income and operating margin

¥ **10,927** million (down 57.2%)



Note: Consolidated basis

President's message

Miki Oikawa
Representative Director and President
POLA INC.

Due to the spread of COVID-19, 2020 was a year of major changes in the external environment that we had never experienced before. At POLA, we introduced an online consulting service using Zoom and rolled it out to shops nationwide, further increasing opportunities to meet and connect with customers. By exploiting the unique characteristics of the online domain, which allows us to connect easily without being bound by physical distance or time, we believe we can deepen relationships with our customers and improve the value we provide in this "new lifestyle" era.

On the products front, we fully renewed our premier brand, *B.A*. In the new *B.A* lineup, we have incorporated our "Epi-Firmness Network theory," which focuses on giving the skin a sense of elasticity, based on the belief that the positive power we create through our lifestyles and environments is the key to expanding our true beauty. With the launch of the new *B.A*, we will further expand POLA's share of the high-prestige cosmetics market.

In 2020, POLA became a signatory to the Women's Empowerment Principles (WEPs), a set of standards for action jointly developed in March 2010 by the UN Global Compact and UN Women to actively promote the advancement of women. We will expand opportunities for ambitious and capable women to play active roles, while working to create environments allowing everyone to fully demonstrate their abilities regardless of gender. In June 2020, meanwhile, we formulated our Sustainability Policy, which aims to create a society in which everyone can "live beautifully," and we also set targets for SDGs for the period up through 2029. One of our goals is to "eliminate various 'barriers' related to gender, age and regional disparity." By further promoting women's empowerment and diversity, we aim to create environments where all people can play active roles and thus help foster a sustainable society.

Fiscal 2020 results

At POLA, we are working to introduce high-value-added products centered on anti-aging and skin-brightening items, and to attract customers with high retention rates through consulting and aesthetic treatments. In terms of products, our new fully updated *B.A* lineup has exceeded the company's projections and received warm praise in the high-prestige cosmetics market, winning many top prizes.

Overseas, sales in China and at duty-free stores in South Korea remained strong, both increasing around 60% year on year, while our overall overseas business grew 31% year on year.

In Japan, we stepped up investments in the e-commerce channel, which had been a focal strategy before the COVID-19 pandemic, and e-commerce sales jumped 60% year on year as a result. In the e-commerce channel, we were successful in attracting new customers. As the purchase rate of skincare products is high, even for e-commerce, we look forward to high repeat rates and lifetime value.

On the other hand, many stores were forced to close or shorten business hours under the government's state of emergency declarations, and people tended to refrain from going out and to avoid direct contact even after the declarations were lifted. This situation greatly affected our efforts to attract new customers through trial aesthetic treatments and face-to-face consulting, and our consignment sales and department store channels struggled as a consequence. In addition, the worldwide spread of COVID-19 led to travel restrictions and sharp declines in inbound demand and buyer demand. Accordingly, net sales declined 24.1% year on year, and operating income fell 57.2%.

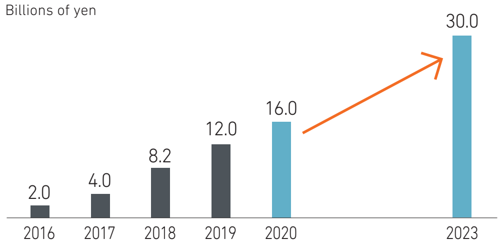
Key issues pinpointed	• Strengthen domestic EC and build a cross-channel digital platform to realize POLA's unique OMO strategy • Establish global brand presence, especially in China, and expand customer contact points

Future measures

Accelerate growth of overseas business centered on China
In China, expanding customer contact points is an urgent issue. In addition to department store counters, we will open unique channels, including stores that offer facial aesthetic treatments. Our plan is to increase the number of stores from 51 at the end of 2020 to around 110 over the next three years. We will pursue value by leveraging our strengths in value-added products and facial aesthetics, and thoroughly conduct extensive marketing aimed at maximizing lifetime value.

We will also start developing a new travel retail business in China. Specifically, we have established a new company to oversee the travel retail business of the POLA ORBIS Group to share know-how, improve efficiency and speed up decision making.

Overseas net sales

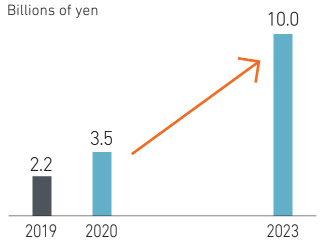


Store at ifc mall in Shanghai

Emphasize direct sales in Japan
In the meantime, we will work on POLA's original OMO platform. By integrating customer management and communication, which have traditionally been separated by channel, we will increase engagement with customers. In consignment sales, we will strengthen our ability to make more personalized proposals using the new OMO platform. We will also use digital technology to increase customer contacts and expand our customer network into the online domain.

Strengthen e-commerce
In e-commerce, we will focus on attracting new skincare customers with highly differentiated items such as *Wrinkle Shot Serum*. We will also build a business model with high levels of continuity and profitability. Our aim is to generate e-commerce net sales of ¥10 billion in 2023.

Domestic e-commerce sales



ORBIS

Skincare brand that brings out the beauty inherent in each person

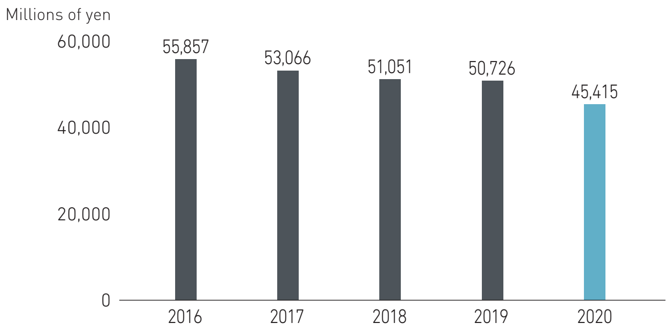
Sales channels	Mail-order business (Internet and catalog), directly operated retail stores and travel retail
Market presence	Japan, China, Taiwan, Singapore and South Korea


ORBIS U series


ORBIS U. series

Net sales

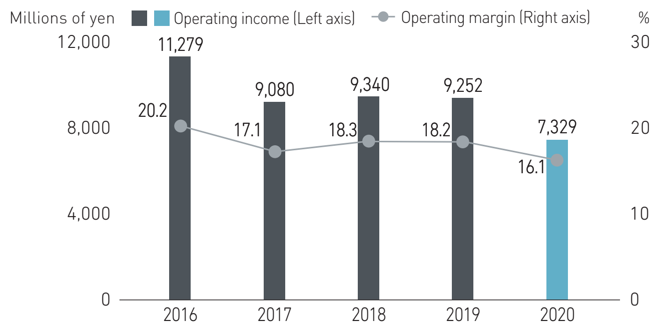
¥ 45,415 million (down 10.5%)



Note: Consolidated basis

Operating income and operating margin

¥ 7,329 million (down 20.8%)



Note: Consolidated basis

President's message

Takuma Kobayashi
Representative Director and President
ORBIS Inc.

At ORBIS, we offer SMART AGING® solutions that enable people to age naturally in their own way by releasing their innate strengths. Under our business domain, defined as a "beauty brand focusing on skincare," we offer customers anti-aging skincare proposals that draw out the maximum strength and beauty within each person, rather than simply "providing" anti-aging skincare. In February 2020, we launched *ORBIS CLEANSING CREAM* as our third signature brand product following *ORBIS U* and *DEFENCERA*, and in September we launched the *ORBIS U.* series as the high-end line of our *ORBIS U* series. These products have received high praise from the market, winning a Best Cosmetics of 2020 award from a prominent beauty magazine. During the year, we also launched new services including the AI Eyebrow Simulator, which suggests suitable eyebrow shapes and how to care for them by simply taking a picture with a smartphone, as well as the AI Future Skin Simulation, which predicts your future appearance based on your current skin condition and recommends the care you need now. Placing our software app at the core of our customer communication, we will leverage our extensive experience, built on advanced technologies, to help customers discover their own beauty and become the person they want to be.

In April 2021, we launched *cocktail graphy*, a new personalized skincare service that uses an IoT device. This service helps customers enjoy more comfortable skincare experiences, made possible only by ORBIS, whose brand message is "Simply you. Simply beautiful." Please stay tuned in.

Fiscal 2020 results

To shift business into high-earning mode and return to a growth trajectory, ORBIS is working to enhance market presence by making the brand more distinctive. Due to the government's state of emergency declarations, all our directly managed stores in Japan were temporarily closed. Nevertheless, our sales staff provided personal chat services for customers who were reluctant to go out. We also took steps to strengthen our online presence, including measures such as proactively directing customers from physical stores to our e-commerce site. However, net sales declined 10.5% year on year, and operating income fell 20.8%. This outcome was due to the large impact of store closures and a decline in the number of store visitors, as well as our revised strategy for the ORBIS brand, where we shifted our emphasis from customers attracted by price to those attracted by value. By contrast, we achieved a significant 40% year-on-year increase in new customers, reflecting our efforts to expand our product lineup with the launch of new products—such as *ORBIS CLEANSING CREAM* and *ORBIS U.*—and our investments in targeted advertising, focusing on the Internet. We are also making steady progress on improving the structure of our mail-order business, including increasing the average unit price of products and raising the ratio of sales of skincare products to total sales.

Key issues pinpointed	• Boost retention rate of target customers and maximize lifetime value • Improve e-commerce sales ratio to 70%* • Target operating margin of 20%

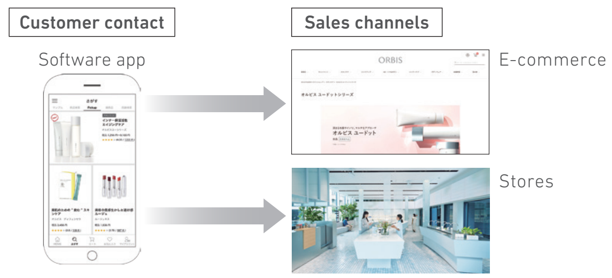
*As percentage of domestic sales

Future measures

Establish solid presence as a skincare brand
In addition to ongoing efforts to attract new customers through our mainstay *ORBIS U* and *ORBIS U.* series, we will introduce other high-value-added items and increase the ratio of skincare products. In February 2021, for example, we launched a new skin-brightening product called *White Clear Essence*.


White Clear Essence

Accelerate digital transformation
Placing our software app at the core of our customer communication, we will provide personal analysis and other services unique to ORBIS to increase engagement with customers. We will also step up investments in digital marketing and e-commerce while shifting resources to strategic fields.



Launched *cocktail graphy*, a personalized skincare service using an IoT device called the Skin Mirror

In April 2021, we launched *cocktail graphy*, a personalized skincare service enabling users to "engage only with their own skin." This service utilizes the Skin Mirror, which allows users to analyze their own skin condition at home anytime. The Skin Mirror is a skin measurement IoT device originally developed by ORBIS. The results of skin condition analyses are automatically recorded in the dedicated app, allowing users to accurately monitor their skin condition at all times. Going forward, we will provide three personalized skincare products tailored to each individual's skin condition regularly. These products will be based on each user's skin-related data stored daily, as well as local weather information, skin-related concerns and lifestyle habits.

Growth Strategies by Brand
(Overseas Brands)

Jurlique

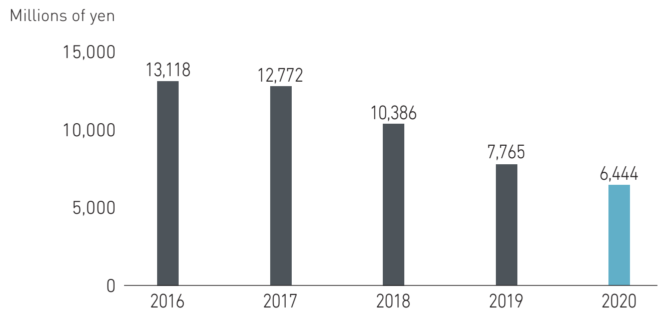
Natural skincare brand utilizing the power of plant ingredients cultivated at a company-owned farm in southern Australia

Sales channels	Department stores, directly operated retail stores, travel retail and e-commerce
Market presence	Sold in 20 countries and regions, mainly Australia, China and Hong Kong


Nutri-Define series

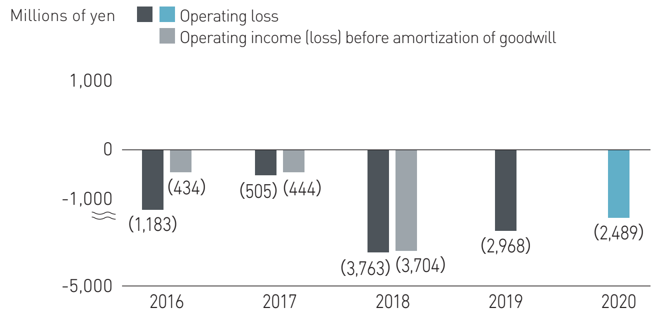
Net sales

¥ 6,444 million (down 17.0%)



Operating loss

¥ 2,489 million (—)



Note: Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment following revisions to accounting standards in Australia.

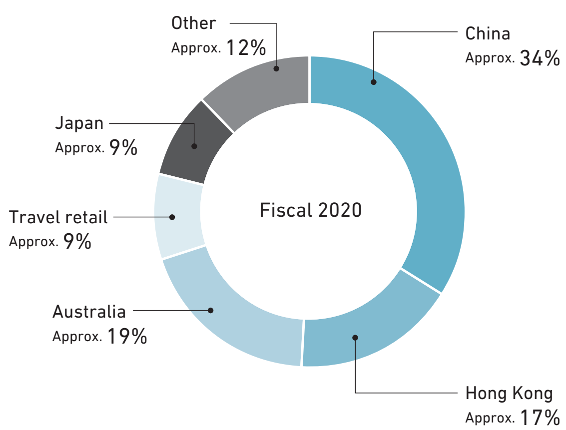
Fiscal 2020 results and future measures

Key issues pinpointed	• Top priority of shifting from loss reduction to profitability

Jurlique is committed to business growth in Asia, centered on China, as well as in Australia. On the products front, in January 2020, we launched the renewed *Nutri-Define* series, our mainstay anti-aging care series that draws on the POLA ORBIS Group's R&D expertise. In China, where we have directly managed our business since January 2020, we focused on live online streaming and the use of social media, resulting in healthy e-commerce sales. We are also beginning to see the results of our direct brand management strategy. In Australia, however, directly managed stores and department stores were closed due to the ongoing lockdown, and sales at travel retail channels also declined. As a result, net sales fell 17% year on year. For the year, we were able to reduce losses thanks to structural reforms that included downsizing headquarters and closing unprofitable stores.

In 2021, we will work to improve profitability by increasing the e-commerce sales ratio, with China as our key market. In terms of products, we will concentrate our marketing efforts on our star skincare products to improve the repeat purchase rate. In the meantime, we will strive to increase top-line sales with a view to turning a profit in 2022.

Net sales breakdown by region



H2O+

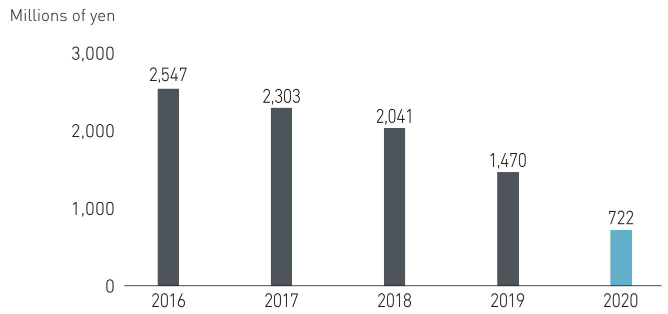
Skincare brand with a concept of innovation and the power of pure water

Sales channels	E-commerce and hotel amenities
Market presence	Sold in four countries and regions, mainly North America


Hydration Age Renew Collection

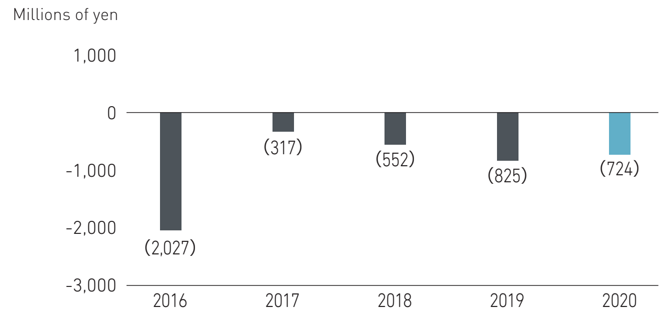
Net sales

¥ 722 million (down 50.9%)



Operating loss

¥ 724 million (—)



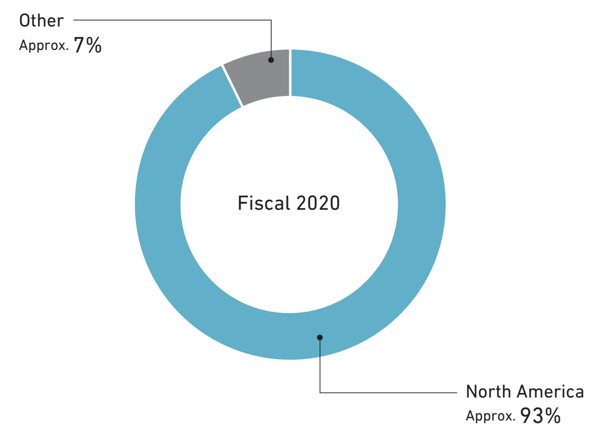
Fiscal 2020 results and future measures

Key issues pinpointed	• Top priority of shifting from loss reduction to profitability

H2O PLUS is narrowing its sales channels and concentrating on its e-commerce and hotel amenities businesses to return to profitability. Sales in the e-commerce business increased year on year, reflecting our deployment of ORBIS personnel with expertise in that business to hone our advantage. However, sales in the hotel amenities business, which accounts for a high percentage of H2O PLUS sales, declined significantly. This was due to temporary closures by business partners stemming from the spread of COVID-19. As a result, total H2O PLUS sales declined 50.9% year on year. However, our efforts to cut fixed costs led to a decrease of the operating loss.

In 2021, we will launch the *Hydration Age Renew Collection*, a series of strategic anti-aging products. Our aim is to strengthen our brand appeal in the "clean beauty" category, which is expected to grow, under the concept of "Japan-designed Clean Skincare." We will continue to focus on attracting new customers and making them repeat customers through e-commerce sales.

Net sales breakdown by region



Growth Strategies by Brand
(Brands under Development)

THREE


Balancing series


Dimensional Vision Eye Palette Ally

Skincare and makeup brand featuring naturally derived ingredients extracted from plants

Sales channels	Directly operated retail stores, department stores, travel retail, semi-self-select cosmetics stores and e-commerce
Market presence	Japan, South Korea, Thailand, Taiwan, Malaysia, Hong Kong, Singapore and China

Amplitude


Base makeup series

High-quality, high-prestige makeup brand originating in Japan

Sales channels	Department stores, travel retail and e-commerce
Market presence	Japan, South Korea and China

ITRIM


Skincare series

Premium skincare brand infused with plant ingredients extracted with meticulous attention to quality

Sales channels	Department stores, travel retail and e-commerce
Market presence	Japan, South Korea and China

FIVEISM × THREE


Men's makeup

Industry's first comprehensive cosmetics brand for men centered on makeup

Sales channels	Directly operated retail stores, department stores, travel retail and e-commerce
Market presence	Japan and China

DECENCIA

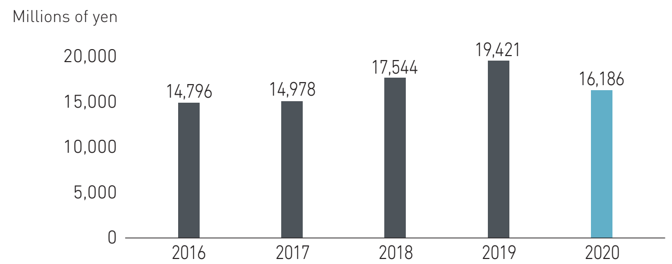

ayanasu series

Skincare brand for dry, sensitive skin

Sales channels	E-commerce and a department store
Market presence	Japan and China

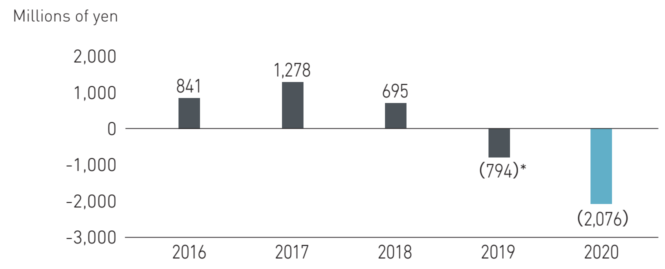
Net sales

¥16,186 million (down 16.7%)



Operating loss

¥2,076 million (—)



*Due to launch of new brands

Fiscal 2020 results

ACRO

ACRO's brand portfolio comprises THREE, Amplitude, ITRIM and FIVEISM × THREE. In line with its corporate philosophy "to create the beauty of the era through a well-honed sense of style," the company is emphasizing lifestyle solutions based on THREE and the development of three new brands to promote new market value and cosmetics culture. Sales of the THREE brand were significantly impacted by falling demand for makeup products and customer visits to consulting stores, as people refrained from going out and routinely wore masks in response to the COVID-19 pandemic. During the year, we strengthened sales of holistic care products for skincare, body care, haircare and inner care. We also sought to expand our own e-commerce business by shifting our sales investments to digital marketing, including using social networking to send out information and holding online workshops. As a result, domestic e-commerce sales jumped 90% year on year. However, overall net sales of ACRO declined 26.9% year on year, and the operating loss expanded due to a decrease in gross profit.

DECENCIA

DECENCIA, a line of anti-aging cosmetics and skin-brightening products that can be used with peace of mind by people with sensitive skin, is marketed under the concept "sensitive skin can be beautiful limitlessly." In 2020, our unique business model combining e-commerce and subscription sales demonstrated its strengths amid changing social conditions and purchasing behavior caused by the spread of COVID-19. On the products front, we reported healthy sales of the *ayanasu* Trial Set and a wrinkle-improving oil-based serum called Wrinkle O/L Concentrate. These results contributed significantly to improvements in the number of new customers acquired and acquisition efficiency per customer. In April 2020, we started cross-border e-commerce business in China in anticipation of overseas expansion. As a result, DECENCIA enjoyed double-digit increases in revenue and earnings, with net sales up 17.3% year on year and operating income up 16.7%.

Future measures

ACRO

Changes in consumer behavior triggered by the spread of COVID-19 have significantly impacted the business models of each brand under ACRO, which depends mainly on sales at department stores and other storefront operations. In response, we will review the number of products and concentrate on product categories that maximize each brand's strengths. We will also clarify the roles of e-commerce and retail stores, step up overseas development and reduce the cost of sales ratio, to achieve both renewed brand growth and improved profitability.

DECENCIA

While the number and efficiency of new customer acquisitions increased in 2020, retention of newly acquired customers will be a challenge in the future. We will continue working to raise brand awareness in the sensitive-skin market by clarifying the value provided by our brands to the market. In this way, we will attract new customers and improve the retention rate through stronger CRM. In terms of costs, we will continue improving cost efficiency, especially with respect to advertising and promotion, to increase profitability.

1 Quality of Life Improvement through Innovative Technology Services

Innovative technology services enrich customers' lives

The POLA ORBIS Group's research and development contribute to enhanced quality of life because the targets of research and development are not only the skin but the entire body and because results are quickly turned into technology for use in products and services.

Improving corporate value by putting materiality measures into practice

Background to materiality measures

- The POLA ORBIS Group has collected resources to tackle wrinkles and dark spots—two of the biggest skincare concerns of women—and filled its R&D reservoir with original ingredients, patents and materials found nowhere else in the world. Research goes beyond the skin to complete body care.
- A varied, multi-brand approach is applied to research activities to help improve quality of life for targeted customer groups, each characterized by different lifestyles and different needs.

Contributions to the Group's growth

- Attract new customers with products featuring original ingredients and new materials and backed by patents
- Draw on constant innovation to fuel business continuity and underpin platform for stable growth

Working to Achieve KPIs—Track Record for 2020 Major Activities

Measures	2020 Results	Major Activities in 2020
Brand recognition and loyalty	— (calculated for each brand and thus not disclosed)	**DECENCIA** Ran web-based advertisements to address changes in social environment and consumption/purchasing behavior due to COVID-19 pandemic **ACRO** Number of live-streaming events and workshops • Online workshops (steps to strengthen existing base makeup line, lessons on how to use autumn/winter collection, lessons on how to use new body care line) • Live streaming by artists on official social media account
Number of research awards won at home and abroad	5 (cumulative from 2018)	**POLA CHEMICAL INDUSTRIES** • Young Fellow's Award and Young Researcher Encouragement Award from Japan Oil Chemists' Society (JOCS) TOPICS • Excellent Presentation Award from the Japanese Psychological Association
Number of researchers in cutting-edge dermatology research	68 (as of December 31, 2020)	**POLA CHEMICAL INDUSTRIES** • Hired new graduates and midcareer specialists in such areas as dermatology, formulation and data analysis

Set up new organization to achieve practical application of research results as quickly as possible

The Multiple Intelligence Research Center (MIRC) was established under the POLA ORBIS Group umbrella in 2018 to coordinate research activities within the Group and gather technology-related information. MIRC is tasked with drafting research strategies from a Group-oriented, long-term growth perspective, undertakes programs aimed at maximizing research results and promotes overall innovation Groupwide through external collaboration.

To reinforce basic research—the source of the Group's R&D strength—we welcomed the opening of the Frontier Research Center (FRC) at POLA CHEMICAL INDUSTRIES and took strategic steps to boost the ratio of R&D expenses to sales as well as the number of researchers on staff. The scope of research was significantly broadened. Research targets, which previously focused on the skin, were expanded to cover the entire body, and three categories—science, life and communication—were created to underpin a multi-faceted approach to research.

MIRC is marking steady progress in open innovation, and FRC is developing new materials and creating pipelines. However, these are challenging and unpredictable times, driven by rapid changes in society brought about by the COVID-19 pandemic. It is vital for us to accelerate new value creation with an emphasis on greater innovation and, toward this end, we will establish the Technical Development Center (TDC) to enhance technology development capabilities in the Group. The center will combine research, development and production activities and greatly reinforce a structure that generates new value.

The establishment of TDC, complementing MIRC and FRC, will speed up the Group's ability to bring products to market, ensuring the timely and continuous release of other unparalleled products.

TOPICS

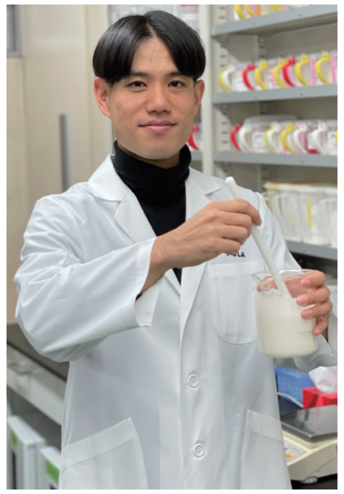
Double win for research on new-texture cleansing formulation

POLA CHEMICAL INDUSTRIES actively encourages its researchers to announce results and submit papers at scientific conferences at home and abroad.

In 2020, Kazuki Matsuo, a researcher at POLA CHEMICAL INDUSTRIES, captured two awards—the JOCS Young Fellow's Award and the Kanto Branch's Young Researcher Encouragement Award for "New Stability Conditions of O/W Type Cleansing Cream: The Importance of the Crystal Structure of the Interface." The double award from the Japan Oil Chemists' Society to a cosmetics maker is a first.

The society promotes science and technology targeting oils, fats, surfactants and related substances, and strives to contribute to industry development and activity as well as improve consumer health. Its awards encourage progress in science and technology in related fields and recognize researchers who achieve outstanding results in their area of expertise. Recipients of the Young Fellow's Award are 35 years old and under, while recipients of the Young Researcher Encouragement Award are under 40 years old. Both awards showcase young researchers with exemplary capabilities.

The winning research highlights key technology that enables a rich cream to melt into an oil-like consistency on the skin. Unlike anything available before, the cream's texture appeals to the senses. The technology has been applied to *ORBIS CLEANSING CREAM,* which debuted in February 2020.


Kazuki Matsuo, Researcher

The technology has potential beyond cleansing creams for various other formulations and could be used to create innovative products with textures that surprise and amaze, while aiming to cultivate new markets. This will not only raise corporate value over the long term but also contribute to further development of the cosmetics industry.

Regional Revitalization

Enriching the lives of local people

The POLA ORBIS Group is always grateful to the communities in which it does business and aims to grow together with them.

Improving corporate value by putting materiality measures into practice

Background to materiality measures

- The Group has a history of fostering female entrepreneurs in local communities. Indeed, we have provided work opportunities to women since 1937, when few women were in the workforce.
- At POLA, around 35,000 Beauty Directors, as of December 31, 2020, provide consulting to deepen communication with customers and offer various experiences to stimulate sensitivity.

Contributions to the Group's growth

- POLA offers unique value because it is closely attuned to social issues that only women living in their communities can understand. Grand Owners, who have the responsibility of sales operations, play a central role in advancing activities to increase our presence in their regions. In this way, they raise brand awareness and enthusiasm in regional areas, which leads to creating future customers.
- For other brands, we are also building relationships with local communities and increasing their profiles.

Working to Achieve KPIs—Track Record for 2020 Major Activities

Measures	2020 Results	Major Activities in 2020
Number of regional entrepreneur owners	504 (as of December 31, 2020)	**POLA** Japan: Developed organizations (scale of ¥5 million in monthly sales) with an influential presence in the region China: Opened five POLA THE BEAUTY-style shops
Number of initiatives contributing to the local economy	27 (as of December 31, 2020)	**Cross-Group** • Joint project with Shimane Prefecture TOPICS (test of BIHADA-WELLNESS TOURISM) **POLA** • Comprehensive partnership agreement (Akita Prefecture and cities of Kitakyushu, Senboku and Fuji) **ORBIS** • Offered beauty course designed for working women • Developed Koshu City ORBIS Forest in Yamanashi Prefecture (embodiment of ORBIS brand concept of "healing by science") • Managed "ORBIS Kumamoto Future Fund" for fourth year (for disaster-stricken areas and female business start-up support) **POLA CHEMICAL INDUSTRIES** • Interacted with local public organizations (including clean-up campaigns and flower-bed planting) **ACRO** • Procured natural ingredients under "local production for local consumption" concept **Jurlique** • Contributed to community affected by bushfires **P.O. TECHNO SERVICE** • Under partnership agreements with Minato-ku, a ward in Tokyo, and the city of Nagoya, carried out environmental beautification activities with volunteer groups and tenants • Carried out local environmental beautification activities with students and staff of Shizuoka Sangyo University • Implemented local clean-up and flower-bed upgrades with city of Fukuroi, shopping district associations and other participants

Producing female entrepreneurs who face social issues and brighten their communities

POLA, with a network of about 3,800 shops in Japan, including POLA THE BEAUTY, as of December 31, 2020, leaves the operation of shops and the implementation of sales activities to on-site Beauty Directors. The company defines the work of Beauty Directors as "enabling women to achieve their ideals and desired way of life" and runs educational programs, including approaches to enhance people skills, to underpin sales of merchandise.

The work of Beauty Directors starts with building one-on-one connections with customers. Next they develop the skills of staff as they themselves move up the ranks to the position of shop owner. Then they become leaders of multi-shop operations. POLA's goal is to enable women to engage with their communities while conveying POLA value, and through this process they—and by extension, POLA—grow along with the community. A yardstick to measure influence in the community is monthly sales of ¥5 million, and POLA has set the number of owners as a KPI. Nearly all the owners are women who live where they work and see commercial opportunities from a local consumer perspective. Consequently, they are close to real issues in the community, such as population decline, and play active roles in energizing the community.

In Japan, worsening business results—a consequence of the COVID-19 pandemic—have led to job losses, with contract employees and temporary staff hit harder than full-time employees. This has become an obvious social issue, one that tends to affect women more than men. POLA believes in the potential of women and presents diverse work styles that enable women to demonstrate their abilities as entrepreneurs (private business owners).


Mobile aesthetic "salon car" delivers beauty experience

Mamiko Yamashita, a Grand Owner in Tajimi, Gifu Prefecture, who understands social issues such as nursing care for seniors in a graying society, the nuclearization of families and poverty among single-parent households, undertakes basic activities that provide a place for women in the community to thrive as POLA Beauty Directors. Recently, Ms. Yamashita has been going out in her van—a "salon car"—to areas where beauty services are not available to deliver the enjoyment that beauty services can provide. She also makes special stops to provide aesthetic treatments to customers unable to visit a shop.

A high profile in the community, driven by such activities, helps POLA expand its business.

TOPICS

Elevate aesthetic sense along with community and plan experience-based tours for women with highly developed sensitivity—Lifestyle change and regional renaissance

BIHADA-WELLNESS TOURISM—an idea with business potential entered in S-Booster, a space-based business idea contest launched by the Cabinet Office of Japan—won the Sponsor's Prize in 2019. Targeting women with a keen interest in traveling with aesthetic sense, this business draws on insights accumulated by companies within the POLA ORBIS Group about skin and physical condition as well as analysis of satellite data on atmospheric factors that affect the skin. This approach facilitates personalized, high-value learning and access to beauty, spa, diet, sleep and aesthetic content, emphasizing arts and culture.

Backed by the concept of skin wellness, BIHADA-WELLNESS TOURISM gives participants the opportunity to enjoy tourism resources specific to a certain area and access to local experts, a combination that promotes beauty and energizes both mind and body. The experience may even prompt a positive change in lifestyle when participants return home. A complementary goal is to support regional renaissance by using tourism resources. New content will be developed in discussion with local providers.

The first area tapped as a tourism candidate is Shimane Prefecture and, in cooperation with the Shimane Tourism Promotion Office and the Shimane Tourism Association, discussions are currently in progress to turn the idea into a marketable business. BIHADA-WELLNESS TOURISM was tested in Shimane Prefecture in 2020, winning positive reviews for both the concept and the experience. Many participants asked to receive content on an ongoing basis even after the tour ended, an indication that tourism, as a business, will attract customers who buy products or seek advice at shops close to home as well as customers who repeatedly purchase local skin-beautifying foodstuffs through e-commerce channels.

Going forward, POLA ORBIS HOLDINGS will establish tourism as a business and add more destinations to the travel list.



Feast experience—Japanese and Western versions—entirely made with the same ingredients from Shimane Prefecture (left: Japanese dishes, right: Western dishes)

3 Culture, the Arts, Design

Adding color to people's lives through culture and the arts

The POLA ORBIS Group has long supported cultural and artistic activities that foster people's inner beauty. We identify culture, the arts and design as important elements of our business development.

Improving corporate value by putting materiality measures into practice

Background to materiality measures

- To create new things in times of uncertainty, it is essential to activate the sensitivity of employees and strengthen their ability to identify issues and communicate.
- By collaborating with highly perceptive artists, we endeavor to provide content that stimulates the sensitivity of our customers.

Contributions to the Group's growth

- We deliver timely creative work to increase the number of customers who empathize with our brand value.
- By using art in our training programs, we foster employees who are sensitive to current issues and understand how to deploy their individual traits.

Working to Achieve KPIs—Track Record for 2020 Major Activities

Measures	2020 Results	Major Activities in 2020
Number of new brand experiences created that utilized art	14 (2020 only)	**POLA** • Products (*B.A*, B.A COLORS, DEUXART) TOPICS • Communication (*Shiro-no-bijutsukan* (The White Museum of Art), MIRAIBI) **POLA ORBIS HOLDINGS** • Art gallery operation TOPICS **ORBIS** • Experiential specialized facilities: Takram (buildings, interiors), SUÉSADA (uniforms), Yuri Miyauchi (background music) **ACRO** • T-shirt collaboration with leading domestic fashion brands for limited-quantity sales to commemorate opening of VISIONARIUM THREE SHIBUYA concept shop
Number of participants in liberal arts workshops	3,852 (cumulative since 2018)	**Group companies** • For employees: Provided Groupwide programs and human resources training **P.O. REAL ESTATE** • For stakeholders: Ran workshops for residents of rental condominiums and held exhibitions highlighting culture and the arts at Aoyama Studio

TOPICS

Articulating brand message through power of art

POLA launched the sixth-generation *B.A* series in 2020. The company drew on a proposal from floral artist Makoto Azuma, who used X-ray photographs of plants to convey the *B.A* concept of "every woman has infinite possibilities," revealing hidden dimensions of beauty in life such as dense vein structure, buds ready to open and seeds of new life. This science-based artwork transcends what the eye can see and captures the essence of beauty beneath the surface, embodying the brand message of unlimited possibilities for product users.

TOPICS

Gallery provides many people a place where high-quality art revitalizes their spirits

The POLA Museum Annex features a wide variety of displays, including the POLA collection and other contemporary art. With these displays, which are free of charge, we aim to convey the POLA ORBIS Group's unique value to stakeholders in Japan and overseas.

In November and December 2020, the gallery held its first charity auction, Christmas Smile. All 20 artists (listed below) involved with the gallery were asked to produce one item on the theme of Christmas. Gallery guests bid for these items online in a silent auction*, with all proceeds going to the Japanese Red Cross Society. The event was warmly received, generating a donation total of ¥9,145,000, to be used to help address issues related to the COVID-19 pandemic.

Going forward, the gallery will continue to engage guests with these kinds of activities, which bring smiles to their faces and revitalize their spirits.

*A type of auction whereby people place bids without revealing the amounts, and the highest bid at the end of the auction receives the item.

Participating artists
Mika Aoki, Naho Iino, Masayo Imai, Jun Imajo, Yoshiaki Kaihatsu, Yuka Kashihara, Toshimasa Kikuchi, Noritaka Tatehana, Keisuke Tanaka, Tabaimo, Miyuki Tsugami, Hiromine Nakamura, Tetsuya Noguchi, Yuko Higuchi, Risa Fukui, Sebastian Masuda, Rina Mizuno, Mai Miyake, Ryu Itadani, Osamu Watanabe
(Japanese syllabary order by surname, titles omitted)

Support for culture and the arts

We support culture and the arts from the perspective that it is only with inner beauty and a spiritual richness that true beauty can be realized.

Support for preserving, passing on and promoting traditional culture and cosmetics culture

The POLA Foundation of Japanese Culture focuses on activities to preserve, pass on and promote traditional crafts techniques, traditional performing arts, folk entertainment and other expressions of traditional Japanese intangible culture. In 2020, to celebrate its 40th anniversary, the foundation held an exhibition using the five senses to appeal to the perceptions of young people who have not had the opportunity to experience traditional culture closely. Guests gained a deeper awareness of an intangible culture that serves as a trigger to enrich their daily lives by stimulating their sensitivity. In addition, the POLA Research Institute of Beauty & Culture conducts research on cosmetics culture—a pursuit continued since the institute's establishment in 1976—and presents the results at exhibitions, in publications and on its website. In 2020, the institute released *Heisei Biyo Kaika* (a beauty book about the Heisei Era), which summarizes beauty trends and perceptions of the 30 years of the Heisei Era (1989–2019). The book was highly praised by editors of women's magazines and experts in science and education who viewed the detailed, evidence-based study utilizing a database of some 10,000 pieces of information as very valuable.

"Touching the Intangible," an exhibition commemorating the foundation's 40 years

Heisei Biyo Kaika

Support for the POLA Art Foundation

The POLA Museum of Art, run by the POLA Art Foundation, has contributed to culture for 18 years with a concept connecting Hakone's natural beauty and works of art.

In 2020, after being temporarily closed by measures to combat the COVID-19 pandemic, the museum reopened with a special exhibition titled "Monet and Matisse: Visions of the Ideal." These artists had not been paired before, and the novel theme drew considerable attention that led to an all-time high guest satisfaction rating of 4.7 out of 5. In addition, the nature trail in the adjacent forest was extended 1.5 times to enable guests to better enjoy a lovely respite in the lush Hakone landscape. Local tourist facilities have been struggling, but with an increase in younger visitors, October 2020 saw 1.5 times more guests than usual. This naturally had economic benefits but also highlighted how indispensable the museum is to the area.

"Monet and Matisse" exhibition

Nature trail

4

All-Inclusive Human Resourc

Developing human resources who set the course for the Group's diverse brands

POLA ORBIS HOLDINGS oversees a portfolio of brands, each with its own concept, sales channels and market appeal. The businesses and brands developed within the POLA ORBIS Group will continue to diversify along with changes in the operating environment. Against this backdrop, it is people—those at the Company and throughout the Group with the ability to provide insight into the future and drive the growth of diverse brands—who are indispensable to the growth of the Group itself. Various activities are undertaken within the Group to cultivate human resources with leadership qualities and abundant personality.

Improving corporate value by
putting materiality measures into practice

Background to materiality measures

- Realized risk of insufficient human resources to manage Group operations over medium to long term due to business portfolio expansion.
- Women make up significant percentages of the Group's customer base and human resources. Must create environment that enables female employees to maximize sensitivity and thrive in their work-related duties, to facilitate career development.

Contributions to the Group's growth

- Sustainable growth is linked to developing as many human resources as possible who recognize prevailing issues and seek to make changes not as a member of a company but as an individual involved in society.

Working to Achieve KPIs—Track Record for 2020 Major Activities

We seek to cultivate diverse human resources who will be central to the Group's growth going forward, and we will continuously expand human resources development programs and introduce new measures to achieve this goal.

Measures	2020 Results	Major Activities in 2020
Percentage of female executives	27.1%	Continuous expansion of next-generation leader skills development programs Utilize Talent Development Committee to select and train diverse range of candidates including womei TOPICS Produce female leaders and promote diversit TOPICS
Percentage of female managers	46.9%	
Percentage of candidates to become management executives	70.5% (as of December 31, 2020)	
Number of people leaving the company for health reasons	Undisclosed	Enhance health management skills, offer health advice

TOPICS

Group Talent Development Committee selects managerial candidates and spearheads personalized training

In 2019, the Talent Development Committee was established to effectively promote the development of candidates who might one day assume management positions at Group companies. Comprising directors responsible for human resources at each Group company, the committee has the task of determining 15 key positions, selecting candidates from throughout the Group who meet the criteria for each position, formulating skills development plans matched to individual issues and then monitoring progress. In the second year of this program—2020—the committee met three times to engage in multi-faceted discussions on the personal characteristics of each candidate, including expertise, work experience and qualifications, and selected candidates for each position. The first round of candidate selection for all 15 positions and the associated formulation of skills development plans for individual candidates ran two years from 2019 to 2020. A report was submitted to the Board of Directors on the status of candidates and their training plans. Along with the formulation of a succession plan by the Nomination Advisory Committee, we will continue other efforts to enrich the candidate pool.

Building a structure that underpins continuous innovation

Japan's economy, which has several critical issues to deal with, namely, a low birthrate and rising number of elderly, a rapidly decreasing population and workforce, and a shrinking domestic market, is entering a new phase. In the near future, artificial intelligence (AI) will be integral to the majority of work currently done by humans, and the application of AI is integral to the POLA ORBIS Group as well. However, the economy and society are built on the capabilities of people. Today, in a world where there is no single approach to anything, we must think for ourselves, implement our ideas quickly and use results—whether they are successes or failures—as seeds for growth. We are the kind of corporate group that has historically drawn on people-powered value creation, and in the future, our greatest strength—the ability that will ensure society wants us and needs us—is a sensitivity to the beauty within us.

Life experiences, the people we connect with, challenges and approaches to overcome them—all these things shape character. If there are 4,000 employees, there will be 4,000 personalities and an equal number of opportunities. For a company to evolve, there is nothing more powerful than such potential—in people and in the opportunities they generate. For this reason, POLA ORBIS HOLDINGS encourages employees throughout the Group to actively connect with people outside their own companies. By forming community bonds, employees deepen their own perceptiveness, and that leads to a variety of effective business ideas.

In May 2020, taking advantage of the in-house venture program, we launched encyclo.INC, a beauty business for cancer survivors that draws on the experience and inspiration of a female employee (see page 45 for details).

In addition, seeking to build the brand as a leader in the field of beauty technology, ORBIS put effort into joint activities with other companies in the continuous pursuit of innovation. Emphasizing its app as the core method for customer communication, the company aims to maximize lifetime value through personalized contact. In 2020, ORBIS teamed up with Future Architect, Inc. to announce two analysis tools—the AI Future Skin Simulator, which imagines facial features five to 20 years in the future, and the AI Eyebrow Simulator.

In April 2021, ORBIS launched cocktail graphy, a personalized skincare service using the Skin Mirror, an IoT device (see page 31 for details).

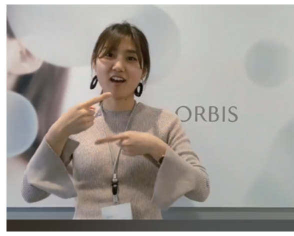
POLA ORBIS HOLDINGS acquired all shares in tricot, Inc., a fast-growing venture in its corporate capital venture portfolio that focuses on FUJIMI, a brand of personalized beauty care that includes supplements. Combining the launch of tricot's D2C brand and digital marketing know-how with the R&D expertise of the POLA ORBIS Group will contribute to enhanced quality of life for an even more diverse customer base.

From 2021, the number of new businesses created will serve as an additional non-financial KPI. POLA ORBIS HOLDINGS will ask for a wide range of ideas from employees and use them as a source of continuous innovation. At the same time, emphasis will be placed on individual strengths, which underpin a steady stream of new value.

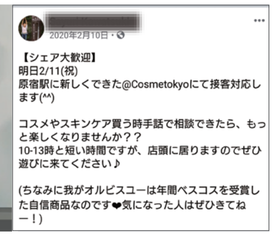
TOPICS

Diversity within POLA ORBIS Group utilizes unique skills of each person

Driven by the idea that new value comes from efforts to embrace diversity, the POLA ORBIS Group encourages employment of the disabled and seeks to be a corporate group that enables diverse human resources to showcase their personality and capabilities to the fullest. Whether someone is able-bodied or not is irrelevant. ACRO hired 12 people with disabilities, including 10 with intellectual disabilities. The human resources and general affairs department provides on-the-job training to enable these employees to perform typical office tasks, and once the skills are mastered, the employees are assigned to other divisions. Two people have been placed in other divisions so far. At ORBIS, hearing-impaired employees use social media to convey beauty information to hearing-impaired people. These employees use sign language or other communication methods to serve customers who visit stores for advice on beauty products and services. In this way, we utilize the unique skills of each employee to provide a new dimension in the value we provide to customers.



Using social media to convey the message of "beauty advice in sign language"



"When you're looking for cosmetics and skincare, and you can get advice in sign language, the purchase experience is more enjoyable, right? I work limited hours, from 10 a.m. to 1 p.m., so come by when I'm here, and we'll chat. See you soon!"

POLA ORBIS Group's framework for human resources development

To cultivate human resources who see the Group as a whole from a big-picture perspective, we provide opportunities that enable individuals to go beyond organizational walls and embrace challenges on their own to develop their skills and shape their careers. In addition to programs designed to develop next-generation leaders, such as the Future Study Program and the Business Innovation Academy, which have participation from across the Group, we offer a free-agent system that gives employees who satisfy certain requirements the chance to transfer to a company or division of choice within the Group as well as a venture program that invites employees to propose ideas for new businesses. We seek to create an environment that promotes having goals and being motivated.

Junior — Middle — Management — Director

Talent Development | **Succession Plan for Officer and Director**

Career Development

Assignment Change
"Different Job Role, Task"
"Different Organization, Business"
At least 2 different assignments before 30 years old

Talent Development Committee
Selection from high potential members, and provide Individual talent development towards Officers.
Provide a wide range of job experience within group companies, deepen expertise and leadership experience for each candidates.
*Committee Members: POLA ORBIS HOLDINGS Directors, HR Directors from group companies

Assessment for potential Director
Competency and Leadership assessment for officers (Korn Ferry)

Open Opportunities
[FA] Opportunity to position within the group for members who are above certain condition (evaluation)
[Open Offer] Recruit within the group position by application requirement
[Business Start up] New business proposal opportunity by employees (individual or team)

Talent Development

Future Study Program
Content: Team-based action learning to find solutions to management issues within POLA ORBIS Group
Output: Innovative proposal to Group Management by teams
Members: About 12 per year
Duration: 9 months

External Exchange
Content: Practice learning from Future Study Program through activities outside the company.
eg) Short MBA School, Participating to PJ in solving social issue and training
Attendees: members who completed Future Study Program

Business Innovation Academy
Content: Reflect on personal traits and strengthen leadership skills,Find solutions to management issues that will change the company or group to which the participants belongs
Output: Innovative proposal to Group Management by individual
Members: About 5-6 per year
Duration: 9 months

Coaching for Organization Changes
Content: Individual coaching based on observation of behavior for officers and directors
Duration: 7 months
Members: 3 per year

Common Standard

Group's Common Competency Evaluation

Group Talent Management System
Collect and utilize individual ability, motivation and career plan info through group by HR talent management system

Next-generation leader skills development programs constantly run Groupwide

In a broad sense, our next-generation leader skills development programs highlight the Future Study Program for young employees, the Business Innovation Academy for middle management and coaching for organization changes for newly appointed corporate officers. The current structure of the three programs was initially set up in 2005 with the Future Study Program, and the structure and content of these programs have continuously evolved. These programs have graduated more than 300 people, many of whom went on to executive appointments.

1. Future Study Program

Designed for young employees in their 20s and 30s, the nine-month Future Study Program welcomes about 12 participants each year. In principle, the program is open to those who want to participate. Young employees with a can-do attitude work in teams to envision the Group's future, identify issues that require attention and devise potential solutions to present to management.

Through a varied curriculum that includes discussions with invited guests active in different fields and art workshops at the POLA Museum of Art, participants acquire insights into future business pursuits and sharpen their ability to identify issues requiring attention. The program has had 16 graduating classes since 2005. Ideas presented by participants have been linked to activities driving the growth of the POLA ORBIS Group, including the introduction of a brand of men's cosmetics as well as human resources strategies such as the free-agent system and open-offer system to affect transfers from an employee perspective rather than a management perspective.

2. Business Innovation Academy

This program for middle management in their 30s and 40s is limited to a few elite individuals, typically five people annually. Every year, we extend a broad invitation to employees aware of issues facing the Group to apply on their own or be recommended to participate in this program, which features a curriculum designed to create leaders with the talent to drive change forward at their respective companies. Over the nine months of the program, participants pinpoint issues of concern within their own company, discuss possible solutions and then draft a concrete plan. They uncover issues within the organization that should have been addressed long ago and issues needing drastic action due to the changing business landscape, and present suggestions to management on reforms to address such issues. The program, which provides a venue for discussion with guest speakers active in various fields and with middle management from other companies, reveals personal value perceptions and leadership issues. During the past 14 years, 82 people have completed the program, which was launched in 2007. Of these, 20 people have been appointed to the position of executive at companies under the Group umbrella.

3. Coaching for organization changes

Coaching for people appointed to the position of executive began in 2013. The goal of customized coaching is to enable participants to hone the ability to influence others positively and sharpen the ability to transform corporate culture, which are important competencies for executives, enabling them to lead many people and cultivate a corporate atmosphere that embraces change. Coaching is offered to about three people each year. A noteworthy aspect of this program is that coaches regularly go on-site to such places as meetings and workplaces, where participants would demonstrate their leadership skills, to observe behavior. Taking an objective perspective, coaches look at how participants convey messages to others and how they conduct themselves around others, then point out where behavior diverges from ideal leadership qualities so the participants know which areas they need to improve. Through this program, executives develop the ability to make better management decisions and bring positive changes to the organization.

TOPICS

Took part in in-house venture program, using lessons learned to appreciate unique ideas from one's own feelings and value an awareness of issues

In May 2020, we drew from our in-house venture program to set up a new company—encyclo.INC—to pursue the beauty business for cancer survivors. encyclo is the brainchild of Yuko Mizuta, who was diagnosed with uterine cervix cancer when she worked in POLA's Product Planning Division and still suffers from lymphedema, an aftereffect, and Akiko Saito, who launched a program at POLA that helps employees balance cancer treatment and a career.

The first order of business for encyclo was to develop medical-use compression stockings for people with lymphedema, a long-term condition that Ms. Mizuta herself has experienced. Lymphedema often follows treatment for women's cancers, and once the condition appears, swelling must be kept in check with compression stockings. She felt that such stockings are highly effective, serving a particular purpose, but rarely meet user standards for fashion and comfort. The challenge, then, was to focus on creating a society where people do not have to give up the desire to feel beautiful despite experiencing illness and to develop a product that balances care and beauty. The first product was launched in December 2020, capturing media attention and fulfilling a wish not only of the stocking wearers but also of healthcare workers who said, "This is exactly what we wanted."

Ms. Mizuta took part in the Groupwide Future Study Program in 2009. Through the experience, she learned to appreciate unique ideas from her own feelings, value an awareness of issues and, in discussions with members outside the organization leading up to the final presentation, realized it was important to look beyond different positions to achieve a single outcome. Setting up a business that hinges on the experience and feelings of an individual is a reflection of support for insights gained through the program. Ms. Mizuta believes it is also important to pursue new developments with healthcare workers from different backgrounds and researchers at manufacturing companies. Going forward, she will deepen her connections with people who deal with lymphedema and address issues related to the condition.

First product


Co-founders
Right: Yuko Mizuta, graduate of Future Study Program in 2009
Left: Akiko Saito

Creating a work environment where everyone shines

Women in active roles

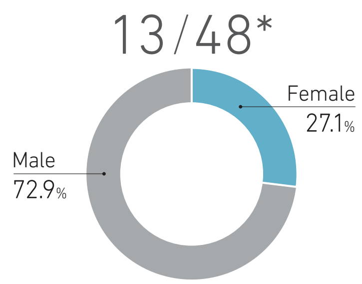
Women hold the representative reins at four operating companies under the POLA ORBIS Group umbrella, most notably, Miki Oikawa, who is representative director and president at POLA. In 1937, when sales was a man's world, one woman signed up with POLA as its first POLA LADY, marking the beginning of women in the sales workforce. POLA believed in the potential of women and helped them shine on the job.

POLA ORBIS HOLDINGS, POLA and ORBIS have committed to the Women's Empowerment Principles (WEPs), and business activities at POLA were included as excellent examples of "Principle 5 – Supply chain management and marketing practices" in the WEPs Handbook for Japanese Companies, released in December 2020. POLA earned high marks for a support system that makes it easier for women to start a business and for taking a diverse, individualized approach to work styles.

In addition, POLA ORBIS HOLDINGS and POLA belong to the 30% Club Japan* and aim to help close the gender gap in Japan.

*The 30% Club is a global campaign initiated in the United Kingdom in 2010 to raise the percentage of women in important corporate decision-making bodies, including the board of directors. The campaign has expanded to 14 countries, and the number of countries joining the effort continues to grow. Japan officially began activities to accelerate gender diversity in corporate settings on May 1, 2019.

Percentage of female POLA ORBIS Group executives



*Only those in positions of representative director and president at Group companies except at POLA, ORBIS and POLA CHEMICAL INDUSTRIES

Health management

In 2017, POLA ORBIS HOLDINGS formulated the POLA ORBIS Group Health Management Declaration, making the physical and mental health of employees a management priority and working to ensure the well-being of employees and their families. Since 2018, the Company has been recognized for four straight years as an outstanding organization in the large enterprise category under the Ministry of Economy, Trade and Industry's Certified Health and Productivity Management Organization Recognition Program.

Of note, as women account for a large percentage of employees Groupwide, POLA ORBIS HOLDINGS knows that eliminating or at least reducing presenteeism (which decreases productivity) caused by gynecological problems and other women-specific health issues is important to the Group's success. For this reason, we hired occupational physicians and doctors with gynecology expertise and set up systems, such as a consultation portal accessible by email, to address various issues that accompany different stages in a woman's life. In conjunction with these efforts, we opened in-house channels dedicated to health management, regularly stream seminar videos and provide other information to raise women's health literacy Groupwide. These efforts led to an increase in the number of women undergoing gynecological checks (breast cancer screening: about 80%, cervical cancer screening: about 70%) and greater understanding of women's health.

In 2020, to halt the spread of COVID-19, we initially provided an environment that prioritized employees with underlying health issues and pregnant women to let them work from home. This structure was gradually expanded to include other employees, as we responded to unfolding developments from a safety perspective. In addition, we encourage employees to maintain good physical and mental health and take steps to prevent illness by strengthening the support system that emphasizes occupational health and safety and by enriching online access to advice from occupational physicians, doctors and health nurses as well as online counseling from psychologists. As a complement to these efforts, we seek to create healthy lifestyle habits among employees throughout the Group. Our efforts include use of PepUp, a health management support tool for individuals, as well as content to keep physically active and take a more proactive role in caring for oneself.

TOPICS

POLA—Ingenuity keeps new employees from feeling isolated

Surveys indicate that wider introduction of teleworking during the COVID-19 pandemic led to heightened stress among young employees compared with their older colleagues. The primary causes of stress are an inability to picture personal growth when role models are not in plain sight, unclear objectives of work-related instructions and a growing sense of isolation. POLA implemented a buddy and mentor system for four new employees assigned to the sales division to guide them in pursuing a career with less anxiety about the future. Under this system, new employees are first asked for the images of senior colleagues that they would like to connect with and then they actually meet the individuals. Using Instagram and other social media platforms, new employees can communicate easily with senior colleagues and gain the perspective needed for personal growth.

TOPICS

Seeking sustainable growth as an organization that thrives on diversity

Within the POLA ORBIS Group, women have filled 27.1% of all executive positions and 46.9% of management positions. But ensuring an active role for women within the organization remains an issue requiring attention. Five top female executives at Group companies met for a virtual roundtable discussion of the best path forward.

Discussion participants

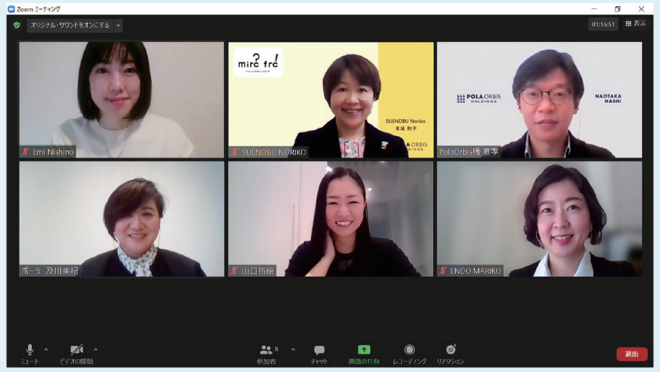
Miki Oikawa
Representative Director and President, POLA INC.
Senior Corporate Officer, POLA ORBIS HOLDINGS INC.

Noriko Suenobu
Director, POLA CHEMICAL INDUSTRIES, INC.
Corporate Officer, POLA ORBIS HOLDINGS INC.

Emi Nishino
Corporate Officer, ORBIS Inc.

Hiroe Yamaguchi
Representative Director and President, DECENCIA INC.

Mariko Endo
Director and Corporate Officer, ACRO INC.



Q. What are your thoughts on the corporate way of thinking and the corporate atmosphere with regard to active roles for women within the POLA ORBIS Group?

- Historically, POLA has given business responsibility to many female business partners who act as organizational leaders. The atmosphere has been one in which the company has expectations about women's skills and believes in their potential. For more than 30 years, women have held management positions at POLA, and the hiring of new graduates has been balanced at fifty-fifty for men and women.
- Training for director candidates has always included women. Also notable is the fact that top executives convey a message that emphasizes individuality and sensitivity.
- Many female employees are involved in product planning, marketing and other facets of business where a women's perspective is key to capturing the attention of the target market—women. While a lot of executives in the beauty industry globally are women, the POLA ORBIS Group's percentage of women in positions of division manager and above is not all that high. I really feel this issue must be addressed from a long-term perspective.

Q. The percentage of female managers in Japan, even Groupwide, is low. Is there some obstacle that women face in charting a career path?

- It's not necessarily a lack of skills. It's more a matter of hesitancy or reticence. Another negative factor could be that few women have the chance to gain experience dealing with difficult issues and thus lack confidence.
- Don't forget the "mommy track"*. A superior may hold back on opportunities out of kindness because "the woman is raising kids." The corporate environment needs to change.

*The tendency of working mothers to leave the career path to prioritize children

- Maybe skills aren't being recognized? Skills should be identified at an assessment before selection for promotion so that opportunities for skills development are not wasted. Ingenuity in approaches to increase exceptional human resources will lead to sustainable appointment of women to management positions.

Q. As you built your own careers, did you encounter any hurdles, such as life stages?

- Nothing that would make me give up. I pursued work and raising children. As did my business partners. That was the corporate culture.
- The corporate atmosphere offered opportunities, with the expectation that individuals would rise to the occasion. I embraced the challenge.
- I have never felt that being a woman put me at a disadvantage or inequality. I speak frankly, even at management meetings.
- Many employees meet their future spouses at work, and husband and wife continue to work while raising a family. So if a child has a fever, it may well be that dad goes to pick up the child, not mom. Nothing odd about this at all. It's these little things that build a good corporate atmosphere.
- I've been dealing with tough situations from a young age. Hurdles might be feelings of pity or disappointment in myself. At the same time, these feelings actually inspire me to strive harder.

Q. Going forward, what would you like to do to promote diversity?

- Take an even-keel approach, creating opportunities with an emphasis on contributing to the company and a desire to participate in success, rather than considering gender, age or nationality factors.
- Give young employees the chance to engage in challenging work, follow progress and recognize achievements widely. This will fuel the confidence of everyone, regardless of gender.
- We should be prepared to act as role models and convey the corporate philosophy and value perceptions that draw on individuality.
- At POLA, the percentage of women heading divisions has been on an upward trend for the past few years and is now close to 30%. We should be able to push the percentage of female managers to 50% and the percentage of female executives to 50% as well. I'd like to create a workplace where women can thrive and promote diversity even further.

Environment

Please visit our website for the POLA ORBIS Group Environmental Policy:
https://www.po-holdings.co.jp/en/csr/environmental/environment/

Looking ahead to 2029 and the 100th anniversary of POLA's establishment, the POLA ORBIS Group will work to reduce CO_2 emissions, water consumption and waste output. Since we reached our CO_2 emissions target in 2019, a new target was set at the end of August 2020 in accordance with SBT. The Scope 1 and 2 target is for a 42% reduction (overall, base year: 2019, target year: 2029), compatible with the SBT 1.5°C scenario, and the Scope 3 target is for a 30% reduction (overall, base year: 2019, target year: 2029), compatible with the well-below 2°C scenario. The target for water consumption and waste output is a 26% reduction for each (by unit of sales, base years: 2019 and 2015, respectively, target year: 2029). Progress toward the reduction target for CO_2 emissions will be linked to executive compensation.

These targets were decided by the Group CSR Committee and approved by the Board of Directors at POLA ORBIS HOLDINGS. The Company's CSR Office will take the central role in target management, discuss the details of environmental impact reduction targets prepared by Group companies and monitor implementation of measures to reach stated targets, then report to the Board of Directors.

Climate change and CO_2 emissions

Again, in fiscal 2020, POLA ORBIS HOLDINGS obtained third-party verification for its Greenhouse Gas Emission Report, which included Scope 3. Received CDP[*1] evaluation of A– for the second year in a row.

In 2020, POLA ORBIS HOLDINGS used the J-Credit system to offset a portion of its own CO_2 emissions. In March 2021, the Company announced its support for the recommendations of the TCFD[*2] and joined the TCFD Consortium.

*1 International non-governmental organization that studies, evaluates and discloses strategies taken by companies to address climate change and measures related to greenhouse gas emissions.
*2 Abbreviation for the Task Force on Climate-related Financial Disclosures, established by the Financial Stability Board (FSB).

TOPICS

Addition of robots to distribution system contributes to lower CO_2 emission

In August 2020, as a parallel to refurbishment of a line for mail-order shipments at the ORBIS East Japan Distribution Center, the company installed the T-Carry system, an original, automated system for all steps from pickup to directional sorting. The T-Carry system is a revolutionary shipment system that maximizes use of newly adopted, small automated guided vehicles (AGVs). One AGV is allocated to each order to execute a series of processes, from pickup to inspection and packaging. In addition, the sealing of boxes and directional sorting, which had been done by hand, are now executed by Japan's fastest automated box-sealing and directional-sorting machine, which self-selects the best size from nine types of delivery boxes. A state-of-the-art control system using AI technology dispatches unit-specific instructions to a total of 330 AGVs, which travel the best route from pickup to inspection and packaging, then circle round again.


T-Carry system

Compared with the former shipment line, the enhanced installation with the T-Carry system should boost shipment capacity 1.3 times, trim the number of employees 27%, cut costs 18% (cost of shipment operations per order) and slash electricity consumption 40% (equivalent to157,920kW/year).

Please scan the code to see the T-Carry system →

Reduction in use of plastics

Within the POLA ORBIS Group, plastics are used in various applications, including cosmetics containers, and as a corporate group, we acknowledge that social issues related to plastics such as the pollution of oceans are a major concern. Plastics ensure the quality and safety of products in our brand portfolio, and currently it is very difficult to fully eliminate the use of plastics from operations. That said, we are working to reduce the amount used. We have also begun exploring the potential of alternative materials.

Since 1985, POLA has offered refills for creams in its high-prestige *B.A* series with a price tag above ¥20,000. Today, refills are available for mainstay skincare products, and efforts are being directed at reducing the amount of plastic in product containers.

TOPICS

Research starts on environment-friendly cosmetics containers and raw materials

POLA CHEMICAL INDUSTRIES and Hitachi Zosen Corporation have started joint development of environment-friendly cosmetics containers and raw materials using Eucommia Elastomer*, a biopolymer made from the tochu tea tree. The goal is to use plant-derived ingredients to bring to market products with a low environmental impact. This is the first joint-development effort in Japan to apply environment-friendly, plant-derived ingredients to both cosmetics containers and raw materials.

*A 100% plant-derived biopolymer extracted and refined from the fruit of the tochu tree, which produces tochu tea. This biopolymer exhibits high flexibility, impact resistance and water repellency.

Biodiversity

Palm oil

The POLA ORBIS Group recognizes issues that impact biodiversity, particularly those associated with palm oil. As Group businesses are very closely tied to this commodity, the Group sets a target on the use of palm oil and is responding to issues. The Group is a member of the Roundtable on Sustainable Palm Oil (RSPO), and POLA CHEMICAL INDUSTRIES' Fukuroi Factory has acquired RSPO supply chain certification.
Target: Switch completely to certified palm oil by 2029

Paper, other issues

POLA and ORBIS use paper certified by the Forest Stewardship Council and other organizations for the *B.A* brand *ORBIS U* brand. In addition, ORBIS joined the city of Koshu, in Yamanashi Prefecture, and the Organization for Industrial, Spiritual and Cultural Advancement-International in establishing the Koshu Woodland Development Promotion Council and concluded a Forest Development Agreement under which the company participates in a forest regrowth project—Koshu City ORBIS Forest. Meanwhile, Jurlique adheres to biodynamic, no-pesticide, organic agriculture methods. The company holds a Tree Planting Day every year and promotes tree-planting activities.

Supply chain initiatives

In 2017, POLA ORBIS HOLDINGS drafted CSR procurement guidelines. Primary suppliers of raw materials used in or for cosmetics products are given an explanation of these guidelines and asked to fill out a questionnaire—a POLA ORBIS Group original—on their activities. In addition to the questionnaire, on-site audits are conducted. These efforts are intended to promote mutual understanding, and when issues are found, we ask for improvement and status updates. So far, there have been on-site audits at 12 factories. Through dialogue with suppliers, we will build a strong supply chain.

CSR Procurement Guidelines
https://www.po-holdings.co.jp/en/csr/social/procurement/pdf/CSR_guideline.pdf

POLA ORBIS Group CSR Questionnaire (environment content only)

Environmental management
- Do you have a system for reducing the impact on the environment from factory activities, products and services?
- What initiatives do you have for reducing the environmental impact?

Waste
- What initiatives do you have for reducing waste?
- What initiatives do you have for reusing waste?

Resource saving/Biodiversity
- Do you know how much electricity you consume?
- What initiatives do you have for reducing energy usage?
- Do you have a target for reducing energy usage?
- Do you know the amount of the CO_2 emissions you produce?
- Do you know how much wastewater you generate?

Human Rights

Human rights policy

Reflecting the Group philosophy “Sensitize the world to beauty,” the POLA ORBIS Group respects the sensitivity and values unique to every individual and strives to help people all over the world live mentally rich, colorful and enjoyable lives. Toward this end, POLA ORBIS HOLDINGS formulated the POLA ORBIS Group Human Rights Policy in May 2018, on the basis of the UN’s Guiding Principles on Business and Human Rights.

POLA ORBIS Group Human Rights Policy
https://www.po-holdings.co.jp/en/csr/social/right/pdf/The_POLA_ORBIS_Group_Human_Rights_Policy.pdf

Employees’ human rights risks

Human rights due diligence

In 2018, POLA ORBIS HOLDINGS formulated regulations on human rights due diligence for the POLA ORBIS Group.

This list of regulations includes the following:

1. Measures to ensure employment and work environment, including guarantee of suitable wage standard
2. Measures to ensure security of personal information and privacy
3. Protection of human rights connected to products and services
4. Protection of human rights of suppliers and business partners, including steps to prevent child labor and forced labor
5. Protection of human rights connected to process of selling products, including advertising
6. Protection of human rights connected to process of disposing of products

Observance of these regulations is checked once a year, and a report on issues at Group companies is provided to the Group CSR Committee. The committee then reviews steps taken to address these issues and informs the Board of Directors.

In 2020, a compliance survey was conducted with participation by all employees. From the results of this survey and the sudden increase in working from home during the pandemic, two points stood out as concerns from a human rights perspective: 1) the potential for employees to be asked to do work outside normal working hours and 2) the difficulty of stopping daily work and thereby spending an excessive amount of time, including evenings, on work.

To address the first point, POLA ORBIS HOLDINGS created BYOD* guidelines and made these guidelines known Groupwide. To deal with the second point, the Company swiftly shifted to a method of measuring the actual hours worked.

*Employees bring their own device, such as a smartphone, tablet or laptop, to the office and use it for work.

Complaint contacts

The POLA ORBIS Group has an internal reporting system—the POLA ORBIS Group Helpline—that ensures the anonymity of employees who voice concerns. A hotline was also established for business partners, and complaints about the Group that pertain to human rights can also be directed there.

Regarding reports to the helpline in 2020, requests for advice on situations related to human rights were acted upon, including demoting someone for power harassment. Report details and responses are provided regularly to the Board of Directors.

Education and awareness

POLA ORBIS HOLDINGS distributes copies of the POLA ORBIS Group Code of Conduct to all employees Groupwide. The document is read by all employees together once every six months as part of ongoing human rights education. In 2020, people in management positions in Japan participated in training on the theme of harassment. Also, once a year, we have an e-learning CSR course for all employees to learn about human rights and harassment issues as well as ways to convey concerns to the internal reporting system. The training completion rate for employees in Japan is 100%.

POLA ORBIS Group Code of Conduct
https://www.po-holdings.co.jp/en/csr/sustainability/statement/pdf/1801_coc_book_en.pdf

Human rights involving society

Human rights risk/due diligence along supply chains

Through dialogue with local and global experts on human rights and various NGO/NPO representatives, the POLA ORBIS Group deepens its overall understanding of human rights violations and labor issues. POLA ORBIS HOLDINGS was among participating companies in Malaysia for the 2018 Stakeholder Engagement Program*, sponsored by Caux Round Table Japan (CRT Japan), and was involved in dialogue with experts, including the people in charge of the Roundtable on Sustainable Palm Oil (RSPO) and small-scale farmers who grow oil palms. This event allowed us to see issues such as the possibility of a threat to human rights in palm oil-producing areas and, in response, we joined RSPO in 2019.

For three consecutive years from 2017, we were involved in the Stakeholder Engagement Program, organized by CRT Japan in Tokyo. Discussion proposals related to human rights from experts, NGOs and NPOs are presented, and then, using the United Nations Environment Programme Finance Initiative Human Rights Guidance Tool, we can see issues of concern according to industry. Through this process, we recognized that for the cosmetics industry, there is potential for human rights abuses such as child labor and forced labor in upstream supply chains. Consequently, we have been looking into ways to evaluate and manage the risk of human rights violations in our supply chains.

Specifically, we confirm the risk status of primary suppliers—on a priority ranking—through an original CSR questionnaire that we created from platforms used globally. In addition, we will build appropriate ways of responding for upstream supply chains where the risk to human rights is the greatest.

* For information on the CRT Japan-sponsored 2020 Stakeholder Engagement Program and past programs, go to https://crt-japan.jp/en/portfolio/human-rights-due-diligence-workshop/#anchor02

CSR Procurement Guidelines
https://www.po-holdings.co.jp/en/csr/social/procurement/pdf/CSR_guideline.pdf

Elements of POLA ORBIS Group CSR Questionnaire (human rights content only)

Preventing forced labor

- Was forced labor used at any time in the past?
- Are any employees forced to work?
- Are any employees, including foreign workers, prevented from leaving their jobs?
- Are there any systems to prevent harassment or other negative treatment of employees?

Preventing child labor

- Was child labor used at any time in the past?

Preventing excessive labor

- Are any employees overworked?
- Are employees given days off, according to laws?
- Are employees given breaks, according to laws?

Employee management and contracts

- Are employment rules in line with laws?
- What is the status of employment contracts with employees?

Wages

- Are wages paid on time?
- Are wages above the minimum wage?

Dialogue with Stakeholders

POLA ORBIS HOLDINGS takes a robust approach to dialogue with all stakeholders. Opinions obtained this way are studied within the Group and reflected in corporate management practices.

Stakeholders	Key Dialogue Opportunities	Specific Actions
Customers	• Comments from customers by phone and website • Customer satisfaction surveys • Sales data analysis	Establish framework for quickly sharing customer comments all the way up the corporate ladder to realize improvements. POLA made drink labels easier to peel off and discard.
Business partners (Suppliers)	• Procurement policy information meetings • Quality audits • CSR procurement questionnaire/audit	Work with suppliers to build a strong supply chain. Promote communication, including procurement policy information meetings, to ensure stable procurement and build good relationships with suppliers.
Business partners (POLA Beauty Directors)	• Level-specific training (philosophy, products, techniques) • Leaders' business meetings • Interviews with Grand Owners	Support potential of women through POLA-related work. Promote close opinion exchange with Beauty Directors. As requested, in 2020, delivered product orders more quickly and voluntarily offered these cosmetics to health-care workers.
Employees	• Employee satisfaction survey • Groupwide programs • Employee forums and training at each company • In-house intranet	Ability of employees to demonstrate personality and actively participate in company business is building block of sustainable corporate growth. Invite employees to propose new business ideas.
Shareholders/investors	• General meetings of shareholders • Conference presentation • Institutional investors' meetings • Briefings for individual investors	Top management communicates with investors at home and abroad and makes use of requests in corporate management. Engage in fair disclosure, including access to script and playback of conference presentations as well as Q&A session content.
Local communities/ non-governmental organizations	• Joint activities/cooperation with local governments • NGO/NPO dialogues • Cultural and artistic activities	Demands from society, NGOs and NPOs are met sincerely, starting with high-priority issues from a business impact perspective. (CPD climate change: A–)

Key activities for stakeholders during COVID-19 pandemic in 2020

- **Planned/held artwork auction and donated proceeds of about ¥9.1 million to Japanese Red Cross Society**
- **Participated in Japan Heart Social Network. Offered support, including cosmetics for health-care workers**
- **Sent masks and hand sanitizer to customers**
- **Posted message "Smile Under The Mask" on wall of head office building**

TOPICS

Stakeholder Dialogue (held on September 28, 2020)

To confirm that the corporate activities of the POLA ORBIS Group meet the expectations and demands of society, POLA ORBIS HOLDINGS has created opportunities since 2011 for management to engage stakeholders in constructive dialogue.

In 2020, a year that saw the business environment undergo massive change, discussions with experts focused on the topic "Gauging opportunities, trends and risks from various perspectives for overall corporate activities, paralleling changes in the business landscape in a post-pandemic world."

Scenes from stakeholder dialogues (hybrid format combining online and in-person participation in line with measures to prevent spread of COVID-19)

Primary content of discussions

- **Pursue organizational and team psychological safety, addressing corporate philosophy "Sensitize the world to beauty"**
  Shift to business management practices with high degree of psychological safety so that nothing interferes with free thinking, innovative research structure or awareness of need to change
- **Reshape human resources structure to realize diverse work styles, upgrade skills and raise employment competitiveness**
  Design program for side jobs and moonlighting within the Group, revise personnel evaluation system and redefine competency skills
- **Shift from era of organizations to era of letting individuals and personalities shine**
  Promote bottom-up culture where individuals can thrive regardless of position or job title and where all employees can show personality
- **Revise business model/channel strategy**
  Revise approach for businesses where offline channel is primary customer-access route (efforts include more physical stores, where customers can experience specific brands, as well as establishment of digital transformation strategy)
- **Swiftly embrace trial-and-error method for new businesses and clarify market withdrawal and business recommitment criteria**
  Create environment that supports efforts in new value creation, transcending cosmetics realm, and concurrently clarify market withdrawal criteria and deliver results with speed

External Participants

Riku Akimoto
Country Manager, Stylus Japan

Ryosuke Ishii
Director, ZENTech, Inc.

Participation from POLA ORBIS HOLDINGS

Satoshi Suzuki
Representative Director and President

Yoshikazu Yokote
Director and General Manager of International Business Management

Takuma Kobayashi
Director
Representative Director and President, ORBIS Inc.

Miki Oikawa
Senior Corporate Officer
Representative Director and President, POLA INC.

Noriko Suenobu
Corporate Officer (responsible for research planning)
Director and Corporate Officer, POLA CHEMICAL INDUSTRIES, INC.

Koji Ogawa
Corporate Officer (responsible for general planning, IT and human resources)

Note: The titles of the participants reflect positions as of the date the dialogue took place.

Examples of topics raised in stakeholder dialogues that have been applied to business

- **Implemented in 2018—"Create competitive advantage from shared value perspective and disclose the position"**
  → POLA launched sustainability policy in June 2020
- **Implemented in 2019—"Promote measures to handle climate change risk"**
  → Set long-term target for CO_2 reduction and set reduction of CO_2 emissions as medium- to long-term incentive evaluation criterion for directors

Basic Stance on Corporate Governance

Board of Directors

Number of meetings held in 2020: 20

The Board of Directors discusses important matters related to business management, including the formulation of medium- to long-term strategies for the Group, possible risks and optimum allocation of resources, and makes decisions on these matters. The Board is composed of eight directors (three of whom are independent outside directors) and meets at least once a month. In 2020, it met 20 times, with an average attendance rate of 99.3% for directors.

The Board of Directors comprises directors who have a flexible way of thinking with the knowledge to apply diverse perspectives, extensive experience and expertise to the Company's corporate management activities. In addition, the Company believes, from the evaluation by the Executive Competency Model (see page 62), that maintaining a proper balance of knowledge, experience, capabilities and personalities among the directors is a priority. The Company appoints as outside directors those who have independence, those able to properly engage with and advise the Board of Directors' meeting and those able to reflect in the Company's management practices the expertise and insights acquired in corporate management in fields different from those of the Company.

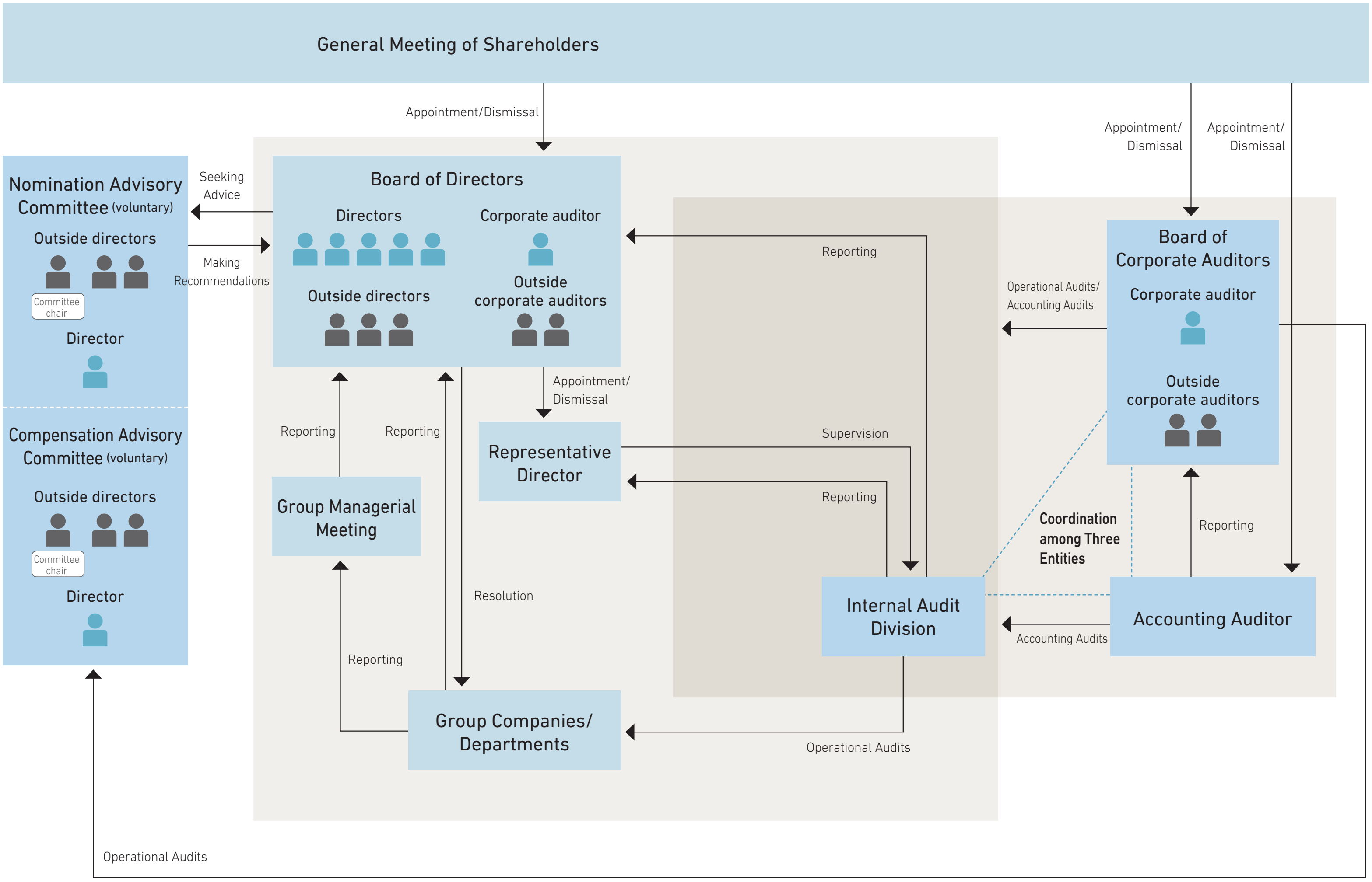
Nomination Advisory Committee (voluntary)

The role of the Nomination Advisory Committee is to ensure objectivity, transparency and effectiveness in decision-making processes, including the nomination of Company directors, appointment of corporate officers and nomination of directors at subsidiaries, by discussing and recommending individuals based on requests from the Board of Directors regarding personnel essential from a management perspective. Outside directors make up the majority of the committee members. The committee chair is an outside director appointed by the Board of Directors.

Compensation Advisory Committee (voluntary)

The role of the Compensation Advisory Committee is to ensure objectivity, transparency and effectiveness in decision-making processes regarding the system design of the compensation program for Company executives, compensation for Company directors and compensation for directors and corporate officers at subsidiaries of the Company, by discussing and recommending compensation based on requests from the Board of Directors. Outside directors make up the majority of the committee members. The committee chair is an outside director appointed by the Board of Directors.

Corporate governance structure (as of March 25, 2021)



Board of Corporate Auditors

Number of meetings held in 2020: 16

The Company is a company with a Board of Corporate Auditors. The corporate auditors attend general meetings of shareholders, Board of Directors' meetings, Group Managerial Meetings and other important events. They gather reports from directors, employees and accounting auditors, and supervise the execution of duties by directors. The board, composed of one full-time corporate auditor and two outside corporate auditors, is held at least once a month. The Company appoints outside corporate auditors who possess a high level of knowledge in various areas, including finance, accounting, law and internal control.

Internal Audit Division

Number of meetings held in 2020: 9

The Internal Audit Division strives to carry out highly effective internal audits from an independent and objective standpoint to contribute to strengthening the governance systems of the Company and Group companies.

Specifically, through on-the-spot audits of each company and each department, the division assesses not only deficiencies in procedures but also whether companies or departments are fully prepared for matters (risks) that may occur in relation to business. Moreover, the division focuses on the extraction of structural issues inherent in business processes and the improvement of proposals rooted in underlying causes. By identifying issues related to internal control, it aims to provide management with information on important issues such as subsidiary governance systems and fraud prevention. In addition, the division strives to carry out audits efficiently by coordinating with the audits performed by corporate auditors and accounting auditors.

Group Managerial Meeting

Number of meetings held in 2020: 23

The Group Managerial Meeting is composed of directors and full-time corporate auditors, as well as senior corporate officers and corporate officers of the Company, and presidents, directors and corporate auditors of subsidiaries appointed as members by the Company's Board of Directors. It receives reports from all companies about important matters and about the monthly business performance of the Company and its subsidiaries and discusses the content.

Structural overview (as of March 25, 2021)

Functional Structure	Company with a Board of Corporate Auditors
Number of directors/Term of office	8 directors/2 years
Number of outside directors	3 directors
Number of corporate auditors/Term of office	3 corporate auditors/4 years
Number of outside corporate auditors	2 outside corporate auditors
Number of outside directors and outside corporate auditors designated as independent officers	5 directors and corporate auditors

Steps in governance

2006	Shifted to holding company structure
2008	Added outside corporate auditors to structure
2010	Listed on First Section of the Tokyo Stock Exchange
2013	Introduced corporate officer system
2015	Added outside directors to structure
2016	Established Basic Policy on Corporate Governance Initiated Board of Directors' effectiveness evaluation
2017	Formulated new Group philosophy (Mission, Vision, Way) Established Group Code of Conduct
2018	Introduced senior corporate officer system
2019	Established Nomination Advisory Committee (voluntary) and Compensation Advisory Committee (voluntary)

Policy on strategic shareholding

POLA ORBIS HOLDINGS holds listed shares under the following conditions:

(1) The Company will not seek strategic shareholding as a mere, stable shareholder.

(2) The Company will selectively hold listed shares only if the Board of Directors sees the shareholding as reasonable and suitable from a business perspective, such as maintaining or strengthening business alliances and business transactions.

(3) The Board of Directors will receive status reports regularly for each strategic shareholding, verify that each shareholding is still reasonable and appropriate, and disclose its conclusions.

Executive training

Training focused on basic knowledge concerning corporate governance is provided at least once a year. Directors exchange opinions with the executives of major operating companies and participate in IR meetings. We promote greater understanding of the Group among outside directors and outside corporate auditors by having them participate in our operating companies' management meetings.

Matters Related to the Board of Directors

Evaluation results of Board of Directors' effectiveness

Through an evaluation of the Board of Directors' effectiveness implemented in 2019, two issues were brought to management's attention and recognized as requiring action. Steps taken in 2020 to address these issues are described below.

Item	Steps taken in 2020
❶ Strengthening involvement with our subsidiaries	The Board of Directors strengthened its involvement in the Board of Directors' meetings and business-planning processes of subsidiaries and improved its governance. As a result, it tightened its control of subsidiary cash flow and fund management and solidly established cash flow-focused business management.
❷ Strengthening deliberation frameworks for important matters and post-deliberation management	The Board of Directors increased the number of opportunities to deliberate important matters that should be key issues for the Group, as well as the amount of time spent discussing these matters. It also created greater opportunities for confirming progress following deliberations. Through these efforts, it strove to strengthen its deliberation frameworks for important matters and its post-deliberation management. As a result, for important matters such as deliberations about withdrawal from or rebuilding businesses, decisions were made after thorough discussions based on KPIs that are appropriate as decision-making standards. Furthermore, important matters to be acted on across the POLA ORBIS Group were clarified and the decision was made to establish a new company for managing overseas travel retail business across the Group.

1. Basic policy on evaluation

The significance behind evaluating the effectiveness of the Board of Directors is, we believe, to raise management quality and corporate value even higher by identifying issues at the Board of Directors and appropriately dealing with such issues to solve them.

With this in mind, we have pursued an approach that takes the evaluation process beyond self-evaluation by members of the Board of Directors to include an overall view based on evaluation and analysis of the directors' effectiveness from objective perspectives. The basic policy is for the board itself to apply the results gained through evaluation.

2. Evaluation method and process

Facilitated by outside expert

In accordance with this policy, we have turned to third-party organizations with expertise in evaluating a board of directors' effectiveness to conduct a preliminary interview with the chairman of the board, create a questionnaire and gather responses, then hold separate interviews with all directors and corporate auditors based on questionnaire results since fiscal 2017. In fiscal 2020, due to COVID-19, written questionnaires were used instead of in-person interviews. Introducing into the evaluation process third-party organizations, which have nothing to gain from the Board of Directors, ensures anonymity, elicits frank comments and preserves objectivity in evaluation results.

POLA ORBIS HOLDINGS' original approach

To complement third-party evaluation, we took the original approach of utilizing evaluations by employees who have completed in-house programs, such as the Top Management Development Program. These employees are selected to attend executive meetings as observers and interview members of the Board of Directors.

This approach not only lends an employee perspective to evaluations but also provides a valuable opportunity to develop people with management potential.

Evaluation results from all sources were compiled into a report by an external organization and passed on to the Board of Directors. The Board of Directors then analyzed and verified the content, worked toward a shared understanding of inherent strengths and issues requiring attention and implemented concrete action plans aimed at addressing such issues.

3. Summary of analysis and evaluation results

The following are evaluation results and the outcome of discussions at the Board of Directors' meeting.

Points rated highly

The following points were viewed as demonstrating the Board of Directors' high level of effectiveness. The board will strive to maintain and enhance these points.

❶ Shared understanding of the POLA ORBIS Group philosophy and Group strengths
❷ Recognition of risks faced by our current business models with an eye toward lifestyles under the expansion of COVID-19 and post-COVID-19
❸ Flexible appointment of personnel to the Board of Directors
❹ High level of awareness and robust efforts among executives to improve governance
❺ Active involvement and contributions of outside executives and (Board of) Corporate Auditors in the Board of Directors
❻ Communication with shareholders and appropriate engagement with the capital market through IR activities and external disclosure

Points brought to attention and recognized as requiring action

The following points were recognized as having room for improvement. The Board of Directors drafted an action plan to resolve these issues. In the future, the action plan will be implemented and progress monitored and verified, with adjustments, as necessary. The action plan will raise effectiveness.

❶ Strengthening the Company's involvement in the execution of operations to be performed throughout the Group
❷ Creating a long-term vision that includes structural reforms and growth strategies with an eye toward lifestyles under the expansion of COVID-19 and post-COVID-19

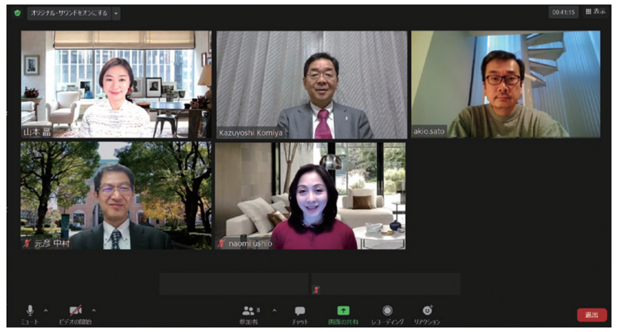
Key activity status of outside directors

Mr. Komiya, Ms. Ushio and Ms. Yamamoto are independent directors required to be designated by the Tokyo Stock Exchange, Inc.

Name	Key Activity Status
Kazuyoshi Komiya Attendance at meetings of the Board of Directors **100%** **20 of 20 meetings**	Mr. Komiya draws on his experience as a management consultant to view the overall management of the Group from a position independent of that of the Board of Directors and management. Moreover, after grasping essential issues and risks, he proactively offers advice and recommendations that contribute to enhancing the Group's corporate value. In addition, in the decision-making process for director and top management nominations, he serves as the chairperson of the voluntary Nomination Advisory Committee and demonstrates his extensive and outstanding knowledge of our human resources strategy, which we set as a key theme, through appropriate personnel evaluations and allocations. In the action plan formulated on the results of the previous year's evaluation of the Board of Directors' effectiveness, he played an important role in enhancing the supervision of subsidiaries by being responsible for improving the Company's subsidiary monitoring functions and participating in the management meetings and Board of Directors' meetings of major subsidiaries. In independent outside executives' meetings, which are attended only by outside executives, he provided frank comments from objective perspectives about issues that the Group must address over the medium to long term. By deepening communication among outside executives, he worked to stimulate the discussions of the Board of Directors.
Naomi Ushio Attendance at meetings of the Board of Directors **95.0%** **19 of 20 meetings**	Ms. Ushio views the overall management of the Group from a position independent of that of the Board of Directors and management. After grasping essential issues and risks, she proactively offers advice and recommendations that contribute to enhancing the Group's corporate value. Moreover, as an expert on information communication and human resources development, she actively provides recommendations that contribute to the development of creative human resources that thrive in our advanced information society. In addition, in the decision-making process for compensation for directors and top management, she serves as the chairperson of the voluntary Compensation Advisory Committee and supervises directors and top management through appropriate evaluations of business execution. In independent outside executives' meetings, which are attended only by outside executives, she provides frank comments from objective perspectives about issues that the Group must address over the medium to long term. By deepening communication among outside executives, she worked to stimulate the discussions of the Board of Directors.
Hikaru Yamamoto Attendance at meetings of the Board of Directors **100%** **16 of 16 meetings** Note: Assumed office in March 2020	Ms. Yamamoto views the overall management of the Group from a position independent of that of the Board of Directors and management, offering advice and recommendations after grasping essential issues and risks. Moreover, using her extensive knowledge as a digital marketing expert, she proactively provides recommendations that contribute to enhancing the Group's corporate value. In addition, in the decision-making processes for nominations and compensation for directors and top management, she serves as a member of the voluntary Nomination Advisory Committee and Compensation Advisory Committee and supervises directors and top management with appropriate evaluations of personnel and business execution. In the action plan formulated on the results of the previous year's evaluation of the Board of Directors' effectiveness, she played an important role in enhancing the supervision of subsidiaries by being responsible for improving the Company's subsidiary-monitoring functions and participating in the management meetings and Board of Directors' meetings of major subsidiaries.

Independent outside executives' meeting (held on February 24, 2021)

POLA ORBIS HOLDINGS regularly holds meetings exclusively for independent outside executives. Issues facing the Company were discussed at the meeting that reviewed fiscal 2020.



Highest priority issues of the Company in the "new normal" era

- It is important for the Group to rapidly restore profitability.
- On the other hand, while working on restoring short-term business results, the Group must also consider long-term risks such as climate change.
- All companies are working on digitization, globalization and the enhancement of their operating bases. Their level of success in these efforts will determine whether they move forward or are left behind.
- As increasing scrutiny is being placed on businesses not expected to contribute to profits or growth, a close eye must be kept on profit margins and other factors. Investments and returns should be documented to be discussed in depth.
- The criteria for quitting business should be made stricter.

Areas requiring special attention if the Company is to survive in this era of rapid change

- As I learn more about the Group's corporate culture, I think human resources development is an important issue. Many personnel just work steadily and diligently at the tasks given to them, and it is unclear where their responsibility lies. The Company needs people who can connect the dots to create a vision for the future, not people who see the future as a mere extension of the past.

Fundamental Activities That Fulfill Our Corporate Responsibilities

Executive compensation

The POLA ORBIS Group's executive compensation is set by the Board of Directors, based on discussions and recommendations by the Compensation Advisory Committee, in accordance with the following basic concept.

In the new medium-term management plan, both financial targets and newly defined non-financial targets (number of new businesses created, CO_2 emissions reductions) have been defined for medium- to long-term incentives (performance-linked, share-based compensation) for directors (excluding outside directors) and corporate officers to achieve the Group philosophy and meet society's demands.

1. Basic policy

The POLA ORBIS Group has made executive compensation an important way to realize sustainable growth at the Group and improve corporate value over the medium to long term. As a holding company, POLA ORBIS HOLDINGS clearly defines the roles and responsibilities of Company directors and other executives, whose primary duties are to make decisions on the overall management of the Group and to supervise the execution of business as well as the roles and responsibilities of directors at subsidiaries, who are delegated authority by the Company to execute operations. Executive compensation is therefore based on the level of responsibility that each executive assumes for the business results achieved in the area of responsibility. This provides a strong incentive for executives to reach performance targets not only in the short term but over the medium to long term as well.

In addition, the Company seeks to foster a greater sense of common interest between directors, corporate officers and shareholders by making the connection between executive compensation and stock value more obvious.

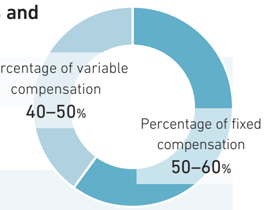
2. Compensation standard

The compensation standard is set at a level comparable with those of industry peers or companies of a similar size at home and abroad and is commensurate with the role and level of responsibility held by each individual, with the business environment of the Group and the need to stay competitive in the external market taken into consideration.

3. Compensation structure

Directors/Corporate officers

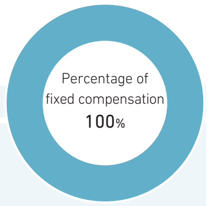
Components of compensation are basic compensation, which is fixed, and a performance-linked annual bonus and a medium- to long-term incentive (performance-linked, share-based compensation), which are variable.



Fixed compensation	Basic compensation	• Basic compensation reflects rank set according to role in management and duties of position for each individual.
Variable compensation	**Payment between 0% and 200% of base amount for each rank, according to level of success in reaching performance targets.**	
	Annual bonus	• Compensation paid as an incentive to achieve performance targets each fiscal year, according to level of success in reaching Group's performance targets within a single year. • Performance indicators determined from financial and non-financial bench marks for each fiscal year and missions of areas for which individuals are responsible.
	Medium- to long-term incentive (performance-linked, share-based compensation)	• Compensation paid as incentive to achieve performance targets and boost corporate value over medium to long term, according to level of success in reaching performance targets stated in Group's medium-term management plan. Company shares granted with aim of fostering greater sense of common interest between directors, corporate officers and shareholders. • Performance indicators determined from such financial bench marks as sales, income and ROE, as well as non-financial bench marks in each medium-term management plan. In the new medium-term management plan (2021–2023), 20% of performance indicators consist of Groupwide non-financial targets (number of new businesses created, CO_2 emissions reductions).

Outside directors

Components of compensation are basic compensation, which is fixed, and a medium- to long-term incentive (non-performance-linked, share-based compensation), which is fixed, to ensure effective execution of supervisory functions.



Fixed compensation	Basic compensation	• Basic compensation based on position
	Medium- to long-term incentive (non-performance-linked, share-based compensation)	• Share-based compensation granted as incentive to improve corporate value over medium to long term, seeking to foster greater sense of common interest with shareholders. • Does not vary with business results.

4. Process for determining executive compensation

To ensure objectivity and transparency in the process for determining executive compensation, POLA ORBIS HOLDINGS established the Compensation Advisory Committee as a voluntary structure to advise the Board of Directors. Over half of the committee's members including the chairperson are outside directors.

Executive compensation in the Group is set by the Board of Directors within a range of the compensation allotment decided at the general meeting of shareholders, following discussions and recommendations by the Compensation Advisory Committee.

Total, including compensation by executive classification; total, by type of compensation; and number of applicable executives (Fiscal 2020)

Executive classification	Total, including compensation (Millions of yen)	Total, by type of compensation (Millions of yen)			Number of applicable executives (persons)
		Fixed compensation	Short-term performance-linked compensation (bonus)	Medium- to long-term performance-linked compensation (share-based compensation)	
Directors (excluding outside directors)	104	84	19	—	5
Outside directors	27	27	—	—	3
Corporate auditors (excluding outside corporate auditors)	22	22	—	—	1
Outside corporate auditors	16	16	—	—	2

Note: Fixed compensation for outside directors includes ¥4 million in non-performance-linked, share-based compensation.

Integrated internal control system involves all, from management team to employees

Instilling thorough awareness of Code of Conduct

The POLA ORBIS Group Code of Conduct ("the Code of Conduct") specifies actions for putting the Group philosophy into practice and defines various facets of responsible corporate activity, including legal compliance, environmental protection and shareholder relations. It is distributed to all executives and employees. We also ask all employees to submit a written pledge to the effect that they will abide by the stated Code of Conduct, thereby promoting awareness of and thorough adherence to the Code of Conduct.

Compliance training

To preclude possible violations of compliance, POLA ORBIS HOLDINGS regularly conducts training and education programs. In 2020, the Company provided correspondence courses on "compliance" for people newly assigned to management positions, a CSR e-learning program for all employees and harassment training for all people in management positions in Japan.

Risk management policy

The POLA ORBIS Group comprehensively lists risks and manages them by prioritizing them based on the degree of their impact on business and their frequency of occurrence. We also use the results of our annual employee awareness survey to respond to risks that extend to the Group. Regarding risks specific to each business and brand, each company prioritizes and manages them with the same process as that for Group priority risks.

Risk management structure

The Risk Management Group has been formed across POLA ORBIS HOLDINGS, with the committee chair of the Group CSR Committee as the leader, to prioritize risks and discuss countermeasures. The risks decided as themes are improved upon by determining the risk owner divisions, committees and subcommittees. The content of improvements is decided after deliberation by the Board of Directors, and the progress is reported back to the Board of Directors every quarter.

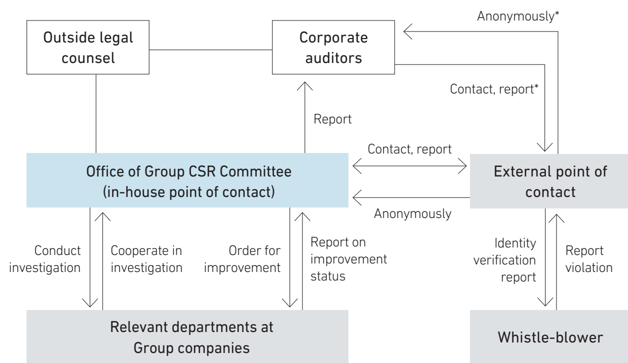
In 2020, the Company decided on and dealt with the risks in the table below.

Internal reporting system (POLA ORBIS Group Helpline)

POLA ORBIS HOLDINGS developed a system that enables all executives and employees throughout the Group to report problems and seek advice. This allows the Company to directly obtain internal risk information and underpins efforts to reduce risks and prevent compliance violations. Under the helpline structure, the anonymity of whistle-blowers is preserved through internal rules and general laws and regulations. In addition, a helpline structure has been established at overseas offices to facilitate reports in local languages. After a report is received, the Group CSR Committee office investigates. If it uncovers a situation requiring action, instructions for improvement will be issued. Information on the method for using the helpline is distributed to all employees, and awareness is regularly monitored.

In 2019, the Company set up the "Corporate Auditor Hotline," which facilitates reports on possible compliance violations related to Company directors. In addition, we established the "Business Partner Hotline," which accepts reports from our business partners. The status of the use of the helplines is reported monthly to the corporate auditors and regularly to the Board of Directors. There were nine reports to the helplines in 2020. Investigation of these reports found four issues (such as harassment issues) that needed to be addressed. The handling of these issues has been completed.

Structure of internal reporting system (helpline)



* If a director or a CSR office has possibly violated compliance rules, the office of the external point of contact will notify the corporate auditors at POLA ORBIS HOLDINGS.

2020 Group priority risks

Theme	Points	Annual plan
1. Natural disaster risk	(1) Create a complete double-track supply chain (Nankai megathrust earthquake)	(1) Consider constructing a framework for sustaining product supplies even if suppliers are affected by a disaster.
		(2) Consider constructing a framework based on the assumptions that production does not resume for a long period (six months or more) and that logistics are also affected by the disaster.
2. Legal revision risk	(1) Revisions to the civil code	(1) Deal with restrictions on the coverage limits of consignment sales contracts.
		(2) Perform quality management for outsourced manufacturing contractors.
		(3) Review and revise customer terms and conditions.
	(2) Harassment-related laws	Establish a framework and procedures for responding to harassment incidents and make improvements as necessary. Raise awareness to prevent harassment incidents.
3. Information management risk	(1) Prevent information leakage	Create rules for the use of personal devices (social networks, business applications) and hold information management study sessions for Group executives.
4. Risk related to work-style diversification	(1) Prevent working beyond regular hours	Implement labor risk countermeasures against overtime work.
5. Spread of infectious disease	(1) COVID-19	Confirm the safety of employees, the status of business partners with respect to business continuity and the content of infectious disease countermeasures.

Note: Regular audits are conducted for each KPI by the Internal Audit Division.

Management Structure (As of March 25, 2021)

Diversity in Board of Directors

On a Groupwide basis, we recognize the importance of giving full play to the diverse ideas and capabilities of every individual. Everyone, regardless of gender, nationality, age or any other identifier, is a valued member of the organization. Naturally, efforts are made to create a better work environment, which facilitates execution of duties. However, our goal is not merely to realize diversity in human resources but to utilize diversity to achieve management rationality Groupwide. Diversity is a vital management tool. The Board of Directors benefits from diversity as well, which maximizes multi-faceted perspectives, rich experience and expertise, and the ability to apply flexible thinking to reflect these attributes in management practices. Maintaining the right balance of wisdom, expertise and skills is crucial. In fiscal 2020, as the COVID-19 pandemic heightened the importance of digital transformation inside and outside the POLA ORBIS Group and wider embrace of digital connections, we reinforced the expertise of the POLA ORBIS HOLDINGS' Board of Directors with the appointment of Takuma Kobayashi, a director from within the Group with a proven track record in rebranding and organizational restructuring at a subsidiary, and Hikaru Yamamoto, an outside director with broad knowledge and insight about digital marketing. We believe that actively appointing women to director positions is vital to the Group's future because the perspectives they bring not only as directors but as representatives of the target customer group are valuable to business development. Going forward, we will continue our robust commitment to diversity to complement the Board of Directors' capabilities and thereby continuously raise corporate value.

Satoshi Suzuki
Representative Director and President

According to his director competency evaluation, Mr. Suzuki's greatest strengths lie in his ability to think about the direction of the entire Group along a long-term time line. In addition, he makes the most of his characteristics by always looking for new perspectives and boldly changing direction while leaving no stone unturned. Mr. Suzuki has highly original vision-building capabilities and takes an extremely focused approach toward realizing the Group's growth.

Apr 1979 Joined Honda R&D Co., Ltd.
May 1986 Joined POLA Cosmetics, Inc. (currently POLA INC.)
General Manager, General Coordination Office, POLA Cosmetics, Inc.
Feb 1996 Director, POLA Cosmetics, Inc.
Director, POLA CHEMICAL INDUSTRIES, INC.
Jun 1996 Representative Director and President, POLA CHEMICAL INDUSTRIES INC.
Jan 2000 Representative Director and President, POLA Cosmetics, Inc. (currently POLA INC.)
Sep 2006 Representative Director and President, POLA ORBIS HOLDINGS INC. (current)
Apr 2010 Representative Director and Chairman, POLA INC.
Jan 2016 Chairman, POLA INC. (current)

Naoki Kume
Director and Vice President

According to his director competency evaluation, Mr. Kume's strengths lie in the area of strategic thinking. He makes the most of his characteristics by being sensitive to environmental changes and trends. In taking action, he identifies issues and their impact on the Group, sets up hypotheses from medium- to long-term perspectives, and connects them to the drafting of strategies and measures. Mr. Kume has sophisticated financial and accounting insights and provides balanced direction on strategies across existing and rapidly expanding businesses.

Apr 1984 Joined POLA Cosmetics, Inc. (currently POLA INC.)
Oct 2004 General Manager, Accounting Division, POLA Cosmetics, Inc.
Apr 2005 Corporate Officer and General Manager, Group Organization Strategy Division, POLA Cosmetics, Inc.
Jan 2007 Director, POLA Cosmetics, Inc.
Corporate Officer, General Manager of Management Planning and Group Organization Strategy, POLA ORBIS HOLDINGS INC.
Jan 2008 Director, General Manager of Management Planning and Group Organization Strategy, POLA ORBIS HOLDINGS INC.
Jul 2011 Director, H2O PLUS HOLDINGS, LLC (currently H2O PLUS HOLDINGS, INC.)
Feb 2012 Director, Jurlique International Pty. Ltd.
Jan 2014 Director and Vice President, POLA ORBIS HOLDINGS INC. (current)
Mar 2018 Director and Vice President, General Manager of International Business Management, POLA ORBIS HOLDINGS INC.

Akira Fujii
Director

According to his director competency evaluation, Mr. Fujii's strengths lie in his ability to anticipate the present and future from a broad-ranging perspective and a medium- to long-term standpoint, then outline directions. In addition, he makes the most of his characteristics by producing results through the flexible learning of new things even in unknown territories or during environmental changes. Mr. Fujii has experience as the president of a sales company and the head of a key business and possesses a long-term perspective shaped by many years of contact with outside experts as a director responsible for IR and sustainability.

Apr 1979 Joined POLA Cosmetics, Inc. (currently POLA INC.)
Sep 2000 General Manager, Fashion Business, Planning and Sales Division, POLA Cosmetics, Inc.
Jan 2004 Representative Director and President, Osaka POLA
Apr 2005 Corporate Officer, POLA Cosmetics, Inc. (currently POLA INC.)
Jan 2007 Director and General Manager, Catalog Business Division, POLA Cosmetics, Inc.
Jan 2008 Director and General Manager, Public Relations Division, POLA Cosmetics, Inc.
Mar 2008 Director, POLA ORBIS HOLDINGS INC.
Jul 2008 Director and General Manager, Group PR, POLA ORBIS HOLDINGS, INC.
Director, POLA INC.
Dec 2010 Director and General Manager, PR & IR, POLA ORBIS HOLDINGS INC.
Jan 2011 Director, POLA ORBIS HOLDINGS INC. (current)
Jan 2015 Director and General Manager, Corporate Communications, POLA ORBIS HOLDINGS INC.

Yoshikazu Yokote
Director

According to his director competency evaluation, Mr. Yokote's strengths lie in conceptual thinking that allows him to envision goals to aim for upon constructing hypotheses based on intuition gained from his experiences and the circumstances that he is facing. In addition, he makes the most of his characteristics by resolving deadlocks through creative thinking and decision making even in difficult situations. Mr. Yokote is responsible for overseas business and draws on his role guiding POLA's expansion into the Chinese market. He has a concurrent position as the president of a company established in 2021 to focus on travel retail sales.

Apr 1990 Joined POLA Cosmetics, Inc. (currently POLA INC.)
Aug 2006 Representative Director and President, FUTURE LABO INC.
Jul 2011 Chairman, Managing Director, POLA CHINA BEAUTY CO. LTD. (POLA Shenyang)
Jan 2015 Corporate Officer, General Manager, Product Planning Division, POLA INC.
Jan 2016 Representative Director and President, POLA INC.
Mar 2016 Director, POLA ORBIS HOLDINGS INC.
Jan 2020 Director, General Manager of International Business Management, POLA ORBIS HOLDINGS INC. (current)
Jan 2021 CEO, POLA ORBIS Travel Retail Limited (current)

Takuma Kobayashi
Director

According to his director competency evaluation, Mr. Kobayashi is skilled at strategic thinking focused on marketing, and his strengths lie in his ability to create clear visions from a long-term perspective and devise unique ideas not bound by conventional frameworks. In addition, he makes the most of his characteristics by powerfully and swiftly propelling things forward, using high motivation and passion to produce results as an executive. With entrepreneurial ambition and a keen sense for marketing, Mr. Kobayashi takes the lead on Group reforms driven by digital transformation.

Oct 2002 Joined POLA Cosmetics, Inc. (currently POLA INC.)
Apr 2009 General Manager, Marketing Division, decencia Inc. (currently DECENCIA INC.)
Nov 2009 Director, decencia Inc.
Feb 2010 Representative Director and President, decencia Inc.
Jan 2017 Director, ORBIS Inc.
Director, DECENCIA INC.
Jan 2018 Representative Director and President, ORBIS Inc. (current)
Senior Corporate Officer, POLA ORBIS HOLDINGS INC.
Jan 2020 Director, H2O PLUS HOLDINGS, INC. (current)
Mar 2020 Director, POLA ORBIS HOLDINGS INC. (current)

Note: Director competency assessment undertaken with assistance from Korn Ferry Japan

Kazuyoshi Komiya
Outside Director

Outside | Independent

Apr 1981 Joined The Bank of Tokyo, Ltd. (currently MUFG Bank, Ltd.)
Nov 1991 Resigned from The Bank of Tokyo, Ltd.
Dec 1991 Joined Okamoto Associates, Inc.
Mar 1994 Resigned from Okamoto Associates, Inc.
Apr 1994 Joined Nippon Fukushi Service K.K. (currently SAINT-CARE HOLDING CORPORATION)
Jan 1996 Resigned from Nippon Fukushi Service K.K.
Representative Director, President, Komiya Consultants, Inc.
Jun 1997 Outside Corporate Auditor, Sankei Giken Kogyo Co., Ltd. (current)
Jun 2002 Outside Director, WAO CORPORATION (current)
Mar 2003 Outside Director, CAS Capital, Inc. (current)
Mar 2005 Outside Corporate Auditor, Sankei Giken Holdings Co., Ltd. (current)
Jun 2011 Outside Corporate Auditor, APOLLO MEDICAL HOLDINGS Co., Ltd.
May 2012 Outside Director, Kindware Corporation
Oct 2014 Visiting professor, Nagoya University (current)
Mar 2015 Outside Director, POLA ORBIS HOLDINGS INC. (current)
Apr 2015 Representative Director, President, Head Office, Komiya Consultants, Inc. (current)
Apr 2017 Representative Director, Chairman, Komiya Consultants, Inc.
Apr 2020 Representative Director, Komiya Consultants, Inc. (current)

Naomi Ushio
Outside Director

Outside | Independent

Apr 1983 Joined Fuji Television Network, Inc.
Feb 1989 Resigned from Fuji Television Network, Inc.
Apr 1998 Lecturer, Meiji University Educational Foundation
Apr 2003 Associate Professor ("Jokyoju"), Meiji University Educational Foundation
Apr 2007 Associate Professor ("Junkyoju"), Meiji University Educational Foundation
Apr 2009 Professor, School of Information and Communication, Meiji University Educational Foundation (current)
Aug 2009 Expert Member, Liaison Conference for the Promotion of Gender Equality, Cabinet Office
Jun 2011 Outside Audit & Supervisory Board Member, Seven Bank, Ltd.
Jun 2014 Outside Corporate Auditor, JX Holdings, Inc. (currently ENEOS Holdings, Inc.) (current)
Apr 2016 Vice President, Meiji University Educational Foundation
Mar 2018 Outside Director, POLA ORBIS HOLDINGS INC. (current)
Feb 2019 Member of 10th Central Council on Education, Ministry of Education, Culture, Sports, Science and Technology
Jun 2019 Outside Corporate Auditor, The Shizuoka Bank Ltd. (current)
Jun 2020 Outside Corporate Auditor, Hagoromo Foods Corporation (current)

Hikaru Yamamoto
Outside Director

Outside | Independent

Apr 2004 Assistant Professor, Graduate School of Economics, the University of Tokyo
Apr 2005 Lecturer, Faculty of Economics, Seikei University
Apr 2008 Associate Professor, Faculty of Economics, Seikei University
Apr 2014 Associate Professor, Graduate School of Business Administration, Keio University (current)
Dec 2015 Outside Director, MTI Ltd. (current)
Mar 2020 Outside Director, POLA ORBIS HOLDINGS INC. (current)

Hideki Komoto
Corporate Auditor

Apr 1983 Joined POLA Cosmetics, Inc. (currently POLA INC.)
Jan 2008 General Manager, Accounting Division, POLA INC.
Jan 2012 General Manager, Finance Division, POLA ORBIS HOLDINGS INC.
Jan 2017 Corporate Officer, POLA INC.
Mar 2019 Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)

Akio Sato
Outside Corporate Auditor

Outside | Independent

Apr 1997 Registered as an attorney at law (Daini Tokyo Bar Association)
Mar 2003 Opened SATO & Partners
Mar 2008 Outside Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)
Dec 2008 Outside Director, GMO Payment Gateway, Inc. (current)
Apr 2012 Part-time Lecturer, Keio Business School (current)
Jun 2015 Outside Director, Kirayaka Bank, Ltd. (current)
Jun 2016 Outside Director, Aozora Trust Bank, Ltd. (currently GMO Aozora Net Bank, Ltd.) (current)
Jul 2017 Outside Director, U-NEXT Co., Ltd. (currently USEN-NEXT HOLDINGS Co., Ltd.) (current)

Motohiko Nakamura
Outside Corporate Auditor

Outside | Independent

Oct 1990 Joined Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)
Aug 1994 Registered as a certified public accountant
Jul 2003 Resigned from Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)
Aug 2003 Opened Certified Public Accountant Nakamura Office
Oct 2003 Registered as a tax accountant
Jul 2007 Partner, Mai Tax Accountant Corporation (current)
Oct 2008 Outside Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)
Mar 2011 Outside Corporate Auditor, KAYAC Inc.
Jul 2013 Chief Executive, JICPA
Apr 2014 Associate Professor, Graduate School of Accounting & Finance, MBA Program, Chiba University of Commerce
May 2015 Independent Committee Member, Nitori Holdings Co., Ltd.
Jun 2015 Outside Corporate Auditor, Jorte Inc.
Apr 2016 Professor, Graduate School of Accounting & Finance, MBA Program, Chiba University of Commerce (current)
Apr 2019 Part-time Lecturer, Aoyama Gakuin University Graduate School of Professional Accountancy (current)

Miki Oikawa
Senior Corporate Officer (Part-time)

Kazuya Kugimaru
Senior Corporate Officer (Part-time)

Noriko Suenobu
Corporate Officer

Koji Ogawa
Corporate Officer

Ken Horikawa
Corporate Officer

Directors and Corporate Auditors of Group Companies

POLA INC.


Miki Oikawa
Representative Director and President


Seiichi Takaya
Director and Corporate Officer


Akira Gogo
Director and Corporate Officer


Kazuhiro Nishikata
Director and Corporate Officer


Yoshifumi Abe
Corporate Auditor


Yasuro Katamine
Corporate Officer


Tomoko Kamiya
Corporate Officer


Tamotsu Sato
Corporate Officer


Yuko Shoji
Corporate Officer


Akira Miyasugi
Corporate Officer


Kazuko Watanabe
Corporate Officer

ORBIS Inc.


Takuma Kobayashi
Representative Director and President


Motoyuki Fukushima
Director and Corporate Officer


Koji Ogawa
Director (Part-time)


Ken Horikawa
Corporate Auditor (Part-time)


Masaki Motoki
Corporate Officer


Emi Nishino
Corporate Officer

Reference: POLA ORBIS Group Executive Competency Model

In working toward sustainable growth of the Group, POLA ORBIS HOLDINGS prepared a competency model that spells out 13 performance characteristics required of executives and personnel with management responsibilities.

Of note, POLA ORBIS HOLDINGS puts a priority on 6, Concern for Diversity, and 7, *Bi-ishiki*, and encourages directors and Group executives to demonstrate leadership that draws from individual personality and strength.

1 Business Context Awareness	Ability to understand the position of the organization in the market and properly recognize the current status of competitors/partners and their implications for own organization.
2 Hypothetical Thinking	Ability to search for varied information and conflicting perspectives and verify one's thinking from broader viewpoint.
3 Long-term Vision	Ability to have a long-term vision and define the desired future image, direction and vision.
4 Impact & Influence	Ability to have others to consider one's request and gain agreement by the effective use of "logical persuasion" and/or "the influence of the organizational power."
5 Leverages an extensive external network	Ability to maintain and nurture a broad external network based on trust that can be called upon to assist.
6 Concern for Diversity	Ability to realize demographic diversity (such as ethnicity, gender, class, career, value, etc.) in order to support the organization's goals by creating a climate in which all employees can do their best work.
7 *Bi-ishiki* (=Esthetic Sense)	Ability to have impact on one's surroundings as a personal/unique leader by exhibiting one's attractive personality.
8 Empowering with accountability	Ability to delegate authority and enable others to act with purpose by holding them accountable.
9 Developing Successors	Ability to encourage the long-term development of subordinates and foster successor as an executive.
10 Culture Transformation	Ability to model, instill and cultivate culture in order to effectively use organizational culture for the business goals.
11 Passion for Results	Ability to take risks when needed and maintain passion for greater success.
12 Decisiveness	Ability to believe in one's own capability to rise to a challenge and expresses opinions even to senior members.
13 Integrity	Ability to take business as well as personal actions that reflect high ethical standards (such as company regulation, company ethics, social responsibility) and ensure others to do the same as well.

POLA CHEMICAL INDUSTRIES, INC.


Kazuya Kugimaru
Representative Director and President


Noriko Suenobu
Director


Takayuki Katagiri
Director and Corporate Officer


Tadahito Seto
Director and Corporate Officer


Kenichi Akahane
Corporate Auditor


Yasuhiro Fukuda
Corporate Officer


Tomomasa Shimanuki
Corporate Officer

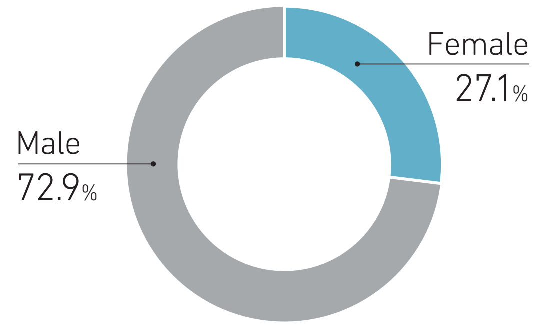

Noboru Sugimura
Corporate Officer


Shinya Chiba
Corporate Officer


Koji Yokoyama
Corporate Officer

Percentage of female POLA ORBIS Group executives

13 / 48*



*Only those in positions of representative director and president at Group companies except at POLA, ORBIS and POLA CHEMICAL INDUSTRIES

Jurlique International Pty. Ltd.


Toru Yamamoto
Chairman & CEO

H2O PLUS HOLDINGS, INC.


Junko Gomi
Director & Chief Executive Officer and President (CEO)

ACRO INC.


Toshiaki Miyazaki
Representative Director and President

DECENCIA INC.


Hiroe Yamaguchi
Representative Director and President

P.O. REAL ESTATE INC.


Takako Konishi
Representative Director and President

Five-Year Summary of Selected Financial Data

Years ended December 31	Millions of yen (Except per share data) 2016[*4]	2017	2018	2019	2020	Thousands of U.S. dollars[*1] (Except per share data) 2020
Operating Results						
Net sales[*2]	¥218,482	¥244,335	¥248,574	¥219,920	¥176,311	$1,703,489
Beauty Care	202,446	227,133	231,207	214,886	171,658	1,658,532
POLA	116,126	144,012	150,183	135,502	102,888	994,097
ORBIS	55,857	53,066	51,051	50,726	45,415	438,800
Overseas Brands	15,665	15,075	12,428	9,235	7,166	69,245
Brands under Development	14,796	14,978	17,544	19,421	16,186	156,390
Real Estate	3,043	2,694	2,707	2,619	2,291	22,142
Others	12,992	14,507	14,659	2,415	2,361	22,815
Operating income	26,839	38,881	39,496	31,137	13,752	132,878
Beauty Care	25,904	38,121	38,294	30,193	12,965	125,271
POLA	16,993	28,584	32,574	25,529	10,927	105,577
ORBIS	11,279	9,080	9,340	9,252	7,329	70,814
Overseas Brands	(3,210)	(823)	(4,316)	(3,794)	(3,214)	(31,055)
Brands under Development	841	1,278	695	(794)	(2,076)	(20,065)
Real Estate	1,395	1,082	1,001	1,021	710	6,869
Others	(133)	(314)	796	130	128	1,239
Operating margin (%)	12.3	15.9	15.9	14.2	7.8	
Profit attributable to owners of parent	16,328	27,137	8,388	19,694	4,632	44,754
Financial Position						
Net assets	183,282	198,845	188,797	191,069	169,854	1,641,110
Total assets	228,845	252,567	244,596	227,256	203,742	1,968,529
Cash Flows						
Cash flows from operating activities	23,561	35,333	30,283	21,127	23,394	226,038
Cash flows from investing activities	16,379	(22,065)	(9,125)	(12,514)	(3,342)	(32,293)
Cash flows from financing activities	(10,030)	(12,945)	(20,127)	(19,336)	(27,133)	(262,156)
Cash and cash equivalents at end of year	75,458	75,944	76,462	65,789	58,844	568,550
Depreciation and amortization	6,787	6,551	7,075	7,377	7,255	70,105
Capital expenditure	8,127	8,885	10,514	10,091	8,464	81,785
Financial Indicators						
Equity ratio (%)	79.9	78.6	77.0	83.9	83.2	
Return on equity (%)	9.0	14.2	4.3	10.4	2.6	
Return on assets (%)	11.7	16.3	15.7	13.0	5.8	
Price-earnings ratio (times)	32.7	32.2	78.3	29.4	100.0	
Per Share Data[*3]						
Net income per share (¥/$)	73.83	122.70	37.93	89.04	20.94	0.20
Net assets per share (¥/$)	826.65	897.26	851.78	862.00	766.05	7.40
Cash dividends per share (¥/$)	50	70	80	116	50	0.48

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1 = ¥103.50 as of December 31, 2020.
*2 Net sales do not include consumption taxes.
*3 On April 1, 2017, the Company executed a four-for-one stock split.
Net income per share and net assets per share have been calculated as if this stock split had occurred at the beginning of fiscal 2016.
*4 The Group's consolidated subsidiary has changed its accounting policy, recognizing deferred tax liabilities on intangible assets with an indefinite useful life that have been acquired as part of a business combination. Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment.

Management's Discussion and Analysis

Summary of business results

In fiscal 2020, the domestic cosmetics market temporarily saw a rapid decline in consumption behavior that utilizes face-to-face services as a result of a significant decrease in inbound demand, store closures and self-restraint from going out stemming from declarations of a state of emergency due to the spread of COVID-19. While there were signs of a gradual recovery following the lifting of the state of emergency, the situation has yet to recover to levels seen before the spread of COVID-19, and the outlook remains uncertain. On the other hand, as a new way of life continues to take root, the importance of online and other mail-order sales channels is increasing as the shift to such channels becomes significant, driven by the change to contactless behavior brought about by the COVID-19 pandemic. In overseas cosmetics markets too, the outlook has remained uncertain mainly due to the global spread of COVID-19. However, consumption is returning to levels before the COVID-19 pandemic in the Chinese market as economic activity resumes.

Against this market backdrop, the POLA ORBIS Group followed the course laid out in the four-year medium-term management plan launched in fiscal 2017 and running through fiscal 2020, focusing on measures to drive earnings even higher in Japan, bring overseas operations into the black and create new brands for next-generation growth.

As a result, POLA ORBIS HOLDINGS posted lower sales and income than those of a year earlier, on a consolidated basis.

Analysis of operating results: Comparison of fiscal 2020 and fiscal 2019

Net sales

Net sales dipped 19.8% from the fiscal 2019 level, to ¥176,311 million. This was due to a decrease in domestic inbound sales as a result of the spread of COVID-19, temporary store closures and reduced business hours implemented in response to the declarations of a state of emergency.

Cost of sales
Selling, general and administrative expenses

Cost of sales dipped 16.6% year on year, to ¥29,979 million. The cost of sales ratio—the cost of sales as a percentage of net sales—declined 0.7 percentage point, to 17.0%.

Selling, general and administrative expenses declined 13.3% from those of the previous year, to ¥132,578 million. This was due to a decline in sales commissions for the POLA brand (reported as variable costs) and Companywide cost rationalization measures. By contrast, fixed costs increased due to a decline in net sales. As a result, the ratio of selling, general and administrative expenses to net sales increased from that of the previous year.

Operating income

Operating income dropped 55.8% year on year, to ¥13,752 million, owing to lower gross profit that paralleled the decrease in net sales. The operating margin declined 6.4 percentage points, to 7.8%.

Income before income taxes

Income before income taxes decreased 69.2%, to ¥9,169 million. This resulted from a decline in ordinary income and the reporting of extraordinary losses—an impairment loss on non-current assets related to Jurlique and expenses associated with temporary store closures implemented in response to the declarations of a state of emergency due to the spread of COVID-19.

Profit attributable to owners of parent

Given the above reasons, profit attributable to owners of parent decreased 76.5% year on year, to ¥4,632 million. Net income per share decreased to ¥20.94, from ¥89.04 in fiscal 2019.

Return on equity decreased to 2.6%, from 10.4% a year earlier.

Key financial indicators

	2018	2019	2020
Cost of sales ratio	16.7%	16.3%	17.0%
Gross margin ratio	83.3%	83.7%	83.0%
SG&A ratio	67.4%	69.5%	75.2%
Personnel expenses	12.4%	13.0%	15.6%
Sales commissions	22.4%	22.0%	20.4%
Sales-related expenses	19.3%	19.8%	21.9%
Administrative and other expenses	13.3%	14.7%	17.3%
Operating margin	15.9%	14.2%	7.8%
Net income margin	3.4%	9.0%	2.6%

Business segment performance

Beauty Care

The Beauty Care business covers flagship brands POLA and ORBIS, overseas brands Jurlique and H2O PLUS, and brands under development THREE, DECENCIA, Amplitude, ITRIM and FIVEISM × THREE.

At POLA, we are aiming to achieve a high customer retention rate by launching high-value-added products centered on anti-aging and skin-brightening products, which enjoy strong demand in the market, and by focusing on basic activities such as consulting and aesthetic services. In Japan, POLA has won many best cosmetics awards for *Wrinkle Shot Serum* and *White Shot*, while the new *B.A* series—POLA's pinnacle anti-aging care series launched in September—tops the product list. In addition, sales through online channels have grown significantly, and POLA will continue to strengthen online sales channels. Aesthetic salons are also seeing a recovery in store traffic, particularly among existing customers, by implementing thorough in-store hygiene management and infection prevention measures. Overseas, Chinese online channels and South Korean duty-free shops in particular continue to grow at a high rate. On the special e-commerce sales days of 11/11 and 12/12 in China, department stores, real-time commerce and other initiatives also performed well. However, the spread of COVID-19 has significantly reduced sales, and POLA reported year-on-year declines in sales and operating income.

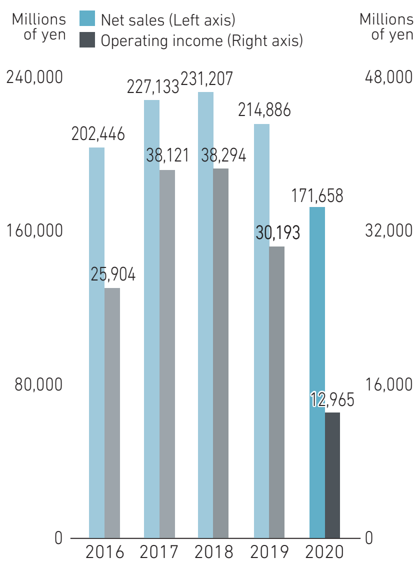
At ORBIS, we are focusing on brand differentiation to enhance the brand's presence, with the aim of achieving renewed growth to become a highly profitable business. In Japan, new customer acquisitions and second-time purchases centered on the *ORBIS U* anti-aging skincare series were strong, particularly in the third and fourth quarters. The mail-order business saw successful reforms on cost construction and guidance to the mail-order sales channel to adapt to the change to contactless consumption that has rapidly proceeded under the COVID-19 pandemic, and profits increased during the pandemic. In December, ORBIS launched its unique skincare screening service, the AI Future Skin Simulation, and worked toward the realization of SMART AGING® (to let your skin age beautifully in your own way) by providing high experiential value through technology. Overseas, while ORBIS worked to improve its brand recognition rate by expanding customer contact points in Asia, factors including temporary store closures due to the spread of COVID-19 decreased sales and operating income year on year.

In our overseas brand portfolio, Jurlique achieved high growth in online sales channels in China. However, sales of the Jurlique brand declined year on year due to a significant decline in sales in directly operated stores and major department stores in Australia and Hong Kong caused by the additional expansion of COVID-19. On the cost front, operating loss narrowed due to vigorous efforts to reduce costs. H2O PLUS worked on spirited advertising and promotional activities focused on the marketing season, with the aim of expanding business in e-commerce channels. By encouraging new and repeat customer purchases, H2O PLUS reported a year-on-year increase in sales at those channels. In the hotel amenities business, sales declined year on year due to the continued decline in shipments resulting from closures of commercial facilities amid the prolonged spread of COVID-19. However, operating loss narrowed due to aggressive cost reductions.

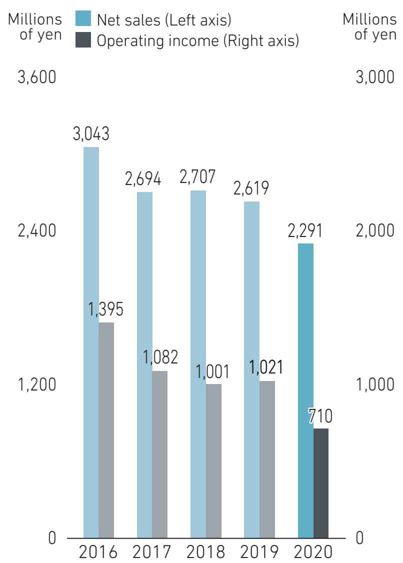
In fiscal 2020, we recorded a decrease in sales and operating income of brands under development due to the great impact of reduced sales of THREE as a result of the spread of COVID-19. Meanwhile, there were strong acquisitions of new customers on the online sales channel of DECENCIA and growth in sales of Amplitude, ITRIM and FIVEISM × THREE, which were launched in 2018.

As a result, sales in the Beauty Care segment—sales to external customers—declined 20.1% year on year, to ¥171,658 million, and operating income fell 57.1%, to ¥12,965 million.

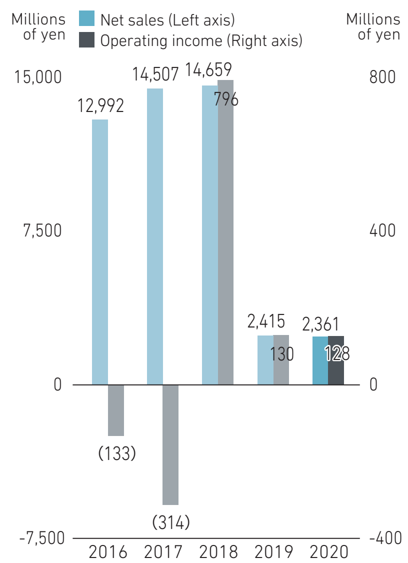
Beauty Care



Real Estate



Others



Real Estate

In the Real Estate segment, we are working to maintain and increase rents and reduce vacancy rates by providing attractive office environments with a focus on office buildings in urban areas. This operating segment also promotes rental residential properties under a business model suitable for families raising young children. In fiscal 2020, the segment reported year-on-year decreases in sales and operating income as a result of some tenants moving out.

Accordingly, sales in the Real Estate segment—sales to external customers—declined 12.5%, to ¥2,291 million, and operating income fell 30.4%, to ¥710 million.

Others

The Others segment covers the building maintenance business. The building maintenance business involves the management and operation of buildings. In fiscal 2020, sales and operating income fell below previous-year levels due to a decline in orders from construction projects.

Accordingly, sales in the Others segment—sales to external customers—declined 2.2%, to ¥2,361 million, and operating income fell 1.8%, to ¥128 million.

Analysis of financial position

Assets, liabilities and net assets

Assets

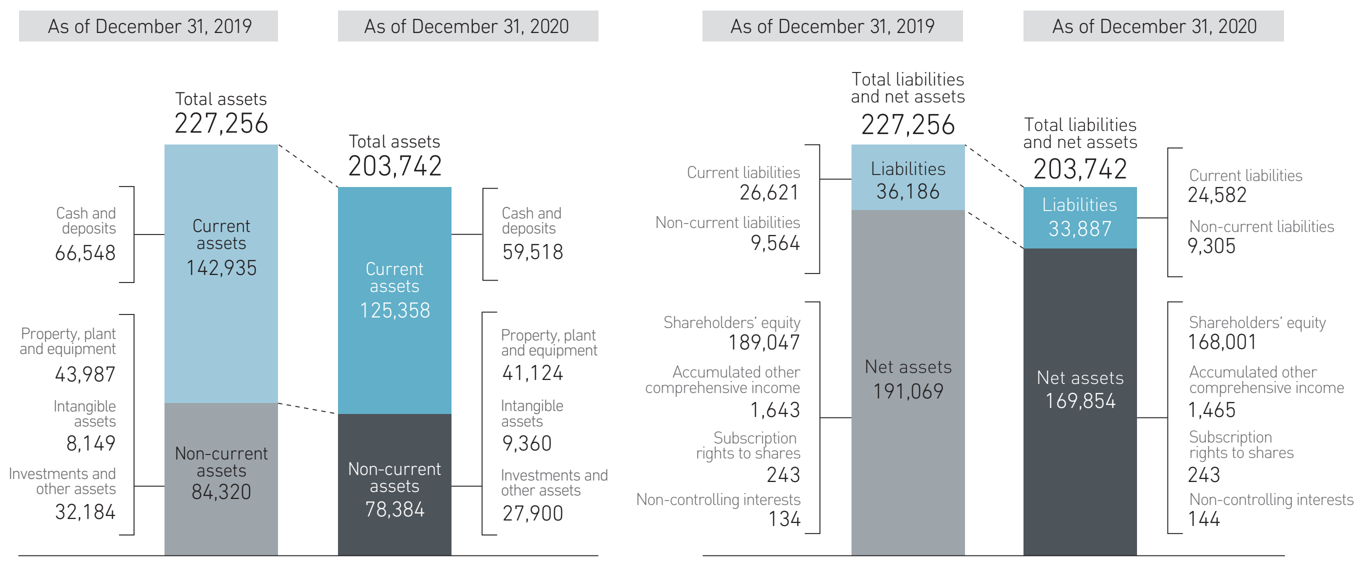
As of December 31, 2020, total assets amounted to ¥203,742 million, down 10.3% from those of a year earlier. Main factors boosting assets were a ¥1,062 million increase in short-term investments in securities and a ¥1,215 million increase in software. By contrast, there was a ¥7,029 million decrease in cash and deposits, a ¥3,669 million decrease in notes and accounts receivable - trade, a ¥6,431 million decrease in "Other" under current assets due to a decrease of other receivable and a ¥4,328 million decrease in investments in securities.

Liabilities

Total liabilities at fiscal year-end stood at ¥33,887 million, down 6.4% from those of a year earlier. The main factors driving down liabilities were a ¥471 million decrease in notes and accounts payable - trade, a ¥404 million decrease in lease obligations, a ¥780 million decrease in income taxes payable and a ¥389 million decrease in provision for point program.

Overview of consolidated balance sheets

Millions of yen



Net assets

Net assets at fiscal year-end totaled ¥169,854 million, down 11.1% from those of a year earlier. This was mainly due to a ¥4,632 million increase in profit attributable to owners of parent, which contrasted with a ¥25,678 million decrease in dividends from surplus.

Cash flows

The balance of cash and cash equivalents as of December 31, 2020, was ¥58,844 million, down ¥6,944 million from the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥23,394 million, up 10.7% from that of the previous year. Main inflows included ¥9,169 million in income before income taxes, ¥7,255 million in depreciation and amortization, ¥2,608 million in impairment loss, a ¥3,726 million decrease in notes and accounts receivable - trade and a ¥2,535 million decrease in inventories. Main outflows included a ¥389 million decrease in provision for point program, a ¥465 million decrease in notes and accounts payable - trade, ¥1,794 million in income taxes paid and ¥1,093 million in payments for losses related to COVID-19.

Cash flows from investing activities

Net cash used in investing activities totaled ¥3,342 million, down 73.3% from that of the previous year. The main inflows were ¥20,400 million in proceeds from sales and redemption of short-term investments in securities and ¥3,452 million in proceeds from sales of investment securities. Main outflows were ¥10,000 million in purchase of short-term investments in securities associated with management of surplus funds in accordance with our fund management plan, ¥9,222 million in purchase of investments in securities, ¥3,497 million in purchase of property, plant and equipment and ¥3,955 million in purchase of intangible assets.

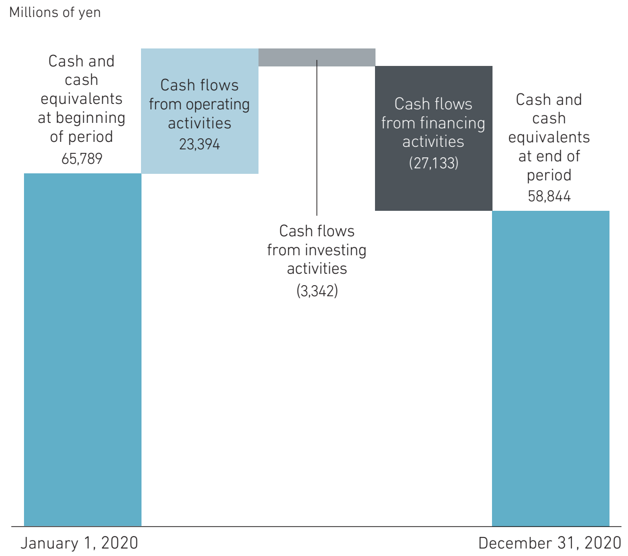
Cash flows from financing activities

Net cash used in financing activities was ¥27,133 million, up 40.3% from that of the previous year. This was mainly due to ¥1,462 million in repayments of lease obligations and ¥25,670 million in dividends paid.

Sources of funds and policy on fund liquidity

POLA ORBIS HOLDINGS ensures the availability of the funds deemed necessary to maintain business activities. As for future applications of funds, POLA ORBIS HOLDINGS will emphasize investment in R&D to create new value, capital investment to open or renovate shops and boost productivity, and efforts to create and develop new brands, including M&A opportunities. The goal is to generate future cash flow from these activities. Note that the Company strives to enhance capital efficiency on a Groupwide basis through a cash management system that centralizes subsidiaries' cash operations under Company oversight. The Company adheres to fund management regulations and standards to ensure appropriate application of operating funds and surplus funds, respectively. The balance of cash and deposits stood at ¥59,518 million as of December 31, 2020, down ¥7,029 million from a year earlier.

Overview of consolidated statement of cash flows



Note: The effect of exchange rate change on cash and cash equivalents is omitted. Any discrepancies due to this omission have been adjusted accordingly.

Fiscal 2021 forecast

To realize the medium-term management plan that runs from 2021 through 2023, the Group will implement the following five strategies: evolve domestic direct sales, grow overseas businesses profitably, profit contribution from brands under development, strengthen operations and expand new brands and domains of "beauty."

Our consolidated performance forecasts for fiscal 2021 take into account the delay in the recovery of decreased inbound demand due to the spread of COVID-19 and the uncertain business environment. Our specific consolidated forecasts are net sales of ¥190,000 million (up 7.8% year on year), operating income of ¥19,000 million (up 38.2%), ordinary income of ¥19,000 million (up 51.0%) and profit attributable to owners of parent of ¥11,300 million (up 144.0%).

Significant accounting policies and assumptions

The Company'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 reported amounts and disclosure of assets and liabilities as well as earnings and expenses. These assumptions are based on reasonable conclusions that take into account historical performance and other factors. However, actual results could differ from stated expectations as they are subject to inherent uncertainties.

Fiscal 2021 forecast

		YoY change	
Millions of yen	FY2021 Full Year	Amount	Percentage
Net sales	190,000	13,688	7.8
Beauty Care	185,900	14,241	8.3
Real Estate	2,000	(291)	(12.7)
Others	2,100	(261)	(11.1)
Operating income	19,000	5,247	38.2
Beauty Care	18,850	5,884	45.4
Real Estate	600	(110)	(15.6)
Others	50	(78)	(61.0)
Reconciliations	(500)	(448)	—
Profit attributable to owners of parent	11,300	6,667	144.0

Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2019	2020
Assets			
Current assets			
Cash and deposits (Notes 11 and 13)	¥ 59,518	¥ 66,548	$ 575,058
Notes and accounts receivable – trade (Note 13)	17,955	21,624	173,479
Short-term investments in securities (Notes 11, 13 and 14)	25,581	24,518	247,165
Merchandise and finished goods	11,922	13,684	115,191
Work in process	872	853	8,431
Raw materials and supplies	4,361	5,163	42,138
Other	5,186	11,617	50,112
Allowance for doubtful accounts (Note 13)	(39)	(1,074)	(385)
Total current assets	125,358	142,935	1,211,189
Property, plant and equipment (Note 8)			
Buildings and structures	53,790	53,331	519,718
Machinery, equipment and vehicles	9,283	9,387	89,694
Land	13,973	14,094	135,009
Leased assets	7,996	8,082	77,257
Construction in progress	302	253	2,922
Other	19,485	19,443	188,270
Total property, plant and equipment	104,832	104,592	1,012,870
Accumulated depreciation	(63,707)	(60,605)	(615,533)
Net property, plant and equipment	41,124	43,987	397,337
Intangible assets			
Right of trademark	28	31	275
Software	9,235	8,019	89,229
Other intangible assets	96	98	933
Net intangible assets	9,360	8,149	90,437
Investments and other assets			
Investments in securities (Notes 13 and 14)	15,973	20,301	154,334
Long-term loans receivable	93	67	904
Deferred tax assets (Note 17)	7,331	7,386	70,840
Other	4,752	4,602	45,916
Allowance for doubtful accounts (Note 13)	(251)	(173)	(2,428)
Total investments and other assets	27,900	32,184	269,566
Total non-current assets	78,384	84,320	757,340
Total assets	¥203,742	¥227,256	$1,968,529

See notes to consolidated financial statements.

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2019	2020
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 13)	¥ 2,657	¥ 3,129	$ 25,675
Lease obligations (Note 24)	996	1,401	9,631
Accounts payable – other (Note 13)	12,747	12,813	123,165
Income taxes payable	593	1,374	5,734
Provision for bonuses	1,615	1,490	15,607
Provision for directors' bonuses	32	36	310
Provision for sales returns	69	61	674
Provision for point program	2,482	2,872	23,986
Other	3,387	3,442	32,732
Total current liabilities	24,582	26,621	237,514
Non-current liabilities			
Provision for share benefits for directors	49	36	478
Lease obligations (Note 24)	1,443	1,590	13,952
Net defined benefit liability (Note 15)	3,937	3,872	38,039
Provision for environmental measures	52	52	503
Asset retirement obligations	2,154	2,153	20,820
Other	1,667	1,858	16,114
Total non-current liabilities	9,305	9,564	89,905
Total liabilities	33,887	36,186	327,419
Net assets (Note 10)			
Shareholders' equity			
Common stock			
Authorized: 800,000,000 shares			
Issued: 229,136,156 shares at December 31, 2020 and			
229,136,156 shares at December 31, 2019	10,000	10,000	96,618
Capital surplus	80,785	80,785	780,534
Retained earnings	79,868	100,915	771,678
Treasury stock, at cost			
(7,915,453 shares at December 31, 2020 and			
7,916,253 shares at December 31, 2019)	(2,652)	(2,652)	(25,630)
Total shareholders' equity	168,001	189,047	1,623,200
Accumulated other comprehensive income (Note 9)			
Unrealized gain (loss) on available-for-sale securities	(59)	(62)	(574)
Foreign currency translation adjustments	1,794	2,047	17,338
Remeasurements of defined benefit plans	(269)	(341)	(2,607)
Total accumulated other comprehensive income	1,465	1,643	14,158
Subscription rights to shares (Notes 10 and 16)	243	243	2,354
Non-controlling interests	144	134	1,398
Total net assets	169,854	191,069	1,641,110
Total liabilities and net assets	¥203,742	¥227,256	$1,968,529

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)
	2020	2019	2020
Net sales (Note 20)	¥176,311	¥219,920	$1,703,489
Cost of sales (Notes 5, 6 and 20)	29,979	35,925	289,657
Gross profit	146,331	183,995	1,413,832
Selling, general and administrative expenses (Notes 6, 7 and 20)	132,578	152,857	1,280,954
Operating income	13,752	31,137	132,878
Other income (expenses) (Notes 8 and 20)			
Interest and dividend income	186	191	1,799
Loss on sales of investment securities	(367)	—	(3,550)
Loss on valuation of investment securities	(128)	(180)	(1,246)
Compensation expenses	(946)	(332)	(9,141)
Interest expenses	(88)	(84)	(852)
Foreign exchange loss	(7)	(227)	(72)
Settlement received	—	286	—
Gain on sales of non-current assets	3	0	38
Subsidy income	776	—	7,503
Loss on disposal of non-current assets	(234)	(345)	(2,265)
Impairment loss (Note 20)	(2,608)	(689)	(25,205)
Loss related to COVID-19	(1,283)	—	(12,396)
Other, net	113	55	1,101
	(4,583)	(1,324)	(44,287)
Income before income taxes	9,169	29,813	88,591
Income taxes (Note 17)			
Current	4,482	7,835	43,310
Deferred	45	2,276	437
	4,527	10,111	43,747
Net income	4,641	19,701	44,844
Net income attributable to non-controlling interests	9	6	90
Net income attributable to owners of parent	¥ 4,632	¥ 19,694	$ 44,754

Per share information (Note 22)	Yen		U.S. dollars (Note 3)
Basic net income per common share	¥ 20.94	¥ 89.04	$ 0.20
Diluted net income per common share	¥ 20.92	¥ 88.93	$ 0.20
Weighted average common shares outstanding (thousands of shares)	221,220	221,201	221,201
Cash dividends declared per common share	¥ 50.00	¥ 116.00	$ 0.48

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2020	2019	2020
Net income	¥4,641	¥19,701	$44,844
Other comprehensive income (Note 9)			
Unrealized gain (loss) on available-for-sale securities	2	(64)	27
Foreign currency translation adjustments	(252)	(13)	(2,439)
Remeasurements of defined benefit plans	72	349	697
Total other comprehensive income (Note 9)	(177)	271	(1,716)
Comprehensive income	¥4,463	¥19,972	$43,128
Comprehensive income attributable to:			
Owners of parent	¥4,453	¥19,963	$43,034
Non-controlling interests	¥ 9	¥ 9	$ 95

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

	Common shares (Thousands) (Note 10)	Millions of yen							
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 9)	Subscription rights to shares (Notes 10 and 16)	Non-controlling interests	Total net assets
Balance at January 1, 2019	229,136	¥10,000	¥90,240	¥ 88,968	¥(2,188)	¥1,374	¥275	¥125	¥188,797
Dividends from retained earnings			(9,953)	(7,747)					(17,700)
Net income attributable to owners of parent				19,694					19,694
Purchase of treasury stock					(517)				(517)
Disposal of treasury stock			497		52				549
Change in unrealized gain (loss) on available-for-sale securities						(64)			(64)
Foreign currency translation adjustments						(16)			(16)
Remeasurements of defined benefit plans						349			349
Subscription rights to shares							(31)		(31)
Non-controlling interests								9	9
Balance at January 1, 2020	229,136	10,000	80,785	100,915	(2,652)	1,643	243	134	191,069
Dividends from retained earnings				(25,678)					(25,678)
Net income attributable to owners of parent				4,632					4,632
Purchase of treasury stock					—				—
Disposal of treasury stock			0		0				0
Change in unrealized gain (loss) on available-for-sale securities						2			2
Foreign currency translation adjustments						(252)			(252)
Remeasurements of defined benefit plans						72			72
Subscription rights to shares							(0)		(0)
Non-controlling interests								9	9
Balance at December 31, 2020	229,136	¥10,000	¥80,785	¥ 79,868	¥(2,652)	¥1,465	¥243	¥144	¥169,854

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 9)	Subscription rights to shares (Notes 10 and 16)	Non-controlling interests	Total net assets
Balance at January 1, 2020	$96,618	$780,532	$975,028	$(25,632)	$15,878	$2,357	$1,304	$1,846,086
Dividends from retained earnings			(248,104)					(248,104)
Net income attributable to owners of parent			44,754					44,754
Purchase of treasury stock				—				—
Disposal of treasury stock		1		2				4
Change in unrealized gain (loss) on available-for-sale securities					27			27
Foreign currency translation adjustments					(2,443)			(2,443)
Remeasurements of defined benefit plans					697			697
Subscription rights to shares						(4)		(4)
Non-controlling interests							95	95
Balance at December 31, 2020	$96,618	$780,534	$771,678	$(25,630)	$14,158	$2,354	$1,398	$1,641,110

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)
	2020	2019	2020
Cash flows from operating activities			
Income before income taxes	¥ 9,169	¥ 29,813	$88,591
Adjustments to reconcile income before income taxes to net cash flows from operating activities:			
Depreciation and amortization	7,255	7,377	70,105
Impairment loss	2,608	689	25,205
Increase (decrease) in allowance for doubtful accounts	(919)	(145)	(8,880)
Increase (decrease) in provision for bonus	68	49	662
Increase (decrease) in provision for point program	(389)	(675)	(3,768)
Increase (decrease) in other provisions	16	68	159
Increase (decrease) in net defined benefit liability	158	213	1,532
Interest and dividend income	(186)	(191)	(1,799)
Interest expenses	88	84	852
Loss (gain) on sales of investment securities	367	—	3,550
Loss (gain) on valuation of investment securities	—	180	—
Foreign exchange loss (gain)	(305)	152	(2,950)
Loss (gain) on sales of non-current assets	(3)	1	(33)
Loss on disposal of non-current assets	234	345	2,265
Subsidy income	(776)	—	(7,503)
Loss related to COVID-19	1,283	—	12,396
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	3,726	607	36,004
Decrease (increase) in inventories	2,535	1,066	24,495
Increase (decrease) in notes and accounts payable – trade	(465)	(917)	(4,498)
Increase (decrease) in consumption taxes payable	(639)	(218)	(6,179)
Decrease (increase) in other assets	1,653	64	15,974
Increase (decrease) in other liabilities	(392)	(1,425)	(3,788)
Other	300	173	2,902
Subtotal	25,388	37,311	245,295
Interest and dividends received	206	219	1,995
Interest paid	(88)	(84)	(854)
Income taxes paid	(1,794)	(16,319)	(17,334)
Subsidy income received	776	—	7,503
Payment for loss related to COVID-19	(1,093)	—	(10,566)
Net cash provided by operating activities	¥23,394	¥ 21,127	$226,038

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)
	2020	2019	2020
Cash flows from investing activities			
Payments into time deposits	¥ (245)	¥ (280)	$ (2,373)
Proceeds from withdrawal of time deposits	330	385	3,196
Purchase of short-term investments in securities	(10,000)	(11,900)	(96,618)
Proceeds from sales and redemption of short-term investments in securities	20,400	25,510	197,101
Purchase of property, plant and equipment	(3,497)	(4,589)	(33,789)
Proceeds from sales of property, plant and equipment	15	64	148
Purchase of intangible assets	(3,955)	(4,730)	(38,220)
Payments for disposal of non-current assets	(17)	(41)	(166)
Purchase of investments in securities	(9,222)	(14,390)	(89,104)
Proceeds from sales of investments in securities	3,452	—	33,358
Purchase of long-term prepaid expenses	(373)	(166)	(3,613)
Payments for lease and guarantee deposits	(288)	(347)	(2,786)
Proceeds from collection of lease and guarantee deposits	241	175	2,331
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	—	(2,203)	—
Other	(181)	(0)	(1,758)
Net cash used in investing activities	(3,342)	(12,514)	(32,293)
Cash flows from financing activities			
Repayments of lease obligations	(1,462)	(1,638)	(14,134)
Cash dividends paid	(25,670)	(17,697)	(248,022)
Purchase of treasury shares	—	(517)	—
Proceeds from sales of treasury shares	0	517	—
Other	—	0	0
Net cash used in financing activities	(27,133)	(19,336)	(262,156)
Effect of exchange rate changes on cash and cash equivalents	136	49	1,316
Net increase (decrease) in cash and cash equivalents	(6,944)	(10,673)	(67,094)
Cash and cash equivalents at beginning of year (Note 11)	65,789	76,462	635,644
Cash and cash equivalents at end of year (Note 11)	¥ 58,844	¥ 65,789	$ 568,550

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").

Certain amounts in the consolidated financial statements of the previous year have been reclassified to conform to the current year's presentations 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 exercise 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 inter-company transactions have been eliminated in consolidation.

There were 30 subsidiaries included in the scope of consolidation at December 31, 2020 (31 at December 31, 2019). There was one subsidiary within the scope of non-consolidated subsidiary at December 31,2020. During fiscal 2020, ENBAN.INC was newly established and included in the scope of consolidation.

The liquidation procedures for ORBIS ASIA PACIFIC Headquarters PTE. LTD. and H2O PLUS (Shanghai) Trading Co., Ltd. were completed. As a result, they were also excluded from the scope of consolidation.

encyclo.INC. was excluded from the scope of affiliated companies accounted for using the equity method.

1.3. Unification of accounting policies applied to foreign subsidiaries

In accordance with Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" (issued and amended by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006, February 19, 2010, March 26, 2015 and March 29, 2017, respectively), the Company and its consolidated subsidiaries use uniformed 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 accepted except for certain items, which are adjusted to comply with Japanese GAAP. The adjustments include the following:

1. Amortization of goodwill
2. Scheduled amortization of unrecognized actuarial gains or losses of pensions directly recorded in shareholders' equity
3. Expensing capitalized development cost 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. Changes in fair value of an equity instrument in other comprehensive income

1.4. Business combinations

The purchase method of accounting is used to account for acquired businesses. 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 the purchased businesses' identifiable assets and liabilities are measured at their fair value at the acquisition date.

1.5. Investments in securities

Securities are classified into available-for-sale securities depending on management's intent.

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 the most recently available financial statements to the reporting date specified in the partnership agreement.

1.6.Derivatives

Derivatives are recorded at fair value.

1.7. 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.

The carrying amount of inventories on the balance sheets is written down to net realizable value if it is lower than the carrying amount.

1.8. Property, plant and equipment, excluding leased assets

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated using the declining balance method, except for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016, for which depreciation is calculated using the straight-line method. Depreciation of property, plant and equipment of foreign consolidated subsidiaries is calculated using straight-line method based on the local accounting standards of each country.

The primary useful lives are as follows:

Buildings and structures	8—50 years
Machinery, equipment and vehicles	7—15 years

Property, plant and equipment with acquisition cost greater than or equal to ¥100,000 and less than ¥200,000 are depreciated by the straight-line method over three years.

1.9. Intangible assets, excluding leased assets

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

The Group subsidiaries that had prepared their financial statements in accordance with IFRS adopted IFRS 16. A lessee of a lease is required to book all leases as assets and liabilities in balance sheets in principle and the depreciation method of right-of-use assets booked in assets is the straight-line method.

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 the carrying amount exceeds the amount to be recovered through use or sale of such asset or asset group.

1.12. Allowance for doubtful accounts

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

1.13. Provisions

Provisions for bonuses and directors' bonuses
Provisions for bonuses and directors' bonuses are stated at the estimated amounts of the bonuses to be paid to directors and employees, in accordance with their services provided during the fiscal year.

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

Provision for point program
Provisions are set up to cover future discounts and commemorative gifts under point program plans based on estimated future outflows.

Provision for share benefits for directors
Provisions are set up based on the estimated amount of the share benefit obligation at the end of the current fiscal year to cover share benefits to the directors, etc., under issue rule of director shares.

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

1.14. Retirement benefits

a. Periodic allocation method for the estimated retirement benefit
The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount to periods up until the end of fiscal 2020 based on the benefit formula basis.

b. Amortization of past service cost and actuarial loss (gain)
Past service cost is amortized on a straight-line basis over a certain period (10 years), within the average remaining service period of employees.
Actuarial loss (gain) is amortized from the following year of occurrence on a straight-line basis over a certain period (10—14 years), within the average remaining service period of employees.

1.15. Foreign currency translation

Receivables and payables of domestic consolidated subsidiaries denominated in foreign currencies are translated into Japanese 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 foreign consolidated subsidiaries are translated into Japanese 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 non-controlling interests in net assets of the accompanying consolidated balance sheets.

1.16. Scope of cash and cash equivalents on consolidated statements of cash flows

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

1.17. Research and development costs

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

1.18. 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 differences between financial reporting and the tax bases of the assets and liabilities, and measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

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 221,220 thousand shares for fiscal 2020 (221,201 thousand shares for fiscal 2019). Diluted net income per share is computed for fiscal 2020 and fiscal 2019 due to the dilutive effect of subscription rights to shares arising from stock options.

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.

The Company's shares held by the officer compensation BIP trust are included in shares of treasury stock that are deducted from the number of shares issued and outstanding at December 31, 2020 in the calculation of net assets per share and are included in shares of treasury stock that are deducted in the calculation of the average number of shares of treasury stock during the period for calculating net income per share and diluted net income per share. The number of shares of deducted treasury stock at December 31, 2020 is 148,600 and the average number of shares is 148,600 during the period.

1.20. Other important items related to the preparation of the consolidated financial statements

1.20.1. Accounting method for consumption tax, etc.
The tax-exclusion accounting method is applied for the consumption tax and local consumption tax.

1.20.2. Application of consolidated tax system
The consolidated tax system is applied.

1.20.3. Application of tax effect accounting related to the transition from the consolidated tax system to the group total system
The Group has a non-consolidated tax payment system in line with the transition to the group accounting system established

in the "Act for Partial Revision of Income Tax Act, etc." (Act No. 8 of 2020) and the transition to the group accounting system. Regarding the items that have been reviewed, under Paragraph 3 of "Tax Effect Accounting for Transition from Deferred Tax System to Group Total System" (PITF No. 39, March 31, 2020), the provisions of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) are not applied, and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before the revision.

Note 2 Changes in Accounting Policies

2.1. Accounting standards and guidance issued but not yet adopted

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, issued on March 31, 2020)
Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, issued on March 31, 2020)

Summary: The above is a comprehensive accounting standard related to revenue recognition. Revenue is recognized by applying the following five steps.
(Step 1): Identify the contract with the customer
(Step 2): Identify the performance obligation in the contract
(Step 3): Determine the transaction price
(Step 4): Allocate the transaction prices to the performance obligation in the contract
(Step 5): Recognize revenue when or as the performance obligation is satisfied
Effective date: This standard will become effective for the Group from the beginning of fiscal 2022.
Impact on consolidated financial statements: The Group is currently evaluating the impact of applying this accounting standard on its consolidated financial statements.

Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, issued on July 4, 2019)
Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, issued on July 4, 2019)
Accounting Standard for Measurement of Inventory (ASBJ Statement No. 9, issued on July 4, 2019)
Accounting Standard for Financial Instruments (ASBJ Guidance No. 10, issued on July 4, 2019)
Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, issued on March, 31 2020)

Summary: In order to improve the comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" were developed and Guidance, etc., related to calculation methods of fair value were defined. These standards are applied to fair value of the following:
Financial instruments in "Accounting Standard for Financial Instruments" and Inventory for the purpose of trading in "Accounting Standard for Measurement of Inventories"
"Implementation Guidance on Disclosure for Fair Value of Financial Instruments, etc." was updated and it determined notes on each level for fair value of financial instruments.
Effective date: These standards will become effective for the Group from the beginning of fiscal 2022.
Impact on consolidated financial statements: The Group is currently evaluating the impact of applying these accounting standards on its consolidated financial statements.

Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections ASBJ Statement No. 24, issued on March 31, 2020

Summary: The purpose is to outline the accounting principles and procedures adopted when the provisions of related accounting standards are not clear.
Effective date: This standard will become effective for the Group from the end of fiscal 2021.

Accounting Standard for Disclosure of Accounting Estimates ASBJ Statement No. 31, issued on March 31, 2020

Summary: Information that contributes to the understanding of users of financial statements regarding the content of accounting estimates for items that have a risk of significant impact from the next fiscal year onward, among those based on accounting estimates in the financial statements for the current fiscal year.
Effective date: This standard will become effective for the Group from the end of fiscal 2021.

2.2. Changes in presentation method

Consolidated Balance Sheets
"Asset retirement obligations" has been presented independently as of December 31, 2020 due to its materiality. This item had been included in "Other" under "Non-current liabilities" for the previous fiscal year ended December 31, 2019. The consolidated balance sheet for the previous fiscal year has been restated in order to reflect this change.

As a result, ¥2,153 million of "Asset retirement obligations" and ¥1,858 million of "Other" previously included as a part of ¥4,012 million of "Other" under "Non-current liabilities" on the consolidated balance sheets for the previous fiscal year have been reclassified.

Consolidated Statements of Cash Flows
"Increase (decrease) in provision for bonuses" has been presented independently for the fiscal year ended December 31, 2020 due to its materiality. This item had been included in "Increase (decrease) in other provisions" under "Operating activities" for the previous fiscal year ended December 31, 2019. The consolidated statement of cash flows for the previous fiscal year has been restated in order to reflect this change.

As a result, ¥49 million of "Increase (decrease) in provision for bonuses" and ¥68 million of "Increase (decrease) in other provisions" previously included as a part of ¥118 million of "Increase (decrease) in other provisions" on the consolidated statement of cash flows for the previous fiscal year have been reclassified.

2.3. Additional Information

The global spread of COVID-19 has stagnated economic activities in many countries and has had a serious impact. This is expected to have an impact on the business performance of the Group in the future, and the outlook for the spread of COVID-19 and the timing of when it will end remain uncertain. Therefore, the Group has made accounting estimates regarding the recoverability of deferred tax assets and impairment losses on fixed assets, assuming that the impact of the new coronavirus infection will continue until at least 2023.

However, there are many uncertainties regarding the impact of the spread of COVID-19. If the timing of the end of COVID-19 and the impact on the economic environment change, the financial position and business performance of the Group in the following fiscal year may be affected.

Note 3 U.S. Dollar Amounts

The accompanying consolidated financial statements are presented in Japanese 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 = ¥103.50, the approximate rate of exchange prevailing at December 31, 2020. 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 Information on Consolidated Balance Sheets

Balance for non-consolidated subsidiaries consists of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2020	2019	2020
Investment securities	¥0	¥—	$0
Total	¥0	¥—	$0

Contingent liabilities consist of the following:

December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Guarantees of loans			
Employees' mortgages	¥4	¥8	$41
Total	¥4	¥8	$41

Note 5 Cost of Sales

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

Years ended December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Reversal of provision for sales returns	¥61	¥26	$593
Provision for sales returns	¥69	¥61	$674

Note 6 Research and Development Costs

Research and development costs of ¥4,627 million (U.S. $44,711 thousand) and ¥4,725 million were expensed for fiscal 2020 and 2019, respectively, as incurred, and included in selling, general and administrative expenses and cost of sales.

Note 7 Selling, General and Administrative Expenses

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

Years ended at December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Sales commission	¥ 35,996	¥ 48,376	$ 347,788
Promotion expenses	19,483	22,698	188,246
Packing and transportation expenses	5,019	5,034	48,496
Advertising expenses	10,834	11,486	104,684
Provision of allowance for doubtful accounts	104	98	1,014
Provision for point program	2,304	2,657	22,270
Salaries, allowances and bonuses	20,674	21,343	199,757
Welfare expenses	3,731	3,966	36,053
Retirement benefit expenses	755	758	7,301
Provision for bonuses	1,359	1,358	13,132
Depreciation and amortization	5,229	5,279	50,522
Other	27,085	29,798	261,691
Total	¥132,578	¥152,857	$1,280,954

Note 8 Other Income (Expenses)

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

Years ended December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Others	¥3	¥0	$38
Total	¥3	¥0	$38

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

Years ended December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Buildings and structures	¥ 79	¥ 70	$ 766
Machinery, equipment and vehicles	35	18	342
Removal and demolition	18	38	176
Software	50	77	484
Others	51	140	497
Total	¥234	¥345	$2,265

8.3. Impairment loss consists of the following:

Year ended December 31, 2020 Location	Function	Type	Millions of yen 2020	Thousands of U.S. dollars 2020
Japan	Stores and offices	Buildings and structures, Property, plant and equipment (Other), Software, Intangible assets (Other) and Investments and other assets (Other)	¥1,073	$10,372
Australia	Factories and business assets	Buildings and structures, Machinery, equipment and vehicles, Land, Property, plant and equipment (Other) and Software	925	8,941
Australia, Hong Kong, China, USA and Macau	Stores and offices	Buildings and structures, Machinery, equipment and vehicles, Property, plant and equipment (Other), and Software	609	5,892
Total			¥2,608	$25,205

(1) Background of recognizing impairment loss

Stores and offices represented those asset groups that continuously recorded operating losses and whose expected future cash flows fell below their carrying amounts. The Group wrote down the carrying amount of each asset group to its recoverable amount, and the difference was recognized as an impairment loss under other income (expenses).

Factories and business assets represented those asset groups that continuously recorded operating losses and whose expected future cash flows fell below their carrying amounts. The Group wrote down the carrying amount of each asset group to its recoverable amount, and the difference was recognized as an impairment loss under other income (expenses).

(2) Grouping method of assets

Individual stores and offices are operated and managed by business divisions that regularly record their income and expenses. These stores are classified into groups on either an individual store or business office basis.

Factories and business assets are classified into groups on company basis.

(3) Calculation methods of recoverable amount

The recoverable amount is calculated based on the net selling price or the value in use. The recoverable amount is determined based on the net selling price or the value in use. The value in use is assessed as zero if the future cash flow is negative. Net realizable value is evaluated based on real estate appraisal value.

Year ended December 31, 2019			Millions of yen
Location	Function	Type	2019
Japan	Stores and business assets	Buildings and structures, Property, plant and equipment (Other), Software, and Investments and other assets (Other)	¥635
China, Thailand	Stores and business assets	Buildings and structures, Property, plant and equipment (Other), and Software	53
Total			¥689

(1) Background of recognizing impairment loss

Stores and business assets represented those asset groups that continuously recorded operating losses and whose expected future cash flows fell below their carrying amounts. The Group wrote down the carrying amount of each asset group to its recoverable amount, and the difference was recognized as an impairment loss under other income (expenses).

(2) Grouping method of assets

Individual stores and business assets are operated and managed by business divisions that regularly record their income and expenses. These stores are classified into groups on either an individual store or business office basis.

(3) Calculation methods of recoverable amount

The recoverable amount is measured by value-in-use based on future cash flows.

The value-in-use is assessed at zero as future cash flows are not expected.

Note 9 Information on Consolidated Statements of Comprehensive Income

Reclassification adjustments and tax effects for each component of other comprehensive income are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	¥ (68)	¥ (76)	$ (661)
Reclassification adjustment	71	(5)	688
Amount before tax effect	2	(82)	27
Tax effect	(0)	17	0
Unrealized gain (loss) on available-for-sale securities, net of tax	2	(64)	27
Foreign currency translation adjustments			
Amount arising during the year	(192)	(11)	(1,864)
Reclassification adjustment	(75)	(1)	(730)
Amount before tax effect	(268)	(13)	(2,595)
Tax effect	16	—	155
Foreign currency translation adjustments	(252)	(13)	(2,439)
Remeasurements of defined benefit plans			
Amount arising during the year	143	95	1,389
Reclassification adjustment	107	373	1,037
Amount before tax effect	251	469	2,427
Tax effect	(179)	(119)	(1,730)
Remeasurements of defined benefit plans	72	349	697
Total other comprehensive income	¥(177)	¥ 271	$(1,716)

Note 10 Net Assets

Information regarding changes in net assets is summarized as follows:

10.1. Shares issued and outstanding/Treasury stock

	Common stock	
Shares	Shares issued	Treasury stock
Balance at January 1, 2019	229,136,156	7,956,853
Increase	—	148,600
Decrease	—	189,200
Balance at January 1, 2020	229,136,156	7,916,253
Increase (note)	—	—
Decrease (note)	—	800
Balance at December 31, 2020	229,136,156	7,915,453

Note: The number of shares of treasury stock at December 31, 2020 includes the Company's shares held by the officer compensation Board Incentive Plan (BIP) trust (148,600 shares).

Treasury stock

Decrease due to the exercise of stock option rights: 800

10.2. Subscription rights to shares

Year ended December 31, 2020

			Number of shares issued				Millions of yen	Thousands of U.S. dollars
Name of company	Details of subscription rights to shares	Type of shares issued	At beginning of year	Increase	Decrease	At end of year	Balance at December 31, 2020	
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥243	$2,354
	Total		—	—	—	—	¥243	$2,354

Year ended December 31, 2019

			Number of shares issued				Millions of yen
Name of company	Details of subscription rights to shares	Type of shares issued	At beginning of year	Increase	Decrease	At end of year	Balance at December 31, 2019
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥243
	Total		—	—	—	—	¥243

10.3. Dividends

10.3.1. Dividends paid in fiscal 2020

Year ended December 31, 2020

		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 24, 2020	Common stock	¥17,930	$173,245	¥81.00	$0.78	December 31, 2019	March 25, 2020
Board of Directors' Meeting on July 30, 2020	Common stock	¥ 7,747	$ 74,859	¥35.00	$0.34	June 30, 2020	September 7, 2020

Note: Total dividends resolved by the Annual Meeting of Shareholders on March 24, 2020 include the dividends of ¥12 million on the Company's shares held by the BIP trust.
Total dividends resolved by the Board of Directors' Meeting on July 30, 2020 include the dividends of ¥5 million on the Company's shares held by the BIP trust.

10.3.2. Dividends paid in fiscal 2019

Year ended December 31, 2019

Resolution	Type of shares	Millions of yen Total dividends	Yen Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 26, 2019	Common stock	¥9,953	¥45.00	December 31, 2018	March 27, 2019
Board of Directors' Meeting on July 30, 2019	Common stock	¥7,747	¥35.00	June 30, 2019	September 9, 2019

Note: Total dividends resolved by the Board of Directors' Meeting on July 30, 2019 include the dividends of ¥5 million on the Company's shares held by the BIP trust.

10.3.3. Dividends with the record date in fiscal 2020 and the effective date in fiscal 2021

Year ended December 31, 2019

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 25, 2021	Common stock	Retained earnings	¥3,320	$32,083	¥15.00	$0.14	December 31, 2020	March 26, 2021

Note: Total dividends include the dividends of ¥2 million on the Company's shares held by the BIP trust.

10.3.4. Dividends with the record date in fiscal 2019 and the effective date in fiscal 2020

Year ended December 31, 2018

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 24, 2020	Common stock	Capital surplus	¥17,930	¥81.00	December 31, 2019	March 25, 2020

Note: Total dividends include the dividends of ¥12 million on the Company's shares held by the BIP trust

Note 11 Cash Flow Information

11.1. Cash and cash equivalents consist of the following:

December 31	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Cash and deposits	¥ 59,518	¥ 66,548	$ 575,058
Short-term investments in securities	25,581	24,518	247,165
Less:			
Time deposits with maturities exceeding three months	(673)	(758)	(6,508)
Stocks and bonds with maturities exceeding three months	(25,581)	(24,518)	(247,165)
Cash and cash equivalents	¥ 58,844	¥ 65,789	$ 568,550

11.2. Breakdown of major assets and liabilities of the subsidiary excluded from the scope of consolidation due to sales of its shares

The breakdown of assets and liabilities of POLA PHARMA INC., which was excluded from the scope of consolidation due to the sales of its shares, sales amount of shares and payment for sales of shares are as follows:

December 31	Millions of yen 2019
Current assets	¥ 9,016
Non-current assets	2,879
Current liabilities	(3,195)
Non-current liabilities	(128)
Loss on sales of shares	(10,056)
Sales amounts of shares	¥ (1,485)
Cash and cash equivalents	(718)
Net: Payment for sales of shares	¥ (2,203)

11.3. Significant non-cash transactions

December 31	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Assets and liabilities related to finance leases	¥918	¥1,248	$8,871
Asset retirement obligations	¥116	¥ 87	$1,129

Note: Group subsidiaries preparing their financial statements in accordance with IFRS adopted IFRS 16. Lease transactions entered into by the Group are included in amounts of assets and liabilities related to finance leases above.

Note 12 Leases

(As a lessee)

12.1. Finance leases that do not transfer ownership

The finance leases primarily consist of those for interior furniture, fixtures and warehouse equipment 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.

Group subsidiaries preparing their financial statements in accordance with IFRS adopted IFRS 16. Such right-of-use assets included in assets and the depreciation method are the same as those described in the paragraph above.

12.2. Operating lease transactions

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

December 31	Millions of yen 2020	Millions of yen 2019	Thousands of U.S. dollars 2020
Due within 1 year	¥ 58	¥57	$ 561
Due after 1 year	113	156	1,101
Total	¥171	¥214	$1,662

Note 13 Financial Instruments

13.1. Overview of financial instruments

13.1.1. Policies on financial instruments

The Group utilizes only 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.

13.1.2. 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 regularly reviews customers' credit status in accordance with credit management policy.

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

Notes and accounts payable – trade and accounts payable – other are due within one year.

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 monthly.

13.1.3. Supplementary information on fair value of financial instruments

Fair value of financial instruments is based on the quoted price in an 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.

13.2. Fair value of financial instruments

The carrying amount and the fair value of financial instruments and the difference between them consist of the following. This does not include the financial instruments for which fair values are not readily available. (Refer to "(2). Financial instruments for which fair values are not readily available" for details.)

	Millions of yen		
	2020		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 59,518	¥ 59,518	—
(ii) Notes and accounts receivable – trade (*1)	17,915	17,915	—
(iii) Investments in securities:			
Available-for-sale securities	39,875	39,875	—
Total assets	117,309	117,309	—
Liabilities			
(i) Notes and accounts payable – trade	2,657	2,657	—
(ii) Accounts payable – other	12,747	12,747	—
Total liabilities	¥ 15,404	¥ 15,404	—

	Millions of yen		
	2019		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 66,548	¥ 66,548	—
(ii) Notes and accounts receivable – trade (*1)	20,549	20,549	—
(iii) Investments in securities:			
Held-to-maturity securities	44,094	44,094	—
Total assets	131,191	131,191	—
Liabilities			
(i) Notes and accounts payable – trade	3,129	3,129	—
(ii) Accounts payable – other	12,813	12,813	—
Total liabilities	¥ 15,942	¥ 15,942	—

	Thousands of U.S. dollars		
	2020		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	$ 575,058	$ 575,058	—
(ii) Notes and accounts receivable – trade (*1)	173,094	173,094	—
(iii) Investments in securities:			
Available-for-sale securities	385,273	385,273	—
Total assets	1,133,425	1,133,425	—
Liabilities			
(i) Notes and accounts payable – trade	25,675	25,675	—
(ii) Accounts payable – other	123,165	123,165	—
Total liabilities	$ 148,839	$ 148,839	—

(*1) Notes and accounts receivable - trade are presented net of allowance for doubtful accounts.

(1). Calculation method of fair value of financial instruments and information about securities

Assets

(i) Cash and deposits and (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 debt securities is determined on the quoted prices provided by financial institutions. For short-term investments in securities, their fair values approximate carrying value.

For the notes related to securities for holding purpose, please refer to Note 14 "Investments in Securities."

Liabilities

(i) Notes and accounts payable – trade, (ii) Accounts payable – other

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

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
December 31	Carrying amount		Carrying amount
Unlisted stock	¥ 681	¥397	$ 6,587
Capital contribution to investment in a limited partnership	997	328	9,636
Total	¥1,679	¥726	$16,224

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

(3). Redemption schedules of monetary receivables and investments in securities with maturities are as follows:

	Millions of yen			
	2020			
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	¥ 59,518	—	—	—
Notes and accounts receivable – trade	17,915	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	4,091	¥ 2,497	—	—
Available-for-sale securities with maturities (other)	21,490	11,796	—	¥997
Total	¥103,015	¥14,294	—	¥997

	Millions of yen			
	2019			
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	¥ 66,548	—	—	—
Notes and accounts receivable – trade	20,549	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	4,307	¥ 5,630	—	—
Available-for-sale securities with maturities (other)	20,211	13,944	—	¥328
Total	¥111,616	¥19,575	—	¥328

	Thousands of U.S. dollars			
	2020			
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	$575,058	—	—	—
Notes and accounts receivable – trade	173,094	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	39,529	$ 24,135	—	—
Available-for-sale securities with maturities (other)	207,637	113,973	—	$9,636
Total	$995,317	$138,108	—	$9,636

(4). Repayment schedules of short-term loans payable and long-term loans payable are as follows:

There was no applicable information on the repayment schedule of loans payable in fiscal 2020 and 2019.

Note 14 Investments in Securities

14.1. Non-marketable securities consist of the following:

	Millions of yen					
	2020			2019		
December 31	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities with fair value exceeding carrying amount						
Government and municipal bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	1,004	1,001	2	3,110	3,104	6
Other	10,035	9,998	36	11,034	10,998	36
Subtotal	11,039	11,000	39	14,145	14,102	42
Securities with carrying amount exceeding fair value						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	5,584	5,616	(31)	6,827	6,845	(18)
Other	23,251	23,309	(58)	23,122	23,405	(283)
Subtotal	28,836	28,926	(90)	29,949	30,250	(301)
Total	¥39,875	¥39,926	¥(50)	¥44,094	¥44,352	¥(258)

	Thousands of U.S. dollars		
	2020		
December 31	Carrying amount	Acquisition cost	Difference
Securities with fair value exceeding carrying amount			
Government and municipal bonds	$ —	$ —	$ —
Corporate bonds	9,703	9,678	25
Other	96,958	96,606	352
Subtotal	106,661	106,284	377
Securities with carrying amount exceeding fair value			
Government and municipal bonds	—	—	—
Corporate bonds	53,961	54,270	(309)
Other	224,651	225,212	(561)
Subtotal	278,612	279,482	(870)
Total	$385,273	$385,766	$(493)

Note: Other of securities with fair value exceeding carrying amount includes complex financial instruments with embedded derivatives that cannot be measured separately and valuation difference is booked in non-operating expense (loss on valuation of investment securities) in the consolidated statements of income.

14.2. Sales of marketable securities classified as held-to-maturity securities during the fiscal year consist of the following:

	Millions of yen					
	2020			2019		
December 31	Cost of securities sold	Sales proceeds	Gain or loss on sales	Cost of securities sold	Sales proceeds	Gain or loss on sales
Other (foreign securities)	¥—	¥—	¥—	¥2,000	¥1,980	¥(19)

	Thousands of U.S. dollars		
	2020		
December 31	Cost of securities sold	Sales proceeds	Gain or loss on sales
Other (foreign securities)	$—	$—	$—

(The reason for sales)

Some marketable securities classified as held-to-maturity securities were sold to reduce risk assets in the future, in consideration of trust risk, etc., during the previous year.

14.3. Sales of non-marketable securities during the fiscal year consist of the following

	Millions of yen					
	2020			2019		
December 31	Sales proceeds	Gain on sales	Loss on sales	Sales proceeds	Gain on sales	Loss on sales
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Other	1,452	—	367	—	—	—
Total	¥1,452	¥—	¥367	¥—	¥—	¥—

	Thousands of U.S. dollars		
	2020		
December 31	Sales proceeds	Gain on sales	Loss on sales
Government and municipal bonds	—	—	—
Corporate bonds	—	—	—
Other	14,035	—	3,550
Total	$14,035	$—	$3,550

14.4. Securities for which the holding purpose was changed

In fiscal 2019, held-to-maturity securities were reclassified as available-for-sale securities. The change was due to selling a part of bonds held to maturity. As a result, securities decreased ¥19 million, investments in securities decreased ¥58 million, valuation difference on available-for-sale securities decreased ¥62 million and deferred tax assets increased ¥16 million.

In fiscal 2020, there were no securities for which the holding purpose was changed.

14.5. Loss on valuation of investment securities

In fiscal 2020, loss on valuation of investment securities was recognized in the amount of ¥128 million (U.S. $1,246 thousand).

Note 15 Retirement Benefits

The Company and its domestic consolidated subsidiaries have defined benefit plans including a cash balance plan, lump sum retirement payment plan to cover the majority of their employees. Certain domestic consolidated subsidiaries have joined multi-employer-type defined contribution plans.

For the employees 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.

Certain subsidiaries use the simplified accounting method for the calculation of retirement benefit obligations.

15.1. Defined benefit plans (including plans applying the simplified accounting method)

15.1.1. Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
Years ended and at December 31	2020	2019	2020
Balance at the beginning of the year	¥9,714	¥10,456	$93,864
Service cost	690	677	6,668
Interest cost	26	28	254
Actuarial loss (gain)	(179)	39	(1,736)
Benefits paid	(747)	(626)	(7,224)
Decrease due to change of the scope of consolidation	—	(867)	—
Other	18	6	174
Balance at the end of the year	¥9,522	¥ 9,714	$92,001

15.1.2. Movement in pension assets

	Millions of yen		Thousands of U.S. dollars
Years ended and at December 31	2020	2019	2020
Balance at the beginning of the year	¥5,842	¥6,219	$56,445
Expected return on pension assets	85	85	825
Actuarial gain (loss)	(35)	135	(347)
Contribution paid by the employer	280	285	2,708
Benefits paid	(434)	(340)	(4,194)
Decrease due to change of the scope of consolidation	—	(542)	—
Other	(152)	—	(1,475)
Balance at the end of the year	¥5,585	¥5,842	$53,962

15.1.3. Reconciliation of retirement benefit obligations and pension assets to net defined benefit liability recognized in the consolidated balance sheets

	Millions of yen		Thousands of U.S. dollars
December 31	2020	2019	2020
Funded retirement benefit obligations	¥ 8,624	¥ 8,840	$ 83,329
Pension assets	(5,585)	(5,842)	(53,962)
	3,039	2,998	29,367
Unfunded retirement benefit obligations	897	874	8,672
Total net liability for retirement benefits in the consolidated balance sheets	3,937	3,872	38,039
Net defined benefit liability	3,937	3,872	38,039
Total net liability for retirement benefits in the consolidated balance sheets	¥ 3,937	¥ 3,872	$ 38,039

15.1.4. Retirement benefit costs

Years ended December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Service cost	¥690	¥677	$6,668
Interest cost	26	28	254
Expected return on pension assets	(85)	(85)	(825)
Amortization of net actuarial loss (gain)	107	85	1,037
Amortization of past service cost	—	(9)	—
Other	76	108	735
Total retirement benefit costs	¥814	¥804	$7,870

(1) The expenses calculated under the simplified accounting method were included in "Service cost."

(2) ¥96 million (U.S. $931 thousand) in fiscal 2020 and ¥120 million in fiscal 2019, which exceeded the provisions for additional lump sum retirement payment and lump sum retirement payment, were recorded under "Other."

15.1.5. Remeasurements of defined benefit plans

The details of remeasurements of defined benefit plans (before tax effect) in other comprehensive income for the years are as follows:

Years ended December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Actuarial loss (gain)	¥251	¥479	$2,427
Past service cost	—	(10)	—
Total	¥251	¥469	$2,427

15.1.6. Accumulated remeasurements of defined benefit plans

The details of remeasurements of defined benefit plans (before tax effect) in accumulated other comprehensive income are as follows:

December 31	Millions of yen 2020	2019	Thousands of U.S. dollars 2020
Unrecognized actuarial loss	¥385	¥483	$3,723
Total	¥385	¥483	$3,723

15.1.7. Items related to pension assets

15.1.7.1. Pension assets comprise

Years ended December 31	2020	2019
Life insurance general accounts	100%	100%

15.1.7.2. Long-term expected rate of return

The long-term expected rate of return is determined by considering current and anticipated allocations and the portfolio of pension assets.

15.1.8. Items related to actuarial assumptions

The principal actuarial assumptions are as follows (represented as weighted average):

Years ended December 31	2020	2019
Discount rate	0.6%	0.5%
Long-term expected rate of return	1.5%	1.5%

The expected rate of salary increase is calculated by using the salary increase index by age as of December 31, 2020.

15.2. Defined contribution pension plans

Consolidated subsidiaries' required contributions to defined contribution pension plans were ¥10 million (U.S. $106 thousand) in fiscal 2020 (¥10 million in fiscal 2019).

Note 16 Stock Options

16.1. Stock option-related expenses

There was no applicable information on share-based compensation expenses arising from stock options in fiscal 2020 and 2019.

16.2. Details of the stock options

16.2.1. Information on the stock options

	Subscription rights to shares issued in fiscal 2018	Subscription rights to shares issued in fiscal 2017	Subscription rights to shares issued in fiscal 2016
Date of approval	March 28, 2018	April 3, 2017	March 31, 2016
Grantees	4 directors of the Company and 7 directors of subsidiaries	6 directors of the Company and 7 directors of subsidiaries	6 directors of the Company and 5 directors of subsidiaries
Type and number of shares granted	Common stock: 10,960 shares	Common stock: 23,920 shares	Common stock: 25,000 shares
Grant date	April 12, 2018	April 18, 2017	April 15, 2016
Preconditions to exercising rights	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries
Service period required	Not specified	Not specified	Not specified
Exercisable period	April 13, 2018 — April 12, 2048	April 19, 2017 — April 18, 2047	April 16, 2016 — April 15, 2046

	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013
Date of approval	March 27, 2015	March 28, 2014	March 29, 2013
Grantees	6 directors of the Company and 7 directors of subsidiaries	7 directors of the Company and 7 directors of subsidiaries	7 directors of the Company and 6 directors of subsidiaries
Type and number of shares granted	Common stock: 38,560 shares	Common stock: 62,680 shares	Common stock: 78,800 shares
Grant date	April 13, 2015	April 14, 2014	April 15, 2013
Preconditions to exercising rights	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries
Service period required	Not specified	Not specified	Not specified
Exercisable period	April 14, 2015 — April 13, 2045	April 15, 2014 — April 14, 2044	April 16, 2013 — April 15, 2043

	Subscription rights to shares issued in fiscal 2012
Date of approval	March 30, 2012
Grantees	7 directors of the Company and 7 directors of subsidiaries
Type and number of shares granted	Common stock: 118,800 shares
Grant date	April 16, 2012
Preconditions to exercising rights	Resignation of the positions as directors in both the Company and the subsidiaries
Service period required	Not specified
Exercisable period	April 17, 2012 — April 16, 2042

Note: The Company conducted a four-for-one stock split effective on April 1, 2017. Shares granted were recalculated based on the shares post stock split.

16.2.2. Information on and changes to the stock options

The number of existing stock options, translated into shares at the end of years, is presented below.

a. Number of stock options

	Subscription rights to shares issued in fiscal 2018	Subscription rights to shares issued in fiscal 2017	Subscription rights to shares issued in fiscal 2016
Date of approval	March 28, 2018	April 3, 2017	March 31, 2016
Non-vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	8,400	20,200	20,320
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Outstanding at end of year	8,400	20,200	20,320
Vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	—	—	—
Vested	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding at end of year	—	—	—

	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013
Date of approval	March 27, 2015	March 28, 2014	March 29, 2013
Non-vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	23,440	35,760	42,400
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Outstanding at end of year	23,440	35,760	42,400
Vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	4,440	6,480	8,840
Vested	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding at end of year	4,440	6,480	8,840

	Subscription rights to shares issued in fiscal 2012
Date of approval	March 30, 2012
Non-vested	(shares)
Outstanding at beginning of year	52,760
Granted	—
Forfeited	—
Vested	—
Outstanding at end of year	52,760
Vested	(shares)
Outstanding at beginning of year	14,320
Vested	—
Exercised	800
Forfeited	—
Outstanding at end of year	13,520

Note: The Company conducted a four-for-one stock split effective on April 1, 2017. The number of stock options was recalculated based on the shares post stock split.

b. Price information

	Subscription rights to shares issued in fiscal 2018	Subscription rights to shares issued in fiscal 2017	Subscription rights to shares issued in fiscal 2016
Date of approval	March 28, 2018	April 3, 2017	March 31, 2016
	Yen	Yen	Yen
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price at the time of exercise	—	—	—
Fair value of stock options on the grant date	¥3,838	¥1,909	¥1,831

	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013
Date of approval	March 27, 2015	March 28, 2014	March 29, 2013
	Yen	Yen	Yen
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price at the time of exercise	—	—	—
Fair value of stock options on the grant date	¥1,462	¥ 750	¥ 641

	Subscription rights to shares issued in fiscal 2012
Date of approval	March 30, 2012
	Yen
Exercise price	¥ 1
Average stock price at the time of exercise	1,788
Fair value of stock options on the grant date	¥ 458

Note: The Company conducted a four-for-one stock split effective on April 1, 2017. Price information was recalculated based on the shares post stock split.

16.3. Method used for estimating the fair value of stock options

There was no applicable information on the method used for estimating the fair value of stock options in fiscal 2020.

16.4. Method used for estimating the exercise of stock options

As it is difficult to make a reasonable estimation for future forfeited shares, the Company adopted the method of reflecting the actual number of forfeited shares only.

Note 17 Income Taxes

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

	Millions of yen		Thousands of U.S. dollars
December 31	2020	2019	2020
Deferred tax assets:			
Provision for bonuses	¥ 415	¥ 406	$ 4,010
Net defined benefit liabilities	1,208	1,191	11,677
Loss on valuation of inventories	1,278	949	12,350
Impairment loss	1,893	1,401	18,292
Provision for point program	766	885	7,406
Unrealized inter-company profit	1,595	1,605	15,418
Tax loss carry-forwards	10,606	9,305	102,481
Tax loss carry-forwards on liquidation of subsidiary	—	217	—
Enterprise tax payable	135	251	1,314
Asset retirement obligations	778	797	7,521
Other	2,534	1,813	24,484
Subtotal deferred tax assets	21,212	18,825	204,953
Valuation allowance for tax loss carry-forwards	(10,551)	(9,138)	(101,946)
Valuation allowance for total deductible temporary differences	(3,109)	(2,061)	(30,047)
Subtotal valuation allowance	(13,661)	(11,200)	(131,992)
Total deferred tax assets	7,551	7,625	72,961
Deferred tax liabilities:			
Unrealized gain (loss) on available-for-sale securities	(11)	(13)	(116)
Restoration cost for asset retirement obligations	(207)	(225)	(2,005)
Other	—	(0)	—
Total deferred tax liabilities	(219)	(238)	(2,121)
Deferred tax assets, net	¥ 7,331	¥ 7,386	$ 70,840

Note: Tax loss carry-forwards and the corresponding deferred tax assets expire as follows:

	Millions of yen						
	2020						
December 31	1 year or less	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
Tax loss carry-forwards (a)	¥ 192	¥ 181	¥ 1,801	¥ 154	¥ 1,052	¥ 7,224	¥ 10,606
Less valuation allowance	(173)	(165)	(1,781)	(154)	(1,052)	(7,224)	(10,551)
Deferred tax assets	¥ 19	¥ 16	¥ 20	¥ —	¥ —	¥ —	¥ 55

	Millions of yen						
	2019						
December 31	1 year or less	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
Tax loss carry-forwards (a)	¥ 207	¥ 238	¥ 186	¥ 1,835	¥ 130	¥ 6,707	¥ 9,305
Less valuation allowance	(188)	(178)	(165)	(1,790)	(130)	(6,683)	(9,138)
Deferred tax assets	¥ 18	¥ 59	¥ 20	¥ 44	¥ —	¥ 23	¥ 166

	Thousands of U.S. dollars						
	2020						
December 31	1 year or less	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
Tax loss carry-forwards (a)	$ 1,864	$ 1,757	$ 17,403	$ 1,489	$ 10,168	$ 69,800	$ 102,481
Less valuation allowance	(1,677)	(1,602)	(17,209)	(1,489)	(10,168)	(69,800)	(101,946)
Deferred tax assets	$ 187	$ 155	$ 194	$ 0	$ 0	$ 0	$ 535

(a) Tax loss carry-forwards are amounts that were multiplied by the statutory income tax rate.

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

Years ended December 31	2020	2019
Statutory income tax rate	30.6%	30.6%
Expenditure not allowable for income tax purposes (Entertainment expense, etc.)	0.8	0.3
Per capita inhabitants' tax	0.6	0.2
Increase (decrease) in valuation allowance	21.1	5.8
Tax credits for research and development costs	(3.8)	(1.4)
Other	(0.0)	(1.6)
Effective income tax rate	49.4%	33.9%

Note 18 Asset Retirement Obligations

18.1. General information about asset retirement obligations

These are the restoration costs associated with lease contracts for stores, etc., and the asbestos removal costs incurred when buildings are dismantled.

18.2. Calculation method of asset retirement obligations

The expected usage period is estimated as the contract period of the real estate lease contract and the useful life of the building, and the discount rate is calculated using the yield of the government bond corresponding to the period to calculate the amount of asset retirement obligation.

18.3. Increase/Decrease in total amount

	Millions of yen		Thousands of U.S. dollars
December 31	2020	2019	2020
At beginning of year	¥2,185	¥2,115	$21,118
Increase due to asset acquisition	116	87	1,129
Adjustment amount over time	20	21	198
Decrease due to fulfillment of asset retirement obligations	(123)	(53)	(1,190)
Other	(18)	15	(183)
At end of year	¥2,181	¥2,185	$21,073

Note 19 Investment and Rental Property

19.1. Overview

The Group owns office buildings and residential properties for rental in Tokyo and other areas. Net rental income (loss) was ¥(162) million (U.S. $(1,566) thousand) in fiscal 2020, (¥852 million in fiscal 2019) (rental income is recorded under sales and other income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and other expenses).

19.2. Fair value of investment properties

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

		Millions of yen		Thousands of U.S. dollars
		2020	2019	2020
Carrying amount				
	At beginning of year	¥18,077	¥18,388	$174,661
	Movement during the year	(300)	(311)	(2,902)
	At end of year	17,777	18,077	171,759
Fair value at end of year		¥61,778	¥56,684	$596,896

(1). The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.
(2). Components of change
Increase:
In fiscal 2020: Refurbishment of office buildings for lease: ¥330 million (U.S. $3,189 thousand)
In fiscal 2019: Refurbishment of office buildings for lease: ¥289 million
Decrease:
In fiscal 2020: Depreciation on office buildings, residential properties and other properties for lease: ¥526 million (U.S. $5,089 thousand)
In fiscal 2019: Depreciation on office buildings, residential properties and other properties for lease: ¥535 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, 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.

Note 20 Segment Information

20.1. 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, various other businesses are conducted to contribute to the Group's profits.

Therefore, reportable segments are 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 distributes cosmetics and health foods and sells fashion items (women's underwear, women's apparel and jewelry) under the following brand names: ***POLA, ORBIS, Jurlique, H2O PLUS, THREE, DECENCIA, Amplitude, ITRIM*** and ***FIVEISM × THREE***. The Real Estate business is engaged in the leasing of office buildings and residential properties.

20.2. Calculation method for net sales, income (loss), assets, liabilities 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 "Summary of Significant Accounting Policies." Segment income is based on operating income. The amounts of inter-segment unrealized profit and transfer are calculated based on prevailing market prices.

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

	Millions of yen						
	2020						
	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	¥171,658	¥ 2,291	¥173,949	¥2,361	¥176,311	¥ —	¥176,311
Inter-segment sales or transfers	66	528	594	2,417	3,012	(3,012)	—
Total	171,724	2,820	174,544	4,778	179,323	(3,012)	176,311
Segment income	12,965	710	13,676	128	13,804	(51)	13,752
Segment assets	163,864	22,720	186,585	3,018	189,604	14,138	203,742
Other items							
Depreciation and amortization	6,709	569	7,278	12	7,290	(34)	7,255
Amortization of goodwill	—	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	¥ 6,928	¥ 438	¥ 7,366	¥ 5	¥ 7,372	¥ 1,092	¥ 8,464

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and includes the building maintenance business.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥(51) million (U.S. $(501) thousand) includes inter-segment transaction eliminations of ¥3,788 million (U.S. $36,603 thousand) and corporate expenses of ¥(3,840) million (U.S. $(37,103) 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 ¥14,138 million (U.S. $136,605 thousand) includes inter-segment eliminations of ¥(81,416) million (U.S. $(786,635) thousand) and corporate assets of ¥95,555 million (U.S. $(923,240) thousand), not allocated to each segment. 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 those related to corporate assets and inter-segment eliminations.
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.

	Millions of yen						
	2019						
	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	¥214,886	¥ 2,619	¥217,505	¥2,415	¥219,920	¥ —	¥219,920
Inter-segment sales or transfers	56	511	567	2,298	2,866	(2,866)	—
Total	214,942	3,130	218,072	4,714	222,787	(2,866)	219,920
Segment income	30,193	1,021	31,214	130	31,345	(207)	31,137
Segment assets	178,573	23,254	201,828	2,800	204,628	22,627	227,256
Other items							
Depreciation and amortization	6,683	576	7,260	2	7,262	115	7,377
Amortization of goodwill	—	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	¥ 8,928	¥ 398	¥ 9,326	¥ 54	¥ 9,380	¥ 710	¥ 10,091

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and includes the pharmaceuticals and building maintenance businesses. The pharmaceuticals business, which was previously included in "Others," is excluded from the scope of the consolidation with the transfer of all shares of POLA PHARMA INC. at January 1, 2019.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥(207) million includes inter-segment transaction eliminations of ¥3,731 million and corporate expenses of ¥(3,938) 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 ¥22,627 million includes inter-segment eliminations of ¥(88,602) million and corporate assets of ¥111,230 million, not allocated to each segment. 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 those related to corporate assets and inter-segment eliminations.
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.

	Thousands of U.S. dollars						
	2020						
	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	$1,658,532	$ 22,142	$1,680,674	$22,815	$1,703,489	$ —	$1,703,489
Inter-segment sales or transfers	638	5,111	5,749	23,359	29,107	(29,107)	—
Total	1,659,170	27,253	1,686,422	46,174	1,732,596	(29,107)	1,703,489
Segment income	125,271	6,869	132,140	1,239	133,379	(501)	132,878
Segment assets	1,583,233	219,522	1,802,756	29,169	1,831,924	136,605	1,968,529
Other items							
Depreciation and amortization	64,824	5,503	70,327	116	70,443	(338)	70,105
Amortization of goodwill	—	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	$ 66,942	$ 4,235	$ 71,177	$ 56	$ 71,232	$ 10,552	$ 81,785

20.4. Related information

20.4.1. Sales information by product and service

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Sales to external customers			
Cosmetics	¥165,835	¥207,741	$1,602,278
Fashion	5,822	7,144	56,254
Others	4,653	5,034	44,957
Total	¥176,311	¥219,920	$1,703,489

20.4.2. Information by geographical area

a. Sales

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Japan	¥149,861	¥195,238	$1,447,939
Asia	23,189	18,640	224,057
Overseas	3,259	6,041	31,493
Total	¥176,311	¥219,920	$1,703,489

Notes: Sales are classified by country or region based on the locations of customers.
"Asia," which was included in "Overseas" in the previous fiscal year, has become more important and has been posted independently from the current fiscal year. In order to reflect this change in presentation, the Company has reclassified "Information by geographical area (a) Sales" in the previous fiscal year.

b. Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Japan	¥37,756	¥39,147	$364,802
Overseas	3,367	4,839	32,535
Total	¥41,124	¥43,987	$397,337

20.4.3. 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 the consolidated statements of income for fiscal 2020 and 2019.

20.5. Information about impairment loss on non-current assets by reportable segment

	Millions of yen					
	2020					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥2,608	¥—	¥2,608	¥—	¥—	¥2,608

	Millions of yen					
	2019					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥689	¥—	¥689	¥—	¥—	¥689

	Thousands of U.S. dollars					
	2020					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	$25,205	$—	$25,205	$—	$—	$25,205

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

There was no applicable information about amortization and balance of goodwill by reportable segment in fiscal 2020.

Note 21 Related-Party Transactions

There was no applicable information on related-party transactions involving the Company or significant affiliates in fiscal 2020 and 2019 to be disclosed.

Note 22 Per Share Information

The Company's shares held by the officer compensation BIP trust are included in shares of treasury stock that are deducted from the number of shares issued and outstanding at December 31, 2020 in the calculation of net assets per share and are included in shares of treasury stock that are deducted in the calculation of the average number of shares of treasury stock during the period for calculating net income per share and diluted net income per share. The number of shares of deducted treasury stock at December 31, 2020 is 148,600 and the average number of shares is 148,600 during the period.

For fiscal 2020 and 2019, 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 computed for fiscal 2020 and 2019 due to the dilutive effect of subscription rights to shares arising from stock options.

Net assets per share are computed based on the net assets excluding subscription rights to shares and non-controlling interests, and common shares outstanding at year-end.

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2020	2019	2020
Numerator:			
Net income attributable to owners of parent	¥4,632	¥19,694	$44,754
Amount not attributable to shareholders of common stock	—	—	—
Net income attributable to owners of parent associated with common stock	¥4,632	¥19,694	$44,754
Denominator:			
Weighted average number of common stock outstanding (shares)	221,220,210	221,201,512	221,220,210
	Yen		U.S. dollars
Basic net income per share	¥20.94	¥89.04	$ 0.20
	Millions of yen		Thousands of U.S. dollars
Adjustment for Numerator:			
Adjustment of net income attributable to owners of parent	—	—	—
Adjustment for Denominator:			
Increase in the number of common stock (shares)	236,912	253,813	236,912
[Of which, subscription rights to shares]	(236,912)	(253,813)	(236,912)
	Yen		U.S. dollars
Diluted net income per share	¥20.92	¥88.93	$ 0.20

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

	Millions of yen		Thousands of U.S. dollars
At December 31	2020	2019	2020
Numerator:			
Total net assets	¥169,854	¥191,069	$1,641,110
Amount deducted from total net assets	388	378	3,752
[Of which, subscription rights to shares]	(243)	(243)	(2,354)
[Of which, non-controlling interests]	(144)	(134)	(1,398)
Net assets attributable to common stock	¥169,466	¥190,690	$1,637,358
Denominator:			
Common shares outstanding used in the calculation of net assets per share (shares)	221,220,703	221,219,903	221,220,703
	Yen		U.S. dollars
Net assets per share	¥ 766.05	¥ 862.00	$ 7.40

Note 23 Subsequent Event

Regarding Acquisition of Shares in tricot, Inc. (Subsidiary Acquisition)
The Company resolved at its Board of Directors' meeting held on February 12, 2021 to acquire all shares of tricot, Inc. (hereinafter "Tricot"), to make Tricot a subsidiary (hereinafter the "Acquisition") and concluded a share transfer agreement on the same date.

1. Purpose for the Acquisition of shares

Tricot is a venture company that develops the "*FUJIMI*" brand and provides on a subscription basis customized skin supplements and face masks that matches each and every user's skin. Tricot is a portfolio company within the corporate venture capital business of the Company, and, prior to the Acquisition, we held 1,900 shares (10.56%) of issued shares.

Through our shareholding in Tricot, we have closely monitored its management and marketing activities, as well as the resulting rapid growth of the business (with recent monthly sales of approximately ¥200 million). As a result, we have high regard for the superiority of its services, which are based on the results of the 20 beauty diagnosis questions on its website, its brand and products that accurately capture changing values, its ability to respond quickly to changes, as well as its entrepreneurial spirit, including its high sense of commitment to its goals.

In the course of exchanging opinions with the management of Tricot, we reached a consensus that by becoming a member of the POLA ORBIS Group (the "Group"), it could utilize our evidence and R&D technologies, and could expect to create synergies in production and logistics. Accordingly, we agreed that the Acquisition would accelerate the growth of Tricot and we started discussions.

The Company decided upon the Acquisition because it will strengthen the Group's strategy of "aiming to be a collection of unique brands that respond to diversifying values of beauty," which in turn will contribute to the enhancement of the Company's corporate value over the medium to long term.

2. Overview of the subsidiary to be transferred

Company name:	tricot, Inc.
Description of business:	Mail-order sales of personalized supplement "*FUJIMI*" and other
Operating results and financial position (Year ended March 31, 2020):	
Capital:	¥ 96 million
Net Assets:	¥ 14 million
Total Assets:	¥ 98 million
Net Sales:	¥173 million

3. Date of the transfer

March to April, 2021 (scheduled)

4. Number of shares to be acquired, Acquisition price and ratio of voting rights held after the Acquisition

Number of shares to be acquired:	16,100 shares (Ratio of voting rights held: 89.44%)
Acquisition price:	3,322 million yen
Ratio of voting rights held after the Acquisition:	100%

5. Funds required for the Acquisition

By internally available funds

6. Future outlook

The impact of this share transfer on the Company's consolidated performance is currently under close examination. If any necessity for revising the earnings forecast or matters to be disclosed arise, such matters will be promptly disclosed.

Note 24 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	2020	2019	2020
Short-term loans payable	¥ —	¥ —	$ —
Long-term loans payable–current portion	—	—	—
Lease obligations–current portion	996	1,401	9,631
Long-term loans payable (excluding due within a year)	—	—	—
Lease obligations–long term (excluding due within a year)	1,443	1,590	13,952
Total debt	¥2,440	¥2,992	$23,583

The weighted average interest rates of loans payable and lease obligations are as follows:

December 31	2020	Maturity
Lease obligations–current portion	2.85%	—
Long-term loans payable	—	—
Lease obligations–long term	3.58%	2022 to 2030

At December 31, 2020, the annual maturities of loans payable and lease obligations excluding those within one year for the subsequent five years are as follows:

	Loans payable		Lease obligations	
Years ending December 31	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2022	—	—	¥602	$5,825
2023	—	—	374	3,620
2024	—	—	250	2,422
2025	—	—	¥ 85	$ 829

The details of asset retirement obligations are described in Note 18 "Asset Retirement Obligations."

Independent Auditor's Report

EY
Building a better working world

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Independent Auditor's Report

The Board of Directors
Pola Orbis Holdings Inc.

Opinion

We have audited the accompanying consolidated financial statements of Pola Orbis Holdings Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 25, 2021

横内龍也

Tatsuya Yokouchi
Designated Engagement Partner
Certified Public Accountant

大屋誠三郎

Seizaburo Oya
Designated Engagement Partner
Certified Public Accountant

Corporate Information (As of December 31, 2020)

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	4,374 (for the Group) 154 (for the Company) Full-time employees (Excluding those on loan to other companies, including those on loan from other companies)
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

Beauty Care business

POLA INC.
ORBIS Inc.
POLA CHEMICAL INDUSTRIES, INC.
Jurlique International Pty. Ltd.
H2O PLUS HOLDINGS, INC.
DECENCIA INC.
ACRO INC.

Real Estate business

P.O. REAL ESTATE INC.

Other businesses

P.O. TECHNO SERVICE INC

In-house venture

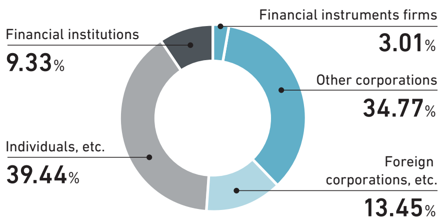
encyclo.INC

Stock Information (As of December 31, 2020)

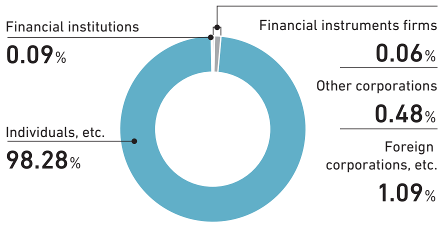
Total number of authorized shares	800,000,000
Total number of issued shares	229,136,156
Number of shareholders	57,260

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	78,616	35.5
Satoshi Suzuki	50,626	22.9
Custody Bank of Japan, Ltd. (Trust Account)	6,257	2.8
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,230	2.4
Naoko Nakamura	4,770	2.2
THE BANK OF NEW YORK MELLON 140051	4,187	1.9
SMBC Nikko Securities Inc.	3,774	1.7
Hiromi Suzuki	3,113	1.4
SSBTC CLIENT OMNIBUS ACCOUNT	1,739	0.8
POLA ORBIS Group Employees' Stockholding	1,582	0.7

Notes: 1. In addition to the above, the Company holds 7,766 thousand shares of treasury stock. Note that the Company introduced a Board Incentive Plan Trust for directors, though the Company's shares held in this trust are not included in treasury stock.
2. For number of shares held, figures are rounded down to the nearest thousand, and for shareholding ratios, figures are rounded to the first decimal place.
3. The percentage of shareholding is calculated by deducting shares of treasury stock.

POLA ORBIS HOLDINGS INC.

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