POLA ORBIS HOLDINGS

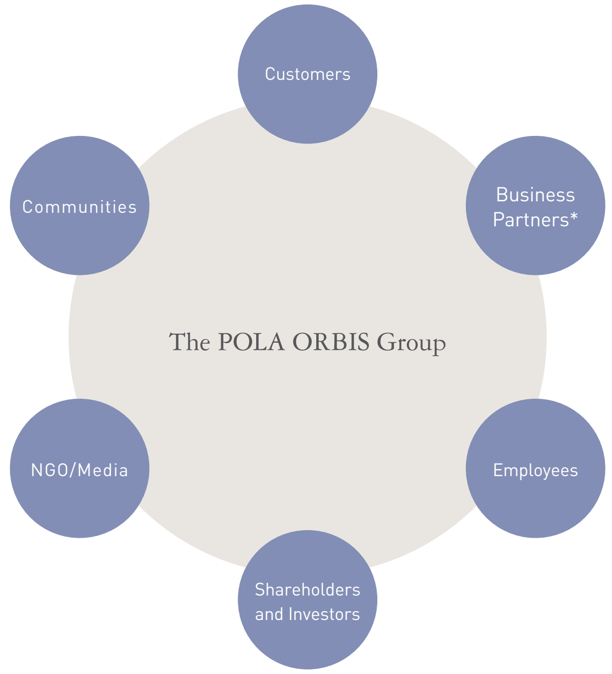
Corporate Report 2018

POLA ORBIS Group Philosophy | Vision

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

Contents

The POLA ORBIS Group's Stakeholders



*Including Beauty Directors

In 2017, the POLA ORBIS Group signed the UN Global Compact, pledging, as a good corporate citizen, to participate in the creation of a global framework for sustainable growth.

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. The information has been compiled with reference to the International Integrated Reporting Framework, issued by the International Integrated Reporting Council (IIRC).

Time Frame

This report focuses on activities and results achieved in fiscal 2018—the 12 months from January 1, 2018 to December 31, 2018—but some fiscal 2019 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 closing of accounts has been prepared on the basis of data available as of February 13, 2019.

A Message from the President

Satoshi Suzuki

鈴木郷史

Representative Director and President

POLA ORBIS Group Philosophy

Mission

Sensitize the world to beauty.

Approach life with boundless curiosity and fill it with heartwarming encounters and new discoveries. Make the world different tomorrow. Inspire a sensitivity to beauty that changes people's lives, making them feel happier and more emotionally fulfilled.

Vision

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

"I want to present the very best to each and every customer directly."
—Shinobu Suzuki, Founder

The POLA ORBIS Group tracks its beginnings to a cream formulated in 1929 by the founder for his wife to soften and smooth her rough hands. He later went around door-to-door selling this exclusively formulated cream. The spirit of *monozukuri* production within the POLA ORBIS Group thus began with the love of a man for his wife. The founder wanted to offer customers the very best, and such products had to be marketed under a similarly excellent method, which meant explaining how to use each product to obtain the best results. This belief is part of the Group's DNA.

In 1937, a woman came to the sales office in Kyoto and asked, "Would you consider hiring a woman?" Back in those days, the working world was essentially male-dominated. Today, there are some 45,000* women working as POLA Beauty Directors. The company's development is most certainly a reflection of Beauty Directors' people-oriented perspective, their understanding of local issues and their acceptance in the community.

Beauty Directors often hear customers say, "I like purchasing products from you" or "You're the reason I'll buy the product." The underlying sentiment comes from beyond a simple relationship of selling cosmetics to customers. Rather, it implies that Beauty Directors listen to customers' concerns and support their lives. In addition, Beauty Directors are women who love working in the community and thus are role models for other women.

People skills like these are the Group's biggest strength. In 2017, drawing on this asset to grow as a corporate group and sharing a perspective on the image we want to portray, we embraced a new philosophy—"Sensitize the world to beauty." Working together, we will participate in evolving innovation, encourage people to appreciate and pursue beauty, and become a corporate group that enriches people's lives.

*As of December 31, 2018

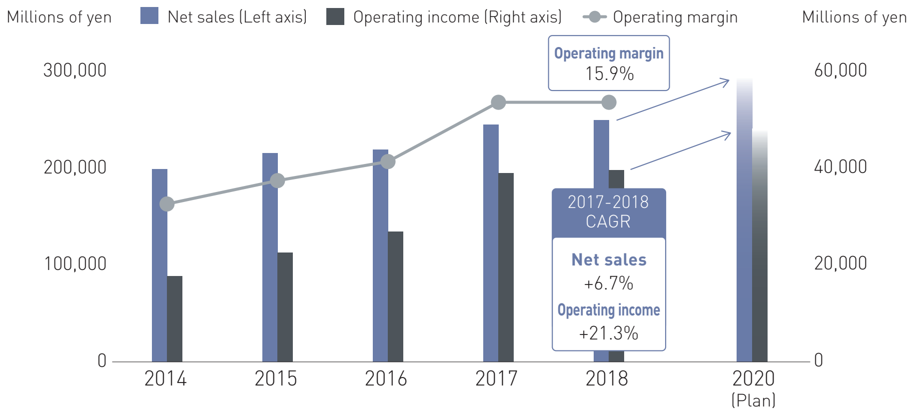
Fiscal 2018 results

The domestic cosmetics market was generally favorable. However, inbound spending and purchasing for the purpose of consumer-to-consumer transactions began to slow down in the third quarter, reflecting the impact of China's E-commerce Law. If inbound spending is excluded, the domestic cosmetics market appeared to shrink. Against this backdrop, the POLA ORBIS Group emphasized efforts to boost the profitability of operations in Japan, move overseas operations into the black and create next-generation growth brands, in line with the four-year medium-term management plan launched in 2017. As a result, consolidated net sales reached ¥248.5 billion, up 1.7%, and operating income hit ¥39.4 billion, up 1.6%, extending higher sales and higher income for the ninth straight year. Unfortunately, profit attributable to owners of parent tumbled 30.9%, to ¥8.3 billion, owing to the booking of an impairment loss on non-current assets at Jurlique and a loss on the transfer of the Group's pharmaceuticals business.

Progress on medium-term management plan

POLA ORBIS HOLDINGS set 2020 as the year to achieve its long-term vision, with targets of at least ¥250 billion in net sales, an operating margin of at least 15% and return on equity of at least 12%. In 2018, the net sales CAGR rose 6.7% and the operating margin CAGR was up 21.3% over the 2017 figures, but ROE, which exceeded the target ahead of schedule in 2017, dropped in 2018 due to the booking of extraordinary losses. In 2019 and 2020, we will strive to achieve targets and definitely move overseas operations into the black. We will also identify different issues of importance, with a view toward a new Group vision for 2021 and beyond.

Net Sales/Operating Income/Operating Margin



Issues and approaches in 2019

The Group will focus its investment in the Beauty Care business. We moved into the pharmaceuticals business in 1983 and fully demonstrated synergies with cosmetics research. However, management saw the difficulty of further sustainable growth and decided to transfer the pharmaceuticals business outside the Group. For fiscal 2019, we are looking forward to the 10th straight year of higher sales and income, on a consolidated basis, with net sales rising 2% and operating income up 4.1%, based on a real growth rate that excludes the fiscal 2018 results of the pharmaceuticals business.

At POLA, changes in inbound spending and purchasing for the purpose of consumer-to-consumer transactions temporarily impacted demand adversely. However, the company will maintain stable growth with its domestic repeat-purchase customer base, which recorded double-digit growth in 2018. In May 2019, POLA added basic items to the *White Shot* series, a quasi-drug lineup of skin-whitening products featuring a new active ingredient, the first approved by the Ministry of Health, Labour and Welfare in 10 years. In July 2019, the company plans to launch a renewed APEX series, a personalized skincare brand in the POLA portfolio. POLA has seen an upward trend in the popularity and use of its products, and a sustained approach to branding will fuel further improvement. In overseas activities, the company will capitalize on opportunities afforded by increasingly higher brand recognition, tap China and Hong Kong as main markets and duty-free shops as a key marketing channel, and aim to double the number of stores, from 50 at the end of fiscal 2018 to 100 within two years. Overseas operations have already turned a profit, but during the current medium-term management plan, the company will prioritize top-of-the-line expansion and actively invest in marketing strategies.

At ORBIS, several years of branding efforts have set the stage for higher sales in domestic operations. The renewed *ORBIS U*, launched in October 2018, attracted more people in their 30s to the brand. The success of structural reforms showed in key performance indicators (KPIs), including cost of sales and spending per customer, leading to higher income. In January 2019, ORBIS debuted *DEFENCERA*, the first food for specified health uses (FOSHU) in Japan with ingredients recognized as having a positive effect on the skin. This product will be the catalyst that drives sales upward. Through a strategic alliance with Tmall Global, ORBIS began selling *DEFENCERA* in China in February 2019. The company will earnestly strive to raise its profile in that market.

ORBIS *DEFENCERA*

Sales of brands under development continued to chart an upward path in fiscal 2018. ACRO, the company behind the THREE brand, will accelerate THREE's global expansion, reinforce the business structure by cultivating a wider e-commerce channel and work to improve profitability.

In September 2018, ACRO created a bigger brand portfolio and raised expectations that it will be the next growth driver of the POLA ORBIS Group by unveiling three new brands—Amplitude, ITRIM and FIVEISM x THREE. In 2019, the priority will be to solidify brand position by establishing more points of customer contact and increasing the number of customers at home and abroad. This emphasis will move ACRO into the black overall by 2021.

For overseas brands, there is a pressing need to deal with losses. We acknowledge that the primary reason for Jurlique's impairment loss stems from a delay in reviewing the role of the brand within our multi-brand strategy. The initial goal, when Jurlique was brought under the POLA ORBIS Group umbrella, was to raise the overseas sales ratio on a consolidated basis by expanding our presence, especially in China, where we anticipated growth. We invested in marketing strategies to cultivate and capitalize on growth potential. However, external factors affecting the brand have changed dramatically since the acquisition, mainly due to the appearance of competitors employing a similar concept and major changes in the market environment in China, our target overseas market. This situation disrupted progress in sales growth and, more recently, eroded improvement on the profit front. Going forward, we will place even greater emphasis on efforts to move Jurlique into the black rather than expand sales, and we will radically restructure the entire organization, including the head office.

Fiscal 2019 Consolidated Performance Forecast

*Reference: Real growth rate excludes impact from transfer of pharmaceuticals business.

Net sales ¥241 billion
(Down 3.0% year on year)
*(Up 2.0% year on year)

Operating income ¥40.5 billion
(Up 2.5% year on year)
*(Up 4.1% year on year)

In addition, operations will be streamlined, a process targeting extensive closure of unprofitable stores in China. When investment efficiency has improved, resources will be concentrated into the company's main markets—Australia and Hong Kong—to put sales back on a growth track.

H2O PLUS has withdrawn from the wholesale market in North America to concentrate on its e-commerce and hotel amenities business. Mainstay products will be developed and produced by POLA CHEMICAL INDUSTRIES, which will strive to enhance product appeal.

M&As are vital for expanding the scope of business, but decisions must be made carefully, with current valuation in mind. To boost the effectiveness of our M&A strategy, we will identify brands that are worth buying and choices that present synergy potential from a Group perspective, based on an original Company M&A template—a task list—acknowledging aspects of past actions that did not turn out exactly as planned. Meanwhile, overseas operations for POLA and THREE are currently trending favorably, and we will accelerate investment to increase their store counts, especially in Asia, boost brand recognition and speed up growth.

In addition, we will reach for new heights in R&D, which fuels growth drivers. Recent results include Japan's first wrinkle-improving quasi-drug product, a new active ingredient for skin-whitening and a food for specified health uses that has a positive effect on the skin—highly distinctive products brought to market in quick succession. Indeed, R&D capabilities are a Group strength. To reinforce these capabilities, we plan to raise the ratio of R&D to net sales by 20% by 2020, over the level in 2018, and constantly create new ingredient pipelines.

Our capital policy will also change, matched to the business environment. Management had previously avoided treasury stock buybacks from the perspective of liquidity but reconsidered this position because conditions have changed since POLA ORBIS HOLDINGS listed its shares nearly 10 years ago. From now on, the purchase of treasury stock will be considered on the basis of investment strategies, market prices and the liquidity of Company shares. The payout ratio will not change—the policy still calls for 60% or higher. We will be offering a commemorative dividend to mark our 90th anniversary in September 2019, as we thank shareholders who have supported us since our listing in 2010. It is the support of shareholders and, by extension, all stakeholders that has enabled us to achieve stable growth in an environment characterized by intense transformation.

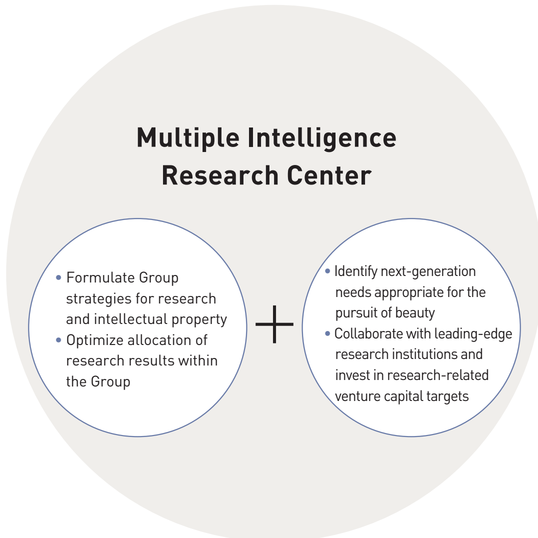
In 2019, we established voluntary advisory bodies—the Nomination Advisory Committee and the Compensation Advisory Committee—to ensure management soundness and transparency. We will make tireless efforts to enhance corporate governance.

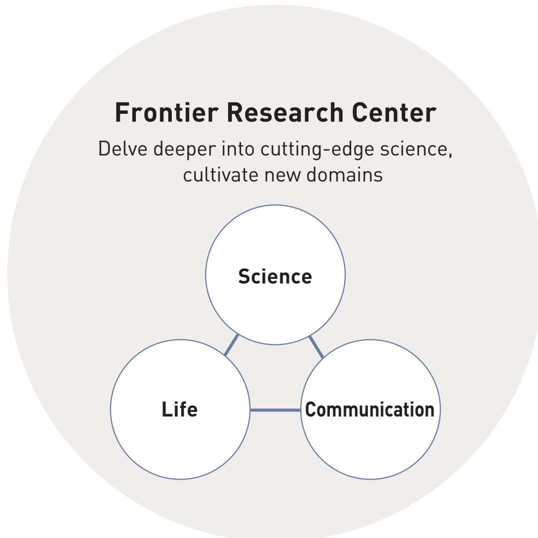
Toward sustainable management

Shinobu Suzuki, the founder, expressed the idea of finding joy in making others happy and inspiring others to live life with an enthusiasm driven by smiles. This revered idea permeates the POLA ORBIS Group today. People are living longer—with many now reaching 100—but no one can read the future. This breeds a sense of uncertainty, a feeling of being trapped. In this era, our mission is crystal clear: stimulate the curiosity that lies within everyone and support a forward-looking attitude that turns new experiences into personal growth. We are determined to fulfill this mission, a commitment substantiated by efforts outlined in our sustainability statement—to improve quality of life through innovative technology services that utilize landmark products and services to address concerns; to revitalize communities through joint projects at the local level; and to promote culture, the arts and design that heighten perceptions of beauty.

The Multiple Intelligence Research Center and the Frontier Research Center—both established in 2018—aim to enhance quality of life by forming new questions for the world to ponder and finding answers through the power of science, going beyond the borders of cosmetics. Meanwhile, Group companies and stores promote solutions to community issues and encourage women to be active in society through joint efforts with local governments, non-profit organizations and other groups across the country. In culture and the arts, we have a long history of involvement, providing chances for young artists to exhibit their work and striving to pass traditional culture on to the next generation. Also, we enthusiastically include art in employee training programs because, I feel, art promotes a different level of awareness that is indispensable for creating something the world has never seen before.

What can we do, beyond the limits of cosmetics, to enrich people's lives? What should we provide? How do we express our message? These are the questions we are asking ourselves in a passionate discussion about the corporate vision that will guide us from 2021. The POLA ORBIS Group will build a solid position as a corporate group sincere in establishing relationships with people, society and the environment, engaging in business and spreading the message of beauty inside and outside to people around the world.





Progress to Date

Ability to respond to change, evolving along with the changing times

POLA ORBIS Group companies expedite responses to evolving market and customer needs and facilitate swift innovations matched to the changing times. The ability to respond as prevailing conditions require is a corporate strength, and with this in mind, Group companies will continue to take full advantage of excellent capabilities in R&D and direct marketing to fuel growth into the future.

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 an 89-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.
*Ability to attract customers with approach combining esthetic treatments and consultations with product sales
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+ BEAUTY
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 margin	12.3% in FY2016
Capital efficiency	ROE 9.5% 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.

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 (Plan)

Consolidated net sales	CAGR 3%–4% ¥250.0 billion in FY2020
Operating income	CAGR 10% or higher
Operating margin	15% or higher in FY2020
Capital efficiency	ROE 12% in FY2020
Shareholder returns Consolidated payout ratio	60% or higher from FY2017

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
2019 ORBIS begins sales of *DEFENCERA*, a food for specified health uses with verified functions for skin.

2019 POLA begins sales of *White Shot LX* and *White Shot MX*, featuring a new active ingredient for skin-whitening.

Environment/Society/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.

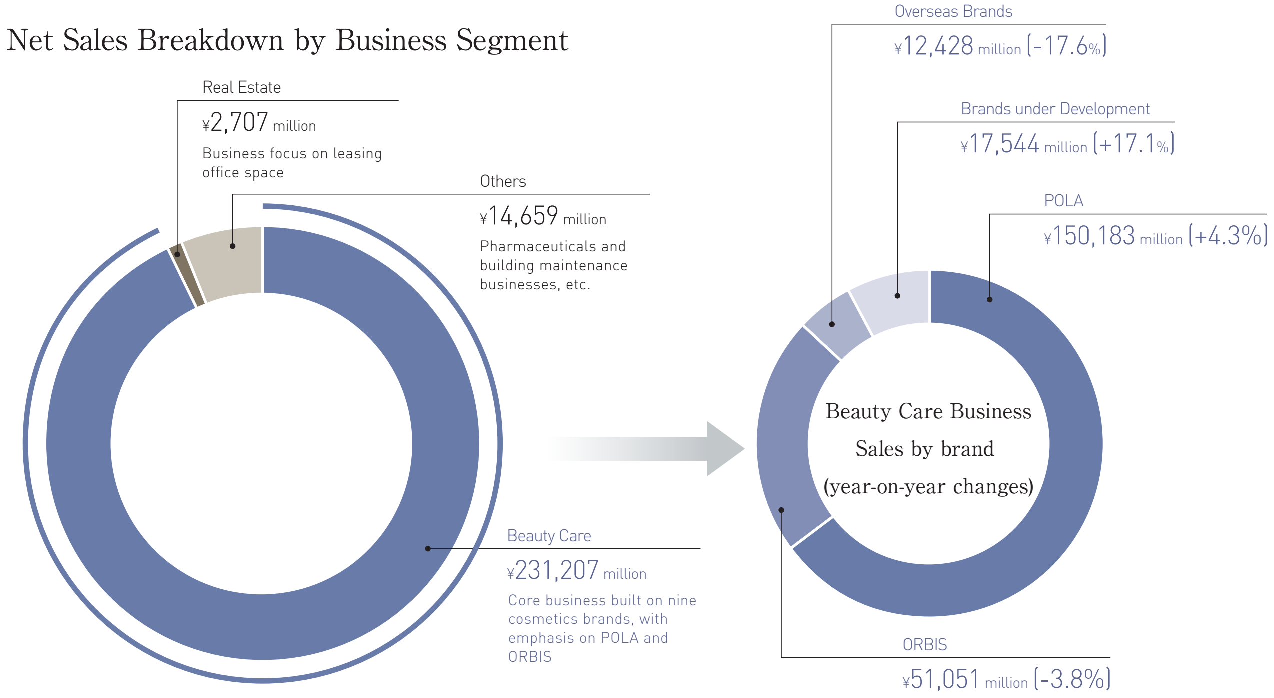
2015 Appoints outside directors.
2015 Measures and redefines director competencies.
2015 Elevates level of communication with shareholders (captures first Best IR Award).
2016 Puts together Corporate Governance Report and forms Basic Policy on Corporate Governance.
2016 Initiates Board of Directors'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

Business Structure and Brand Portfolio

Business Structure

■ Net Sales Breakdown by Business Segment



*Transfer of pharmaceuticals business completed, as of January 1, 2019

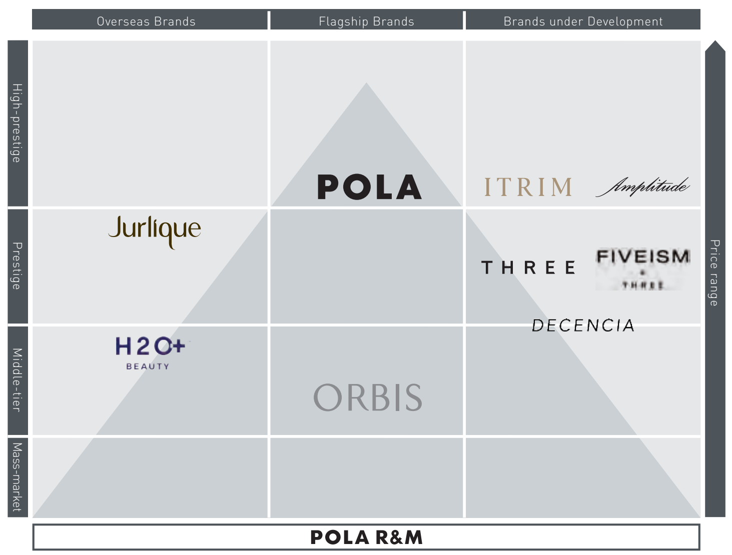
Changes in Beauty Care Business Sales by Brand over the Past Five Years (2014–2018)

Millions of yen

	2014	2015	2016	2017	2018
POLA	99,571	109,352	116,126	144,012	150,183
ORBIS	52,302	56,354	55,857	53,066	51,051
Overseas Brands	22,476	22,334	15,665	15,075	12,428
Brands under Development	10,123	12,529	14,796	14,978	17,544

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. Currently, 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.



Flagship Brands

POLA

Concept
A high-prestige brand built on leading-edge technology in the fields of anti-aging and skin-whitening

Sales Channels
POLA THE BEAUTY, Esthe Inn, conventional door-to-door business, department stores and the Internet
Sold in seven countries and regions

ORBIS

Concept
Skincare brand that brings out the beauty inherent in each person

Sales Channels
Mail-order business (catalog and Internet) and directly operated retail stores
Sold in four countries and regions

Overseas Brands

Jurlique

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

Sales Channels
Sold in 17 countries and regions, including Australia, China, Hong Kong and duty-free shops
Department stores, directly operated retail stores, duty-free shops and the Internet

H2O+ BEAUTY

Concept
Skincare brand based on a concept emphasizing the hydrating power of water and innovative formulas

Sales Channels
Sold in six countries and regions, mainly North America
Specialty cosmetics stores and the Internet

Brands under Development

THREE

Concept
A skincare and makeup brand featuring naturally derived ingredients extracted from plants

Sales Channels
Directly operated retail stores, department stores, semi-self-select stores* and the Internet
Sold in eight countries and regions

DECENCIA

Concept
A skincare brand for sensitive skin

Sales Channels
Mail-order business (Internet)

Amplitude

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

Sales Channels
Department stores and the Internet

ITRIM

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

Sales Channels
Department stores and the Internet

FIVEISM × THREE

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

Sales Channels
Directly operated retail stores, department stores and the Internet

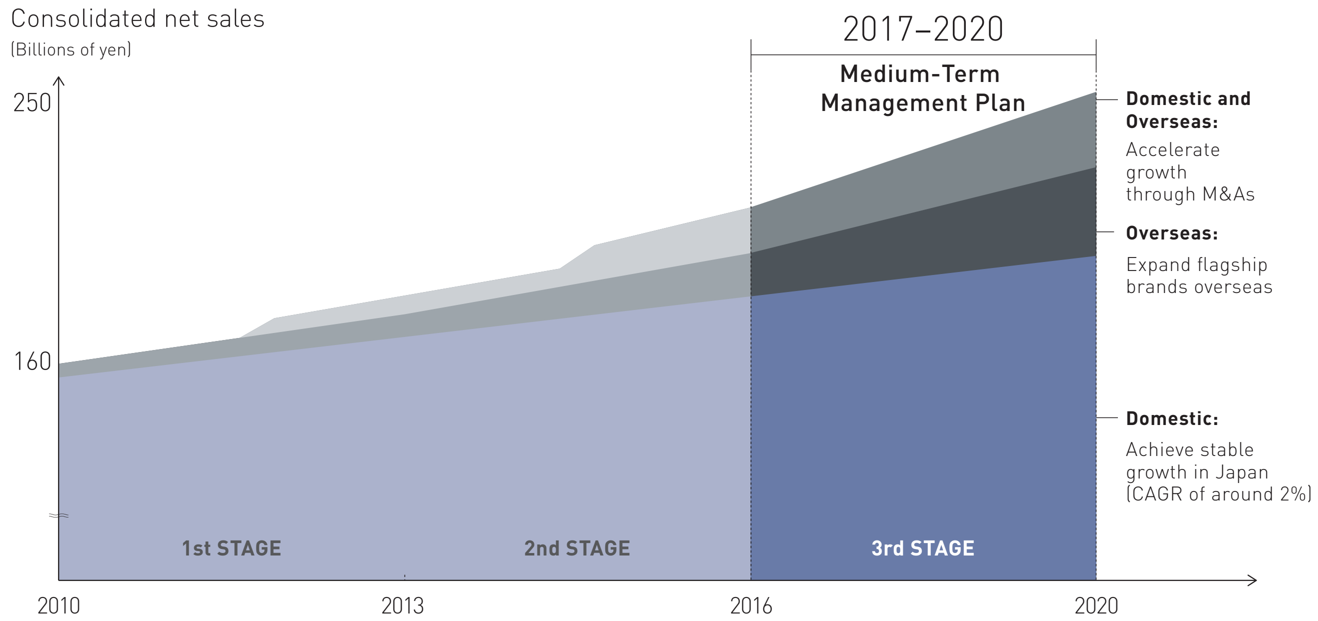
*Multi-brand semi-self-select stores offer access to a huge range of beauty products, including prestige cosmetics, and some advice, if wanted, and are more appealing to young shoppers than the time-consuming, consulting-driven process at department stores.

Medium-Term Management Plan

Long-Term Vision: Last Stage —2017–2020 Medium-Term Management Plan—

In 2011, we announced a long-term vision to become a highly profitable global company by 2020. The medium-term management plan that runs from 2017 to 2020 is the last stage of the journey toward this goal.

Long-Term Vision—Goals for 2020



1st STAGE
Generate stable domestic profits and create a successful business model overseas

2013 Results	
Net sales	¥191.3 billion
Overseas sales ratio	12.2%
Operating margin	8.4%

2nd STAGE
Further strengthen domestic earnings structure and accelerate overseas expansion

2016 Results	
Net sales	¥218.4 billion
Overseas sales ratio	8.7%
Operating margin	12.3%

3rd STAGE
Become a "highly profitable global company"

Goals for 2020	
Net sales	¥250.0 billion or higher
Overseas sales ratio	20% or higher
Operating margin	13%-15%

TOPICS

Pharmaceuticals Subsidiary Share Transfer

POLA ORBIS HOLDINGS is working to improve the corporate value of the POLA ORBIS Group by building a stronger management base and improving capital efficiency. As part of this approach, the Company transferred all shares in POLA PHARMA INC., a medical pharmaceuticals company specializing in dermatology, in January 2019.

The reasons for transferring the pharmaceuticals business to an external company with a pharmaceuticals focus were to concentrate management resources in the core Beauty Care segment and raise investment efficiency while achieving continued growth for POLA PHARMA.

Understanding Issues

- Put ORBIS' sales back on growth track
- Reduce loss position on overseas brands

Allocating Resources

- Invest in overseas brands and brands under development, utilizing solid foundation of stable domestic sales from flagship brands
- Create new brands and pursue M&A activity
- Invest in research in anti-aging and skin-whitening
- Create new value beyond the cosmetics fields (Multiple Intelligence Research Center)

2017–2020 Medium-Term Management Plan

Improve profitability in Japan, promote a solid shift toward overall profitability from overseas operations and build a brand structure for next-generation growth

Strategy	Brands
Strategy 1 Sustain stable growth of flagship brands to lead Group earnings	POLA, ORBIS
Strategy 2 Bring overseas operations solidly into the black overall	Jurlique, H2O+ BEAUTY, POLA, ORBIS, THREE
Strategy 3 Expand brands under development, create new brands, pursue M&A activity	THREE, Amplitude, DECENCIA, ITRIM, FIVEISM × THREE
Strategy 4 Strengthen operations (reinforce R&D, human resources and governance)	
Strategy 5 Enhance capital efficiency and enrich shareholder returns	

Consolidated net sales
- ¥250 billion
- CAGR 3%-4%

Operating income
- Operating margin 15% or higher
- CAGR 10% or higher

Capital efficiency
- ROE 12%

Shareholder returns
- Consolidated payout ratio 60% or higher

2018 Results

Sales growth rate, operating income growth rate and operating margin exceeded targets
ROE dropped temporarily due to impact of extraordinary loss

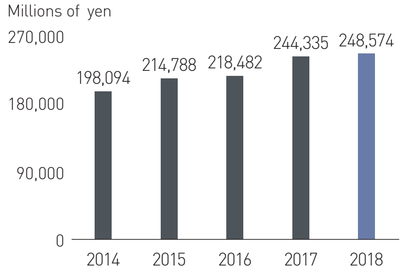
Consolidated net sales	Operating income	Operating margin	Profit attributable to owners of parent	ROE	Consolidated payout ratio
¥248,574 million (Up 1.7% yoy) (CAGR +6.7%)	¥39,496 million (Up 1.6% yoy) (CAGR +21.3%)	15.9% (Unchanged yoy)	¥8,388 million (Down 69.1% yoy)	4.3% (Down 9.9 ppt yoy)	210.9% (Up 153.8 ppt yoy)

Financial and Non-Financial Highlights

Financial Capital

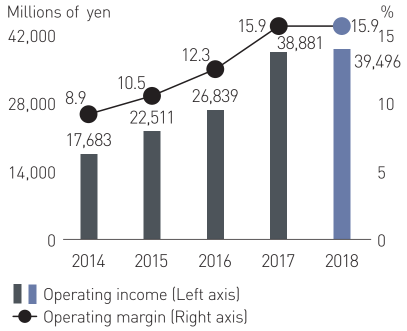
■ Net sales

¥248,574 million



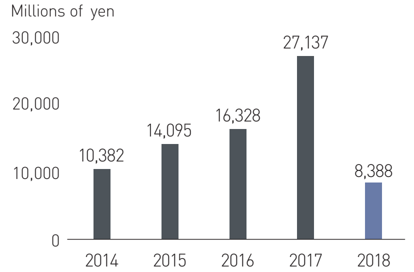
■ Operating income/ Operating margin

¥39,496 million/15.9%



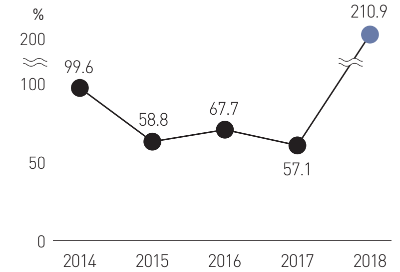
■ Profit attributable to owners of parent

¥8,388 million



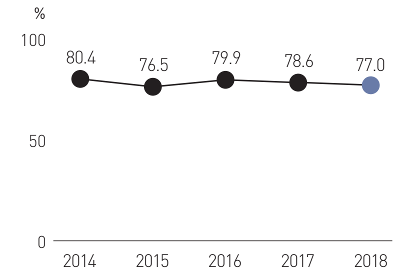
■ Payout ratio

210.9%



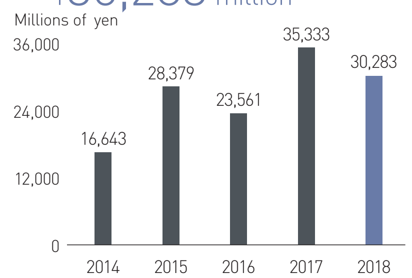
■ Equity ratio

77.0%



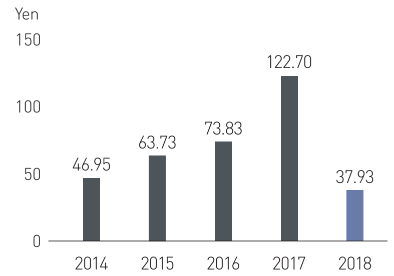
■ Cash flows from operating activities

¥30,283 million



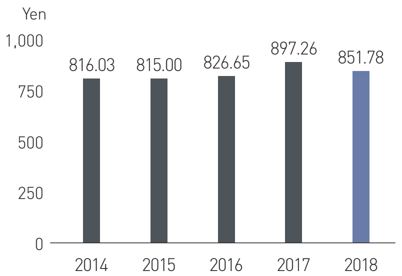
■ Net income per share

¥37.93



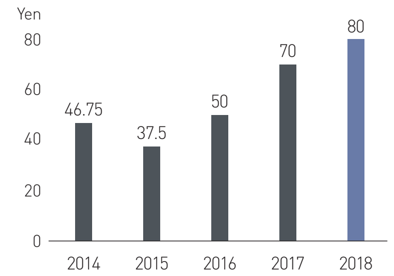
■ Net assets per share

¥851.78



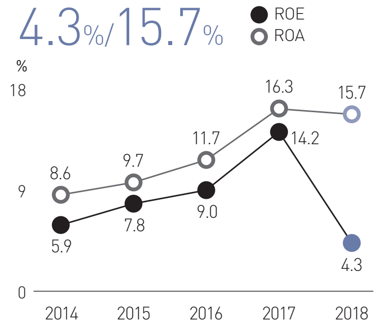
■ Cash dividends per share

¥80



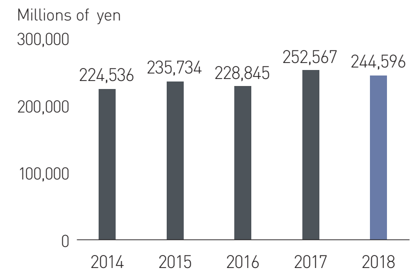
■ Return on equity/ Return on assets

4.3%/15.7%



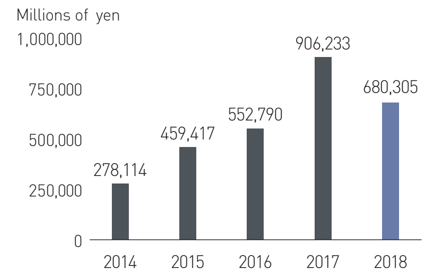
■ Total assets

¥244,596 million



■ Total market value

¥680,305 million

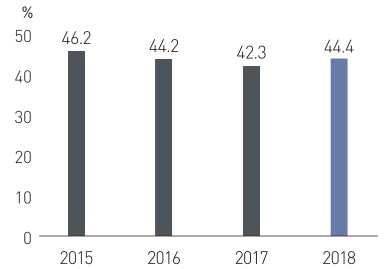


Notes: 1. Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment following revisions to accounting standards in Australia.
2. A four-for-one stock split was executed on April 1, 2017. Per-share information is calculated on the assumption this stock split took place at the beginning of fiscal 2014.

Non-Financial Capital

■ Ratio of women in management positions

44.4%



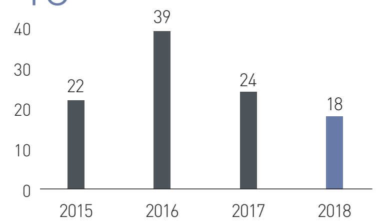
■ The ratio of executives who completed the Business Innovation Academy course to the total number of executives in the Group

26.0%

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

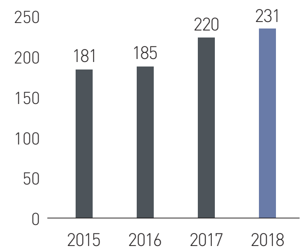
■ Number of papers presented at scientific conferences by POLA CHEMICAL INDUSTRIES

18



■ Number of POLA Grand Owners*

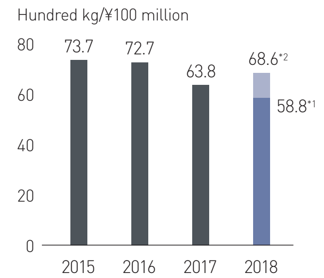
231



*Group leaders with monthly sales of over ¥10 million

■ CO_2 emissions

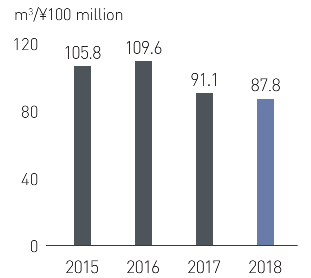
68.6*2 hundred kg/ ¥100 million



*1 Current standard based on per unit of sales
*2 From 2018, emissions from directly operated stores, etc., originally not included, have been estimated and added. Estimates are used since third-party confirmation is in process.

■ Water consumption

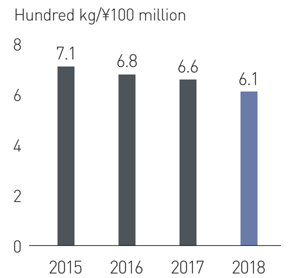
87.8 m³/¥100 million



On a per unit of sales basis

■ Waste

6.1 hundred kg/ ¥100 million



On a per unit of sales basis

The POLA ORBIS Group's Value Creation Process

The POLA ORBIS Group looked at megatrends and social issues, identified opportunities and risks that might greatly affect the Group, then formulated corresponding business strategies. By undertaking business activities driven by the three strengths, the Group will realize its vision while creating value for society.

Megatrends, Social Issues

- Influence of China's economy
- Low birthrate/ graying of society
- Changing consumer sentiment
- Changing work styles
- Possibility of major earthquakes and floods
- Growing preference for high-quality standards internationally
- Climate change
- Heightened sense of social obligation to ensure compliance

Changing External Environment

- Trend shifting from inbound demand to home-market purchases
- Asian markets, particularly that of China, continue to thrive
- Spending diversification
- Market for counterfeit products
- Rural depopulation
- Skincare market shows double-digit growth in number of units shipped
- Shortage of raw materials for cosmetics
- Diversified sense of values among target customer groups
- Greater risk to reputation due to globalization
- Improved perception of beauty that transcends gender stereotypes
- Acceleration of tendency to globally standardize management involvement in environmental responses
- Fiercely competitive labor market
- Corporate Governance Code established

Opportunities

- Expanding demand in Asia for Japanese cosmetics
- Domestic prestige skincare market growing
- Greater demand for anti-aging skincare reflects the graying population
- Growing active participation of women in society
- Larger "beauty population"—people interested in beauty products/services
- Joint efforts with local governments

Risks

- Compliance risk (particularly overseas governance issues)
- Materials procurement risk reflecting climate change
- Business continuity plan risk (natural disaster preparedness)
- Revised laws in China
- Decrease in inbound visitors due to international economic instability
- Keep and train managerial employees

Mission Sensitize the world to beauty.

Corporate governance ▶P42

Business activities

Strength
Multi-brand strategy
▶P10-11

Strength
R&D structure centers on concentration of corporate resources into skincare
▶P24-25

Medium-Term Management Plan
① Improve profitability in Japan
② Put overseas operations as a whole in the black
③ Build brand structure for next-generation growth

Three Key Sustainability Themes
① Improve quality of life through leading-edge technologies and services
② Invigorate communities
③ Culture, arts, design

Direct marketing provides a direct connection to customers
▶P26-27
Strength

Financial Indicators

▶P12-13
Management indicators (planned)

- Consolidated net sales: CAGR 3-4%; ¥250 billion in 2020
- Operating income: CAGR 10% or higher
- Operating margin: 15% or higher in 2020
- Capital efficiency: ROE 12% in 2020
- Shareholder returns: Consolidated payout ratio 60% or higher from 2017

Non-Financial Indicators

▶P28-29

- Rate of candidates for management positions filled
- Percentage of women in management positions
- Number of research awards collected at home and abroad
- Number of researchers in cutting-edge dermatology research
- Number of people leaving the company for health reasons
- Number of regional entrepreneur owners
- Number of joint projects with local governments
- Number of joint projects with artists
- Number of participants in art-based workshops

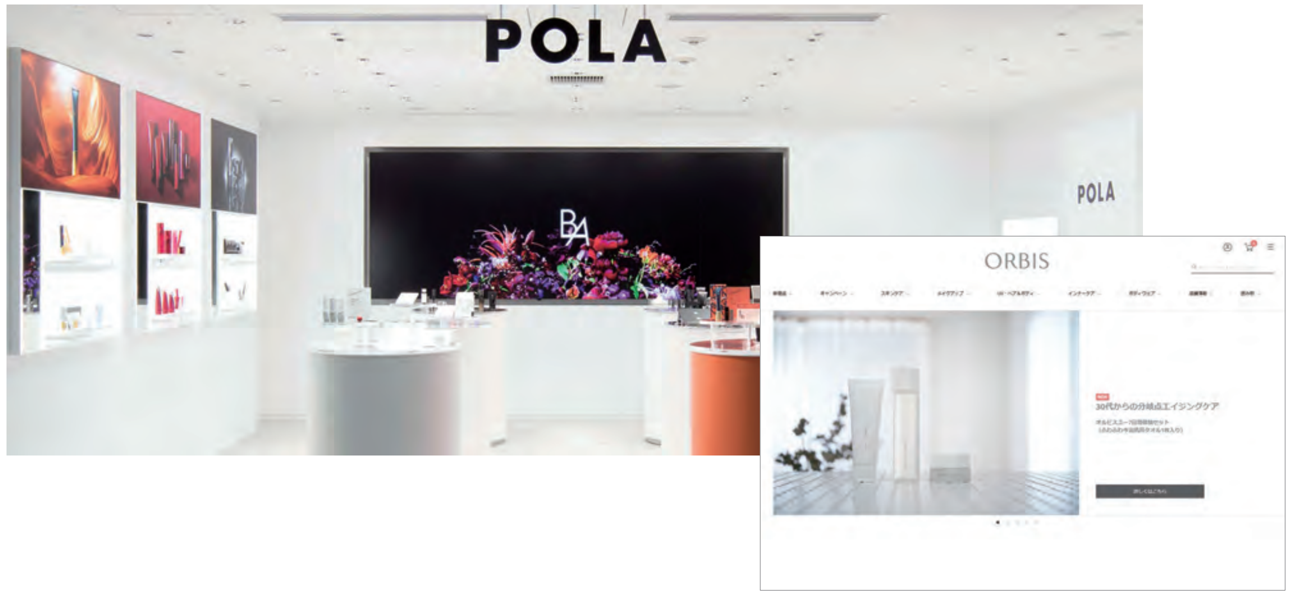
Realizing Our Vision

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

Social Value

- Support development of entrepreneurs and management personnel
- Improved quality of life
- Regional revitalization
- Stimulate interest in culture and the arts

Responsiveness to Change, Derived from Direct Ties with Customers, and Value Creation through Multi-Value Chains



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.

High brand loyalty through direct ties with customers

The Group's most important business resource is its direct connection to customers. With this in mind, POLA and ORBIS, our flagship brands, promote respective namesake brands to customers through specific sales channels appropriate to each brand concept.

POLA draws on its cross-country network of about 45,000 Beauty Directors to deepen relationships with customers through face-to-face meetings and consultation opportunities. Beauty Directors provide more than just products. They strive to create experiences that elicit a positive feeling and build relationships that bring out the best in themselves and their customers.

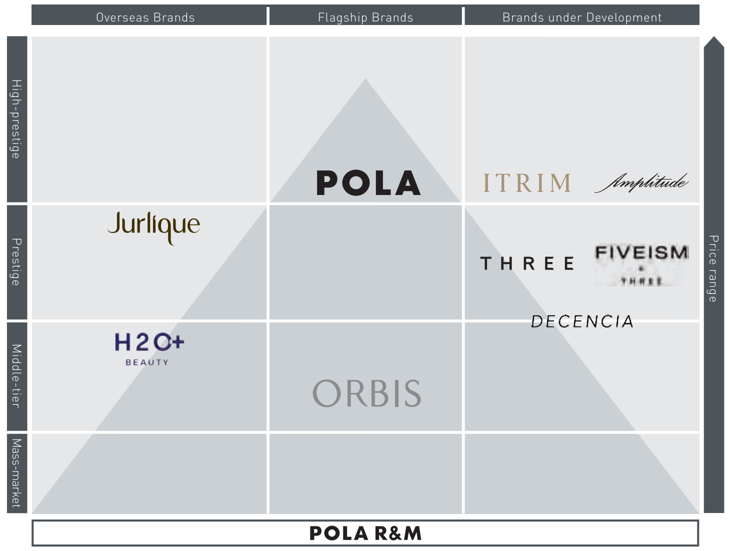
ORBIS, while focused on mail-order sales, reinforces its connection to customers through one-to-one communication over the Internet. As a result, the company can gather customers' responses in real time. This allows ORBIS to anticipate and provide information and products matched to the different purchasing cycle of each customer, an approach that consistently earns high marks on the Japanese Customer Satisfaction Index, compiled by Service Productivity & Innovation for Growth (No. 1 in own brand of mail order in 2018 for fourth straight year).

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 18 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 extremely high repeat purchase rates not only from an in-house perspective but also from an industry perspective as well as enviable brand loyalty—achievements that are impossible for other companies to attain.

Multi-value chain strategy exploiting strong synergistic effects of our brands upon each other

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.

POLA ORBIS HOLDINGS strives to build a portfolio of brands distinct from one another in concept, price range and sales channel. This ensures that the Group is always able to provide products to match new lifestyle trends and value perceptions that change with the times. In September 2018, three new brands were launched simultaneously, bringing the brand count to nine. Our goal, as shown on the right, is not merely to extend the reach of brands in terms of price point and market size but also to develop well-defined brands without duplicating concepts or target customer groups. In this way, each brand is distinct, using independent management to facilitate the targeted brand identity and expand the Group's overall share of the cosmetics market.



R&D capabilities in the skincare area through concentration of our resources

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. Particular attention is directed toward basic research into the areas of anti-aging and skin-whitening 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, will launch a quasi-drug product featuring a new active ingredient for skin-whitening, the first on the market in some 10 years.

The Group is solidifying its customer base by cultivating new markets with revolutionary products like these and ensuring a high repeat ratio through the advantages of direct-selling channels.

The Multiple Intelligence Research Center (MIRC) was established to coordinate research activities for the whole Group. The center comprises two teams: an R&D intellectual property strategy team, which takes a Groupwide perspective to formulate research- and intellectual property-related strategies and ensures optimal allocation of research results, and a curation team of dedicated staff known informally as "wandering researchers," who collect information even beyond the realm of cosmetics from all over the world and seek out collaboration on cutting-edge technologies and investment proposals. These two teams have specific roles to play and, along with existing cosmetics R&D divisions, delve into science, cultivate new areas of research to explore and pursue open innovation.

mirc
multiple intelligence research center

Special Feature

POLA—There for Women at All Life Stages and There for the Community of the Future

A shift began when POLA transitioned from the door-to-door sales format to the Esthe Inn store format, which drew customers in for regular esthetic treatments and consulting. In 2005, the company successfully restyled its business model with the debut of POLA THE BEAUTY, a store format with a standardized interior layout and exterior design.

The social landscape today is being shaped by demographic changes, namely, the graying of society and rural depopulation. Against this backdrop, Esthe Inns have attracted attention for providing young mothers with small children and elderly women in the community a moment to smile and relax.

Two Grand Group* locations within the Esthe Inn network that are delivering outstanding results are highlighted below.

*Leaders in frontline services with more than ¥10 million in group monthly sales. Related data appears on page 15.

Case 1 Giving young mothers with small children a place to enjoy themselves

Rie Morishita (44), Grand Owner, AQUALIE Grand Group (Takayama, Gifu Prefecture)

Takayama, a city surrounded by mountains in Gifu Prefecture, is two hours by express train from Nagoya. An issue facing the prefecture right now is its shrinking population of young people, who leave the area after graduating from high school and do not return. Grand Owner Morishita, who was born and raised in Takayama, wants to create a store that reflects the unique characteristics of the region.

"People in this area tend to use their days off to go shopping outside the prefecture. They aren't satisfied with what Takayama has to offer. There are also a lot of families in which both the husband and wife work. I'd like to create a place where women can get away from the stresses of daily life and be totally rejuvenated in body and soul. The best way to accomplish this is through customer relations. We are at the front line for customers and hear what they want. And afterwards we always discuss the comments as a group."

Ms. Morishita began planning and implementing her own events 10 years ago through a process of trial and error.

"The first event was a collaborative effort with a model home exhibition site operated by an acquaintance. We invited people who draw portraits and do balloon art to create the atmosphere of a market fair. We experimented with various ideas. I think, for young staff, such events provide a learning experience. For customers, it's an opportunity to get to know the store and what we do."

Work experience event for children

Babysitting during esthetic treatments

Meeting someone at a non-profit organization was a turning point that led to a work experience event for children. The event attracted more than 50 kids keen to have a go at the job of an esthetician.

"I was amazed at how many teenagers are interested in beauty work. As I gathered information, I saw that some of them planned to go off to get qualifications in Nagoya, and others had to give up their dream job because going away to a vocational school was too difficult financially. I want them to know they can acquire qualifications in Takayama and realize their dream right here."

A local environment that makes appealing jobs possible can certainly slow the exodus of young people. At the customer level, about 70% of the AQUALIE Grand Group customers are in their 30s and 40s—which is younger than the national average—and four staff members are 19.

Each and every person that the AQUALIE Grand Group encounters in a market with a shrinking population is valuable. The group will strive to create relaxing spaces, offer highly satisfying customer services and build good relationships with all its customers.

VOICE

Kumiko Iwatsuka, President, Hida-Takayama Warabe Uta no Kai NPO

Ms. Morishita's store is an invaluable partner in community building in the cities of Hida and Takayama. What I really appreciate is her approach to children and young mothers. We look after the kids while the moms enjoy an esthetic treatment. Caring for children is a full-time activity, so providing mothers a short break to relax actually supports raising children. When they come to pick up their kids, they have such a beautiful glow.

The event where kids get to experience POLA's work is extremely popular. This would not be possible for us on our own or for a company on its own. Through an exchange of ideas, Takayama can be turned into a city where moms can raise their kids with peace of mind.

Rie Morishita (left) and Kumiko Iwatsuka (right)

Case 2 Extending the years of good health, promoting a comfortable, happy life

Michiko Kanenawa (69), Grand Owner, OASIS Grand Group (Yanagawa, Fukuoka Prefecture)

Yanagawa—one and a half hours south of Fukuoka by train, on the island of Kyushu.

"From the tips of their toes to the tops of their heads—we provide whole-body care. For that reason, trust is paramount. We are there for our customers. They like that we offer cosmetics as well as makeup, health foods and total fashion matched to individual needs and preferences. We deliver right to the customer's home, even if the order is just one bottle of shampoo."

Customers frequently ask for advice beyond beauty topics, talking about everything from minor complaints to serious concerns. For Ms. Kanenawa, loyal customers—those who spend more than ¥150,000 annually and purchase products at least five times a year—account for 30% of her customer base. "I want to make life comfortable and happy for everyone connected to POLA. That requires, first and foremost, positive thinking and a ready smile."

Customer appreciation day

Every month, the store holds a customer appreciation day that everyone in the area regularly looks forward to. Several times a year, the store organizes a kids' day event and invites instructors for kids' yoga classes.

"I chose OASIS for the name of this group because I wanted the store to be a place of comfort and tranquility. Customer appreciation days are important because they allow us to convey this feeling to our customers. The atmosphere is so friendly and welcoming."

The OASIS Grand Group provides smiles for the community.

VOICE

Tamiko Miyakawa, Customer

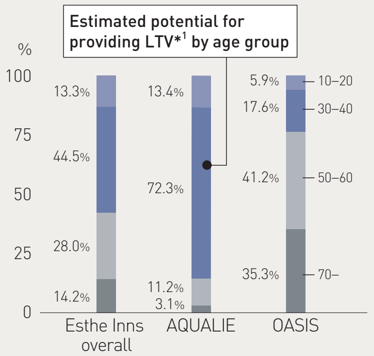
We have known each other for more than 20 years. I call her "Mit-chan" and she calls me "Tami-chan"—not formal at all. Mit-chan is easy to talk to, straightforward and trustworthy. I do Nihon-*buyo*—a traditional Japanese dance—and she taught me all about makeup for performances. I let Mit-chan pick beauty and fashion-forward products for me. Stores in the big cities may have more variety, but for some reason, I end up liking the items that Mit-chan recommends.

I drop by the store twice a month. I always feel better—my mood brighter—afterward. I've become friends with other customers, too. This is such a nice place.

I think I'm healthier because of OASIS. I go to work feeling good. I'm happy.

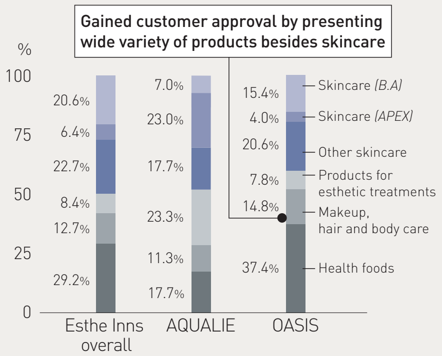
Tamiko Miyakawa (left) and Michiko Kanenawa (right)

Customer Breakdown by Age

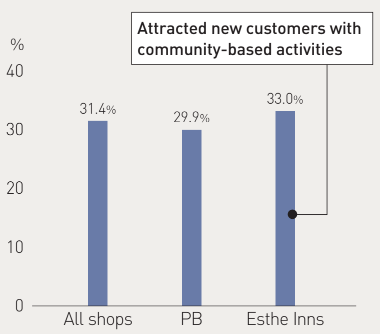


*1 Lifetime Value. Amount paid for services or products over the lifetime of an individual customer

Sales Breakdown by Product



Three-Month F2 Conversion Ratio*2



*2 Ratio of new customers who make a second purchase within three months

New markets built on value and business models never seen before

Customer perceptions and lifestyles are always evolving. The POLA ORBIS Group strives to anticipate what the times might bring and achieve industry and national firsts in products and business models.

Create the beauty of the era through a well-honed sense of style

In September 2018, ACRO drew market attention with the debut of three new brands—the high-prestige makeup brand Amplitude, the premium skincare brand ITRIM and the men's cosmetics brand FIVEISM x THREE.

Of these, FIVEISM x THREE—the industry's first full brand of cosmetics for men—gave rise to a boom in men's makeup, which the *Nikkei Marketing Journal* included in a 2018 list of hit products. Featuring a wide range of products centered on base makeup and point makeup, FIVEISM x THREE was developed to resonate with a man's idea of beauty. The underlying concepts of this new brand are to break free of gender stereotypes and the chains that bind people to such stereotypes and to provide makeup for men who want to enhance their style. Products were designed with masculine movements in mind, such as stick-type foundation applied as in shaving and a simple eyebrow stick for easy eyebrow shaping. ACRO offers a makeup service in-store, where men can discover a new side to being well groomed, and many customers have taken advantage of this service. Opportunities were set up for men working at a top hotel and a foreign car dealership to obtain information on products and learn how to apply makeup, prompting a different take on makeup that creates a well-groomed appearance. Gender neutrality is a worldwide movement, and ACRO may enter markets, such as those of South Korea, Thailand and Singapore, where perceptions of beauty are very likely to capitalize on wider interest in makeup.

In November 2018, ACRO opened a concept shop in the Marunouchi area of Tokyo where customers can try out THREE, the lifestyle cosmetics brand, as well as FIVEISM x THREE. Most of the customers who have dropped by are highly fashion-conscious men and women in the 20-40 age range. Foundation is the best-selling product.

New concept shop

Going forward, ACRO is keen to establish a presence for its brands beyond Japan and showcase a new kind of value for people everywhere who have a strong sense of beauty.

Amplitude

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

ITRIM

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

FIVEISM × THREE

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

Excite customers, convincing them they can be even more beautiful tomorrow

Nanae Suzuki
Product Planning Division, ORBIS Inc., in charge of development for *ORBIS U*

ORBIS U

In 2016, I was entrusted with renewing *ORBIS U*. The previous version of *ORBIS U* had a solid reputation with existing customers, but the brand was unable to demonstrate a significant presence in the market. The situation thus required not just a simple renewal but a strategy that would boost brand value with products.

While I was considering which direction to take for *ORBIS U* products, Takuma Kobayashi—then a director and now the president of ORBIS—said, "Without change, ORBIS is heading for corporate decline." I realized that the brand had to make a sizable impact on the market to raise its presence.

I made the value that ORBIS had provided customers since the company's earliest days my starting point. This value was more than just the ingredients in the products. It extended to the ability of the ingredients to boost the power inherent in the skin. This view was supported by evidence. I ended up with the phrase "healing by science" to convey the idea that *ORBIS U* is effective, providing a comfortable feeling in skincare backed by science. I believe the key to success was product development based on this value.

To realize the underlying concept of "healing by science," I took a thorough approach to marketing. In an awareness survey, I met with about 100 women over six months. During my visits, I would ask to see the restroom washstand and ask women what was inside their cosmetics bags.

One woman said to me, "I haven't lost any weight but I look thinner." This gave me a hint. I focused on the mechanism in the skin that causes cells to shrink due to aging and came up with the concept of "cell fitness" to raise the power inherent in the skin. Another woman said that skincare was a routine, just like brushing her teeth. I found that rather discouraging because I think the purpose of skincare is to excite customers and make them look forward to being more beautiful tomorrow. Toward this end, I emphasized a texture that would bring a sense of satisfaction to the eye and to the touch. I adjusted the consistency of the lotion many times to get just the right degree of viscosity and splash.

ORBIS U won more than 15 best cosmetics awards in the first two months of the debut—bringing the total to 36 as of April 2019—and has been very well received by the market.

Going forward, I am keen to pursue product planning aimed at enhancing the skin, promoting a positive perspective and also changing women's behavior. I hope you will be looking forward to all this.

Seeking to quickly deliver new value beyond the field of cosmetics

The POLA ORBIS Group further strengthened its creative power by revamping the R&D structure. Under the new R&D approach, the Group will strive to create value not seen in the market before.

Research strategy from a long-term perspective underpins efforts to accelerate innovation

In 2018, the Group established the Multiple Intelligence Research Center (MIRC) to oversee Group research activities and gather technology-related information. Going forward, MIRC will formulate research strategy from a long-term perspective and maximize results.

At MIRC, dedicated staff known informally as "wandering researchers" collect information on cutting-edge technologies from around the world to incorporate into the Group's R&D structure. These wandering researchers promote collaboration on cutting-edge technologies worldwide, focusing on culture and the environment, which provide the backdrop for generating new technology, to lead to long-term research strategies and innovative value creation. In 2018, the researchers visited 16 countries and 27 regions, including Europe and the United States, to investigate trends in different areas and seek overseas business bases.

MIRC also promotes Groupwide innovation through external collaboration. In 2018, it entered a space-based business idea contest sponsored by the Cabinet Office of Japan. The opportunity to look at "space" from a perspective seldom taken allowed researchers to sow the seeds for innovation that will lead to businesses of the future.

Basic research is a source of R&D strength within the Group. The Group established the Frontier Research Center (FRC) at POLA CHEMICAL INDUSTRIES, INC., and by 2020, will increase the ratio of R&D expenditures to net sales 20%, compared with the level in 2018.

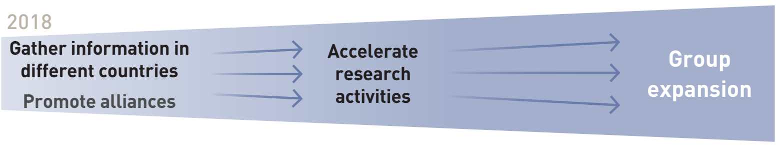
The scope of research has also been considerably expanded, going beyond the previous focus on skin to include the entire human body and mind. In this approach, three categories—Science, Life and Communication—were designated to guide multi-faceted research. In addition, we stress high added value in products and draw on the combined capabilities of the entire POLA ORBIS Group to deliver new technology to customers as quickly as possible.

Both MIRC and FRC are working toward an image they want to portray by 2029—research organizations that constantly generate unique value brimming with a deep sense of beauty. This will be achieved by asking questions from different perspectives and demonstrating solutions through the power of science.

In 2018, a research workshop welcoming Groupwide participation provided an opportunity for status reports and dialogue that went beyond researchers to include directors from Group companies. The participants clarified possibilities under each research theme and discussed prospects for implementing the results to marketable products and services as soon as possible.

Sharing content from the early stages of research can benefit branding techniques for new and revamped products. Going forward, the Group will work as a united team to accelerate innovation.

Scope of activities by "wandering researchers"



Three research categories

	Policies	Key words	Overview (Joint research)
Science	Pinpoint factors that influence beauty and devise new conventional wisdom for creating beauty	Develop new ingredients Skin renewal Skin-whitening Measures of facial expression	• Food for specified health uses to benefit the skin • New skin-whitening ingredient • Joint studies with RIKEN, the Institute of Physical and Chemical Research; and more Seek to create unique value in the field of beauty, including products/services that combat wrinkles and sagging skin, as well as dermatology
Life	Identify new mechanisms within the skin and create new markets, such as lifestyle support and control of the emotions, using mechanisms in the skin	Big data, lifelogs, AI, brain/cognitive psychology	• Joint research with MIT Media Lab
Communication	Provide new value for coexistence and empathy through research to understand relationships/borders with outside fields	Formulation (functional cosmetics film), environment (naturally occurring bacteria on the skin), links (emotional transfers)	• Nagoya University, Waseda University, Fukuoka University

mirc
multiple intelligence research center

First in Japan* to obtain certification for a nutricosmetic, a food for specified health uses (FOSHU)

Q: What made you focus on dry skin?

I spent my first 10 years with the company meeting people who suffered from dry skin all over their bodies, including infants with atopic dermatitis and adults with sensitive skin. I felt compelled to help them. Since dry skin is the precursor to aging skin, preventing dryness is very important. I applied to the Department of Dermatology at Tohoku University, which was involved in cutting-edge research on skin allergies at the time, and acquired knowledge that led to the identification of effective ingredients to repair dry skin and a better understanding of the improvement mechanism.

Q: Did your thinking change?

Yes. I realized that caring for dry skin was not limited to topical treatment and that "skincare could be taken orally." In fact, an ingestible product might actually improve the skin condition of the entire body, not just the face. I decided that if I was going to make a food product, it was going to be a "Formula 1" kind of food for specified health uses (FOSHU). But as far as I could tell, there was no precedent for a FOSHU with verified effects for improving skin. We needed that because certification is like getting a stamp of approval from the government. It enhances the appeal of the item as an innovative food product that customers can use with peace of mind.

Q: What was the most difficult challenge to overcome?

To get FOSHU certification, we had to know how to evaluate the benefits of this product. But there was not even a basic testing method to prove the effectiveness on the whole body. It was a case of continuous trial and error before we could verify how much moisture was retained in the face—specifically, the cheeks—and the skin of the whole body. It was very difficult.

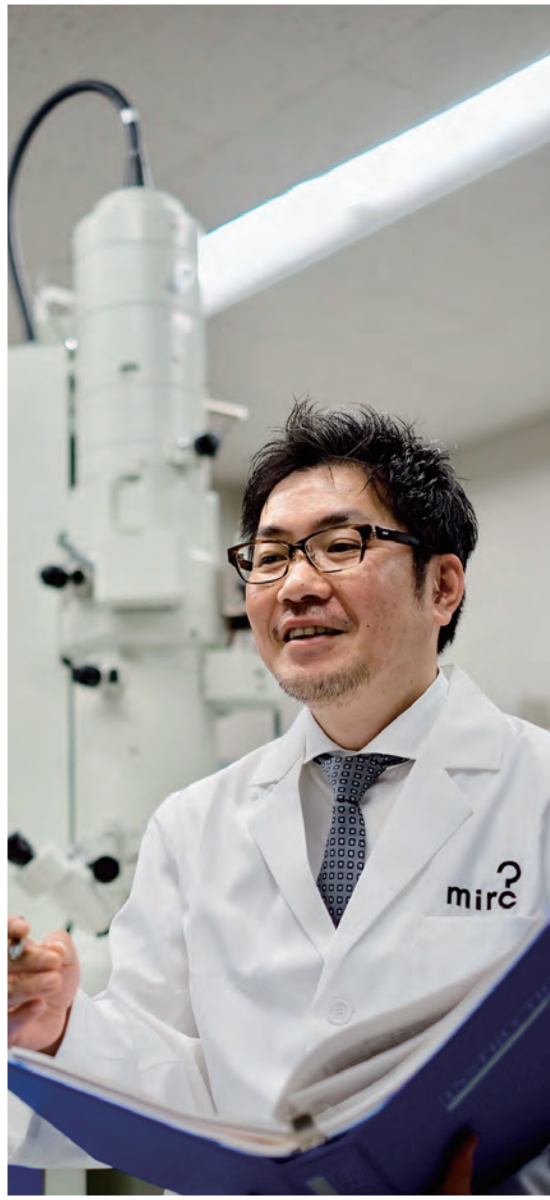
We also hit a wall during screening by the Consumer Affairs Agency. Again and again, we carefully explained the mechanism that allows a product taken orally to have a positive effect on the skin, and finally, we got past that wall. But it took four years.

I was very pleased when I heard that ORBIS would launch this FOSHU under the concept of providing a new kind of skincare to the market. The product attracted media attention, and I could sense tremendous interest from customers. ORBIS also began selling the product in China through its cross-border, e-commerce channel. I am sure it will bring relief to people all over the world who suffer from dry skin.

Going forward, I aim to expand the borders of the cosmetics realm to help everyone realize the beauty they seek.

*Among products currently on the market

ORBIS *DEFENCERA*



Satoshi Hirakawa
R&D Strategy Team Leader, Doctor of Medicine
Multiple Intelligence Research Center
POLA ORBIS HOLDINGS, INC.

Utilizing special features of brands and marketing channels, and reinforcing contacts with customers

Marketing channels and purchasing formats change with the times, and the ways each brand appeals to customers must therefore change as well. The emphasis is on accentuating aspects that make each brand distinct while enhancing the power of each brand to connect with customers.

Mail-order approach perfect for conveying gratitude "directly"

DECENCIA is a skincare brand for women with sensitive skin. Guided by a brand philosophy that states "sensitive skin can be beautiful limitlessly," the company constantly strives to create approaches and products that eliminate issues that concern customers with sensitive skin. These efforts have been very well received, and the company expresses its appreciation for the many positive comments about the brand through events and other face-to-face opportunities with customers. Still, because the business format is mail order-based, it is impossible to meet all customers.

One day, an employee suggested having employees send Christmas cards with handwritten messages to all customers to thank them for their loyalty throughout the year. Launched in 2011, this initiative involves all employees, all the way up to the president. In 2018, the company sent out cards to about 3,500 customers, using the customer database to identify individual purchasing trends, such as which products appeared to be favorites and how long the customer had been using a particular product. The content of each card was then personalized with the customer's name and a "Thank you for your longtime loyalty to the XXX series" to demonstrate the company's heartfelt appreciation.

The mail-order format is a sales approach that essentially lacks face-to-face contact between a company and its customers. But when employees are genuinely grateful that customers have chosen the company's brand and strive to convey this feeling to customers, the mind-set translates into a sustained effort to provide better services and products.

DECENCIA has made a favorable impression on customers, a feeling substantiated by the many positive comments it receives. For years to come, the company will continue to provide products and services that women with sensitive skin love to use.

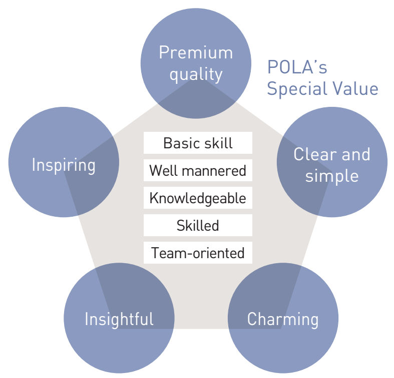
Each employee creates a handwritten message.

Example of handwritten Christmas card message.

Higher quality of customer contact creates "I want to meet that person again" feeling

Tomoko Kamiya
Corporate Officer responsible for POLA University
POLA INC.

POLA customer service standard



First national contest for making a good impression on customers

Q: What are the highlights of the new training program for Beauty Directors?

Since 2016, POLA has been working to dramatically change the perception of its Beauty Directors. We had emphasized roadside locations for POLA THE BEAUTY shops, but in the last few years, we have been opening shops inside shopping malls. Given this geographical shift for new stores and rising expectations from customers, management at headquarters and on the front line acknowledged the need to boost the quality of customer service. This led to the creation of a POLA customer service standard that better reflects the level of customer service POLA aspires to provide. In setting this standard, we interviewed many customers, Grand Owners and a select group of Beauty Directors, then used interview comments to derive five values that we would like customers to see. Defined as POLA's Special Value, the five values are premium quality, clear and simple, charming, insightful and inspiring. Of these component values, "charming" encapsulates traits—a human touch, warmth and a sense of closeness or familiarity—that cannot be written into a manual as job requirements but are qualities that many customers equate with POLA.

In conjunction with the establishment of this customer service standard, we held the first national contest for making a good impression on customers. In August 2018, we drew together some 45,000 Beauty Directors from across the country and teamed them up with the beauty trainers and owner managers who support them. The participants searched for the "superlative hospitality" that generates "surprise and emotion." Seven regional representatives were picked in a preliminary round to appear at the main event, and 300 people observed their impression-making customer skills.

These measures to boost customer service quality are generating tremendous results, exemplified by the 264 POLA THE BEAUTY stores, 40% of the network, that achieved scores above 190—a level attained by only the very best stores—in a customer service survey by mystery shoppers in the second half of 2018. It would certainly appear that POLA's Special Value has spread to the front line. At the same time, any complaints are passed on to relevant divisions within POLA in weekly reports and shared with management to address issues and solve them completely.

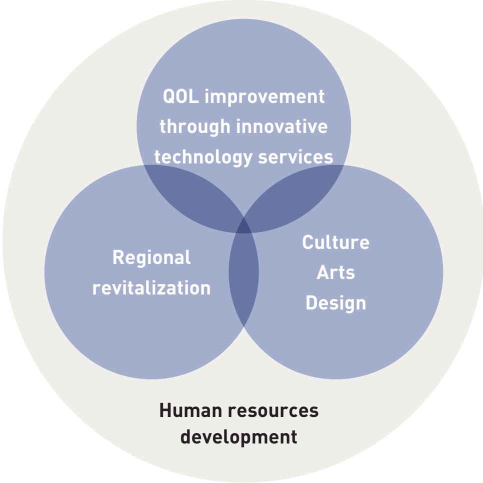
In 2019, POLA set up POLA University to develop professional staff members for positions in department stores and overseas.

Sustainability

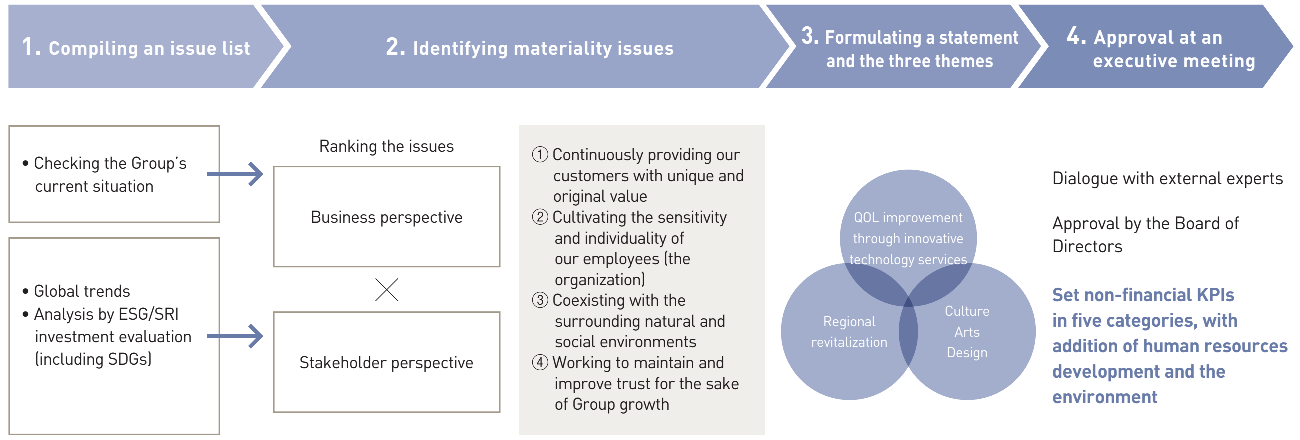
The POLA ORBIS Group's Sustainability Statement

We, the POLA ORBIS Group, offer enriched lives to people all over the world, with our supple minds in which rich sensitivity and individuality is woven.

In order to do so, we hereby declare that we will deal with all our stakeholders and global/social environments in good faith and continue to grow as a company which helps create a sustainable society.



Policy formulation process for our sustainability activities



Group's non-financial KPIs

Item		Explanation	Target for 2029	Action plan for 2019
Human resources development	Rate of candidates for management positions filled	Establish/reinforce pipeline for people with management potential (candidates/number of positions that must be filled)	200%	Reinforce human resources policy measures for management position pipeline
	Percentage of women in management positions	Approaching target for number of full-time female employees. Utilizing a woman's perspective in management decisions	At least 50%	Conduct employee survey, identify issues, then create annual action plan
QOL improvement	Number of research awards collected at home and abroad	Capture at least one award, such as IFSCC*[1] or SCCJ*[2] recognition, every year (with a view toward application to high-added-value products)	10 projects	Actively participate in domestic and international conference presentations and encourage publication of articles in academic journals
	Number of researchers in cutting-edge dermatology research	Mainly FRC*[3] researchers	120 researchers	Hire new graduates and people with prior work experience in specialist fields such as dermatology, formulation and data analysis (AI)
	Number of people leaving the company for health reasons	Fulfill the health management declaration of an organization whose every employee, healthy in mind and body, has a refined level of sensitivity to issues and demonstrates this capability	0 people	Promote health literacy training, regular health checks and reexaminations
	Relatable brand concept	Make brand concept more relatable	Confirm brand reputation	Present opportunities such as workshops where participants can actually experience the brand message
Regional revitalization	Number of regional entrepreneur owners	POLA shop owners with more than ¥5 million in monthly sales. Seek nationwide expansion of network with high organizational capacity (to improve business achievement)	1,200 people	Implement programs, including recruitment forums, to quickly build a workforce with excellent capabilities
	Number of joint projects with local governments as well as NPOs and NGOs	Expand joint projects undertaken as part of business activities (to raise regional brand loyalty and utilize synergistic efforts to boost local business results)	28 projects	Conduct activities matched to brand concept to boost regional brand loyalty and derive greater synergy from regional sales
Culture, the arts, design	Number of joint projects with artists	Foster brand worldview (improve brand recognition/loyalty)	15 projects	Deliver message of brand worldview through art
	Number of participants in art-based workshops	Business Innovation Academy, Future Study Program, training planned by MIRC*[4], new employee training EGAKU	700 people	Conduct workshops for employees
		Art workshops for stakeholders, including customers	100 people	Conduct workshops for customers and local communities
Environment	CO_2 emissions	Scope 1 and 2 per unit of sales	26% reduction	Encourage less electricity use Give thought to environmentally conscious products
	Water consumption	Scope 1 and 2 per unit of sales	26% reduction	Encourage less water consumption Consider reduction in amount of water when cosmetics are used
	Waste	Scope 1 and 2 per unit of sales	26% reduction	Go paperless, keep waste loss to a minimum Reduce plastic, consider container recycling
	Scope 3 targets	Revise formula for calculating theoretical values by 2020 and obtain certification by third party	Set in 2020	Obtain certification by third party

*1 International Federation of Societies of Cosmetic Chemists
*2 The Society of Cosmetic Chemists of Japan
*3 Frontier Research Center ▶ For more details, see page 24.
*4 Multiple Intelligence Research Center ▶ For more details, see page 24.

Example of QOL improvement

Living with cancer

POLA ORBIS HOLDINGS is a partner in CancerX, a project to share and resolve issues about cancer. At CancerX Summit 2019, held on February 3, 2019, POLA announced its support of people undergoing treatment while working. Ms. Yuko Mizuta, an employee at ORBIS, participated in a panel discussion, sharing her own story as a young woman diagnosed with cancer.

Examples of regional revitalization initiatives

Joint projects with local governments

POLA has signed comprehensive partnership agreements with Akita Prefecture, the city of Senboku and the city of Kitakyushu. The company works with local governments and businesses to contribute to the future of regional communities and support local activities. The goal is to build relationships that raise the corporate profile and highlight the company's business and community pursuits. By establishing a presence in their own local communities, Beauty Directors, on the POLA front lines, become more motivated in their work as well.

Example of environmental activities

Monitoring environmental targets

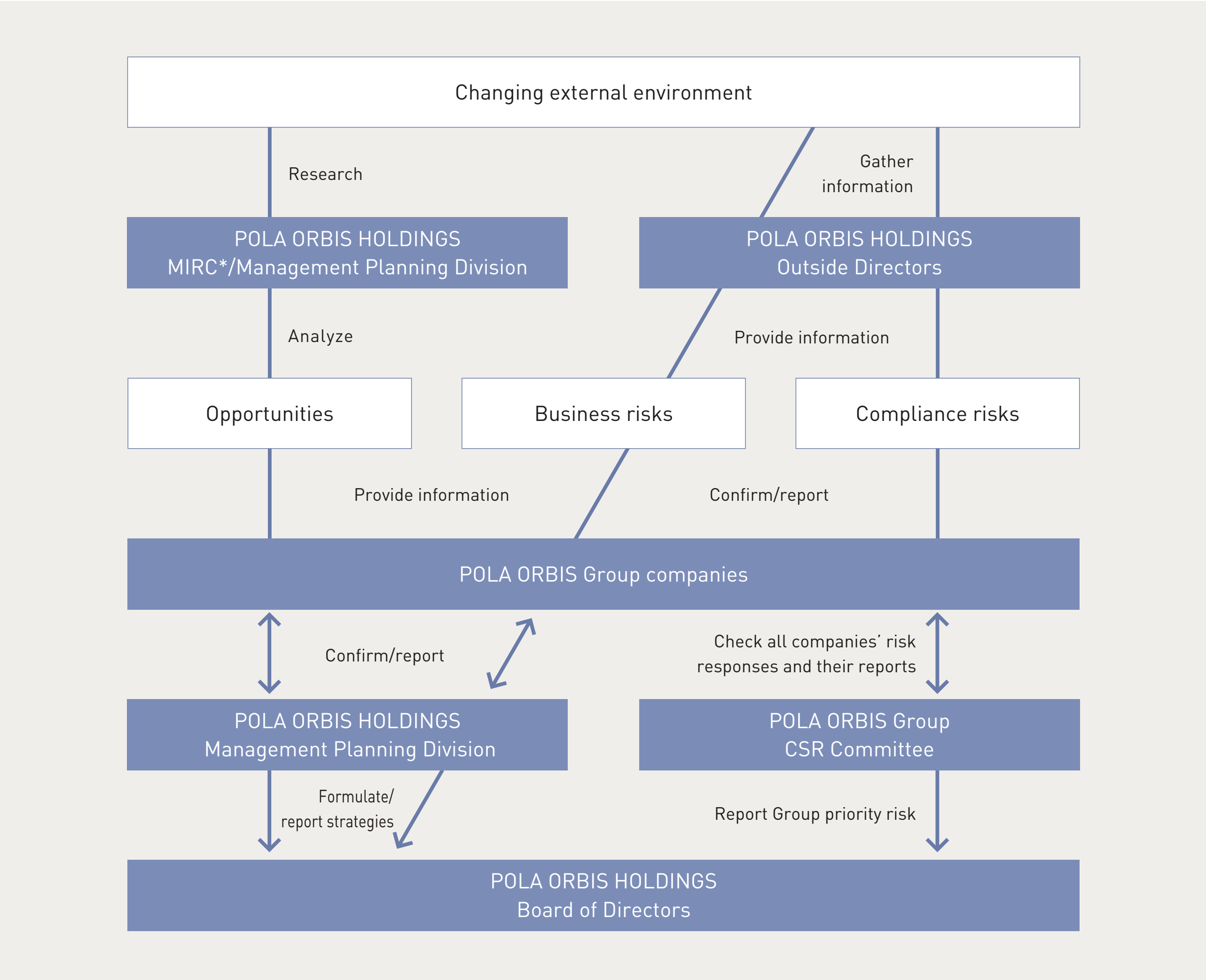
The POLA ORBIS Group obtained a B rating in 2018 for its efforts to address climate change under the CDP international evaluation standard. Our environmental management through business practices was recognized. In 2019, the Company plans to obtain certification by a third party.

Opportunity and Risk Management

The Board of Directors at POLA ORBIS HOLDINGS obtains information from each company to pinpoint the urgency and importance of business risks within the POLA ORBIS Group. The Group CSR Committee, a structure under the direct supervision of the Board of Directors, meets quarterly to confirm the status of measures implemented laterally across the Group to deal with compliance-related risks high on the priority scale. This committee also confirms the content of action plans to prevent or minimize risk inherent in the business activities of Group companies.

As for opportunities, the people responsible for corporate planning operations at POLA ORBIS HOLDINGS analyze situations from various angles, including the social environment, market trends and the values of target customer groups at home and abroad, and plan out needed investments to pursue during any given medium-term management plan. Outside directors provide advice from diverse points of view. For additional investments, changes in market trends and the social environment are monitored to produce decisions that best match opportunities.

Structure



*Multiple Intelligence Research Center ▶ For more details, see page 24.

Defining opportunities and risks, initiatives to minimize risks

Megatrends, social issues		Changing external environment	Strategic direction	Solutions, themes	
Overseas	Influence of China's economy	Trend shifting from inbound demand to home-market purchases [Opportunities] Asian markets, particularly that of China, continue to thrive [Opportunities] Spending diversification [Opportunities]	Accelerate overseas business expansion	• Larger investment in overseas store openings (focus on Asia, particularly China)—POLA • Begin Tmall Global strategic alliance—ORBIS • Develop new overseas markets (the Middle East, the West, China)—ACRO • Provide value of experience in areas including esthetic services and consulting	Short and medium term
		Market for counterfeit products [Risks]		• Do research on uniquely designed containers that are hard to copy, tighten rules on unauthorized distribution	
Domestic	Low birthrate/graying of society	Rural depopulation [Opportunities] [Risks]	Strengthen value chain/build bigger portfolio	• Strengthen business base by expanding joint efforts with local governments and opening more shops under regional cocreation format—POLA • Increase LTV with direct sales—POLA, ORBIS	
	Changing consumer sentiment	Skincare market shows double-digit growth in number of units shipped [Opportunities]		• Promote three new brands—ACRO • Launch new quasi-drug products and new FOSHU skincare products • Enhance customer service and consulting capabilities	
	Changing work styles	Greater active participation of women in society [Opportunities]			
	Possibility of major earthquakes and floods	Shortage of raw materials for cosmetics [Risks]		• Redo hazard map • Build structure cutting across the Group, quickly ascertain supplier information and strengthen relationships with suppliers	
Both domestic and overseas	Growing preference for high-quality standards internationally	Diversified sense of values among target customer groups [Opportunities]	Enhance R&D capabilities	• Use new research structure to reinforce research capabilities and explore business domains	Long term
		Greater risk to reputation due to globalization [Risks]	Human rights	• Practice due diligence for human rights and expand human rights education through e-learning and other methods	
		Improved perception of beauty that transcends gender stereotypes [Opportunities]			
	Climate change	Acceleration of tendency to globally standardize management involvement in environmental responses [Risks]	Environment	• Practice environmental management (start process to obtain certification by third party)	

Management base	Heightened sense of social obligation to ensure compliance	Fiercely competitive labor market [Risks] Greater active participation of women in society [Opportunities]	Develop human resources	• Keep and train managerial employees • Create comfortable work environment • Eliminate upper age limit on employees rehired after mandatory retirement	Improve management quality
		Corporate Governance Code established [Opportunities]	Strengthen governance	• Establish voluntary advisory committees for nomination/appointment of executives and associated compensation • Widen performance-linked range of director compensation	

Growth Strategy by Brand (Flagship Brands)

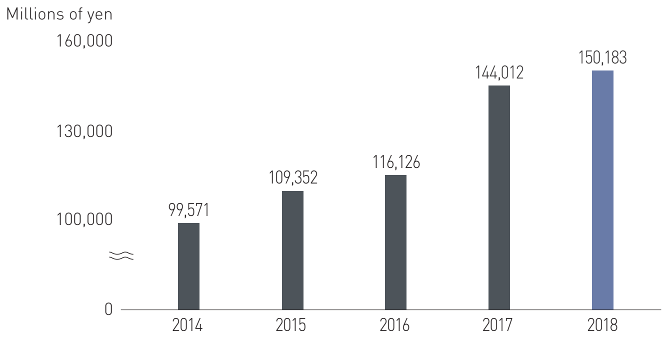
POLA

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

B.A series White Shot series Wrinkle Shot Serum

Net Sales

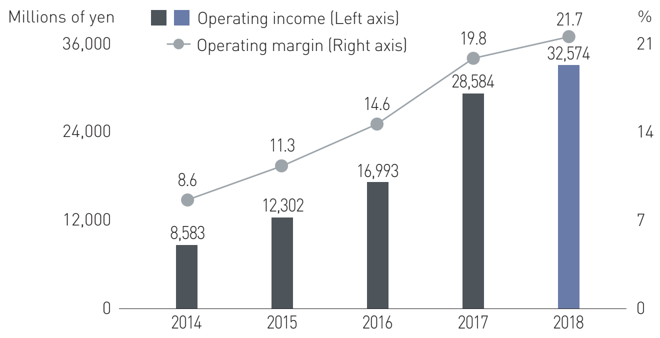
¥150,183 million (Up 4.3%)



Note: Consolidated basis

Operating Income and Operating Margin

¥32,574 million (Up 14.0%)



Note: Consolidated basis

Fiscal 2018 results

To strengthen the business platform, which is underpinned by enhanced brand recognition, and to improve brand value, POLA emphasized the introduction and greater awareness of highly functional products and pursued strategic expansion of the store network. In January, we revised the price of *Wrinkle Shot Serum*, using the product's first anniversary since debuting as the first quasi-drug product in Japan for improving wrinkles. This led to an increase in customers in the 20-30 age group. We also renewed the *White Shot* skin-whitening series, which includes the beauty-supporting health food *White Shot Inner Lock Tablet IXS*, as part of efforts to present enhanced total beauty suggestions through a multi-faceted approach highlighting cosmetics and beauty-supporting health foods. Overseas, we strengthened investment in Asian markets, especially China, expanded the store network with a focus on department stores, luxury malls and our first duty-free shop, and worked diligently to deepen our brand presence in high-prestige markets outside Japan. We also launched *Wrinkle Shot Serum* in Hong Kong, Taiwan and Thailand, and achieved twofold year-on-year growth in overseas business for the second year in a row.

In September, we began seeing a change in demand from inbound visitors to Japan and a shift in purchasing trends for consumer-to-consumer transactions, which led to lower sales in the second half. But on an annual basis, we retained the interest of customers initially attracted by the debut last year of *Wrinkle Shot Serum*, which supported a 7.1% year-on-year increase in the customer base overall. Net sales rose 4.3%, and operating income grew 14.0%, buoyed by higher gross profit on increased sales and an improvement in the cost ratio. The operating margin hit 21.7%, up 1.9 percentage points from a year earlier.

Key issues pinpointed

- Established brand presence on global markets
- Built solid customer base in Japan
- Accelerated expansion of overseas business

Next-stage growth strategies

Establishing brand presence on global markets

Domestic

Attract new customers, expand existing customer base

Raise retention rate and realize customer structure for stable growth

We will raise the repeat ratio by attracting new customers with innovative products to solidify the customer structure.

We have seen not just an increase in the number of customers but an increase in the latent needs of future customers. One of our surveys revealed that the number of people under 40 having a positive feeling about the brand increased 12% and those inclined to use the brand increased 15%, in other words, double-digit growth for three years beginning in 2015. We also saw a positive tendency in customer composition by age, with a shift toward those in their 30s and 40s who present high lifetime value potential.

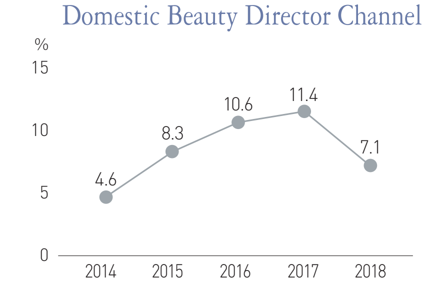
Overseas

Expand store network

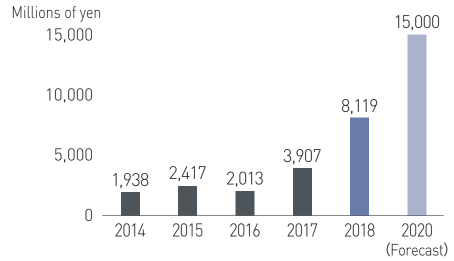
Outstanding increases in new customers, especially in China

We will identify department stores and shopping centers that draw large crowds of shoppers and accelerate the expansion of stores to bring us closer to customers. Our overseas network reached 50 stores in 2018, and we expect the number to extend to 100 by 2020, leading to net sales of ¥15 billion.

Growth Rate of Customers Through Domestic Beauty Director Channel



Overseas Net Sales



For stakeholders

POLA is working through a medium-term management plan positioned as the last stage of a journey. Through this plan, we will achieve our 2020 vision of becoming a global brand by providing "superlative hospitality" that generates "surprise and emotion." By 2020, we also intend to achieve a level of value that enables customers to discover hidden beauty in themselves through the total beauty content we offer.

The force that increases brand value is people. For that reason, we aim to invigorate the corporate culture and the development of human resources. We evoke changes in the perceptions and actions of all employees through Sense & Innovation (S&I) activities designed to maximize the effects of joint efforts for demonstrating sense and innovation. We also established an environment more conducive to different work styles that acknowledge diversity in individuals. We restructured the rehiring program to eliminate upper age limits for people who have reached mandatory retirement age and wish to continue working. We introduced a remote work program offering flexibility in work styles, namely, hours and locations, to allow employees raising children or caring for aging family members to continue their careers. In addition, to realize a corporate culture and a society that acknowledge the value of every person, we started the Living with Cancer program to support people in their fight against this disease. We will create an environment in which employees can undergo treatment with peace of mind, knowing that they do not have to quit work. Another initiative is the "Work Beautifully Project." In cooperation with local governments, local media and businesses, we aim to support new work styles, especially for women, in areas outside major cities. Through this project, we will energize local communities while raising awareness of the POLA brand.

Seeking to provide new value, we debuted *White Shot LX* and *White Shot MX* in May 2019, featuring a new active ingredient for skin-whitening, the first in about a decade. Developing these products took 10 years, due to our emphasis on safety beginning with the search for ingredients. POLA was the industry trailblazer in products for skin-whitening as well as for improving wrinkles, being the first to obtain approval for active ingredients for those uses. Going forward, we will continue to highlight unique product capabilities that expertly address the two biggest skincare concerns of women—wrinkles and dark spots—in Japan and in other markets of Asia. In addition, to improve the quality of customer service, we set up POLA University to provide standardized training to domestic and overseas sales staff. Previously, training was handled separately by each region. By creating a single structure, we will consistently raise the quality of training around the world.

In 2019, POLA will celebrate its 90th anniversary. We aim to achieve sustainable growth by striving to improve brand value and enhancing our ability to convey the brand message to customers in Japan and the rest of Asia.

From left: *White Shot LX* and *White Shot MX*

Yoshikazu Yokote
Representative Director and President
POLA INC.

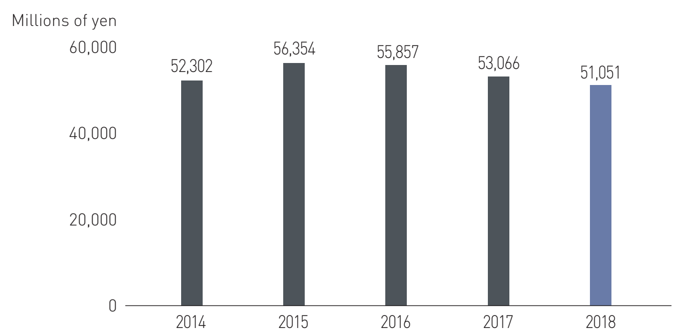
ORBIS

Skincare brand that brings out the beauty inherent in each person

ORBIS U series and *DEFENCERA*

Net Sales

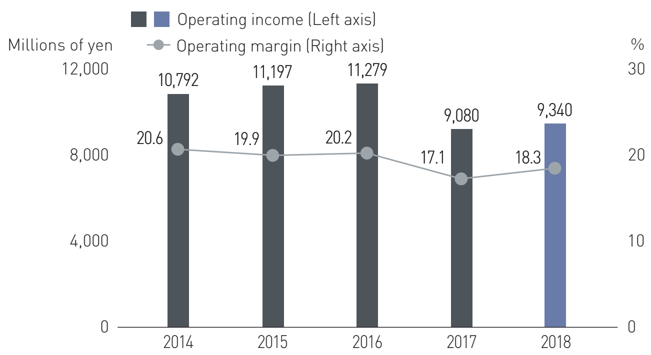
¥51,051 million (Down 3.8%)



Note: Consolidated basis

Operating Income and Operating Margin

¥9,340 million (Up 2.9%)



Note: Consolidated basis

Fiscal 2018 results

To become a high-revenue business and return to a growth trajectory, ORBIS narrowed down the customer base strategically and is working to distinguish the brand. In October 2018, we unveiled a new brand message—"Simply you. Simply beautiful"—and released a completely revamped *ORBIS U* series on the market. We fashioned a new ideal for the brand and ran a focused promotional campaign highlighting signature products. These actions helped attract the attention of customers we expect will generate greater lifetime value and thus boost the retention rate. Sales of the *ORBIS U* series, including products in the series before it was revamped, represented 21% of all products under the ORBIS label, up six percentage points from a year earlier. This contributed to an improvement in spending per customer. Our approach has been not to push bargain shopping—that is, points for purchases and promotional products with a purchase—but rather to capture the interest of customers with whom we can share the brand's worldview and build a long-term relationship.

As a result, spending per customer was up from that of the previous fiscal year, but the number of customers decreased, due to the customer base being narrowed down strategically, leading to a 3.8% year-on-year decrease in net sales. Operating income rose 2.9% from that of the previous fiscal year, reflecting an improvement in cost efficiency.

Key issues pinpointed

- Return to sales growth trajectory by reacquiring growth potential in Japan
- Expand overseas business (boost brand recognition)

Next-stage growth strategies

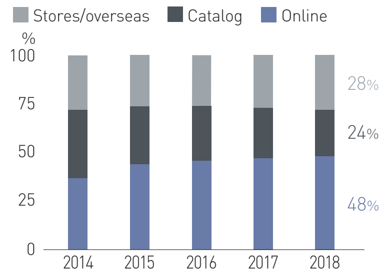
Brand restructuring that hinges on products

We will return to a growth trajectory by identifying products that customers immediately associate with the ORBIS brand and by constantly striving to improve brand presence. For *ORBIS U*, on the market now for two years, we will continue efforts to attract new customers and encourage them to make a second purchase for continuous buying. But a return to growth also requires us to motivate existing customers to purchase our products. We will devise marketing campaigns guided by an overall strategy but matched to customer status—that is, new or existing—and fine-tune efforts to connect one-on-one with customers. In January 2019, we launched *DEFENCERA*—a food for specified health uses, or FOSHU—to promote healthy skin. We will work to build a bigger customer base and enhance lifetime value through robust investment in highly distinctive products, providing new value and engaging customers we were unable to reach before. We are aiming to achieve continuous growth in sales and an operating margin of 20% by 2020.

Boost brand recognition in Asia, quickly expand business presence

In overseas expansion activities, we have achieved greater scale by implementing product and promotional strategies that focus on skincare and by concentrating investment in Tmall, operated by China's Alibaba Group. Through robust investment in the key strategic products *ORBIS U* and *DEFENCERA*, we will accelerate a rise in brand recognition and cultivate a stronger brand image, which will fuel business expansion. We formed a strategic alliance with Tmall Global, the cross-border, e-commerce platform operated by the Alibaba Group, and have been using this route for sales of *DEFENCERA* since February 2019. We are making the most of big data to develop various online and off-line media promotions. Anchored by *DEFENCERA*, we will build a stronger presence for the ORBIS brand in China.

Sales Breakdown by Sales Channel



Providing 5,000 delivery lockers free to customers as a test

To reduce the need for redelivery, considered a major problem for those in the home-delivery business, in July 2019, ORBIS will distribute delivery lockers to 5,000 customers, the largest delivery locker setup in the industry. With its brand message, "Simply you. Simply beautiful," ORBIS aims to help solve a social issue and provide greater convenience to customers by realizing stress-free, easy reception of products ordered online.

For stakeholders

ORBIS, aware that its brand presence has diminished and intent on reversing that situation, has taken steps to radically restructure everything from branding and cost structure to the organization itself. We had been operating under a general mail-order business model, but we will switch to a brand business format.

First, we had to define the value we most want to provide and what our core value is. We identified the value we have nurtured to date as "smart aging" and redefined our business as a "beauty brand focusing on skincare." What we refer to as "smart aging" is an approach to anti-aging skincare that draws out the maximum strength and beauty within each person. *ORBIS U* is the flagship product that epitomizes the "smart aging" approach. On the marketing front, we are utilizing a cross-media strategy that links television commercials, online advertising, events and other consumer access channels and, as planned, we are seeing an increase in customers in their early 30s. If we can secure brand loyalty, our business base will be robust. We will accelerate this process with *DEFENCERA*, another flagship product, which debuted in January 2019. At the same time, we are keen to cultivate demand in China. I can truly sense the quickening pace of heightened perceptions about beauty among Chinese customers, as evidenced by the shopping sprees of not too long ago and the current trend of enjoying an experience based on intangible qualities rather than just the product purchased. I think the underlying minimalist concept of ORBIS resonates with customers.

We will also connect with customers in completely new ways. We will review our catalogs, the traditional medium for mail-order sales, as well as the point system, which tends to skew price appeal. We will shift to a more personalized model that uses apps and other customer relationship tools. In addition, we plan to open pop-up stores and concept shops. Different from stores that focus on product sales, these locations will be places where customers can experience the worldview that infuses the ORBIS brand.

Takuma Kobayashi
Representative Director and President
ORBIS Inc.

Growth Strategy by Brand (Overseas Brands)

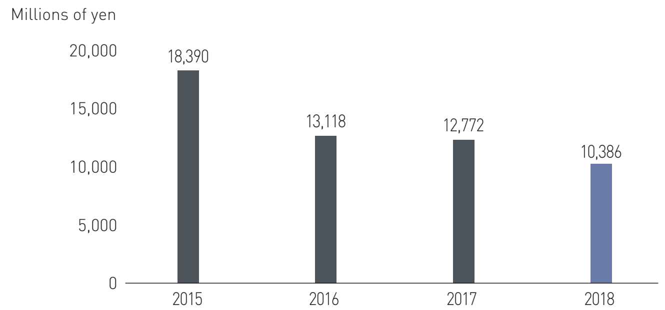
Jurlique

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


Herbal Signature series

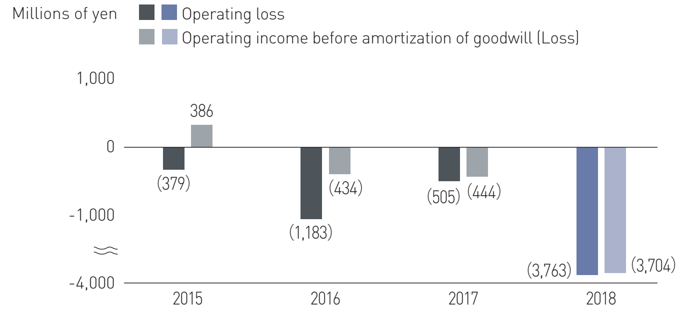
Net Sales

¥10,386 million (down 18.7%)



Operating Loss

¥3,763 million (—)



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

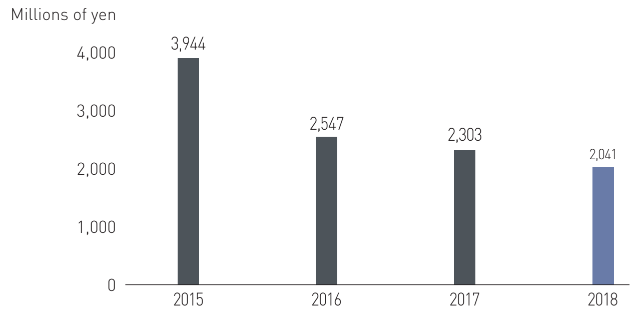
H2O+ BEAUTY

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


OASIS series

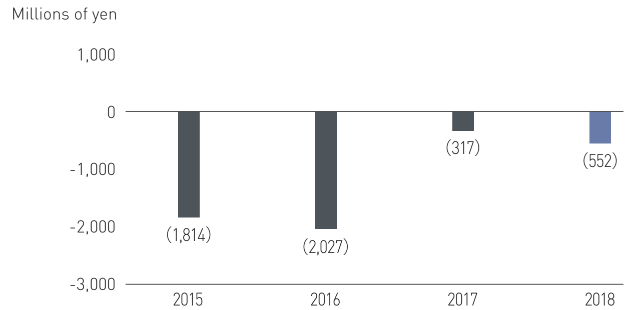
Net Sales

¥2,041 million (down 11.4%)



Operating Loss

¥552 million (—)



Fiscal 2018 results

Jurlique

Jurlique revamped and relaunched *Herbal Recovery*, a signature series, as new key items. This change was part of a process intended to transition the company toward a sales model firmly rooted in brands primed for long-term growth. Unfortunately, sales were sluggish in China and Australia. In particular, the Chinese market proved problematic, and the number of stores had to be reduced due to lackluster business performance. The scale of operations shrank, and the company's loss position deteriorated. Consequently, sales dropped 18.7% year on year, and operating income tumbled. The company also recorded a significant difference between targeted and actual profit amounts, mainly due to higher allowance for doubtful accounts related to delayed receivables as a temporary cost. This contributed to an impairment loss on goodwill.

H2O PLUS

H2O PLUS concentrated its resources into activities in North America, seeking to become profitable as soon as possible. The company expanded access to the brand by cultivating new marketing channels, introduced new products and continued to practice "influencer marketing," the process of using people who create high-impact conversations with customers on social media. The company also worked to expand its presence on existing channels. Unfortunately, sales fell 11.4% year on year, and operating income declined, largely owing to a withdrawal from discount retail chains, in an attempt to standardize sales channels, and a decrease in the number of stores handling products, due to the closing of unprofitable stores.

Key issues pinpointed

- Improving loss position is a priority; turning a profit is an urgent requirement
- Create channels for sustainable growth

Drastic reforms to improve loss position

Jurlique

Jurlique will initiate a process of cost structure reforms to move into the black by 2020. The company will streamline operations, including closing unprofitable stores on a massive scale in China, and seek to improve investment efficiency. Australia and Hong Kong will become key markets for Jurlique products, and resources will be concentrated into activities in these markets to return sales to a growth trajectory. On the organizational front, the company will downsize its headquarters and carry out a major structural review. On the administrative front, the company will emphasize greater efficiency in running operations, a process that includes a reconsideration of the business model that emphasizes agency sales used in China and the transfer of business in Japan to POLA. With the closing of unprofitable stores, gross profit should begin to improve from 2020, and by implementing cost structure reforms across the board, the company will turn a profit.

1. Lower marketing costs

- Close unprofitable stores on a massive scale in China
  Streamline unprofitable businesses
- Emphasize Australia and Hong Kong as key markets
  Reduce SKUs*, concentrate invested resources

2. Lower personnel costs

- Downsize by reviewing functions and structure

3. Lower administrative costs and higher efficiency

- One-off cost incurred in 2018 reduced (About ¥1,600 million in allowance for doubtful accounts)
- Review business model for China
- Transfer business operations in Japan to POLA

*Stock Keeping Unit: Minimum unit for identifying items for inventory.

H2O PLUS

In reviewing its sales channels, H2O PLUS will take a radical approach to achieve growth in line with profits. The company will withdraw from the wholesale route in North America, which had been a key marketing channel, and focus on e-commerce and its amenity business. In addition, the company is seeking to leverage product excellence by allocating development and manufacturing of its main products to POLA CHEMICAL INDUSTRIES. H2O PLUS will significantly reduce the number of its products and concentrate resources in remaining products to reinforce brand positioning. The company will pursue business restructuring to achieve growth from 2020 onward.

Growth Strategy by Brand (Brands under Development)

THREE

A skincare and makeup brand featuring naturally derived ingredients extracted from plants

Balancing series

Epic Mini Dash series

Amplitude

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

Base makeup series

ITRIM

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

Skincare series

FIVEISM × THREE

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

Men's makeup

DECENCIA

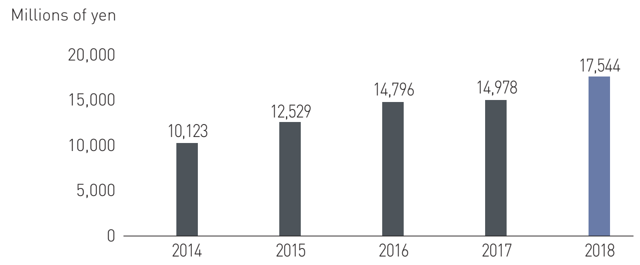
Skincare products for dry, sensitive skin

decency essence

ayanasu series

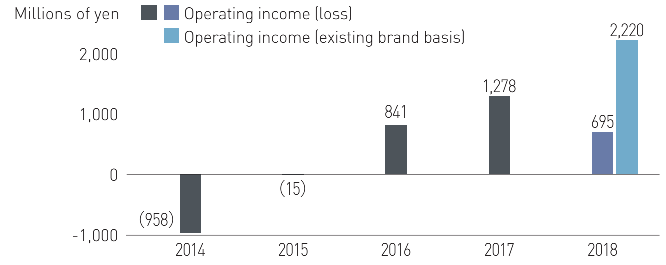
Net Sales

¥17,544 million (up 17.1%)



Operating Income (Loss)

¥695 million (down 45.6%*)



*Up 74% for existing brands, excluding the impact of about ¥1.5 billion invested in new brands

Fiscal 2018 results

ACRO
ACRO has four brands in its portfolio: THREE and three new brands—Amplitude, ITRIM and FIVEISM x THREE—launched in September 2018. THREE debuted new products under a differentiated brand concept, acquired a higher profile through sales at department stores, directly operated stores and semi-self-select stores, and emphasized holistic products, primarily for the skin and hair, thereby building a more diverse customer structure. The brand's overseas sales ratio hit 20%, fueled mainly by sales at duty-free shops and cross-border, e-commerce demand. These factors underpinned tremendous year-on-year growth, with sales climbing 28.6% and operating income soaring 92.9%. The three new brands also got off to a great start. ACRO had set targets for the number of stores carrying these new brands, and those targets were reached. In addition, the brands captured best cosmetics awards and enjoyed considerable media coverage. All this led to a 30.6% increase in net sales for ACRO overall, but the company posted an operating loss of about ¥500 million, owing to the impact of ¥1.5 billion invested to bring the new brands to market.

DECENCIA
Marketed under the concept that "sensitive skin can be beautiful limitlessly," DECENCIA offers anti-aging cosmetics and skin-whitening products for women with sensitive skin. The brand has maintained stable growth by attracting new customers likely to purchase products regularly and by sustaining a high repeat purchase rate with existing customers. In addition, efforts to energize demand for core series *ayanasu* with the debut of base makeup strengthened the series' brand status. As a result, net sales grew 7% year on year, and operating income rose 13%.

Key issues pinpointed

- THREE
  Constantly attract new customers and boost repeat ratio
  Accelerate overseas development
- DECENCIA
  Attract new customers
- New brands
  Raise profile of Amplitude, ITRIM and FIVEISM x THREE, and position the brands well in the market

Next-stage growth strategies

ACRO
When THREE marks its 10th anniversary in September 2019, ACRO will use the opportunity to raise brand value and strengthen the brand's message, which will deepen the connection between the brand and its customers. To raise brand value, efforts will be directed toward network expansion, hinging on concept shops, the development of new store designs and a CRM program that promotes more enthusiastic engagement with customers. To spread the brand's message to a wider market, ACRO will accelerate overseas development of THREE and emphasize e-commerce with web-based promotions and social media tools. The company aims to build a stronger business structure, which will lead to improved profitability, and reposition THREE as a holistic beauty brand.

ACRO will prioritize efforts to achieve a higher profile for each new brand. The company will work to quickly establish brand presence not only in Japan but also overseas and expand sales channels with stores and e-commerce, which connect with customers. The goals are to position the new brands solidly in the market and create new demand sources and a vibrant brand culture.

DECENCIA
DECENCIA will promote opportunities to meet new customers. To date, e-commerce has been the only sales format, but plans are under way to sell products at department stores and at a flagship shop. The company will diversify points of contact and strive to make direct ties with customers to convince them that the brand is bigger than the functional value of its products. The company will also revamp its online marketing strategy for existing e-commerce operations. The goal is to improve efficiency, which deteriorated with changes in the online advertising market, and shift to a structure where the operational side of business is outsourced, allowing the company to focus on policy direction.

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. For POLA, the goals are to reinforce brand structure by building a bigger domestic customer base and accelerate global expansion, with an emphasis on China. For ORBIS, the priority is to return to a growth trajectory that culminates in an operating margin of 20% by 2020. For brands under development, efforts will hinge on boosting awareness of the three new brands to create drivers of growth. We remain committed to investment in these brands to achieve a solid market position for each brand. On the R&D front, we withdrew from the pharmaceuticals business to concentrate on the core Beauty Care business. In M&A activities, one issue of importance has been the profitability of the two overseas brands in the portfolio—that is, returning them to a growth trajectory—but M&As are indispensable to the continued growth of the Group, and POLA ORBIS HOLDINGS will continue to search for attractive M&A opportunities, guided by this growth strategy. The direction has changed, however, from an approach of "brand portfolio reinforcement" to an approach of "creating multi-value chains," where upstream value chains (research, product development and brands) and downstream value chains (customer relationship management and branding) incorporate management resources and the business models of acquired companies to strengthen Group capabilities overall.

From a profitability perspective, the priority is to get overseas brands into the black. These brands are in a loss position but we aim to reduce losses by building a more efficient business structure. By improving the cost of sales ratio and keeping selling, general and administrative expenses below sales growth ratio, we hope to reach annual operating income growth of 10% 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

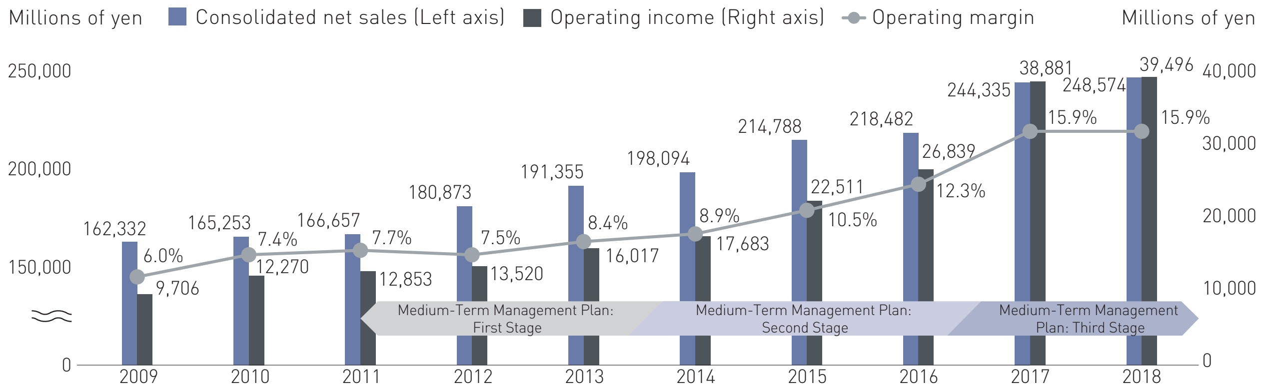
To increase the efficiency of net assets, we will emphasize return to shareholders in line with our dividend policy. We introduced a new policy on return to shareholders, effective from 2019. The consolidated payout ratio will not change, as the policy still calls for 60% or higher. But the purchase of treasury stock will be considered on the basis of investment strategies, market prices and the liquidity of Company shares. We had previously avoided treasury stock buybacks from a liquidity perspective but decided to consider the possibility because conditions have changed since POLA ORBIS HOLDINGS listed its shares close to 10 years ago. The annual dividend for fiscal 2018 was ¥80 per share, up ¥10 from that of a year earlier. For fiscal 2019, we are looking at an annual dividend of ¥116 per share, for a 100% payout ratio that includes a commemorative dividend to mark our 90th anniversary, as we trace back to the establishment of POLA.

With this policy in mind, we will strive to maximize management resources and boost corporate value over the long term.

Akira Fujii
Director, POLA ORBIS HOLDINGS INC.

Changes in Consolidated Net Sales and Operating Income

Ninth Consecutive Year of Higher 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 2020 in medium-term management plan.
ROE temporarily declined in 2018, reflecting the impact of extraordinary losses, but 12% was set as a midway point toward our long-term goal to achieve the global standard.

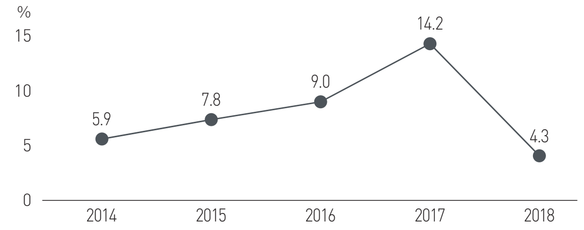
EPS Earnings per share

- Operating income: CAGR 10% 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

Changes to the policy on return to shareholders are described below.

Policies including dividend policy up to the present

- With a policy of a consolidated payout ratio of 60% or higher, enhance shareholder returns by realizing stable profit growth
- From the viewpoint of liquidity, the Company will not purchase treasury stock for the time being and strives to enrich shareholder returns with cash dividends

Policies including dividend policy going forward

- 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

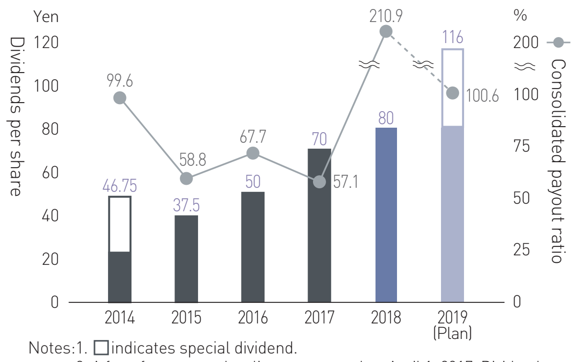
A commemorative dividend will be paid in fiscal 2019 for the POLA ORBIS Group's 90th anniversary, traced back to POLA's establishment.

As a result, the consolidated payout ratio (anticipated) will be equivalent to 100%. It was considered comprehensively, based on various factors, including applications of cash, future growth strategies, higher capital efficiency and financial stability.

Dividends per share for Fiscal 2018 (Results)
Annual dividend: ¥80
Comprising ¥35 interim and ¥45 year-end dividends
Consolidated payout ratio: 210.9%

Dividends per share for Fiscal 2019 (Forecast)
Annual dividend: ¥116
Comprising ¥35 interim, ¥45 year-end and ¥36 special dividends
Consolidated payout ratio: 100.6%

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.

Basic Stance on Corporate Governance

Toward Improvement in the Group's Corporate Value

The POLA ORBIS Group has a portfolio of several distinctive brands, each handled by an operating company that is guided in its business expansion efforts by the Group philosophy "Sensitize the world to beauty." Each operating company under the Group umbrella essentially manages itself autonomously and independently, while POLA ORBIS HOLDINGS, as the holding company, retains management control over each operating company and strives to ensure sound management and improved efficiency in Group operations overall to improve corporate value. Typically, transparency is an issue in a family business. At the Company, however, efforts have been made to improve objectivity and transparency, exemplified by the effectiveness evaluation of the Board of Directors by an outside evaluation organization and the identification of issues at meetings involving only outside directors.

In conjunction with the philosophy and this stated approach to operations, the Company incorporates compliance into CSR activities, emphasizing compliance as an integral part of business. The companies under the POLA ORBIS Group umbrella will strive, collectively, as a good corporate citizen, to deepen their connections to a diverse range of stakeholders, including shareholders and business partners, fulfill corporate responsibilities and build bonds of trust. This commitment will fuel enduring corporate development.

In addition, the Company established the POLA ORBIS Group Code of Conduct (the "Code of Conduct"), covering various facets of responsible corporate activity, including legal compliance, environmental protection and shareholder relations. All executives and employees under the Group umbrella pledge to abide by the Code of Conduct.

Structural Overview (As of March 26, 2019)

Functional Structure	Company with a Board of Corporate Auditors
Number of directors/Term of office	6 directors/2 years
Number of outside directors	2 directors
Number of corporate auditors/Term of office	3 corporate auditors/4 years
Number of outside corporate auditors	2 corporate auditors
Number of outside directors and outside corporate auditors designated as independent officers	4 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 on a regular basis for each strategic shareholding, verify that each shareholding is still reasonable and appropriate, and disclose its conclusions.

Thoughts on Diversity

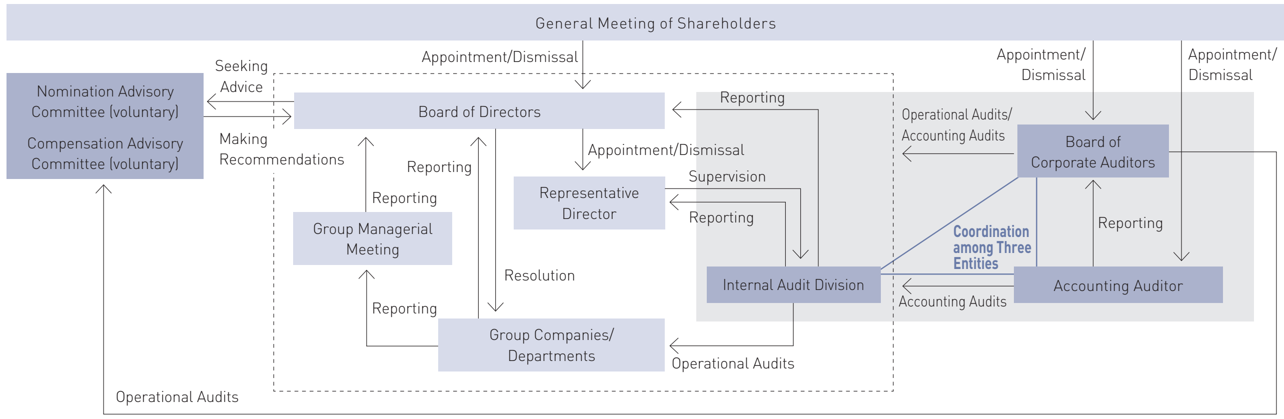
The Board of Directors comprises flexible thinkers with the education and knowledge to apply diverse personal perspectives, extensive experience and specialization to corporate management activities at POLA ORBIS HOLDINGS. Maintaining a suitable balance of knowledge, experience and capabilities of directors is a priority.

Outside directors have independence. They are not only expected to engage in conversation and offer advice appropriately at meetings of the Board of Directors, but their presence also adds greater diversity and multi-faceted perspectives to in-house positions. Management feels it is important to reflect in the Company's management practices the expertise and insights that outside directors have acquired in corporate management in fields different from those of POLA ORBIS HOLDINGS. Management therefore established a selection policy for outside directors.

The Board of Corporate Auditors improves the auditing environment and boasts excellent in-house information-gathering skills. The board comprises a full-time corporate auditor who regularly audits and confirms the status of efforts to establish and administer the internal control system and ensures the effectiveness of audits, and outside corporate auditors who possess high-level knowledge in various areas, including financial affairs, accounting, the law and internal controls.

Also, because Group companies are for the most part engaged in the cosmetics business, management knows that a female perspective, specifically, for ideas and a sense of values, is vital for the Board of Directors to make key decisions. For this reason, management sincerely appoints women to the position of director.

Corporate Governance Structure (As of March 26, 2019)



Overview of Key Corporate Governance Structures (As of January 1, 2019)

	Roles	Members	Meeting Schedule
1. Board of Directors	Discusses important matters related to business management, including medium- to long-term strategies for the Group, possible risks and optimum allocation of resources, and makes decisions on these matters.	Six directors (two of whom are independent outside directors)	At least once a month. In 2018, directors met 22 times, including extraordinary meetings
2. Board of Corporate Auditors	Corporate auditors attend general shareholders' meetings, Board of Directors' meetings, Group Managerial Meetings and other important events; gather reports from directors, employees and accounting auditors; and supervise the execution of duties by directors.	One full-time corporate auditor and two independent, part-time outside corporate auditors, as stipulated under Article 2, Paragraph 16 of Japan's Companies Act	At least once a month. In 2018, corporate auditors met 16 times, including extraordinary meetings
3. Group Managerial Meeting	Established in 2017 to clarify management and execution functions. Receives reports from all companies on important matters (management issues, risks) pertaining to the execution of Group operations and discusses the content thereof.	Directors and corporate auditors of the Company as well as presidents of subsidiaries and corporate officers of key companies	Monthly. In 2018, strategy meetings were held 19 times
4. Nomination Advisory Committee (voluntary)	Ensures objectivity, transparency and effectiveness in decision-making processes, including nomination of Company directors, appointment of corporate officers and nomination of directors at subsidiaries, by discussing and recommending individuals based on a request for advice from the Board of Directors regarding personnel essential from a management perspective.	Decides on composition (of members) according to matters for deliberation, from the perspectives of ensuring objectivity, transparency and effectiveness in the decision-making process For particularly important personnel decisions, such as the appointment or dismissal of directors, corporate officers or representative directors at key subsidiaries, the majority of members will be outside directors.	Structure introduced in January 2019
5. Compensation Advisory Committee (voluntary)	Ensures objectivity, transparency and effectiveness in decision-making processes regarding 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 a request for advice from the Board of Directors.	Decides on composition (of members) according to matters for deliberation, from the perspectives of ensuring objectivity, transparency and effectiveness in the decision-making process For particularly important matters for deliberation, such as a revision to the director and corporate auditor compensation system and compensation for Company directors, the majority of members will be outside directors.	Structure introduced in January 2019
6. Internal Audit Division	Evaluates and verifies management activities (risk management, internal controls, governance) that will contribute to the achievement of management targets at the Company and each Group company, and offers advice, recommendations and suggestions for improvement.	Thirteen members, eight of whom are in charge of internal audits	In 2018, there were nine audits at 11 companies
7. Group CSR Committee	Applies a lateral perspective across the Group to oversee risks associated with corporate activities, primarily from strategic and administrative perspectives, and also tracks the status of compliance practices and important CSR-related issues.	Committee chair (the executive responsible for CSR), committee members (Group executives and outside experts) and a committee secretariat	In 2018, the Group CSR Committee met five times

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 2017, six issues were brought to management's attention and recognized as requiring action. Steps taken in 2018 to address these issues are described below.

Item	Steps taken in 2018
❶ Deepen discussions about separation of business management and execution	Revised rules based on delegation of authority to Group companies (representative directors) and clarified division (scope of delegated authority) pursuant to items decided by the Board of Directors at POLA ORBIS HOLDINGS and items decided by executives responsible for such decisions at Group companies.
❷ Manage brands more creatively	In addition to action plans for Issue ❶, set management indicators linked to clarification of position and expected role for each Group company. Revised existing management indicators for Group companies.
❸ Boost effectiveness and objectivity in decision-making process for director nominations and compensation	• Introduced new director compensation system. – Reviewed importance of roles played by each person and weight of responsibilities (reviewed scope). – Reviewed ratio and range of fixed compensation and variable compensation. – Introduced share-based compensation plan (long-term incentive). • Established voluntary advisory committee to discuss important matters, such as nomination of directors, appointment of executive officers and compensation. Composition of committee changes depending on topics to be discussed.
❹ Lay out medium- to long-term succession plan	Voluntary advisory committee, which began activities in 2019, will monitor status.
❺ Establish concrete policy on allocation of medium- to long-term management resources	Specific measures will be incorporated into the long-term management plan the Company plans to reveal in 2020.
❻ Formulate human resources development strategy	Established the Human Resources Development Committee to select candidates for managerial positions from across the Group and develop the skills of the next generation of executives. From 2019, the Board of Directors will check the list of candidates and monitor the status of skills development.

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 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. 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 or 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 discussed 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 Robust efforts to improve governance and a high level of awareness among executives
❷ Outside director involvement in the Board of Directors
❸ Communication with shareholders

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. Going forward, the action plan will be implemented and progress monitored and verified, with adjustments, as necessary. The action plan will raise effectiveness.

❶ Strengthen role of holding company
❷ Enhance long-term management discussions
❸ Strive to ensure transparency in nomination and compensation processes
❹ Create policy to address risk, including measures to thwart cyberattacks
❺ Enhance training for directors

Key activity status of outside directors

Name	Key Activity Status	Attendance Rate
Kazuyoshi Komiya	Mr. Komiya draws on excellent, extensive knowledge of overall corporate management to grasp essential issues from an independent position and proactively offers advice on these issues. Specifically, his wide-ranging comments, from financial pointers on cash flow and capital costs to suggestions on developing the skills of managerial talent, contribute to enhanced corporate value through overall management.	95.5% 21 of 22 meetings
Naomi Ushio	Ms. Ushio has expertise in business management and human resources management theory. She proactively offers comments based on her excellent, extensive knowledge of sustainability including advice to encourage women to be more active—something for which the Company is particularly well known—as well as approaches to better utilize skills and the way diversity, namely, diversity in human resources, affects management of a company, based on situations at other companies.	100% 17 of 17 meetings

POLA ORBIS HOLDINGS' Board of Directors comprises flexible thinkers with the training and education to apply diverse personal viewpoints and extensive experience and specialization in corporate management activities. Maintaining a suitable balance in the knowledge, experience and capabilities of directors is a priority.

The Company currently has six directors, two of whom are outside directors, and three corporate auditors, two of whom are outside corporate auditors. Management feels the number of directors and corporate auditors is appropriate at this time, given the importance placed on efforts to ensure a sound balance between appropriate decision making and swift, dynamic management, based on an overall consideration of the business scale and the Group's structure for delegating authority to executives. Note that Mr. Komiya and Ms. Ushio are independent directors, as stipulated in the regulations of the Tokyo Stock Exchange, Inc.

Independent outside executives' meeting

POLA ORBIS HOLDINGS regularly holds meetings just for independent outside executives. For the meeting that looked back on fiscal 2018, the theme was the Company's human resources strategy. Some of the comments follow:

What skills are required for the next age?

In the information society, certain reactions are just not possible under the existing framework. The ability to identify problems is important. In our increasingly complex world, know-how alone is not enough. The power to think—that is, to think logically—is essential. Also, because the approach to education equates excellence with the ability to memorize, there is a tendency for people to respond from memory rather than respond with understanding.

Management talent

- The power to think is a quality that everyone, not just management, should have. To be specific, this capacity is built on three elements: 1) you have to start thinking from the basics; 2) you have to imagine how the recipient of your idea or comment will feel; and 3) you have to read a situation two or three steps in advance.
- Decision making is indispensable for corporate management. It is impossible to make a correct decision all the time when the decision to go ahead or not to go ahead needs to be made. The ability to confirm a hypothesis is vital. The Company needs people who can make the best decisions with as little risk as possible.
- An executive team made up only of people with accuracy in the daily operations of a company will encounter challenges. This might be particularly true for manufacturers, who will not bring up for discussion a depressing topic, say, a business losing momentum or a hit product no longer selling well. The Company needs human resources who can think outside the box, that is, think beyond existing concepts, and who get down to the basics to solve issues.

Issues in developing talent

- It is the same in many areas, but the POLA ORBIS Group has a large number of people who toil at daily operations. To me, that is a red flag.
- I feel the ability to confirm hypotheses is weak. Ideas should be presented with a tested hypothesis as the basis for constructive discussion.
- When the times bring major changes, people who have always focused on only the issues right in front of them will not be able to adapt successfully. For this reason, priority must be placed on developing human resources to match the times.
- We need to enable people to gain deeper or more diverse experience within the Group. Assigning people with high potential to divisions where they can see the whole corporate structure horizontally, not vertically, can be effective. In some industries, executives are given the opportunity to work at second- and even third-tier subsidiaries down the corporate hierarchy as part of their training.
- Manufacturers tend to have an extremely small external network. POLA ORBIS HOLDINGS too should work to increase external points of contact, including companies outside the Group.
- POLA ORBIS HOLDINGS should set a target for bringing in excellent people from outside the Group and work toward this target. This will encourage competition for positions and likely generate a synergistic effect among current employees as well.

Executive compensation

POLA ORBIS HOLDINGS' 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:

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 and shareholders by making the connection between director compensation and stock value more obvious.

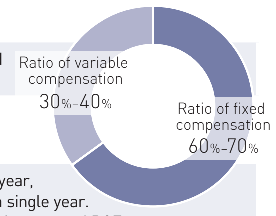
2. Compensation standard

The compensation standard is set at a level comparable with that 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

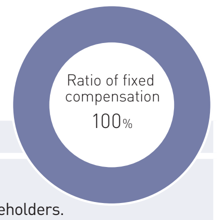
Components of compensation are basic compensation, which is fixed, and a performance-linked annual bonus and a medium- to long-term incentive (performance-linked, share-based compensation), which are variable.



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 such financial bench marks as sales, income and ROE.
	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 and shareholders. • Performance indicators determined from such financial bench marks as sales, income and ROE, in each medium-term management plan.

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, with the majority of members being outside directors, as a voluntary structure functioning to advise the Board of Directors. Executive compensation is set by the Board of Directors, based on discussions and recommendations by the Compensation Advisory Committee.

Total, including compensation by executive classification, and total, by type of compensation (Fiscal 2018)

Millions of yen

Executive classification	Total, including compensation	Total, by type of compensation		
		Basic compensation	Bonus	Stock options
Directors (excluding outside directors)	224	172	30	21
Outside directors	16	16	—	—
Corporate auditors (excluding outside corporate auditors)	22	19	2	—
Outside corporate auditors	13	13	—	—

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 conducts training and education programs regularly for all executives and employees. For people in management positions at Group companies in Japan, the Company distributes *Kaishain no tame no Compliance Nyumon* (Introduction to Compliance for Company Employees), published by Daiichi Hoki Co., Ltd., and follows up with a test to ensure that the content has been read and understood.

In 2018, the Company implemented a CSR e-learning program for all employees, including those at overseas subsidiaries, and held classes on such topics as preventing accounting fraud.

In addition, to reach as many executives and employees as possible at home and abroad, POLA ORBIS HOLDINGS produces CSR workshop videos for viewing over the in-house intranet. In 2018, the Company provided training on the topic "Business and Human Rights."

Monitoring

POLA ORBIS HOLDINGS conducts a Groupwide compliance survey every year to make sure no situations exist in any workplace that have the potential to violate compliance standards. The 2018 survey revealed a tendency toward significant overtime in the manager class.

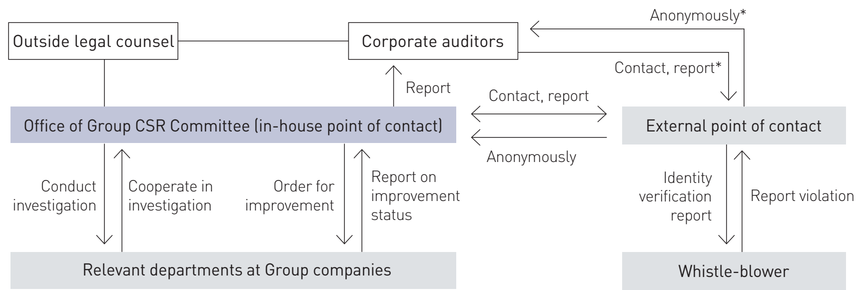
POLA ORBIS HOLDINGS developed a system that enables all executives and employees throughout the Group to report problems and seek advice. This allows the Company to directly obtain internal risk information and underpins efforts to reduce risks and prevent compliance violations. Reports are submitted to an external service provider and turned into anonymous comments, with only the gist of reports—not the actual reports—passed on to the Group CSR Committee office. Reports can be sent by e-mail or letter at any time and on any day throughout the year. The Group CSR Committee office then investigates the named department (or departments), the Group company (or companies) and the location of the department (or departments). If an investigation uncovers a situation that requires action, instructions for improvement will be issued. The office provides corporate auditors with a monthly update on use of the corporate helpline and keeps the Board of Directors regularly apprised as well.

Under the helpline structure, the anonymity of whistle-blowers is preserved and ensured through internal rules and general laws and regulations. Although the possibility is remote, if a whistle-blower becomes the target of retaliation for bringing an issue to light, the situation will be sorted out by the respective Group company in accordance with in-house rules. In addition, a helpline structure similar to that used in Japan has been established at overseas offices to facilitate reports in local languages. POLA ORBIS HOLDINGS distributed pamphlets describing how to use the helpline to employees throughout the Group to promote deeper understanding of the helpline function, conducted surveys to gauge employees' awareness of compliance and is actively encouraging Group companies to approach awareness building robustly, with such actions as putting up posters in offices where the level of awareness is low.

In 2019, the Company set up a corporate auditor hotline connecting the external service provider directly to corporate auditors to facilitate reports on possible compliance violations related to Company directors or the CSR office.

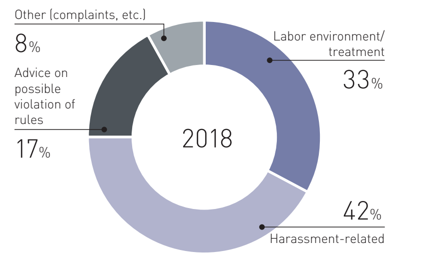
CSR workshop (speaker: Mr. Kazuo Tase, SDG Partners, Inc.)

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.

Breakdown of Internal Reporting System (Helpline) Calls



Management Structure〔As of March 26, 2019〕

Satoshi Suzuki
Representative Director and President

April 1979	Joined Honda R&D Co., Ltd.
May 1986	Joined POLA Cosmetics, Inc. (currently POLA INC.) General Manager, General Coordination Office, POLA Cosmetics
February 1996	Director, POLA Cosmetics Director, POLA CHEMICAL INDUSTRIES, INC.
June 1996	Representative Director and President, POLA CHEMICAL INDUSTRIES
January 2000	Representative Director and President, POLA Cosmetics (currently POLA)
September 2006	Representative Director and President, POLA ORBIS HOLDINGS INC. (current)
December 2006	Director, P.O. REAL ESTATE INC.
April 2010	Representative Director and Chairman, POLA
January 2016	Chairman, POLA (current)

According to his director competency evaluation, Mr. Suzuki exhibits an ability to hammer out creative concepts and strategies from a long-term perspective and, with a particular knack for strategic thinking and a determination to succeed, he will make bold moves, as necessary, after careful consideration and selectively apply management styles appropriate to the situation.

Naoki Kume
Director and Vice President

April 1984	Joined POLA Cosmetics, Inc. (currently POLA INC.)
October 2004	General Manager, Accounting Division, POLA Cosmetics
April 2005	Corporate Officer and General Manager, Group Organization Strategy Division, POLA Cosmetics
January 2007	Director, POLA Cosmetics Corporate Officer, General Manager of Management Planning and Group Organization Strategy, POLA ORBIS HOLDINGS INC.
January 2008	Director, General Manager of Management Planning and Group Organization Strategy, POLA ORBIS HOLDINGS
July 2008	Director, POLA ORBIS HOLDINGS
July 2011	Director, H2O PLUS HOLDINGS, LLC (currently H2O PLUS HOLDINGS, INC.)
February 2012	Director, Jurlique International Pty. Ltd.
January 2014	Director and Vice President, POLA ORBIS HOLDINGS
March 2018	Director and Vice President, General Manager of International Business Management, POLA ORBIS HOLDINGS INC. (current)

According to his director competency evaluation, Mr. Kume strikes a good attack and defense balance, utilizing an ability to quickly detect changes in the market and operating environment and isolate possible impact on the Group, and then calmly initiate steps that tie into strategies and measures and easily tackle even highly challenging issues.

Akira Fujii
Director

April 1979	Joined POLA Cosmetics, Inc. (currently POLA INC.)
September 2000	General Manager, Fashion Business, Planning and Sales Division, POLA Cosmetics
January 2004	Representative Director and President, Osaka POLA
April 2005	Corporate Officer, POLA Cosmetics (currently POLA)
January 2007	Director and General Manager, Catalog Business Division, POLA Cosmetics
January 2008	Director and General Manager, Public Relations Division, POLA Cosmetics
March 2008	Director, POLA ORBIS HOLDINGS INC.
July 2008	Director and General Manager, Group PR, POLA ORBIS HOLDINGS Director, POLA
December 2010	Director and General Manager, PR & IR, POLA ORBIS HOLDINGS
January 2011	Director, POLA ORBIS HOLDINGS (current)
January 2015	Director and General Manager, Corporate Communications, POLA ORBIS HOLDINGS

According to his director competency evaluation, Mr. Fujii shows his strengths by enthusiastically voicing suggestions for strategies and measures that the Company should pursue, based on present and forward-looking points viewed over a medium- to long-term and broad-ranging perspective.

Yoshikazu Yokote
Director

April 1990	Joined POLA Cosmetics, Inc. (currently POLA INC.)
August 2006	Representative Director and President, FUTURE LABO INC.
July 2011	Chairman, Managing Director, POLA CHINA BEAUTY CO. LTD. (POLA Shenyang)
January 2015	Corporate Officer, General Manager, Product Planning Division, POLA
January 2016	Representative Director and President, POLA (current)
March 2016	Director, POLA ORBIS HOLDINGS INC. (current)

According to his director competency evaluation, Mr. Yokote's forte is conceptual thinking, where he builds a theory from experience and observable facts and paints a picture of the ideal situation. He is able to hammer out a concept, rally those around him to get on board and move forward to realization.

Note: Director competency assessment undertaken with assistance from the Korn Ferry Hay Group

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-i-shiki*, 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-i-shiki* (=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.

Naomi Ushio
Outside Director

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

Kazuyoshi Komiya
Outside Director

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

Hideki Komoto
Corporate Auditor

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

Motohiko Nakamura
Outside Corporate Auditor

October 1990	Joined Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)
August 1994	Registered as a certified public accountant
July 2003	Resigned from Showa Ota & Co. (currently Ernst & Young ShinNihon LLC)
August 2003	Opened Certified Public Accountant Nakamura Office
October 2003	Registered as a tax accountant
July 2007	Partner, Mai Tax Accountant Corporation (current)
October 2008	Outside Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)
March 2011	Outside Corporate Auditor, KAYAC Inc.
July 2013	Chief Executive, JICPA (current)
April 2014	Associate Professor, Graduate School of Accounting & Finance, MBA Program, Chiba University of Commerce
May 2015	Independent Committee Member, Nitori Holdings Co., Ltd.
June 2015	Outside Corporate Auditor, Jorte Inc. (current)
April 2016	Professor, Graduate School of Accounting & Finance, MBA Program, Chiba University of Commerce (current)

Akio Sato
Outside Corporate Auditor

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

Kazuya Kugimaru
Senior Corporate Officer (Part-time)

Takuma Kobayashi
Senior Corporate Officer (Part-time)

Noriko Fukuyama*
Corporate Officer

*Last name used within the Group is Suenobu.

Koji Ogawa
Corporate Officer

Ken Horikawa
Corporate Officer

Directors and Corporate Auditors of Group Companies

POLA INC.


Yoshikazu Yokote
Representative Director and President


Miki Takenaga*1
Director and Corporate Officer
*1 Last name used within the Group is Oikawa.


Seiichi Takaya
Director and Corporate Officer


Kazuhiro Nishikata
Director and Corporate Officer


Yoshifumi Abe
Corporate Auditor


Tomoko Kamiya
Corporate Officer


Toshiaki Miyazaki
Corporate Officer


Hiroe Mori*2
Corporate Officer
*2 Last name used within the Group is Yamaguchi.


Yasuro Katamine
Corporate Officer


Makoto Yuizono
Corporate Officer

ORBIS Inc.


Takuma Kobayashi
Representative Director and President


Motoyuki Fukushima
Director and Corporate Officer


Koji Ogawa
Director (Part-time)


Nobuhisa Komiya
Corporate Auditor


Masaki Motoki
Corporate Officer


Masaki Okawa
Corporate Officer

POLA CHEMICAL INDUSTRIES, INC.


Kazuya Kugimaru
Representative Director and President


Noriko Fukuyama*
Director and Corporate Officer
*Last name used within the Group is Suenobu.


Takayuki Katagiri
Director and Corporate Officer


Tadahito Seto
Director and Corporate Officer


Mamoru Eda
Corporate Auditor


Hiroki Tsuruoka
Corporate Officer


Yasuhiro Fukuda
Corporate Officer

Jurlique International Pty. Ltd.


Toru Yamamoto
Chairman & CEO

H2O PLUS HOLDINGS, INC.


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

ACRO INC.


Akira Gogo
Representative Director and President

DECENCIA INC.

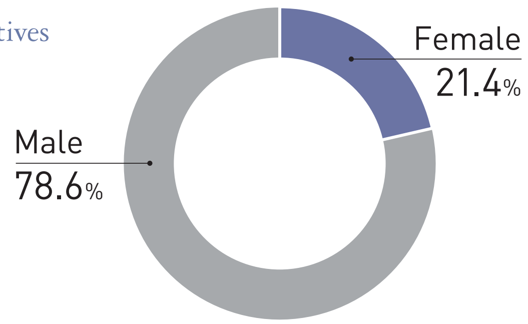

Yoshiko Yamashita
Representative Director and President

P.O. REAL ESTATE INC.


Takako Konishi
Representative Director and President

Female Ratio of POLA ORBIS Group Executives

9/42*



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

Actual practice of executive training

Revamped organizational coaching program
In 2013, POLA ORBIS HOLDINGS introduced a coaching program for executives at Group companies. In 2018, the program was revamped to emphasize organizational change. The updated program is intended to cultivate an atmosphere in which executives do not shy away from change but meet it straight on. To reach this environment, activities are designed to strengthen two executive competencies—the ability to create a culture transformation and the ability to impact and influence people in a positive way. Under the program, each executive participant is assigned a coach, who follows his/her target in work situations, such as during meetings and in the office. The coach takes an objective perspective, observing behavioral traits and looking for clues to enhance the target's ability to empower people and energize the organization. In 2018, four people completed the program: two corporate officers at POLA, one corporate officer at POLA CHEMICAL INDUSTRIES and one corporate officer at ORBIS. We will continue to provide executives who are responsible for corporate and personnel growth with opportunities to develop practical competencies because it is their underlying capabilities that allow the POLA ORBIS Group to constantly evolve in today's changing world and benefit from the individuality of each and every employee.

Human resources development that respects the individuality of each and every employee and promotes awareness

The POLA ORBIS Group aims to realize a future ideal, maximizing the unique character of each brand and becoming a global corporate group that enriches the lives of people around the world. To let the qualities of each brand shine, it is vital that the individuals involved in brand creation acquire a sharper ability to see and feel things and allow their own personalities to shine as well. The Group's approach to human resources development aims at enhanced sensitivity and a heightened esthetic sense through respect for the individuality of each and every person and efforts to promote awareness.

As the times are characterized by rapid diversification in customers' values and lifestyles, the POLA ORBIS Group revised its corporate philosophy in 2017 to reflect the corporate ideal that the Group aims to achieve by 2029, which will mark its 100th anniversary. Our mission—to "sensitize the world to beauty"—is directed toward customers, but it also has a Company-related dimension, stimulating and fine-tuning employees' ability to inspire an appreciation of beauty. We offer excellent products and services, but we must go beyond that to deliver experiences and amazement as only we can. Doing so will fuel the growth as a corporate group that influences the way customers feel and the way they live. Toward this end, each and every employee must demonstrate personality and charm, conveying a presence that inspires others. We promote various initiatives such as art workshops that enhance the ability to feel and appreciate things, and programs to evaluate and hone Group competencies.

Implement POHD competencies at overseas Group companies

Seeking to realize the Group philosophy, POLA ORBIS HOLDINGS redefined the POLA ORBIS Group Employee Competencies to promote changes in employee behavior and introduced a competency-oriented evaluation system across the Group in 2017. After Group companies in Japan were participating, POLA ORBIS HOLDINGS applied the competency requirements to overseas companies Jurlique and H2O PLUS. What competencies must employees demonstrate to make the Group philosophy a reality and keep the Group growing? To find answers, POLA ORBIS HOLDINGS holds workshops worldwide for participants to engage in open discussions about personal strengths and areas needing improvement, thereby learning to understand one another better. This approach will allow the Group philosophy to permeate the corporate consciousness.

POLA ORBIS Group Employee Competencies

4 Principles	Competencies
Face Changes and Challenge	Creating a Vision
	Adaptability
	Business Context Awareness
Think Deeply and Broadly	Conceptual Thinking
	Analytical Thinking
Cultivate Individuality and Influence	*Bi-i-shiki* POHD Original Competency
	Impact and Influence
Enhance Organizational Dynamism	Building a Culture of Development
	Valuing Diversity

Competency training for overseas employees

Human resources development through art

Human resources development at the POLA ORBIS Group incorporates art into training programs as a concrete approach to providing greater sensitivity and a heightened esthetic sense. Art creates impressions as varied as the people who view it. There is no correct—or incorrect—perspective when it comes to personal interpretation. Art workshops on the theme "Knowing, Feeling" enable participants to become more aware of their own viewpoints and perceptions while recognizing and accepting diversity in the thinking of others. This leads to an enhanced esthetic sense, which is a required competency at the POLA ORBIS Group.

The workshops include group work where participants engage in art appreciation and then paint something of their own, highlighting personal values. The paintings are later displayed and discussed. First, participants put their feelings about a painting into words to convey a personal point of view, and then the others give their thoughts on the painting. The discussion opens the door to different perspectives on the same subject. The workshops provide an opportunity to discover qualities about people that are difficult to see in the work environment and to discover unique perspectives in others.

Workshop incorporating art (at POLA Museum of Art in Hakone)

Painting program for new employees

Launched new businesses generated through an in-house venture program

In November 2016, POLA ORBIS HOLDINGS began requesting ideas for an in-house venture program. Ideas were selected from more than 50 proposals submitted by employees at home and abroad, with two new businesses approved for launch in early 2018. The aim of this program is twofold: to create and nurture new brands and new businesses that will become drivers of new growth and fuel progress toward the Group vision; and to foster a corporate culture that encourages efforts to respond to challenges and changing circumstances with flexibility. The second request for ideas was made in January 2019.

New business 1

Corporate venture capital business aimed at women entrepreneurs

In 2018, this venture capital business invested in SHE, Inc., a creative career school for women, HugCome, Inc., which operates online English classes for children, and Moderato Inc., which offers D2C (direct to consumer) brands and styling services.

This venture capital business will continue to focus on investment in women entrepreneurs who will become role models for the next generation.

New business 2

Business coordination that bridges traditional crafts and companies

In 2018, this venture capital business coordinated two contracts. One was between Suzuki Morihisa Studio Ltd. and LiveArts, Inc., which operates WAYO, an e-commerce site featuring traditional crafts, to include *nanbu-tekki* ironware made at the studio in WAYO's online catalog. The other was between Ikazaki Shachu Inc. and Career Consulting Co., Ltd., which operates a mail-order site for traditional crafts, to include Japanese *washi* paper made by Ikazaki Shachu.

Going forward, this venture capital business will coordinate efforts to open sales channels between companies and artists who produce traditional crafts and assist in organizing workshops and other events using traditional crafts. Thus, this venture capital business will contribute to invigorating and expanding the traditional crafts industry.

Group talent development program

POLA ORBIS HOLDINGS offers training programs to a select few—small groups of people with exceptional talent—to hone the skills of human resources with the capability to keep the Group on a growth track in the future. The Groupwide programs include the Future Study Program for young employees in their 20s and 30s, the Business Innovation Academy for middle management in their 30s and 40s, and a coaching program for organizational changes for officers and directors.

The content of the Business Innovation Academy was revamped in 2018 with the aim of developing leaders with the ability to update business with the times. To achieve organizational changes through reforms from both the perspective of people and the perspective of business, the program welcomes directors to join discussions and applies action learning to pinpoint and solve management issues not yet being pursued. A joint course involving middle management from other companies is also offered to provide insights into viewpoints and attitudes characteristic of next-generation leaders. In 2018, a joint course crossing industry lines included people from a consulting company and a pharmaceuticals company. The program allowed employees from the POLA ORBIS Group to reexamine personal strengths and weaknesses.

Business Innovation Academy

Human resources development framework for the next generation

Increase opportunities to experience diverse environments in-house and outside the company → **Determine career path and polish skills as professional**

Experience

Career formation opportunities

Purpose: Create opportunities to develop capabilities and shape career through diverse experiences

FA*	System that allows an employee who satisfies certain conditions (such as evaluation criteria) to apply for a transfer to a different division or company of choice within the Group
Open offer	System to recruit from within the Group and invite talented individuals needed for projects or required by divisions
External dispatch	Participate in external project by resolving actual social issues

*Free-Agent System

Learning

1. Future Study Program

Purpose: Change attitude and behavior to demonstrate leadership
Content: **1.** Team-based action learning to find solutions to management issues within the POLA ORBIS Group
2. Leadership development
3. Joint learning opportunities with people from other companies
4. English language learning
Number of participants: About 16 per year
Duration: March through November

2. Business Innovation Academy

Purpose: Acquire ability to make changes as a leader and achieve personal growth through self-directed study
Content: **1.** Find solutions to management issues that will change the company or group to which the participant belongs
2. Reflect on personal traits and strengthen leadership skills
3. Joint learning opportunities with people from other companies
4. Overseas study tours, English language learning
Number of participants: About five per year
Duration: April through December

3. Coaching for organizational changes

Purpose: Polish ability to be influential as an executive and promote corporate culture that embraces change
Content: Individual coaching based on observation of behavior
Target: Executives
Number of participants: About three per year
Duration: June through November

Evaluation

9 competency requirements Group employees need to fulfill

13 competency requirements Group executives need to fulfill

VOICE

The Business Innovation Academy—a superpractical training program that delves deep into management issues

Naotaka Hashi
General Manager, Corporate Communications Division, who completed the Business Innovation Academy program in 2018

I communicate management strategies and equity stories through investor relations, and I talk with shareholders and investors on a daily basis. In the process, I recognized issues facing the Company on my own and, through the Business Innovation Academy, I went beyond an extension of ordinary operations—beyond even the scope of IR duties—and proposed bold "innovation" to address management issues.

My aim was, first and foremost, to enhance capital efficiency by clarifying the uses of capital. My proposal incorporated the qualities and originality that distinguish the Company—namely, investment in new businesses to underpin future growth, expansion of the brand portfolio, wider investment in research pursuits to make sustainable innovations possible, greater flexibility in capital policy and returns derived by empowering women in the workplace and encouraging employees to achieve personal goals.

Also, I made governance-oriented proposals, such as establishing voluntary nomination and compensation advisory committees and setting criteria for a succession plan. These would enhance management transparency and objectivity. Actually, the Board of Directors discussed some of my several proposals and decided to proceed.

The program was a starting point for me, taking me deep into management issues. It was superpractical training brimming with a kind of dynamism—proposals put into actual practice—that is unique to POLA ORBIS HOLDINGS.

Health management

For the POLA ORBIS Group to realize the new Group philosophy, it is imperative that employees themselves live more enjoyable, comfortable lives and remain in good health physically and mentally. The Group as a whole shares this perspective. To articulate this position, POLA ORBIS HOLDINGS made the POLA ORBIS Group Health Management Declaration in November 2017. The underlying concept is that good health enables each and every employee to be considerate of others while maintaining a be-true-to-yourself attitude. POLA ORBIS HOLDINGS has thus made the physical and mental health of employees a management priority and strives to create an environment that supports the health of employees and their families.

In April 2018, the Company tapped the Health Management Center to take the main role in creating environments on a Groupwide basis that enable employees to work in good health and with peace of mind. The function of the center began to shift from the previous focus on medical treatment to a focus on preventative care. The center is promoting enhanced preventative medicine throughout the Group, including collecting and consolidating employees' health check data and steps taken after checkups, such as treatment recommendations and interviews for health guidance, and monitoring the status of high-risk individuals. Health-related seminars, training events and other activities have earned positive comments from employees. In addition, a gynecologist was assigned to respond more extensively to women's health concerns, and mental health experts were assigned to provide appropriate, specialized support to people with issues about mental well-being.

These approaches have attracted favorable external recognition as well, such as the Company's inclusion in the "White 500" Certified Health and Productivity Management Organization Recognition Program, created by Japan's Ministry of Economy, Trade and Industry. POLA ORBIS HOLDINGS was included in the large-enterprise category in 2019, the second consecutive year of recognition.

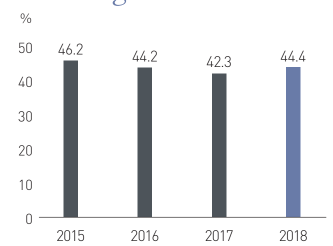
Diversity initiatives

The POLA ORBIS Group seeks to create an environment that promotes respect for employees' diverse values and enables employees to fully demonstrate their potential. Toward this end, POLA ORBIS HOLDINGS encourages work-style diversity as well. In March 2018, the Company introduced a remote work program applicable regardless of employment status. This program, which has been embraced by POLA, ORBIS, ACRO and DECENCIA, has improved productivity and also earned positive reviews as a work style matched to life stages such as raising children and looking after elderly parents.

Vigorous efforts to help women balance work and child rearing began early on, and POLA, POLA CHEMICAL INDUSTRIES, ORBIS and POLA ORBIS HOLDINGS have acquired the "Kurumin" certification mark from Japan's Ministry of Health, Labour and Welfare for efforts supporting development of the next generation. Additional actions, notably, the creation of opportunities for men to be involved in child care, have earned praise, with ORBIS granted "Platinum Kurumin" certification in 2018.

Female employees demonstrate their capabilities in various ways within the Group, primarily by developing products and services from a customer perspective. To enable women to be an even greater force, POLA ORBIS HOLDINGS is expanding its support of career development. In 2018, the ratio of women in management positions reached 44.4%, on a Groupwide basis, including overseas operations. The Group's efforts have drawn attention, with POLA ORBIS HOLDINGS selected for inclusion in the MSCI Japan Empowering Women Index, an ESG index, in 2017 and again in 2018.

Ratio of Women in Management Positions



Creating a corporate culture that recognizes the invaluable presence of each and every employee

In April 2018, POLA launched a support program to help people living with cancer, a disease that afflicts one in every two Japanese. For employees who have been touched by any of four major diseases, including cancer and stroke, the company maintains various support programs, such as shortened working hours and access to information through the in-house intranet. In addition, a support measure was introduced for business partners that sell the company's products to permit their employees to balance work and cancer treatment. The company has started covering all costs associated with full health checks for Grand Owners, who oversee a number of shops, and covers a portion of the costs associated with cancer screening for Beauty Directors through the POLA Employee Welfare Cooperative.

POLA, which seeks to create a work-friendly environment for employees with disabilities or illness, installed multi-purpose restrooms in the head office building. Similarly, POLA CHEMICAL INDUSTRIES installed a new production line in the Fukuroi Factory that is easier for employees with disabilities to work on. The factory is keen to build a framework that promotes coexistence and inclusion by, among other measures, establishing an employment network for the disabled.

Worker-friendly production line for the disabled (Fukuroi Factory)

Stakeholder Communication

The POLA ORBIS Group actively organizes opportunities for stakeholders to give their opinions to management. A dialogue with stakeholders took place on July 20, 2018, when experts offered their views on the CSR activities undertaken by the Group. An excerpt of that day's discussion follows.

Sharing thoughts and philosophy with customers and employees is key to corporate competitiveness in the 21st century

Mr. Hyogo: ESG investment is rapidly expanding these days but until just recently was viewed with not a little skepticism. Even then, I said that governance is particularly important within the ESG framework and that a lack of good governance can lead to a significant erosion of corporate value. Floods and extreme heat caused by abnormal weather and even the pervasive nature of the Internet—these developments have heightened business risks more than anyone in the past could have imagined. Vigorous efforts to deal with risks related mainly to the environment, human rights and human resources create the corporate vitality that underpins the capability to capitalize on opportunities. It is important to address risk long term as part of management strategies.

Mr. Tamamura: My area of expertise is corporate social marketing. For a long time, your company has created businesses that consistently influence society—or are influenced by society—over the entire value chain. Going forward, from a CSV* perspective, I think you need some sort of competitive axis, like being the No. 1 company for empowering women. You have to state this explicitly.

*CSV: Creating Shared Value

POHD: Cosmetics have always been a cultural commodity, with external beauty leading to inner beauty. This underscores a feeling to be active in society and to be successful. In the POLA business, some 45,000 Beauty Directors function like a bridge, closely linking the people and the economy of the region in which they work. Few companies are able to think about business as a member of the community, as a consumer. Going forward, we will tackle CSR from an original businesslike perspective.

Mr. Hyogo: Then the question is how do you convey the president's ideas to tens of thousands of people. And how do you get everyone to instinctively understand management's philosophy?

Mr. Yamaguchi: For example, an art collector is more of a supporter than a consumer. In the future, the connection between companies and their customers might become based on something similar to art. Companies have messages to get out, and people who sympathize with the stated concept will gravitate toward that company. When like-minded individuals gather, saying, "I want to work here" or "I want to buy this company's product," then you know governance that is highly independent works.

POHD: When I go around to Group companies, I feel that top management should convert our thoughts into words and put them in writing to explain to employees. Back in 2002, we hammered out a new vision and established a research facility with no separation between cosmetics and pharmaceuticals. An employee had realized that this was an opportunity to do something different. The first thought in art is to be unique. Never do the same thing someone else is doing. When researchers stopped for a moment and thought, "Are we on the right track with what we're doing?" that was a watershed moment, leading to the revolutionary product *Wrinkle Shot*. Going forward, we will do more than just convey management's message by posing questions and engaging in dialogues to communicate deeper meanings.

Examples related to this dialogue

Opportunity and risk management ▶ P 30
POLA business connects with communities ▶ Special Feature P 20
Instilling corporate philosophy in minds of Beauty Directors nationwide ▶ P 27
Corporate governance ▶ P 42
Instilling corporate philosophy in minds of overseas employees ▶ P 52

Participants from outside

Shinichiro Hyogo
Chief Analyst/Chief Fund Manager,
Asset Management Division, Mitsubishi UFJ Trust and Banking Corporation

Masatoshi Tamamura
Professor, Faculty of Policy Management, Keio University
Major book: *Social Impact—CSV changes companies, businesses and styles of working*

Shu Yamaguchi
Senior Client Partner, Korn Ferry Hay Group Co., Ltd.
Major book: *Sekai de Mottomo Innovative na Soshiki no Tsukurikata*

Participants from POLA ORBIS HOLDINGS

Satoshi Suzuki
Representative Director and President

Naoki Kume
Director and Vice President

Akira Fujii
Director

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

The POLA ORBIS Group actively engages external stakeholders in dialogues to confirm that corporate activities are in tune with the expectations and demands placed on the Group by society, and to identify products and services that might better meet society's wants and needs. The opinions and suggestions raised through such dialogues are considered by management for possible application and reflected in management practices as concrete improvement measures.

Customers

Input from customers is used to enhance business activities and services. A structure is in place to ensure that comments are immediately shared with management and improvements are swiftly implemented.

- **Call centers**
- **Customer satisfaction surveys**
- **Customer roundtable discussions and group interviews**
- **Various surveys based on sales data**
- **Brand image surveys**
- **Awareness survey on cosmetics culture**

Business Partners (Suppliers)

We consider suppliers of cosmetics ingredients and packaging materials key partners and meet directly with major suppliers at least once a year but generally more often. We hold information meetings to promote understanding of procurement policies applied within the POLA ORBIS Group and to ensure that suppliers support these policies.

- **Procurement policy information meetings**
- **CSR procurement guidelines**
- **Questionnaire on CSR procurement**

Business Partners (Beauty Directors)

For Beauty Directors, who deal directly with customers, we maintain close communication on a daily basis to ensure that they support our philosophy and that they convey corporate value. Of note, we emphasize learning and provide level-specific instruction and training.

- **Recruiting activity and basic education**
- **Product workshops**
- **Shop-owner training workshops (Established POLA University)**
- **National awards ceremony**
- **Group leaders' business meetings**
- **Interviews with Beauty Directors**

Employees

We seek to create an environment in which employees can demonstrate their individuality, supporting the idea that companies grow and develop when diversity-driven human resources are able to show unique individuality. In 2017, we made our Health Management Declaration.

- **Employee satisfaction surveys**
- **Employee forums**
- **Safety and health committee**
- **Health management**
- **Free-agent system/venture program**
- **Information-sharing through intranet**
- **CSR Awards commendation program**
- **Helpline (internal reporting system)**

Society, NGOs/NPOs

We are keen to achieve a mutually prosperous coexistence with society by meeting society's expectations. We also engage in activities that contribute to a better society. In addition, we respond with all due sincerity to questions from non-governmental organizations and non-profit organizations.

- **Culture/art activities**
- **School visits (in cooperation with local junior high schools)**
- **Internships**
- **Factory tours**
- **Environmental education**
- **Local cleanup initiatives**
- **NGO/NPO dialogues**
- **Joint projects with local industry**
- **Agreements with local governments**

Shareholders and Investors

We respond to the requests of shareholders and investors with a robust communication approach. We have received the Best IR Award* two times. We organized a factory tour for shareholders based on comments received at the general meeting of shareholders.

- **General meeting of shareholders**
- **Issue integrated reports**
- **Issue shareholder notices**
- **Small meetings**
- **IR meetings for investors**
- **Shareholder events**

*Organizer: Japan Investor Relations Association

Initiatives That Address Issues at Community Level

From its earliest days, which go back to the establishment of POLA, the POLA ORBIS Group has recognized issues at the community level throughout Japan and actively participated in strategies and approaches to address these issues. Through its core businesses, the Group promotes activities to help solve community concerns.

Project to work more actively in the workplace

Japan is a country where the low birthrate and the rising percentage of elderly in the population have become major social problems. A particularly pressing concern is the graying of rural communities, a situation that reflects limited job opportunities in these areas and the resulting exodus of high school graduates for cities. POLA has about 45,000 Beauty Directors all over Japan. These women are acutely aware of the issues that face the communities where they themselves live and work, and they use this knowledge as a basis for activities to address prevailing issues. A strong desire to energize the community, to encourage young people to be more active within the community and to help women shine with confidence and beauty—these desires fuel efforts to arrange local opportunities, such as work experience events for women and children.

In 2018, Beauty Directors at 28 stores in Miyazaki Prefecture, the POLA Miyazaki Center, which supports these stores, and Miyazaki Broadcasting Co., Ltd., also known by the acronym mrt (Miyazaki Radio and Television), jointly produced the event POLA×mrt MIYAZAKI WOMEN'S ACTION. With backing from businesses in the prefecture, including AEON Mall Miyazaki, and local governments, the event featured presentations, yoga classes and programs by women who truly enjoy working in their communities. As the event was aired, POLA raised its profile with many people it would not regularly encounter. Working together and consolidating ideas on regional growth motivated Beauty Directors to promote POLA products and services more vigorously, and an increase in customers facilitated the opening of more stores. In other areas, POLA concluded comprehensive partnership agreements with local governments in the cities of Kita-Kyushu and Senboku as well as Akita Prefecture to underpin regional revitalization activities. Beauty Directors who go beyond the borders of business to contribute to local communities are definitely an asset for POLA.

POLA×mrt MIYAZAKI WOMEN'S ACTION

Helping promote traditional crafts and local industry

Today, rapidly changing lifestyles have reduced demand for traditional crafts, resulting in a shortage of people willing to continue making crafts. However, the fine-quality traditional crafts of skilled masters are national assets that should be passed down to future generations. The POLA ORBIS Group is passionate about "the very best," and, in 2009, began to disseminate the essence of Japanese *monozukuri* (manufacturing from a product creation perspective). Related to this, POLA selects crafts made by local artists to help energize local industries. Examples include a *B.A The Cream* container that uses the *Edo kiriko*—cut glass—method and women's accessories produced with a traditional, hammered copperware technique perfected in Niigata Prefecture. In 2018, ORBIS used crafts from four production areas as gifts for customers. These gifts were imbued with a corporate desire to offer excellent products and provide suggestions for refined living. In addition, the company initiated a program to promote crafts under an in-house venture program and will contribute to the development of local industries through its core business.

ORBIS Imabari face towel and guest towel

Creating woodlands where people gather—ORBIS' environmental activities earn philanthropy award, Medal with Dark Blue Ribbon

ORBIS began environmental protection activities at home and abroad in 2002. In 2012, the company joined forces with the Organization for Industrial, Spiritual and Cultural Advancement-International (OISCA, Japan) on activities to turn 100 hectares (247 acres) of decaying forested land owned by the city of Koshu, Yamanashi Prefecture, into *satoyama* (undeveloped woodlands near populated areas) for people to gather and encounter nature close-up. Activities involving employees, their families and OISCA, Japan earned ORBIS the Japanese government's Medal with Dark Blue Ribbon in 2018. Going forward, the company will continue to promote activities for creating forests where people can experience the corporate philosophy of "Simply you. Simply beautiful."

In 2018, ORBIS began a face-washing class for students, on whose shoulders the future rests. Through skincare, students acquire a positive attitude about themselves, which influences people around them and promotes a forward-looking perspective.

Building nature trails in Koshu City ORBIS Forest

Dialogue with Shareholders

In its approach to investor relations (IR), POLA ORBIS HOLDINGS emphasizes not only performance updates, which guide short-term investment decisions, but also access to information that encourages long-term, stable investment. For this purpose, the Company seeks to deepen understanding of such facets as Group history, long-term vision, the medium-term management plan, management policy and key strategies aimed at future growth.

For institutional investors at home and abroad, every six months top management provides a progress report on the medium-term management plan—a road map divided into three stages that the Company will follow to reach its long-term vision for 2020—and looks ahead to achieving stated targets.

In setting management targets, POLA ORBIS HOLDINGS actively reflects comments shared by institutional investors during IR briefings. For example, some of the many suggestions heard during conversations with shareholders led to the current capital policy underlying the return-on-equity target, the policy on returns to shareholders and the appointment of outside directors to the Board of Directors. And in 2019, we took a more flexible approach to the purchase of treasury stock. The Company will continue having the president conduct a small meeting and a brand-focused business briefing for analysts to respond proactively to requests for information.

In IR activities for individual investors, POLA ORBIS HOLDINGS is keen to offer IR seminars for female investors who use cosmetics. Through this approach, the Company has created a stable shareholder fan base—shareholders who are devoted to the Company and the Group's brand portfolio—and raised the liquidity of its stock. Thanks to this fan base, the number of shareholders as of December 31, 2018, reached an all-time high of 36,463, and POLA ORBIS HOLDINGS enjoys long-term support from its large shareholder base.

Along with seminars and other offerings, POLA ORBIS HOLDINGS continues to provide special shareholder perks to heighten the appeal of sustained investment. One perk that has been very well received is a program allowing shareholders to exchange points, based on the number of shares owned and the number of years they have been held, for products from the Group's brand portfolio. This perk has earned POLA ORBIS HOLDINGS the top spot for seven consecutive years in the category of "beauty and health shareholder perks that make women happy" on a survey ranking the popularity of shareholder incentives, as selected by readers. In addition, the Company arranged opportunities for shareholders to tour POLA CHEMICAL INDUSTRIES' Fukuroi Factory and its Yokohama R&D Center to enhance interaction and communication. This approach will be maintained as an excellent way to deepen shareholders' understanding of the Group's operations in the future.

For exercising voting rights at general shareholders' meetings, POLA ORBIS HOLDINGS proactively prepares a convocation notice with graphs and diagrams to disclose in an easy-to-understand format information that should help shareholders form accurate judgments. Also, to provide sufficient time for agenda items to be considered, the Company posts the convocation notice on its website three to four weeks before the general shareholders' meeting and in advance of the mailed-out version. Note that POLA ORBIS HOLDINGS uses the voting rights exercise platform operated by ICJ, Inc., and posts on its website the English-language version of the convocation notice as well as reference materials for the general shareholders' meeting.

The 13th Annual Shareholders' Meeting on March 26, 2019, was attended by more than 2,100 shareholders. The event's question-and-answer session covered a range of topics, including thoughts on the brand portfolio, issues in overseas operations requiring attention, the next long-term vision and the quality of customer service. The comments and underlying interests will be integrated into future management decisions.

Fiscal 2018 activity results

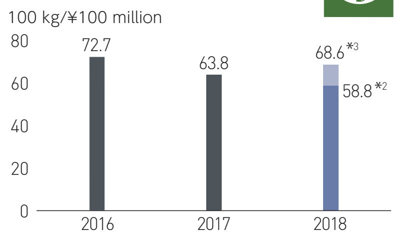
Number of briefings with domestic and international investors	More than 650 companies (in total) during the year	
Overseas IR	Seven trips (Europe, North America, Asia) with participation from representative directors and director responsible for IR	
Financial results briefings/teleconferences	Four times (two financial results briefings, two teleconferences)	
Female shareholder ratio	49.0% (36.6% in 2010)	
Information meetings for individual investors	About 30 times a year Two tours of facilities were organized for shareholders: one at POLA CHEMICAL INDUSTRIES' Yokohama R&D Center and the other at the Fukuroi Factory	
Awards	● Fiscal 2017	Best IR Award, second time, following award in 2015 (Sponsor: Japan Investor Relations Association)
	● Fiscal 2017	Nikkei Annual Report Awards: Award for Excellence, third time and third consecutive year (Sponsor: Cross-Media Advertising & Business Bureau at Nikkei Inc.)
	● Fiscal 2018	Selected for MSCI Japan Empowering Women Index (WIN)
	● Fiscal 2018	Selected as constituent stock in JPX-Nikkei Index 400
	● Fiscal 2018	Included in "Companies with Greatest Improvement in IR" category (Sponsor: Japan Investor Relations Association)
	● Fiscal 2019	Seventh consecutive year at No. 1 in the "beauty and health shareholder perks that make women happy" category of a survey ranking the popularity of shareholder incentives as selected by readers (*Shitte Tokusuru Kabunushi Yutai* 2019 Edition ("Useful Information on Shareholder Perks"), published by Nomura Investor Relations Co., Ltd.)

Environmental Initiatives

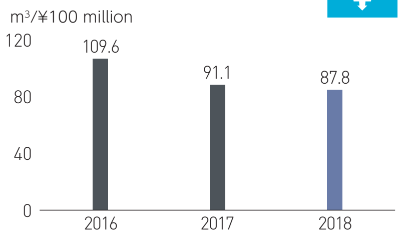
Looking ahead to 2029, which will mark the 100th anniversary of the POLA ORBIS Group, we are working to reduce CO_2 emissions, water consumption and waste output. We are using 2015 as the reference point, with a reduction target of 26% from the 2015 level by 2029 (per unit of sales) in each category. These targets have been approved by the Board of Directors, and each Group company is implementing measures to contribute to achieving the targets. Going forward, we will expand the scope of topics to encompass procurement of raw materials and logistics, and data will be tracked accordingly. In 2018, CO_2 emissions reached 17,057.5 t*[1], water consumption was 218,365 m^3 and total waste volume amounted to 1,495 t.

*1 Figure for CO_2 emissions is provisional because third-party certification is still in progress.

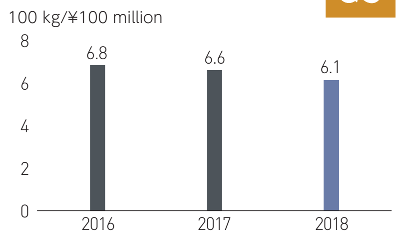
CO_2 Emissions



Water Consumption



Amount of Waste



*2 Current reference point based on unit of sales
*3 From 2018, CO_2 emissions from some facilities, such as directly operated stores, which were not included in the emissions tally summary, have been estimated and added to the total. Provisional figure because third-party certification is still in progress

Environment Promotion System

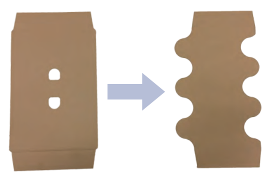
The environment promotion system is driven by the Group CSR Committee, under direction from the Board of Directors. Each company under the POLA ORBIS Group umbrella sets its own targets for reducing the environmental impact to help mitigate environment-related issues, and then the committee discusses content, monitors progress toward targets and gives the Board of Directors a status report every six months. Under CDP international evaluation standards, POLA ORBIS HOLDINGS received a B rating in the climate change program, with the effectiveness of management in corporate operations recognized. In 2019, the Company plans to obtain certification by a third party.

Dealing With Climate Change

Reducing CO_2 through fewer redeliveries

ORBIS, which sells its cosmetics by mail order, is expanding delivery by postal service in packages that can fit through mail slots or into mailboxes to avoid redelivery. Along with this change from home-delivery service to the postal service, the company has decreased the amount of packaging materials. By deciding the delivery method by the size of the package rather than the value of the order, ORBIS avoided redelivery of about 23,000 packages annually, which translated into a reduction of CO_2 equivalent to about 14 tons. In addition, lighter package weight with no negative impact on delivery quality helped the company cut packaging material volume by about 100 tons annually, equivalent to about 191 tons of CO_2 released during the production of cardboard.

Reduction in packaging materials



Efforts to Conserve Water

Aware that water is a precious resource, POLA ORBIS HOLDINGS seeks to reduce water consumption by 26% by 2029 (reference point, 2015; per unit of sales; Scope 1, 2). POLA CHEMICAL INDUSTRIES began following a more organized production plan and controlled the switching of lines, reducing the need for water to clean equipment. Also, better valves reduced cleaning per unit of time, enhancing efficiency. At Jurlique, rainwater was collected, mainly for use in toilets, cutting water consumption by about 10%.

Addressing issue of microplastic beads

Microplastic beads*[4] used in such products as face scrubs are thought to impact the environment. In 2018, use of microplastic beads in all products in the POLA ORBIS HOLDINGS portfolio ended, replaced by an alternative ingredient.

*4 Purposely incorporated into personal care products to exfoliate dead skin cells and promote cleansing. Synthetic, water-insoluble plastic particles smaller than 5 mm

Policy on animal welfare

The POLA ORBIS Group's policy*[5] is to refrain from animal testing and to establish alternative methods to ensure the safety of cosmetics, including quasi-drug products. This policy also covers providers of outsourced manufacturing services.

*5 Except in the event safety to the public is called into question or in the event a country or government requires animal testing to prove safety or effectiveness

Human Rights Initiatives

POLA ORBIS HOLDINGS specified in the Group philosophy a mission—"Sensitize the world to beauty"—that incorporates the idea of respecting individual sensitivities and values, and inspiring a sensitivity to beauty that improves people's lives, making them happier and more emotionally fulfilled. To realize this mission, the Company formulated in May 2018 the POLA ORBIS Group Human Rights Policy—"For appreciating each one to be one's self"—based on the United Nations Guiding Principles on Business and Human Rights, and will promote efforts to fulfill this responsibility Groupwide.

Began human rights due diligence

In 2018, POLA ORBIS HOLDINGS formulated a human rights policy for the Group. It states that companies under the Group umbrella will avoid infringing on human rights in business activities and will take appropriate action to rectify any negative impact on human rights that does occur in the course of business activities.

In 2018, a check of human resources- and labor-related rules for the Group revealed that some rules had to be amended. A rule on human rights due diligence was formulated, based on a resolution by the Board of Directors. In 2019, POLA ORBIS HOLDINGS will look at administrative operations other than those related to human resources and labor to make sure no issues with existing rules and the application of such rules exist.

Human rights education

POLA ORBIS HOLDINGS runs a course on human rights as part of its yearly CSR e-learning program. The course is aimed at executives and employees of the POLA ORBIS Group, all of whom have now completed it.

Completion certificate for a program about LGBT awareness

POLA ORBIS HOLDINGS also offers a class to facilitate understanding of LGBT (lesbian, gay, bisexual and transgender) issues.

System and helpline established

Each Group company has its own reporting structure for harassment-related issues, and POLA ORBIS HOLDINGS maintains a Groupwide helpline. A system is in place to handle reports or provide advice when, however remote the possibility, an incident of discrimination or harassment occurs or when a situation arises that threatens to undermine a safe, work-friendly environment. The Company and Group companies strive to quickly identify, address and correct problems.

In 2018, POLA ORBIS HOLDINGS set up on a trial basis a work-life helpline staffed by experts to help with family problems or issues specific to the individual for which Company intervention would be out of place. Since addressing concerns that people tend to suppress could boost work performance and lower the turnover rate, the Company will keep this helpline open in 2019 and evaluate the results.

Dialogue with stakeholders

Since 2017, POLA ORBIS HOLDINGS has participated in the Stakeholder Engagement Program, sponsored by Caux Round Table Japan (CRT Japan), a non-profit organization. Under this program, participating companies, experts in the field of human rights, representatives from non-profit and non-governmental organizations (NPOs and NGOs) and other business leaders delve deep into a wide range of human rights issues with an emphasis on human rights due diligence, required by the UN's Guiding Principles on Business and Human Rights. The program also draws together discussion on important human rights issues according to industry.

In September 2018, POLA ORBIS HOLDINGS took part in the 2018 Business and Human Rights Conference in Tokyo. The conference drew participation from overseas experts on human rights, NGOs and NPOs with a human rights focus along with many companies. It provided an opportunity to obtain updates on the latest global trends and observations concerning business and human rights and to hear about approaches being taken by other companies on human rights due diligence. Opinions were exchanged in a workshop setting.

Supply chain activities

In 2017, POLA ORBIS HOLDINGS formulated the Group CSR Procurement Policy and asked business partners for their cooperation in ensuring that procurement through supply chains poses no problem with regard to legal compliance, labor, the environment and human rights.

In 2018, Company-designed questionnaires went out to the primary suppliers of POLA and ORBIS cosmetics and to the primary suppliers of raw materials and packaging to POLA CHEMICAL INDUSTRIES to confirm their approaches to CSR. The questionnaires drew responses from 224 companies. In addition, field audits were conducted at business partner locations in 2017 and again in 2018.

Palm oil initiatives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Surfactants, emulsifiers and moisturizers in cosmetics are derived from palm kernel oil. The source is the oil palm tree grown primarily in Southeast Asia, whose cultivation has been indicated as a major cause of deforestation and human rights abuses in the area. Recognizing the potential for damage to the environment and the violation of human rights, the POLA ORBIS Group acknowledges the need to procure sustainable raw materials.

In 2018, we visited small-scale plantations in Malaysia to talk with operators and ask about local issues.

Going forward, companies within the POLA ORBIS Group that use palm oil will keep the discussion door open with related NGOs and suppliers and consider actions to lessen problems.

Support for Culture and Art

As a corporate group providing "beauty," the POLA ORBIS Group supports culture and art as a bridge to inner beauty, from the perspective that it is only with inner beauty and a spiritual richness that true beauty can be realized. The Group strives to deliver this message throughout Japan and around the world. Support is wide-ranging, from traditional Japanese culture to works that should be protected as world heritage and further to financial assistance for young artists who will represent Japan in the art world. These efforts contribute to a rich and peaceful society and improved cultural wealth.

Supporting the POLA Foundation for the Promotion of Traditional Japanese Culture

The POLA Foundation for the Promotion of Traditional Japanese Culture was established on POLA's 50th anniversary to help cultivate a rich social and cultural atmosphere in Japan, following the founder's vision that "true beauty can be realized only in combination with inner beauty and spiritual richness." The foundation focuses on activities to preserve, pass on and promote traditional craft techniques, traditional performing arts, folk entertainment and other expressions of traditional Japanese intangible culture.

One of the foundation's primary activities is its archive-creation program. In the years since the foundation was established, 49 intangible cultural assets designated by the national government have been documented. A documentary on Kazumi Murose was well received, taking a best picture award for video teaching material and receiving official approval from Japan's Ministry of Education, Culture, Sports, Science and Technology. Mr. Murose is a living national treasure recognized for preserving important intangible cultural property in Japan, in this case, *maki-e*, a kind of traditional Japanese lacquerware. The film shows Mr. Murose at work, capturing the heart and soul that goes into the gold lacquering technique. The foundation's documentaries are not just for Japan but for overseas audiences as well, with one screened recently at Japonismes 2018* in Paris. The foundation is also actively promoting use of documentaries and organized a symposium in January 2019 that spotlighted spirituality and beauty and conveyed the essence of Japanese culture to many participants at Japonismes 2018. This was also the venue for a screening of *Kiraigo*, a documentary about Japanese folk entertainment.

*This large-scale, multi-discipline art and culture event is jointly organized by Japan and France to reveal aspects of beauty in Japanese culture that have remained rather hidden from the rest of the world.

Poster for Japonismes 2018 at theater venue

Support for the POLA Art Foundation

The POLA Art Foundation provides financial assistance to young artists, including those focusing on fine art, as well as to curators of fine art. In 2018, funds went to 40 projects, including overseas study trips by artists and research done by curators.

Since opening in 2002, at Hakone-machi, Kanagawa Prefecture, the POLA Museum of Art, which is run by the POLA Art Foundation, has displayed examples from its collection of some 10,000 works of art, including Western-style paintings, Japanese Western-style paintings, Japanese-style paintings, woodblock prints, Oriental ceramics, glasswork and cosmetic tools from ancient times to the present and from all points East and West. In 2017, to commemorate its 15th anniversary, the museum added on the Atrium Gallery, where the work of contemporary artists receiving assistance from the POLA Art Foundation can be showcased, and subsequently launched the Hiraku Project. The word *hiraku* is translated "open," here, in the sense of unrestricted possibilities in artistic expression and for the museum itself.

In October 2018, an interactive art appreciation program—Art Workshop for Business—went into full swing. The program earned high marks for enabling participants to acquire the ability to grasp underlying realities in business situations that are indispensable for success.


Art Workshop for Business

Activities of the POLA Research Institute of Beauty & Culture

The POLA Research Institute of Beauty & Culture was established in 1976 to study the perception of cosmetics as a component of beauty culture and to pursue themes from an academic perspective. Since then, the institute has collected materials on the culture of cosmetics from ancient to modern times, with an emphasis on Japan and Europe, and undertaken studies and research. Results and cultural assets obtained through research activities are made widely available to promote greater appreciation of the culture of cosmetics.

In 2018, the institute strengthened its connection with Shinagawa Ward, the district of Tokyo where the institute is headquartered, and took part in the local project Shinagawa Art Festival 2018. At "Edo Bijin no Yosooi," a presentation delving into the world of ukiyo-e woodblock prints, participants heard a lecture and then had the opportunity to experiment with *beni*, the vivid red lip color used by women of the Edo Period (1603–1868). The institute also pursues CSR activities that reflect corporate culture, such as efforts to assist on the Machi Aruki Tour ("walk around town tour"), sponsored by the Shinagawa Tourism Association. In other pursuits, the institute applies analyses of surveys on today's cosmetics and lifestyles as well as insights gleaned from research as the basis for talks at museums and other venues and lectures at universities.


Involved as sponsor at Shinagawa Art Festival 2018

Activities at the POLA Museum Annex

Since the establishment of POLA in 1929, the POLA ORBIS Group has supported the cultural aspect of beauty in Japan with products and services not only for beautiful skin but also for bringing out inner beauty, that is, sensitivity and a refined sense of beauty. Committed to the belief that a corporate culture deeply rooted in art is a vital management resource, the Group constantly supports cultural and artistic activities.

As part of the Group's philosophy, the POLA Museum Annex has a mission to promote activities that crystallize the idea of sensitizing the world to beauty. The annex strives to contribute to society with diverse exhibitions using contents from the POLA collection and examples of modern art and through support for culture and the arts, while infusing a new sense of values into the fabric of society through art. In addition, the annex supports up-and-coming artists with few places to showcase their talent in Japan and actively hosts avant-garde exhibitions.

Tomo Tanaka's Miniature World, "Face to Face"

From April 27 to May 27, 2018, the POLA Museum Annex presented Tomo Tanaka's Miniature World, "Face to Face," the first solo exhibition for miniaturist artist Tomo Tanaka. About 80 particularly popular handmade miniatures from the many pieces Mr. Tanaka has made were on display, making an impressive sight. Through various profile-raising approaches, including a sneak preview for members of the media where the artist himself talked about his work, the exhibition received airtime on many TV networks and coverage in newspapers and magazines. Thanks to the media coverage, this first-time exhibition for Mr. Tanaka attracted some 40,000 visitors during its one-month run. From the visitors' perspective too, the exhibition was a huge success, achieving a satisfaction rating above 90% in a visitors' survey.

"WE ARE LOVE photographed by LESLIE KEE"

From November 23 to December 24, 2018, the POLA Museum Annex was the venue for a photo exhibition titled "WE ARE LOVE photographed by LESLIE KEE," featuring the work of Singapore-born celebrity portrait photographer Leslie Kee. Mr. Kee is actively involved in efforts to raise awareness of SDGs—the United Nations sustainable development goals—and to educate the public about accepting and supporting lesbian, gay, bisexual and transgender (LGBT) people. "WE ARE LOVE" featured snapshots of more than 100 LGBT couples in bridal attire under the concept that all love is beautiful. This exhibition provided the annex with the opportunity to offer reception staff members and POLA ORBIS HOLDINGS employees a course on LGBT to ensure that staff members have an accurate understanding of LGBT issues. It also made people think about how to respond to such issues. One staff member came up with the idea of adopting gender-neutral signage for gallery washrooms. The event, which attracted a huge amount of attention from the media and social networking sites, was picked up even by Fashion Press, a popular site with more than three million followers, generating much positive feedback.


"WE ARE LOVE photographed by LESLIE KEE"

Five-Year Summary of Selected Financial Data

Years ended December 31	2014	2015	2016[*4]	2017	2018	2018
	Millions of yen (Except per share data)					Thousands of U.S. dollars[*1] (Except per share data)
Operating Results						
Net sales[*2]	¥198,094	¥214,788	¥218,482	¥244,335	¥248,574	$2,239,413
Beauty Care	184,475	200,570	202,446	227,133	231,207	2,082,955
POLA	99,571	109,352	116,126	144,012	150,183	1,353,006
ORBIS	52,302	56,354	55,857	53,066	51,051	459,925
Overseas Brands	22,476	22,334	15,665	15,075	12,428	111,967
Brands under Development	10,123	12,529	14,796	14,978	17,544	158,057
Real Estate	3,179	2,951	3,043	2,694	2,707	24,388
Others	10,440	11,266	12,992	14,507	14,659	132,071
Operating income	17,683	22,511	26,839	38,881	39,496	355,822
Beauty Care	16,535	21,290	25,904	38,121	38,294	344,995
POLA	8,583	12,302	16,993	28,584	32,574	293,466
ORBIS	10,792	11,197	11,279	9,080	9,340	84,148
Overseas Brands	(1,881)	(2,194)	(3,210)	(823)	(4,316)	(38,886)
Brands under Development	(958)	(15)	841	1,278	695	6,267
Real Estate	1,227	1,265	1,395	1,082	1,001	9,024
Others	472	293	(133)	(314)	796	7,172
Operating margin (%)	8.9	10.5	12.3	15.9	15.9	
Profit attributable to owners of parent	10,382	14,095	16,328	27,137	8,388	75,573
Financial Position						
Net assets	180,793	180,635	183,282	198,845	188,797	1,700,875
Total assets	224,536	235,734	228,845	252,567	244,596	2,203,571
Cash Flows						
Cash flows from operating activities	16,643	28,379	23,561	35,333	30,283	272,828
Cash flows from investing activities	(8,391)	(7,331)	16,379	(22,065)	(9,125)	(82,216)
Cash flows from financing activities	(3,661)	(13,896)	(10,030)	(12,945)	(20,127)	(181,332)
Cash and cash equivalents at end of year	39,111	45,843	75,458	75,944	76,462	688,855
Depreciation and amortization	6,948	6,528	6,787	6,551	7,075	63,747
Capital expenditure	8,257	12,074	8,127	8,885	10,514	94,724
Financial Indicators						
Equity ratio (%)	80.4	76.5	79.9	78.6	77.0	
Return on equity (%)	5.9	7.8	9.0	14.2	4.3	
Return on assets (%)	8.6	9.7	11.7	16.3	15.7	
Price-earnings ratio (times)	25.9	31.5	32.7	32.2	78.3	
Per Share Data[*3]						
Net income per share (¥/$)	46.95	63.73	73.83	122.70	37.93	0.34
Net assets per share (¥/$)	816.03	815.00	826.65	897.26	851.78	7.67
Cash dividends per share (¥/$)	46.75	37.5	50	70	80	0.72

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1 = ¥111.00 as of December 31, 2018.
*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 2014.
*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 2018, inbound spending by visitors to Japan was generally favorable from the annual perspective, but underlying demand shifted toward a slowdown. If the effect from inbound demand is excluded, the size of the domestic cosmetics market appeared to shrink. Overseas, the cosmetics market was characterized by brisk demand in Asia, particularly in China, and maintained gradual expansion.

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 another year of higher sales and income, on a consolidated basis.

Analysis of operating results: Comparison of fiscal 2018 and fiscal 2017

Net sales
Net sales edged up 1.7% over the fiscal 2017 level, to ¥248,574 million, reflecting strong performance by POLA, THREE and DECENCIA.

Cost of sales, and selling, general and administrative expenses
Cost of sales dipped 0.3% year on year, to ¥41,521 million. The cost of sales ratio—the cost of sales as a percentage of net sales—improved 0.3 percentage point, to 16.7%.

Selling, general and administrative expenses rose 2.3% from a year earlier, to ¥167,556 million, owing to higher expenses on increased sales of POLA-brand products, higher one-time expenses incurred by Jurlique and growth-oriented investment in new brands. The ratio of selling, general and administrative expenses to net sales improved from that of the previous year.

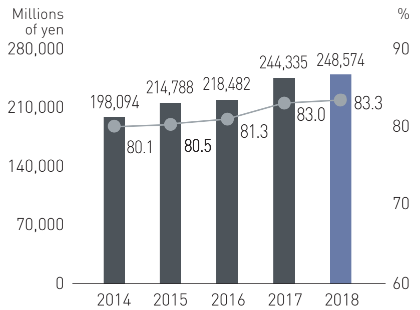
Operating income
Operating income increased 1.6% year on year, to ¥39,496 million, owing to higher gross profit that paralleled the increase in net sales. The operating margin held steady at 15.9%.

Income before income taxes
Income before income taxes tumbled 58.2%, to ¥16,064 million. The main reasons for this sizable drop were lower ordinary income and the booking of extraordinary losses, namely, impairment loss on fixed assets for the Jurlique brand and loss on business liquidation paralleling the decision to withdraw from the pharmaceuticals business.

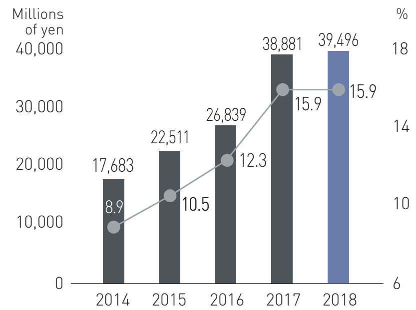
Profit attributable to owners of parent
Given the above reasons, profit attributable to owners of parent decreased 69.1% year on year, to ¥8,388 million. Net income per share dropped to ¥37.93, from ¥122.70, in fiscal 2017.

Return on equity declined to 4.3%, down from 14.2% a year earlier.

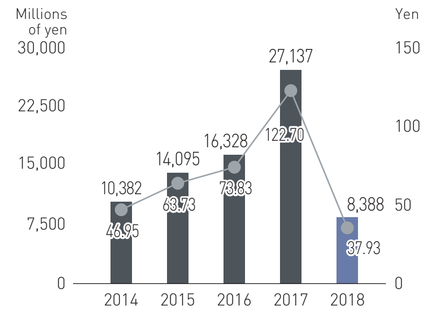
Net Sales and Gross Margin



Operating Income and Operating Margin



Profit Attributable to Owners of Parent and Net Income per Share



Notes: 1. Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment following revisions to accounting standards in Australia.
2. On April 1, 2017, the Company executed a four-for-one stock split. Net income per share has been calculated as if this stock split had occurred at the beginning of fiscal 2014.

Financial Section

Business segment performance

Beauty Care

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

At POLA, efforts were directed toward investing in and developing high-performance products and expanding the strategic store network to achieve deeper brand penetration and thereby reinforce the business platform and boost brand value. In the domestic market, in January 2018, the company revised the price of *Wrinkle Shot Serum*, Japan's first quasi-drug cosmetics product approved for "improving wrinkles." The popularity of *Wrinkle Shot Serum* increased the number of customers and created a cross-selling effect with other products. In October 2018, POLA invigorated its most prestigious *B.A* series with impression zone care products—products especially for facial features that attract attention and leave a memorable impression. New to the market are *B.A Eye Zone Cream*, which creates radiant definition around the eyes, and *B.A Lip Bar Serum*, which adds a touch of color, hydrates and firms for beautifully defined lips. POLA will continue to apply cutting-edge theories from its life science research and constantly bring new esthetic value to the market. In overseas markets, POLA launched *Wrinkle Shot Serum* in Hong Kong and Taiwan in June 2018, followed by Thailand in September 2018. The company began full-scale esthetic services in China, while raising brand value throughout Asia, culminating in favorable sales growth overall. As a result, the POLA brand achieved higher sales and operating income year on year.

At ORBIS, the emphasis was on reinforcing brand presence by differentiating brands and communicating an integrated message to the market in an effort to become a highly profitable business. In the domestic market, the company accelerated promotion with a focus on core products. In October 2018, ORBIS unveiled a new brand message—"Simply you. Simply beautiful"—and released a completely reimagined *ORBIS U* anti-aging skincare series. By hammering out a new ideal for the ORBIS brand and running aggressive promotional campaigns, the company attracted the interest of new customers. Overall, however, these efforts did not translate into higher domestic sales, leading to a year-on-year decrease in fiscal 2018. In overseas markets, ORBIS maintained growth in China. Nevertheless, in the end, net sales fell below the level posted the previous year. On a positive note, cost efficiency improved, leading to higher operating income.

In the overseas brand portfolio, business growth was the primary goal, with Jurlique focusing on Australia and Asia, and H2O PLUS on its home market, the United States. At Jurlique, the aim was to transition the company to a sales model firmly rooted in brands primed for long-term growth. However, sales were sluggish in China and Australia, dragging results down and causing sales to drop and the operating loss to worsen, compared with the results of the previous fiscal year. At H2O PLUS, the company withdrew the brand from major retail chains to try to standardize sales channels and saw decreases in shipments to key suppliers. These factors led to a drop in sales from the previous year, deepening the operating loss.

Brands under development posted year-on-year improvements in sales, again driven by brisk demand for THREE and DECENCIA. However, additional investment to grow the three new brands launched in 2018—Amplitude, ITRIM and FIVEISM x THREE—caused a year-on-year decrease in operating income.

All told, Beauty Care sales—sales to external customers—rose 1.8%, to ¥231,207 million, and operating income edged up 0.5%, to ¥38,294 million.

Real Estate

In the Real Estate business, the primary objectives are to at least maintain but ideally raise rents and shrink vacancy rates by creating 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 2018, sales were up over those of fiscal 2017, reflecting a review of tenant conditions, based on market prices, conditions surrounding other companies and efforts to boost the value of buildings. However, higher expenses on improvements to office environments led to a year-to-year decrease in operating income.

In the end, segment sales—sales to external customers—inched up 0.5%, to ¥2,707 million, and operating income fell 7.5%, to ¥1,001 million.

Others

The Others segment covers the pharmaceuticals and building maintenance businesses.

The pharmaceuticals business draws on results accumulated by Group companies in research related to cosmetics and quasi-drugs to develop, manufacture and sell new drugs, and to make pharmaceuticals for other companies on an outsourcing basis. In fiscal 2018, sales and operating income were up year on year. Also, in January 2019, POLA ORBIS HOLDINGS completed the transfer of all shares in POLA PHARMA INC., a consolidated subsidiary, and effectively withdrew from the pharmaceuticals business.

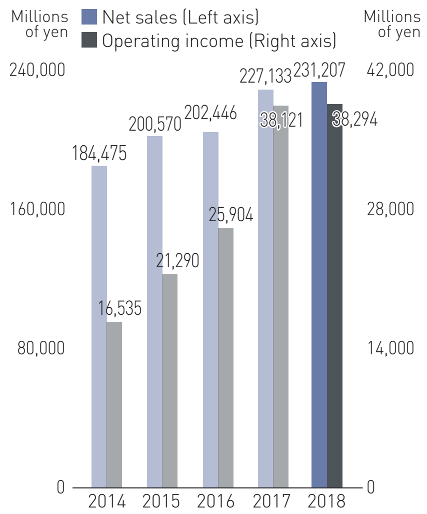
The building maintenance business handles the management and operation of buildings, primarily for Group companies. In fiscal 2018, despite an order for a large construction project, the business saw sales and operating income decline, as a challenging employment environment made it difficult to attract staff.

Given these results, the Others segment generated sales—sales to external customers—of ¥14,659 million, up 1.0% year on year. The segment reversed the operating loss position of fiscal 2017 with operating income of ¥1,110 million, up ¥796 million from a year earlier.

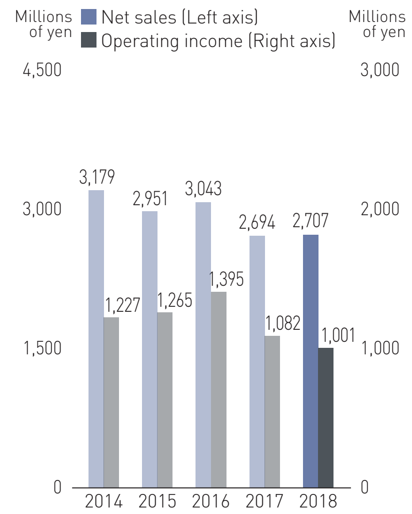
Key Financial Indicators

	2016	2017	2018
Cost of sales ratio	18.7%	17.0%	16.7%
Gross margin ratio	81.3%	83.0%	83.3%
SG&A ratio	69.0%	67.0%	67.4%
Personnel expenses	13.2%	12.2%	12.4%
Sales commissions	21.3%	22.0%	22.4%
Sales-related expenses	21.1%	20.7%	19.3%
Administrative and other expenses	13.3%	12.2%	13.3%
Operating margin	12.3%	15.9%	15.9%
Net income margin	7.5%	11.1%	3.4%

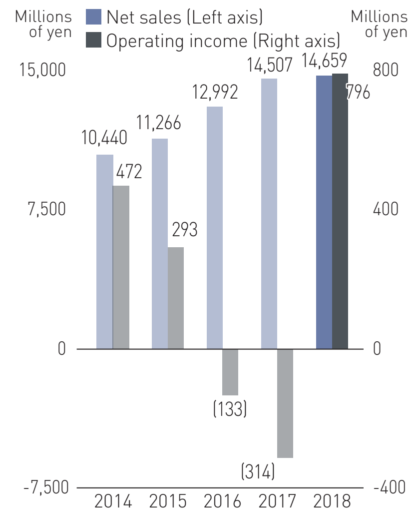
Beauty Care



Real Estate



Others



Analysis of financial position

Assets, liabilities and net assets

Assets

As of December 31, 2018, total assets stood at ¥244,596 million, down 3.2% from a year earlier. This change reflects increases of ¥3,294 million in merchandise and finished goods and ¥2,845 million in short-term deferred tax assets along with decreases of ¥2,150 million in notes and accounts receivable – trade, ¥883 million in goodwill due to the booking of impairment loss, ¥8,996 million in trademark rights and ¥687 million under other intangible assets.

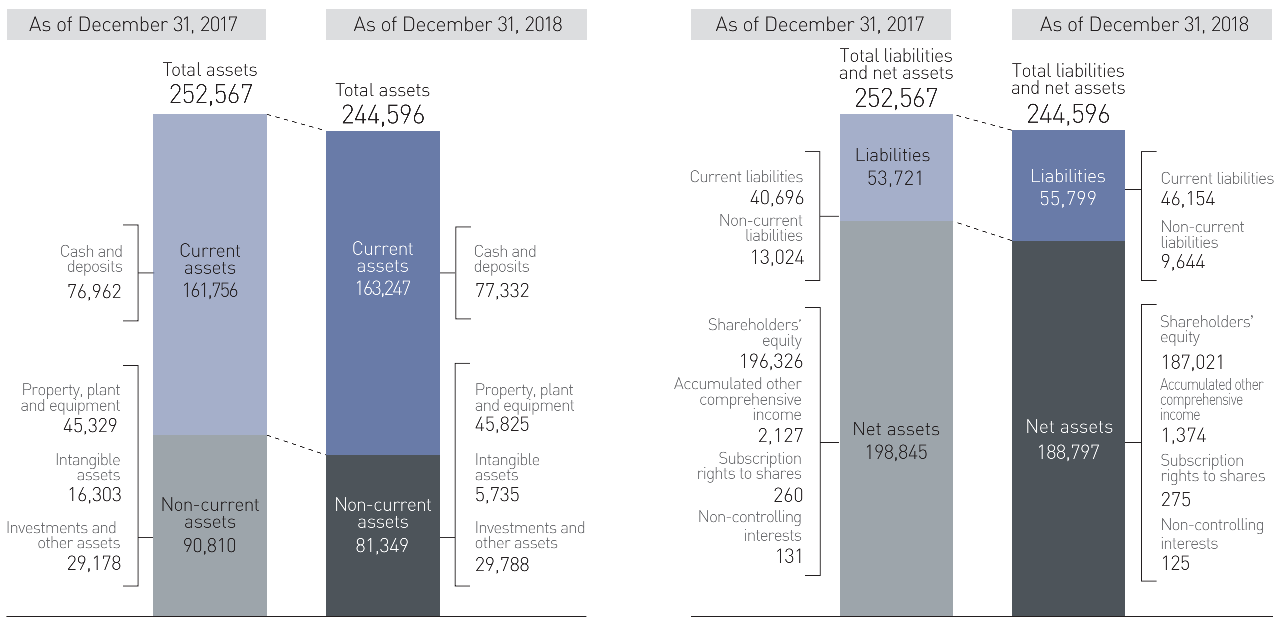
Liabilities

Total liabilities reached ¥55,799 million, as of December 31, 2018, up 3.9% from a year earlier. The primary factors leading to this change were an increase of ¥9,755 million in provision for loss on business liquidation and decreases of ¥849 million in notes and accounts payable – trade, ¥1,600 million in short-term loans payable and ¥2,972 million in long-term deferred tax liabilities.

Net assets

Net assets amounted to ¥188,797 million as of December 31, 2018, down 5.1% from a year earlier. A look at key components of this change shows that the asset total was buoyed by ¥8,388 million in profit attributable to owners of parent, but the increase was overshadowed by decreases of ¥865 million in foreign currency translation adjustments and ¥17,694 million in dividends from surplus.

Overview of Consolidated Balance Sheets



Cash flows

The balance of cash and cash equivalents as of December 31, 2018, was ¥76,462 million, up ¥518 million from the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities in fiscal 2018 amounted to ¥30,283 million, down 14.3% from a year earlier. Primary inflow factors contributing to this change were ¥16,064 million in income before income taxes, ¥7,075 million in depreciation and amortization, ¥11,426 million in impairment loss, ¥10,327 million in loss on business liquidation and ¥1,639 million in notes and accounts receivable-trade. Primary outflow factors were a decrease of ¥4,915 million in inventories and ¥11,583 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities came to ¥9,125 million, dropping 58.6% from a year earlier. The main factors contributing to the year-on-year change were an increase in net cash resulting from ¥20,884 million in proceeds from sales and redemption of short-term investments in securities and a decrease in net cash resulting from outflows of ¥1,000 million due to purchase of short-term investments in securities and ¥19,456 million due to purchase of investments in securities for management of surplus funds in line with investment plans, ¥6,363 million due to purchase of property, plant and equipment, and ¥2,783 million due to purchase of intangible assets.

Cash flows from financing activities

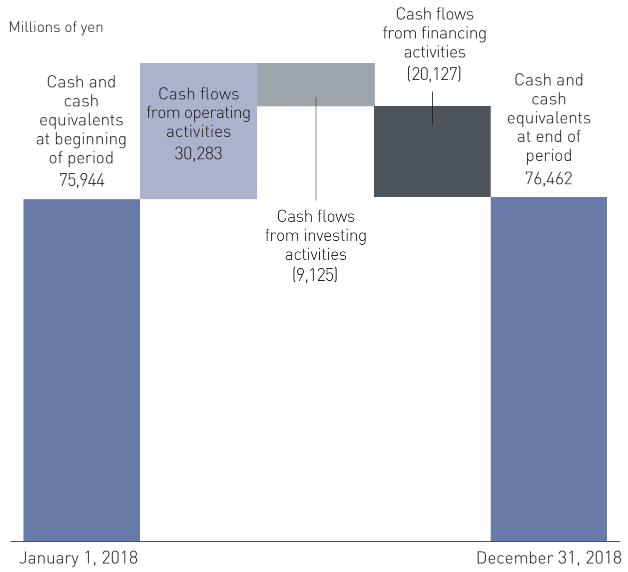
Net cash used in financing activities reached ¥20,127 million, jumping 55.5% from a year earlier. The main components of this change were ¥1,600 million to repay short-term loans and ¥17,694 million to pay out dividends.

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 new brands, including M&A opportunities. The goal is to generate future cash flow from these activities. Note that POLA ORBIS HOLDINGS strives to enhance capital efficiency on a Groupwide basis through a cash management system that centralizes subsidiaries' cash operations under Company oversight.

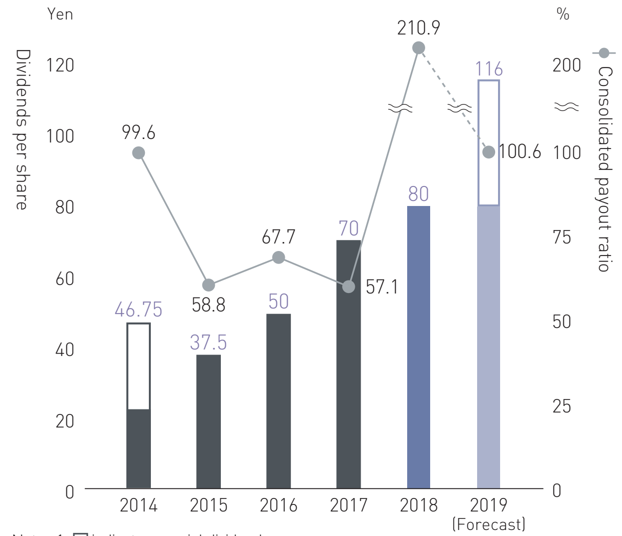
The Company adheres to fund management regulations and standards to ensure appropriate application of operating funds and surplus funds, respectively. The balance of cash and deposits stood at ¥77,332 million as of December 31, 2018, up ¥370 million from a year earlier.

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.

Annual Dividend and Consolidated Payout Ratio



Notes 1: □ indicates special dividend.
2: POLA ORBIS HOLDINGS executed a four-for-one stock split, effective April 1, 2017. Dividends prior to the stock split are based on the number of shares before the split.
3: Figures for the fiscal year ended December 31, 2016, reflect retroactive application due to changes in accounting standards in Australia.

Basic policy on profit distribution

Management recognizes the return of profit to shareholders as one of its top priorities and strives to enrich shareholder returns through stable profit growth. The basic policy on profit distribution continues to be to provide stable and continuous cash dividends, based on a consolidated payout ratio of at least 60%. In addition, the purchase of treasury stock will be considered on the basis of investment strategies, market prices and the liquidity of Company shares.

The Company distributes retained earnings twice a year, through an interim dividend and a year-end dividend. Article 454, Paragraph 5 of Japan's Companies Act and the Company's own Articles of Incorporation stipulate that the year-end dividend is to be approved at the general meeting of shareholders, while the interim dividend is to be set by the Board of Directors.

The Company paid a dividend of ¥80.00 per share for fiscal 2018, comprising an interim dividend of ¥35.00, and a year-end dividend of ¥45.00. The Company will invest internal reserves to reinforce the operating structure and fuel future business pursuits.

Business risks

Risks affecting business activities and other aspects of the POLA ORBIS Group that are considered crucial to the investment decisions of investors are described below. Unless otherwise noted, forward-looking statements in this description of business risks are assumptions and judgments made by management of the Group as of December 31, 2018.

① Damage to brand value

The Group has multiple brands, most notably POLA and ORBIS. Through conscientious business management and the supply of products and services designed to elicit customers' trust, each Group company responsible for a particular brand strives to maintain and enhance the respective brand's image. However, the operating results and financial position of the Group could be adversely affected if negative opinions and rumors about the Group's products and services were to spread, which could lead to loss of trust and impaired brand value.

② Competition within the Group

The Group adheres to a multi-brand, multi-channel sales strategy wherein new and existing brands are promoted according to target customer segment (demographic base), price bracket and sales channel, thereby minimizing direct competition between brands under the Group umbrella. However, competition within the Group may arise in the course of promoting Group strategies to maximize the value of existing brands and accelerate the process of multi-brand development, and such competition could adversely impact the operating results and financial position of the Group.

③ Securing sales partners (shop owners/managers and Beauty Directors)

POLA INC., the core company of the Group's Beauty Care segment, develops business through door-to-door sales based on consignment sales agreements. Securing sales partners under consignment sales agreements is an important activity for business expansion and something POLA constantly works on. However, if regulations under the Act on Specified Commercial Transactions are tightened or the labor environment changes and securing human resources becomes more difficult, the number of Beauty Director applicants may drop, creating the potential for a shortage of sales partners. Should this occur, the operating results and financial position of the Group could be adversely affected.

④ Strategic investment activities

The Company oversees the execution of strategic investments within the Group to expand operations abroad, particularly in the Asia-Pacific region, as well as M&A activities and new businesses. Information necessary for making decisions on strategic investment activities is collected and examined. However, the operating results and financial position of the Group could be adversely affected if results initially expected are not achieved due to unexpected situations, such as unforeseen changes in the operating environment.

Furthermore, operating assets and assets such as goodwill accompanying M&A activity may end up as impairment losses on the books, if anticipated cash flow fails to appear due to poor performances or a drop in market value.

⑤ Cosmetics market environment

The domestic cosmetics market has reached maturity. Against this backdrop, competition has intensified, fueled largely by the reorganization of corporate groups through M&As, the entry of new competitors into the market from different industries and the rising influence of distributors and retailers through alliances and integration. Consequently, the operating results and financial position of the Group could be adversely affected in the event that the Group cannot appropriately respond to unforeseen changes in the competitive environment.

⑥ Research & development

R&D is one source of the Group's competitive strength, and the Company intends to maintain investment in this area. R&D activities are undertaken in accordance with the annual R&D plan to ensure effective and efficient pursuits, but if the development of a new product is a long-term effort, the results may not be seen until years later. Also, in some cases, when anticipated results cannot be achieved, the development period may need to be extended or additional investment may be required, and in the end, a product still might not reach commercialization. Furthermore, even if a product does reach this stage, it may not necessarily find favor with customers because of uncertainties precipitated by any number of factors.

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

⑦ Manufacturing and quality assurance

Efforts are made to continuously secure at appropriate prices the volume of raw materials required to manufacture products by using diversified sources of supply and by maintaining good relationships with suppliers, under the supervision of divisions within the Group responsible for procuring raw materials. However, if an unexpected situation arose due to circumstances not of the Group's doing, the procurement of the necessary raw materials could be disrupted.

In addition, the Group's cosmetics are manufactured at two locations, in Japan at POLA CHEMICAL INDUSTRIES' Fukuroi Factory, in Shizuoka Prefecture, and in Australia at Jurlique's Mount Barker Factory, in South Australia. Steps are taken to ensure quality control practices and maintain quality. But if issues with product quality, however remote the possibility, were to arise, the operating results and financial position of the Group could be adversely affected.

⑧ Overseas business activities

The Group's main sales points are in Japan, but Group companies have expanded into the Asia-Pacific region, where demand is expected to continue to grow, and further development will be pursued in overseas markets.

Business activities in these overseas markets inherently carry the risk of social upheaval caused by economic instability, political unrest, labor problems, the outbreak of war, terrorist attacks and the spread of infectious diseases. The manifestation of such risks could adversely affect the operating results and financial position of the Group.

⑨ Currency exchange

Paralleling an increase in import/export transactions due to the Group's expansion overseas, foreign currency-denominated settlements as well as loans extended to overseas subsidiaries carry the risk of exchange rate fluctuation from a monetary materiality perspective. Additionally, since the local currency-denominated amounts reported by foreign consolidated subsidiaries are converted into yen when consolidated financial statements are prepared, changes in associated exchange rates may influence the operating results and financial position of the Group.

⑩ Limit of protection for intellectual property rights

Steps have been taken to protect the intellectual property rights of companies under the Group umbrella, but third parties could infringe upon such rights through means beyond what might be anticipated. Consequently, the business activities of the Group could be adversely affected by the misappropriation of technologies and the creation of counterfeit goods, and also, third-party intellectual property rights could be infringed upon by a member, or members, of the Group, albeit unknowingly.

⑪ Information security

All members of the Group carefully manage the handling of confidential information, including personal information and R&D information, through the implementation of internal audits, the use of an information security system, the establishment of an internal code of conduct and educational initiatives by the section in charge of CSR and various committees. However, if such information were leaked for any reason, the Company could face litigation and the reputation of the Company or the Group as a whole could be tarnished. This in turn could adversely affect the businesses of the Group.

⑫ Material litigation

Although no lawsuits with the potential to seriously impact the Group were filed in fiscal 2018, the operating results and financial position of the Group could be adversely affected in the event that material lawsuits are brought against a member, or members, of the Group in the future with judgments handed down that are disadvantageous to the Group.

⑬ Disasters

The Group's production base for cosmetics is the Fukuroi Factory, operated by POLA CHEMICAL INDUSTRIES. Therefore, product supply could be interrupted for a long period in the event of a large-scale earthquake in the Tokai region or some other major disaster.

Furthermore, unprecedented large-scale earthquakes as well as other natural disasters or accidents could occur in areas other than the Tokai region and interrupt the procurement of raw materials and components and the supply and sale of products, which could have an adverse effect on the operating results of the Group.

⑭ Spread of infectious diseases

Given that face-to-face contact between customers and business partners is characteristic of daily business activities within the Group, the spread of infectious diseases with significant social impact would necessitate voluntary suspension of service and sales activities and the closure of sales offices. In such a scenario, the operating results and financial position of the Group could be adversely affected not only in Japan but also overseas.

Fiscal 2019 forecast

The medium-term management plan that runs from 2017 to 2020 is the last stage of the Group's journey toward its long-term vision for 2020. To reach this destination, the Company has highlighted three strategies in the medium-term management plan to strengthen the Group's capabilities—improve profitability in Japan, promote a solid shift toward overall profitability from overseas operations and build a brand structure for next-generation growth.

The Company's performance forecast for fiscal 2019, on a consolidated basis, takes into account such corporate changes as the withdrawal from the pharmaceuticals business. POLA ORBIS HOLDINGS anticipates net sales of ¥241,000 million, down 3.0% year on year; operating income of ¥40,500 million, up 2.5%; ordinary income of ¥40,500 million, up 4.0%; and profit attributable to owners of parent of ¥25,500 million, soaring 204.0%.

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 2019 Forecast

		YoY change	
Millions of yen	FY2019 Full Year	Amount	Percentage
Net sales	241,000	(7,574)	(3.0)
Beauty Care	236,200	4,992	2.2
Real Estate	2,400	(307)	(11.3)
Others	2,400	(12,259)	(83.6)
Operating income	40,500	1,003	2.5
Beauty Care	40,600	2,305	6.0
Real Estate	800	(201)	(20.1)
Others	100	(696)	(87.4)
Reconciliations	(1,000)	(403)	—
Profit attributable to owners of parent	25,500	17,111	204.0

Financial Section

Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2018	2017	2018
Assets			
Current assets			
Cash and deposits (Notes 4 and 17)	¥ 77,332	¥ 76,962	$ 696,688
Notes and accounts receivable – trade (Note 17)	27,285	29,435	245,816
Short-term investments in securities (Notes 4, 17 and 18)	22,597	23,899	203,578
Merchandise and finished goods	17,034	13,740	153,466
Work in process	923	1,150	8,320
Raw materials and supplies	6,008	4,505	54,131
Deferred tax assets (Note 14)	7,230	4,385	65,143
Other	6,230	7,721	56,133
Allowance for doubtful accounts (Note 17)	(1,396)	(44)	(12,582)
Total current assets	163,247	161,756	1,470,694
Property, plant and equipment (Note 12)			
Buildings and structures	56,324	55,284	507,425
Machinery, equipment and vehicles	11,814	11,000	106,435
Land	14,675	13,069	132,209
Leased assets	7,579	7,245	68,282
Construction in progress	379	2,007	3,415
Other	17,555	16,954	158,155
Total property, plant and equipment	108,327	105,561	975,922
Accumulated depreciation	(62,502)	(60,232)	(563,081)
Net property, plant and equipment	45,825	45,329	412,841
Intangible assets			
Goodwill, net (Note 20)	—	883	—
Right of trademark	29	9,026	270
Other intangible assets, net	5,705	6,393	51,405
Net intangible assets	5,735	16,303	51,675
Investments and other assets			
Investments in securities (Notes 17 and 18)	22,737	21,943	204,846
Long-term loans receivable	71	55	643
Deferred tax assets (Note 14)	2,628	3,123	23,681
Other	4,610	4,139	41,537
Allowance for doubtful accounts (Note 17)	(260)	(83)	(2,345)
Total investments and other assets	29,788	29,178	268,362
Total non-current assets	81,349	90,810	732,877
Total assets	¥244,596	¥252,567	$2,203,571

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)
	2018	2017	2018
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 17)	¥ 5,519	¥ 6,369	$ 49,728
Short-term loans payable (Notes 6 and 17)	—	1,600	—
Lease obligations (Note 6)	731	738	6,588
Accounts payable – other (Note 17)	15,249	17,803	137,382
Income taxes payable	5,431	4,223	48,937
Provision for bonuses	1,585	1,589	14,281
Provision for directors' bonuses	40	43	367
Provision for sales returns	26	27	239
Provision for point program	3,547	3,678	31,963
Provision for loss on business liquidation	9,906	150	89,247
Other	4,115	4,472	37,076
Total current liabilities	46,154	40,696	415,808
Non-current liabilities			
Lease obligations (Note 6)	1,132	1,406	10,199
Net defined benefit liability (Note 7)	4,236	4,378	38,168
Provision for environmental measures	52	53	469
Deferred tax liabilities (Note 14)	—	2,972	—
Other	4,223	4,213	38,052
Total non-current liabilities	9,644	13,024	86,888
Total liabilities	55,799	53,721	502,696
Net assets (Note 8)			
Shareholders' equity			
Common stock			
Authorized: 800,000,000 shares			
Issued: 229,136,156 shares at December 31, 2018 and 229,136,156 shares at December 31, 2017	10,000	10,000	90,090
Capital surplus	90,240	90,240	812,981
Retained earnings	88,968	98,273	801,515
Treasury stock, at cost			
(7,956,853 shares at December 31, 2018 and 7,957,837 shares at December 31, 2017)	(2,188)	(2,188)	(19,712)
Total shareholders' equity	187,021	196,326	1,684,874
Accumulated other comprehensive income (Note 13)			
Unrealized gain on available-for-sale securities	2	8	25
Foreign currency translation adjustments	2,063	2,929	18,591
Remeasurements of defined benefit plans	(691)	(810)	(6,232)
Total accumulated other comprehensive income	1,374	2,127	12,384
Subscription rights to shares (Notes 8 and 23)	275	260	2,483
Non-controlling interests	125	131	1,134
Total net assets	188,797	198,845	1,700,875
Total liabilities and net assets	¥244,596	¥252,567	$2,203,571

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)
	2018	2017	2018
Net sales (Note 20)	¥248,574	¥244,335	$2,239,413
Cost of sales (Notes 9, 10 and 20)	41,521	41,632	374,071
Gross profit	207,052	202,703	1,865,342
Selling, general and administrative expenses (Notes 9, 11 and 20)	167,556	163,822	1,509,520
Operating income	39,496	38,881	355,822
Other income (expenses) (Notes 12 and 20)			
Interest and dividend income	209	230	1,889
Interest expenses	(59)	(69)	(537)
Foreign exchange gain (loss)	(834)	31	(7,514)
Gain on sales of non-current assets	2	624	21
Reversal of foreign currency translation adjustments	—	5	—
Gain on reversal of subscription rights to shares	26	—	235
Loss on disposal of non-current assets	(440)	(239)	(3,970)
Impairment loss (Note 20)	(11,426)	(404)	(102,944)
Loss on business liquidation	(10,327)	(413)	(93,037)
Loss on litigation	—	(365)	—
Other, net	(581)	150	(5,242)
	(23,432)	(450)	(211,100)
Income before income taxes	16,064	38,430	144,722
Income taxes (Note 14)			
Current	12,885	11,756	116,082
Deferred	(5,210)	(475)	(46,938)
	7,675	11,281	69,144
Net income	8,389	27,148	75,578
Net income attributable to non-controlling interests	0	11	5
Net income attributable to owners of parent	¥ 8,388	¥ 27,137	$ 75,573

Per share information (Note 21)	Yen		U.S. dollars (Note 3)
Basic net income per common share	¥ 37.93	¥ 122.70	$ 0.34
Diluted net income per common share	¥ 37.88	¥ 122.54	$ 0.34
Weighted average common shares outstanding (thousands of shares)	221,178	221,177	221,178
Cash dividends declared per common share	¥ 80.00	¥ 70.00	$ 0.72

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)
	2018	2017	2018
Net income	¥8,389	¥27,148	$75,578
Other comprehensive income (Note 13)			
Unrealized loss on available-for-sale securities	(6)	(3)	(55)
Foreign currency translation adjustments	(871)	592	(7,855)
Remeasurements of defined benefit plans	119	2	1,074
Total other comprehensive income (Note 13)	(758)	591	(6,836)
Comprehensive income	¥7,630	¥27,740	$68,742
Comprehensive income attributable to:			
Owners of parent	7,635	27,720	68,790
Non-controlling interests	¥ (5)	¥ 19	$ (49)

See notes to consolidated financial statements.

Financial Section

Consolidated Statements of Changes in Net Assets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

		Millions of yen							
	Common shares (Thousands) (Note 8)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 13)	Subscription rights to shares (Notes 8 and 23)	Non-controlling interests	Total net assets
Balance at January 1, 2017	229,136	¥10,000	¥90,731	¥ 82,747	¥(2,187)	¥1,544	¥214	¥ 231	¥183,282
Dividends from retained earnings				(11,611)					(11,611)
Net income attributable to owners of parent				27,137					27,137
Purchase of treasury stock					(0)				(0)
Disposal of treasury stock			0		0				0
Purchase of shares of consolidated subsidiaries			(490)						(490)
Change in unrealized gain (loss) on available-for-sale securities						(3)			(3)
Foreign currency translation adjustments						583			583
Remeasurements of defined benefit plans						2			2
Subscription rights to shares							45		45
Non-controlling interests								(100)	(100)
Balance at January 1, 2018	229,136	10,000	90,240	98,273	(2,188)	2,127	260	131	198,845
Dividends from retained earnings				(17,694)					(17,694)
Net income attributable to owners of parent				8,388					8,388
Purchase of treasury stock					(0)				(0)
Disposal of treasury stock			0		0				0
Purchase of shares of consolidated subsidiaries									—
Change in unrealized gain (loss) on available-for-sale securities						(6)			(6)
Foreign currency translation adjustments						(865)			(865)
Remeasurements of defined benefit plans						119			119
Subscription rights to shares							15		15
Non-controlling interests								(5)	(5)
Balance at December 31, 2018	229,136	¥10,000	¥90,240	¥ 88,968	¥(2,188)	¥1,374	¥275	¥ 125	¥188,797

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 13)	Subscription rights to shares (Notes 8 and 23)	Non-controlling interests	Total net assets
Balance at January 1, 2018	$90,090	$812,980	$ 885,350	$(19,714)	$19,167	$2,347	$1,183	$1,791,402
Dividends from retained earnings			(159,408)					(159,408)
Net income attributable to owners of parent			75,573					75,573
Purchase of treasury stock				(1)				(1)
Disposal of treasury stock		2		2				4
Purchase of shares of consolidated subsidiaries								—
Change in unrealized gain (loss) on available-for-sale securities					(55)			(55)
Foreign currency translation adjustments					(7,801)			(7,801)
Remeasurements of defined benefit plans					1,074			1,074
Subscription rights to shares						136		136
Non-controlling interests							(49)	(49)
Balance at December 31, 2018	$90,090	$812,981	$ 801,515	$(19,712)	$12,384	$2,483	$1,134	$1,700,875

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)
	2018	2017	2018
Cash flows from operating activities			
Income before income taxes	¥ 16,064	¥38,430	$ 144,722
Adjustments to reconcile income before income taxes to net cash flows from operating activities:			
Depreciation and amortization	7,075	6,551	63,747
Impairment loss	11,426	404	102,944
Amortization of goodwill	58	61	530
Increase (decrease) in allowance for doubtful accounts	1,623	(38)	14,630
Increase (decrease) in provision for point program	(129)	135	(1,171)
Increase (decrease) in other provisions	5	(49)	50
Increase (decrease) in net defined benefit liability	25	177	230
Interest and dividend income	(209)	(230)	(1,889)
Interest expenses	59	69	537
Foreign exchange losses (gains)	1,084	(413)	9,772
Reversal of foreign currency translation adjustments	—	(5)	—
Loss (gain) on sales of non-current assets	4	(599)	40
Loss on disposal of non-current assets	440	239	3,970
Loss on business liquidation	10,327	413	93,037
Loss on litigation	—	365	—
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	1,639	(3,373)	14,774
Decrease (increase) in inventories	(4,915)	(1,865)	(44,282)
Increase (decrease) in notes and accounts payable – trade	(921)	1,700	(8,300)
Increase (decrease) in consumption taxes payable	23	(1,024)	213
Decrease (increase) in other assets	891	529	8,032
Increase (decrease) in other liabilities	(2,559)	3,912	(23,058)
Other	(127)	80	(1,145)
Subtotal	41,889	45,470	377,382
Interest and dividends received	257	245	2,323
Interest paid	(59)	(73)	(535)
Income taxes paid	(11,583)	(9,943)	(104,356)
Payment for loss on litigation	—	(365)	—
Other	(220)	0	(1,986)
Net cash provided by operating activities	¥ 30,283	¥35,333	$ 272,828

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)
	2018	2017	2018
Cash flows from investing activities			
Payments into time deposits	¥ (245)	¥ (558)	$ (2,212)
Proceeds from withdrawal of time deposits	352	1,085	3,172
Purchase of short-term investments in securities	(1,000)	(10,900)	(9,009)
Proceeds from sales and redemption of short-term investments in securities	20,884	17,500	188,153
Purchase of property, plant and equipment	(6,363)	(5,727)	(57,326)
Proceeds from sales of property, plant and equipment	203	703	1,831
Purchase of intangible assets	(2,783)	(1,787)	(25,079)
Payments for disposal of non-current assets	(193)	(105)	(1,742)
Purchase of investments in securities	(19,456)	(21,912)	(175,288)
Purchase of long-term prepaid expenses	(384)	(191)	(3,467)
Payments for lease and guarantee deposits	(342)	(351)	(3,084)
Proceeds from collection of lease and guarantee deposits	281	153	2,533
Other	(77)	27	(697)
Net cash provided by (used in) investing activities	(9,125)	(22,065)	(82,216)
Cash flows from financing activities			
Decrease in short-term loans payable	(1,600)	—	(14,414)
Repayments of lease obligations	(833)	(725)	(7,508)
Cash dividends paid	(17,694)	(11,608)	(159,409)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(610)	—
Other	(0)	(0)	(1)
Net cash used in financing activities	(20,127)	(12,945)	(181,332)
Effect of exchange rate changes on cash and cash equivalents	(511)	163	(4,612)
Net increase (decrease) in cash and cash equivalents	518	486	4,668
Cash and cash equivalents at beginning of year (Note 4)	75,944	75,458	684,187
Cash and cash equivalents at end of year (Note 4)	¥ 76,462	¥ 75,944	$ 688,855

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 the inter-company transactions have been eliminated in consolidation.

There were 35 subsidiaries included in the scope of consolidation at December 31, 2018 (37 at December 31, 2017). During fiscal 2018, Elvaa International Group Limited ceased to exist due to the merger with Jurlique Hong Kong Limited and the liquidation procedures for Orlane Japon Inc. were completed. As a result, they were excluded from the scope of consolidation. There were no affiliated companies accounted for using the equity method at December 31, 2018 and 2017.

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

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. Goodwill is amortized using the straight-line method over 20 years. Negative goodwill is recognized in profit or loss in the period in which the business combination took place.

1.5. 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 which can easily be converted to cash and are subject to little risk of changes in value.

1.6. Inventories

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

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

1.7. Investments in securities

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

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

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

1.8. Derivatives

Derivatives are recorded at fair value.

1.9. 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 the foreign consolidated subsidiaries is calculated using the straight-line method based on the local accounting standards of each country.

The primary useful lives are as follows:

Buildings and structures	10—50 years
Machinery, equipment and vehicles	7—15 years

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

1.10. 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.

1.11. Leases

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

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

1.12. 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.

1.13. 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 2018 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 the 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 the employees.

1.14. 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 on an individual basis.

1.15. 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 the past return ratios.

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

Provision for loss on business liquidation
Provisions are set up to cover estimated future losses accompanying the termination of business.

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

1.16. Research and development costs

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

1.17. Income taxes

Income taxes are accounted for using the asset and liability approach. Deferred tax assets and liabilities are recognized in the accompanying consolidated financial statements with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

1.18. 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 221,178 thousand shares for fiscal 2018 (221,177 thousand shares for fiscal 2017). Diluted net income per share is computed for fiscal 2018 and fiscal 2017 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 conducted a stock split effective on April 1, 2017. Common stock of the Company held by shareholders has been split at a ratio of four shares for one share. As a result, for comparative purposes, net income per share and diluted net income per share for fiscal 2017 and net assets per share at December 31, 2017 were calculated assuming that the stock split was conducted at the beginning of fiscal 2017.

1.19. Foreign currency translation

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

All assets and liabilities of the foreign consolidated subsidiaries are translated into 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.

1.20. Amortization method and period of goodwill

Goodwill is amortized using the straight-line method over 20 years.

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

1.21.1. Accounting method for consumption tax and local consumption tax
The tax-exclusion accounting method is applied for consumption tax and local consumption tax.

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

Note 2 Changes in Accounting Policies

2.1. Accounting standards and guidance issued but not yet adopted

Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, issued on February 16, 2018)
Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, issued on February 16, 2018)

Summary: The accounting treatment related to future taxable temporary differences for mainly shares of subsidiaries in separate financial statements was modified. Additionally, the

Financial Section

accounting treatment related to recoverability of deferred tax assets in companies that qualify as Category 1 was clarified.
Effective date: This implementation guidance will become effective for the Group from the beginning of fiscal 2019.
Impact on consolidated financial statements: The Group is currently evaluating the impact of applying this implementation guidance on its consolidated financial statements.

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, issued on March 30, 2018)
Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, issued on March 30, 2018)

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.

2.2. Changes in presentation method

Consolidated Statements of Cash Flows

"Increase (decrease) in allowance for doubtful accounts" has been presented separately for the fiscal year ended December 31, 2018 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, 2017. The consolidated statement of cash flows for the previous fiscal year has been restated in order to reflect this change.

As a result, ¥(38) million of "Increase (decrease) in allowance for doubtful accounts" and ¥(49) million of "Increase (decrease) in other provisions" previously included as a part of ¥(88) million of "Increase (decrease) in other provisions" under "Operating activities" on the consolidated statement of cash flows for the previous fiscal year have been reclassified.

Note 3 U.S. Dollar Amounts

The accompanying consolidated financial statements are presented in yen, and solely for the convenience of readers outside Japan, certain amounts have been translated into U.S. dollars at the rate of U.S. $1= ¥111.0, the approximate rate of exchange prevailing at December 31, 2018. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such a rate.

Note 4 Cash Flow Information

4.1. Cash and cash equivalents consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2018	2017	2018
Cash and deposits	¥ 77,332	¥ 76,962	$ 696,688
Short-term investments in securities	22,597	23,899	203,578
Less:			
Time deposits with maturities exceeding three months	(869)	(1,017)	(7,834)
Stocks and bonds with maturities exceeding three months	(22,597)	(23,899)	(203,578)
Cash and cash equivalents	¥ 76,462	¥ 75,944	$ 688,855

4.2. Significant non-cash transactions

	Millions of yen		Thousands of U.S. dollars
December 31	2018	2017	2018
Assets and liabilities related to finance leases	¥553	¥883	$4,983
Asset retirement obligations	¥134	¥ 79	$1,210

Note 5 Contingent Liabilities

Contingent liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2018	2017	2018
Guarantees of loans			
Employees' mortgages	¥15	¥28	$137
Total	¥15	¥28	$137

Note 6 Short-term and Long-term Debt

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

	Millions of yen		Thousands of U.S. dollars
December 31	2018	2017	2018
Short-term loans payable	¥ —	¥ 600	$ —
Long-term loans payable - current portion	—	1,000	—
Lease obligations - current portion	731	738	6,588
Long-term loans payable	—	—	—
Lease obligations - long term	1,132	1,406	10,199
Total debt	¥1,863	¥3,745	$16,787

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

December 31	2018	Maturity
Lease obligations - current portion	2.24%	—
Long-term loans payable	—	—
Lease obligations - long term	2.46%	2020 to 2028

Financial Section

At December 31, 2018, 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
2020	—	—	¥567	$5,108
2021	—	—	355	3,203
2022	—	—	146	1,323
2023	—	—	¥ 41	$ 374

The details of asset retirement obligations are omitted and not included in the above table, because the balances at the beginning and at the end of fiscal 2018 are less than 1% of the total liabilities and net assets at the beginning and at the end of fiscal 2018, respectively.

Note 7 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 (including corporate officers). Certain domestic consolidated subsidiaries have joined multi-employer type defined contribution plans.

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

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

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

7.1. Defined benefit plans (including plans applying the simplified method)

7.1.1. Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
Years ended and at December 31	2018	2017	2018
Balance at the beginning of the year	¥10,726	¥10,646	$96,637
Service cost	733	730	6,604
Interest cost	33	34	300
Actuarial loss (gain)	(54)	47	(487)
Benefits paid	(976)	(732)	(8,801)
Other	(6)	1	(55)
Balance at the end of the year	¥10,456	¥10,726	$94,199

7.1.2. Movement in pension assets

	Millions of yen		Thousands of U.S. dollars
Years ended and at December 31	2018	2017	2018
Balance at the beginning of the year	¥6,348	¥6,438	$57,192
Expected return on pension assets	95	96	858
Actuarial gain (loss)	(16)	(65)	(149)
Contribution paid by the employer	320	328	2,889
Benefits paid	(528)	(450)	(4,759)
Balance at the end of the year	¥6,219	¥6,348	$56,031

7.1.3. 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	2018	2017	2018
Funded retirement benefit obligations	¥ 9,559	¥ 9,829	$ 86,122
Pension assets	(6,219)	(6,348)	(56,031)
	3,340	3,480	30,091
Unfunded retirement benefit obligations	896	897	8,077
Total net liability for retirement benefits in the consolidated balance sheets	4,236	4,378	38,168
Net defined benefit liability	4,236	4,378	38,168
Total net liability for retirement benefits in the consolidated balance sheets	¥ 4,236	¥ 4,378	$ 38,168

7.1.4. Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2018	2017	2018
Service cost	¥733	¥730	$6,604
Interest cost	33	34	300
Expected return on pension assets	(95)	(96)	(858)
Amortization of net actuarial loss (gain)	180	135	1,630
Amortization of past service cost	(51)	(14)	(465)
Other	176	37	1,590
Total retirement benefit costs	¥977	¥826	$8,802

(1) The expenses calculated under the simplified accounting method were included in "Service cost."
(2) ¥194 million (U.S. $1,754 thousand) in fiscal 2018 and ¥28 million in fiscal 2017, which exceeded the provisions for additional lump sum retirement payment and lump sum retirement payment, were recorded under "Other."

7.1.5. 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:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2018	2017	2018
Actuarial loss (gain)	¥218	¥22	$1,968
Past service cost	(51)	(14)	(465)
Total	¥166	¥ 7	$1,502

7.1.6. 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:

	Millions of yen		Thousands of U.S. dollars
December 31	2018	2017	2018
Unrecognized actuarial loss	¥963	¥1,181	$8,681
Unrecognized past service cost	(10)	(62)	(94)
Total	¥953	¥1,119	$8,587

7.1.7. Items related to pension assets

7.1.7.1. Pension assets comprise

Years ended December 31	2018	2017
Life insurance general accounts	100%	100%

7.1.7.2. 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.

7.1.8. Items related to actuarial assumptions

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

Years ended December 31	2018	2017
Discount rate	0.6%	0.6%
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, 2018.

7.2. Defined contribution pension plans

Consolidated subsidiaries' required contributions to defined contribution pension plans were ¥26 million (U.S. $237 thousand) in fiscal 2018 (¥31 million in fiscal 2017).

Note 8 Net Assets

Information regarding changes in net assets is summarized as follows:

8.1. Shares issued and outstanding / Treasury stock

	Common stock	
Shares	Shares issued	Treasury stock
Balance at January 1, 2017	57,284,039	1,989,510
Increase	171,852,117	5,968,807
Decrease	—	480
Balance at January 1, 2018	229,136,156	7,957,837
Increase (note)	—	16
Decrease (note)	—	1,000
Balance at December 31, 2018	229,136,156	7,956,853

Note: Treasury stock
Increase due to purchase of shares less than one unit: 16
Decrease due to the exercise of stock option rights: 1,000

8.2. Subscription rights to shares

Year ended December 31, 2018

			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, 2018	
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥275	$2,483
	Total		—	—	—	—	¥275	$2,483

Year ended December 31, 2017

			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, 2017
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥260
	Total		—	—	—	—	¥260

8.3. Dividends

8.3.1. Dividends paid in fiscal 2018

Year ended December 31, 2018

		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 27, 2018	Common stock	¥9,953	$89,667	¥45.00	$0.41	December 31, 2017	March 28, 2018
Board of Directors' Meeting on July 30, 2018	Common stock	¥7,741	$69,741	¥35.00	$0.32	June 30, 2018	September 7, 2018

8.3.2. Dividends paid in fiscal 2017

Year ended December 31, 2017

		Millions of yen	Yen		
Resolution	Type of shares	Total dividends	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 29, 2017	Common stock	¥6,082	¥110.00	December 31, 2016	March 30, 2017
Board of Directors' Meeting on July 31, 2017	Common stock	¥5,529	¥ 25.00	June 30, 2017	September 8, 2017

8.3.3. Dividends with the record date in fiscal 2018 and the effective date in fiscal 2019

Year ended December 31, 2018

			Millions of yen	Thousands of U.S. dollars	Yen	U.S. dollars		
Resolution	Type of shares	Source of dividends	Total dividends	Total dividends	Dividends per share	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 26, 2019	Common stock	Capital surplus	¥9,953	$89,667	¥45.00	$0.41	December 31, 2018	March 27, 2019

Financial Section

8.3.4. Dividends with the record date in fiscal 2017 and the effective date in fiscal 2018

Year ended December 31, 2017

			Millions of yen	Yen		
Resolution	Type of shares	Source of dividends	Total dividends	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 27, 2018	Common stock	Retained earnings	¥9,953	¥45.00	December 31, 2017	March 28, 2018

Note 9 Research and Development Costs

Research and development costs of ¥5,009 million (U.S. $45,130 thousand) and ¥5,322 million were expensed for fiscal 2018 and 2017, respectively, as incurred, and included in selling, general and administrative expenses and cost of sales.

Note 10 Cost of Sales

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2018	2017	2018
Reversal of provision for sales returns	¥27	¥37	$248
Provision for sales returns	¥26	¥27	$238

Note 11 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2018	2017	2018
Sales commission	¥ 55,664	¥ 53,851	$ 501,479
Promotion expenses	24,518	26,595	220,891
Packing and transportation expenses	5,217	4,857	47,000
Advertising expenses	12,584	12,792	113,376
Provision of allowance for doubtful accounts	1,621	26	14,608
Provision for point program	3,379	3,595	30,443
Salaries, allowances and bonuses	22,752	22,395	204,975
Welfare expenses	4,271	4,060	38,485
Retirement benefit expenses	894	786	8,061
Provision for bonuses	1,532	1,375	13,805
Depreciation and amortization	4,945	4,717	44,553
Amortization of goodwill	58	61	530
Other	30,115	28,705	271,314
Total	¥167,556	¥163,822	$1,509,520

Note 12 Other Income (Expenses)

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2018	2017	2018
Land	¥—	¥622	$—
Others	2	1	21
Total	¥ 2	¥624	$21

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2018	2017	2018
Buildings and structures	¥165	¥127	$1,489
Machinery, equipment and vehicles	7	21	67
Removal and demolition	216	52	1,954
Others	51	39	460
Total	¥440	¥239	$3,970

12.3. Impairment loss consists of the following:

Year ended December 31, 2018

			Millions of yen	Thousands of U.S. dollars
Location	Function	Type	2018	2018
Japan	Stores and offices	Buildings and structures, Leased assets, Property, plant and equipment (Other), Intangible assets (Other) and Investments and other assets (Other)	¥ 110	$ 992
Australia, Singapore, Thailand, Korea, etc.	Stores	Buildings and structures	375	3,380
Australia	Factories and business assets	Buildings and structures, Machinery, equipment and vehicles, Leased assets, Property, plant and equipment (Other), Goodwill, Right of trademark and Intangible assets (Other)	10,880	98,026
Japan	Pharmaceuticals business office	Property, plant and equipment (Other) and Intangible assets (Other)	60	545
Total			¥11,426	$102,944

(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 amounts of each asset group to its recoverable amount, and the difference was recognized as an impairment loss under other income (expenses).

Regarding factories and business assets, the Group carried out an impairment test in accordance with International Financial Reporting Standards. As the financial results of the Jurlique Group in recent years were behind the original business plan, the corresponding assets were written down to their recoverable amount. The difference was recognized as an impairment loss under other income (expenses) after excluding the accumulated amount of amortization already recognized under accounting principles generally accepted in Japan.

(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 grouped by company unit.

(3) Calculation methods of recoverable amount

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

The value-in-use for factories and business assets is calculated by discounting future cash flows at between 9.53 and 10.78%. For other properties, the value-in-use is assessed at zero as future cash flows are not expected.

Non-current assets held for sale were measured at fair value less costs to sell based on expected salable amount.

Year ended December 31, 2017			Millions of yen
Location	Function	Type	2017
Japan	Stores	Buildings and structures Property, plant and equipment (Other)	¥118
Singapore	Stores	Buildings and structures Property, plant and equipment (Other)	3
Japan	Non-current assets for operation	Property, plant and equipment (Other)	68
Australia	Non-current assets held for sale	Buildings and structures	66
Japan	Office and laboratory for pharmaceuticals business	Buildings and structures Property, plant and equipment (Other)	148
Total			¥404

(1) Background of recognizing impairment loss

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

(2) Grouping method of assets

Stores, offices and laboratory of the pharmaceuticals business are operated and managed by business divisions that regularly record their income and expenses. The assets are grouped by store, office and laboratory of the pharmaceuticals business. Non-current assets for operation are grouped by business for which the income and expenses are recorded and managed regularly. Non-current assets held for sale are grouped by individual assets.

(3) Calculation methods of recoverable amount

The recoverable amount for stores, office and laboratory of the pharmaceuticals business was measured by value-in-use based on future cash flows. Non-current assets held for sale were measured by fair value less costs to sell based on expected salable amount.

12.4. Loss on business liquidation

Loss on business liquidation in fiscal 2018 was the estimated amount related to the share transfer of POLA PHARMA INC., which was resolved on November 26, 2018 by the Board of Directors. Loss on business liquidation in fiscal 2017 was the cost related to the liquidation and dissolution of Orlane Japon Inc., which was resolved on October 20, 2017 by the Board of Directors.

Note 13 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	2018	2017	2018
Unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	¥ 1	¥ 14	$ 12
Reclassification adjustment	(10)	(19)	(92)
Amount before tax effect	(8)	(4)	(80)
Tax effect	2	1	25
Unrealized gain (loss) on available-for-sale securities, net of tax	(6)	(3)	(55)
Foreign currency translation adjustments			
Amount arising during the year	(871)	549	(7,855)
Reclassification adjustment	—	(5)	—
Amount before tax effect	(871)	544	(7,855)
Tax effect	—	47	—
Foreign currency translation adjustments	(871)	592	(7,855)
Remeasurements of defined benefit plans			
Amount arising during the year	37	(113)	337
Reclassification adjustment	129	120	1,165
Amount before tax effect	166	7	1,502
Tax effect	(47)	(4)	(429)
Remeasurements of defined benefit plans	119	2	1,074
Total other comprehensive income	¥(758)	¥ 591	$(6,836)

Note 14 Income Taxes

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

	Millions of yen		Thousands of U.S. dollars
December 31	2018	2017	2018
Deferred tax assets:			
Provision for bonuses	¥ 439	¥ 442	$ 3,961
Net defined benefit liabilities	1,283	1,307	11,567
Loss on valuation of inventories	546	455	4,920
Impairment loss	3,173	2,981	28,590
Loss on business liquidation	3,641	—	32,806
Provision for point program	1,091	1,137	9,832
Unrealized inter-company profit	1,687	1,486	15,200
Tax loss carry-forwards	8,234	8,577	74,181
Tax loss carry-forwards on liquidation of subsidiary	515	117	4,648
Enterprise tax payable	398	363	3,586
Asset retirement obligations	766	757	6,904
Other	1,271	1,133	11,451
Less valuation allowance	(12,941)	(10,530)	(116,593)
Total deferred tax assets	10,106	8,228	91,052
Deferred tax liabilities:			
Unrealized gain (loss) on available-for-sale securities	(1)	(3)	(11)
Restoration cost for asset retirement obligations	(228)	(239)	(2,061)
Right of trademark and other intangible assets	—	(3,174)	—
Other	(17)	(274)	(156)
Total deferred tax liabilities	(247)	(3,691)	(2,228)
Deferred tax assets, net	¥ 9,859	¥ 4,536	$ 88,824

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

Years ended December 31	2018	2017
Statutory income tax rate	30.9%	30.9%
Expenditure not allowable for income tax purposes (Entertainment expense, etc.)	0.7	0.3
Per capita inhabitants' tax	0.4	0.2
Increase (decrease) in valuation allowance	22.6	(0.3)
Amortization of goodwill	0.1	0.0
Impairment loss	1.4	—
Book value adjustment of investments	(6.8)	—
Tax credits for research and development costs	(2.3)	(1.7)
Other	0.8	0.0
Effective income tax rate	47.8%	29.4%

Note 15 Leases

(As a lessee)

15.1. Finance leases that do not transfer ownership

The finance leases entered into on or after January 1, 2009 are capitalized. They primarily consist of interior furniture and fixtures for retail stores included in buildings and structures or other property, plant and equipment, and are depreciated using the straight-line method over the lease term with zero residual value. Interest expense is calculated as the difference between the aggregate lease payments and the acquisition cost of leased assets, allocated over the lease term using the effective interest method.

At December 31, 2018, there was no information applicable for finance leases entered into on or prior to December 31, 2008 to be disclosed.

15.2. Operating lease transactions

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

	Millions of yen		Thousands of U.S. dollars
December 31	2018	2017	2018
Due within 1 year	¥ 4	¥ 5	$ 41
Due after 1 year	8	13	81
Total	¥13	¥18	$122

Note 16 Investment and Rental Property

16.1. Overview

The Group owns office buildings and residential properties for lease in Tokyo and other areas. Net rental income was ¥1,069 million (U.S. $9,634 thousand) in fiscal 2018, (¥1,341 million in fiscal 2017). (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.)

16.2. Fair value of investment properties

The carrying amount on the consolidated balance sheets, net changes, 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
		2018	2017	2018
Carrying amount				
	At beginning of year	¥16,915	¥17,752	$152,392
	Movement during the year	1,473	(837)	13,274
	At end of year	18,388	16,915	165,666
Fair value at end of year		¥54,985	¥47,486	$495,361

Financial Section

(1). The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.
(2). Components of change
Increase:
In fiscal 2018: Acquisition of office buildings for lease and land: ¥1,789 million (U.S. $16,118 thousand)
Refurbishment of office buildings for lease: ¥210 million (U.S. $1,893 thousand)
In fiscal 2017: Refurbishment of office buildings for lease: ¥189 million
Decrease:
In fiscal 2018: Depreciation on office buildings, residential properties and other properties for lease:
¥653 million (U.S. $5,888 thousand)
In fiscal 2017: Sale of land for lease and idle property: ¥84 million
Depreciation on office buildings, residential properties and other properties for lease: ¥523 million
(3). Method for calculating fair values
The fair values of major properties are determined by the amounts using appraisal certificates provided by independent real estate assessors. For other properties, however, the fair value of land is determined by the amount adjusted using the indices considered to properly reflect market price, and the fair values of depreciable assets such as buildings are determined by the carrying amounts on the consolidated balance sheets.

Note 17 Financial Instruments

17.1. Overview of financial instruments

17.1.1. Policies on financial instruments

The Group only utilizes low risk, short-term financial instruments for cash management, and it raises funds through borrowings from banks and by issuing corporate bonds in the capital market. Derivative transactions are executed and managed to hedge the risks arising from foreign currency-denominated trade receivables. In accordance with the Group's policy, derivatives are not used for speculative purposes.

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

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

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

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

The interest-bearing liabilities mainly include loans payable and lease obligations. Loans payable are mainly funding for operating transactions, and lease obligations are mainly funding for capital investments. Despite loans payable with floating interest rates being exposed to the risk of interest rate fluctuations, all of them 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 on a monthly basis.

The Group uses foreign exchange forward contract to hedge the risk of exchange rate fluctuations of foreign currency-denominated trade receivable. The derivative transactions are executed and managed in accordance with internal policies that define transaction limits. To reduce credit risk, the Group limits the transactions with highly creditworthy financial institutions.

17.1.3. 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.

17.2. Fair value of financial instruments

The carrying amount, 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		
	2018		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 77,332	¥ 77,332	—
(ii) Notes and accounts receivable – trade (*1)	25,888	25,888	—
(iii) Investments in securities:			
Held-to-maturity securities	45,196	44,486	¥(709)
Total assets	148,417	147,708	(709)
Liabilities			
(i) Notes and accounts payable – trade	5,519	5,519	—
(ii) Short-term loans payable	—	—	—
(iii) Accounts payable – other	15,249	15,249	—
Total liabilities	20,769	20,769	—
Derivatives (*2)	¥ (7)	¥ (7)	—

	Millions of yen		
	2017		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 76,962	¥ 76,962	—
(ii) Notes and accounts receivable – trade (*1)	29,391	29,391	—
(iii) Investments in securities:			
Held-to-maturity securities	45,808	45,673	¥(134)
Total assets	152,162	152,027	(134)
Liabilities			
(i) Notes and accounts payable – trade	6,369	6,369	—
(ii) Short-term loans payable	1,600	1,600	—
(iii) Accounts payable – other	17,803	17,803	—
Total liabilities	25,773	25,773	—
Derivatives (*2)	¥ 10	¥ 10	—

December 31	Thousands of U.S. dollars 2018 Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	$ 696,688	$ 696,688	—
(ii) Notes and accounts receivable – trade (*1)	233,234	233,234	—
(iii) Investments in securities:			
Held-to-maturity securities	407,176	400,781	$(6,395)
Total assets	1,337,098	1,330,703	(6,395)
Liabilities			
(i) Notes and accounts payable – trade	49,728	49,728	—
(ii) Short-term loans payable	—	—	—
(iii) Accounts payable – other	137,382	137,382	—
Total liabilities	187,111	187,111	—
Derivatives (*2)	$ (72)	$ (72)	—

(*1) Notes and accounts receivable - trade are presented net of allowance for doubtful accounts.
(*2) Receivables and payables arising from derivative transactions are presented as a net amount. Amounts in parentheses represent net payables.

(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 the short-term investments in securities, their fair values approximate carrying value.

For the notes related to securities for holding purpose, please refer to Note 18 "Investments in Securities."

Liabilities

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

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

Derivatives

The fair value of derivatives is based on the price provided by counterparty financial institutions.

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

December 31	Millions of yen 2018 Carrying amount	Millions of yen 2017 Carrying amount	Thousands of U.S. dollars 2018 Carrying amount
Unlisted stock	¥134	¥ 0	$1,207
Capital contribution to investment in a limited partnership	4	34	41
Total	¥138	¥34	$1,249

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:

December 31	Millions of yen 2018 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	¥ 77,332	—	—	—
Notes and accounts receivable – trade	25,888	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	¥ 3,134	—	—
Held-to-maturity debt securities (other)	22,597	19,464	—	—
Available-for-sale securities with maturities (other)	4	—	—	—
Total	¥125,823	¥22,599	—	—

December 31	Millions of yen 2017 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	¥ 76,962	—	—	—
Notes and accounts receivable – trade	29,391	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	¥ 300	—	—
Held-to-maturity debt securities (other)	23,899	21,608	—	—
Available-for-sale securities with maturities (other)	—	34	—	—
Total	¥130,253	¥21,943	—	—

December 31	Thousands of U.S. dollars 2018 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	$ 696,688	—	—	—
Notes and accounts receivable – trade	233,234	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	$ 28,241	—	—
Held-to-maturity debt securities (other)	203,578	175,357	—	—
Available-for-sale securities with maturities (other)	41	—	—	—
Total	$1,133,541	$203,598	—	—

(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 2018.

December 31	Millions of yen 2017 Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Short-term loans payable	¥1,600	—	—	—	—	—
Total	¥1,600	—	—	—	—	—

Financial Section

Note 18 Investments in Securities

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

	Millions of yen					
	2018			2017		
December 31	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	¥ 600	¥ 600	¥ 0	¥ 300	¥ 301	¥ 1
Other	1,707	1,708	0	13,993	14,020	26
Subtotal	2,307	2,309	1	14,293	14,321	28
Securities with carrying amount exceeding fair value						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	2,534	2,526	(8)	—	—	—
Other	40,353	39,650	(703)	31,514	31,352	(162)
Subtotal	42,888	42,176	(711)	31,514	31,352	(162)
Total	¥45,196	¥44,486	¥(709)	¥45,808	¥45,673	¥(134)

	Thousands of U.S. dollars		
	2018		
December 31	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount			
Government and municipal bonds	—	—	—
Corporate bonds	$ 5,405	$ 5,414	$ 9
Other	15,386	15,394	8
Subtotal	20,791	20,808	17
Securities with carrying amount exceeding fair value			
Government and municipal bonds	—	—	—
Corporate bonds	22,835	22,758	(77)
Other	363,549	357,215	(6,335)
Subtotal	386,385	379,973	(6,412)
Total	$407,176	$400,781	$(6,395)

Note 19 Derivatives

19.1. Currency-related derivative transactions for which hedge accounting was not applied.

		Millions of yen				Thousands of U.S. dollars			
		2018							
Classification	Derivative transactions	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain (loss)	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transaction	Foreign exchange forward contracts:								
	Buying								
	Australian dollar	¥88	—	¥(7)	¥(7)	$800	—	$(72)	$(72)
Total		¥88	—	¥(7)	¥(7)	$800	—	$(72)	$(72)

Note: Fair value was calculated based on the price provided by the counterparty financial institution.

		Millions of yen			
		2017			
Classification	Derivative transactions	Contract amount	Contract amount over 1 year	Fair value	Unrealized gain (loss)
Over-the-counter transaction	Foreign exchange forward contracts:				
	Buying				
	Australian dollar	¥872	¥100	¥10	¥10
Total		¥872	¥100	¥10	¥10

Note: Fair value was calculated based on the price provided by the counterparty financial institution.

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 businesses are conducted to contribute to the Group's profits.

Therefore, reportable segments consist of the Beauty Care business, the Group's core business, and the Real Estate business, which indirectly supports the Group's core business.

The Beauty Care business manufactures and 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, Amplitude, ITRIM, FIVEISM × THREE*** and ***DECENCIA***. 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						
	2018						
	Reportable Segments			Others		Reconciliations	Consolidated total
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	(Note 1)	Subtotal	(Note 2)	(Note 3)
Net sales							
Sales to external customers	¥231,207	¥ 2,707	¥233,914	¥14,659	¥248,574	—	¥248,574
Inter-segment sales or transfers	73	508	582	2,673	3,256	¥ (3,256)	—
Total	231,281	3,215	234,497	17,333	251,831	(3,256)	248,574
Segment income	38,294	1,001	39,296	796	40,092	(596)	39,496
Segment assets	191,766	23,436	215,202	15,086	230,288	14,308	244,596
Other items							
Depreciation and amortization	5,940	694	6,635	343	6,979	96	7,075
Amortization of goodwill	58	—	58	—	58	—	58
Increase in property, plant and equipment and intangible assets	¥ 7,693	¥ 1,869	¥ 9,562	¥ 869	¥ 10,432	¥ 82	¥ 10,514

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥(596) million (U.S. $(5,370) thousand) includes intersegment transaction eliminations of ¥3,090 million (U.S. $27,843 thousand) and corporate expenses of ¥(3,686) million (U.S. $(33,213) 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 ¥14,308 million (U.S. $128,901 thousand) includes corporate assets of ¥119,038 million (U.S. $1,072,420 thousand), not allocated to each segment, and intersegment eliminations of ¥(104,730) million (U.S. $(943,518) thousand). Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment and intangible assets are those related to corporate assets and intersegment 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						
	2017						
	Reportable Segments			Others		Reconciliations	Consolidated total
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	(Note 1)	Subtotal	(Note 2)	(Note 3)
Net sales							
Sales to external customers	¥227,133	¥ 2,694	¥229,827	¥14,507	¥244,335	—	¥244,335
Inter-segment sales or transfers	64	515	579	3,108	3,688	¥ (3,688)	—
Total	227,197	3,209	230,407	17,616	248,023	(3,688)	244,335
Segment income	38,121	1,082	39,203	(314)	38,889	(8)	38,881
Segment assets	200,602	23,821	224,423	16,310	240,734	11,832	252,567
Other items							
Depreciation and amortization	5,546	563	6,109	368	6,477	74	6,551
Amortization of goodwill	61	—	61	—	61	—	61
Increase in property, plant and equipment and intangible assets	¥ 7,883	¥ 420	¥ 8,303	¥ 497	¥ 8,801	¥ 84	¥ 8,885

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the pharmaceuticals and building maintenance.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥(8) million includes intersegment transaction eliminations of ¥3,270 million and corporate expenses of ¥(3,278) 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 ¥11,832 million includes corporate assets of ¥117,291 million, not allocated to each segment, and intersegment eliminations of ¥(105,458) million. Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment and intangible assets are those related to corporate assets and intersegment 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						
	2018						
	Reportable Segments			Others		Reconciliations	Consolidated total
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	(Note 1)	Subtotal	(Note 2)	(Note 3)
Net sales							
Sales to external customers	$2,082,955	$ 24,388	$2,107,342	$132,071	$2,239,413	—	$2,239,413
Inter-segment sales or transfers	666	4,585	5,251	24,087	29,338	$ (29,338)	—
Total	2,083,620	28,972	2,112,593	156,158	2,268,751	(29,338)	2,239,413
Segment income	344,995	9,024	354,019	7,172	361,191	(5,370)	355,822
Segment assets	1,727,623	211,136	1,938,759	135,911	2,074,670	128,901	2,203,571
Other items							
Depreciation and amortization	53,518	6,259	59,777	3,099	62,876	871	63,747
Amortization of goodwill	530	—	530	—	530	—	530
Increase in property, plant and equipment and intangible assets	$ 69,310	$ 16,841	$ 86,151	$ 7,833	$ 93,985	$ 739	$ 94,724

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	2018	2017	2018
Sales to external customers			
Cosmetics	¥221,776	¥216,090	$1,997,987
Fashion	9,431	11,042	84,967
Others	17,366	17,202	156,468
Total	¥248,574	¥244,335	$2,239,413

20.4.2. Information by geographical area

a. Sales

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2018	2017	2018
Japan	¥225,454	¥223,717	$2,031,119
Overseas	23,120	20,618	208,294
Total	¥248,574	¥244,335	$2,239,413

Note: Sales are classified by country or region based on the locations of customers.

b. Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2018	2017	2018
Japan	¥42,617	¥40,665	$383,939
Overseas	3,208	4,663	28,901
Total	¥45,825	¥45,329	$412,841

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 consolidated statements of income for fiscal 2018 and 2017.

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

	Millions of yen					
	2018					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥11,366	—	¥11,366	¥60	—	¥11,426

	Millions of yen					
	2017					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥256	—	¥256	¥153	¥(5)	¥404

	Thousands of U.S. dollars					
	2018					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	$102,399	—	$102,399	$545	—	$102,944

Notes: The amount in "Others" was impairment loss associated with office for the pharmaceuticals business for fiscal 2018.
The amounts in "Others" and "Reconciliation" were impairment losses associated with office and laboratory for the pharmaceuticals business for fiscal 2017.

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

	Millions of yen					
	2018					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥58	—	¥58	—	—	¥58
Goodwill	¥—	—	¥—	—	—	¥—

	Millions of yen					
	2017					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥ 61	—	¥ 61	—	—	¥ 61
Goodwill	¥883	—	¥883	—	—	¥883

	Thousands of U.S. dollars					
	2018					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	$530	—	$530	—	—	$530
Goodwill	$ —	—	$ —	—	—	$ —

No gains arising from negative goodwill were recognized in fiscal 2018 and 2017.

Note 21 Per Share Information

For fiscal 2018 and 2017, 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 2018 and 2017 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.

The Company conducted a stock split effective on April 1, 2017. Common stock of the Company held by shareholders has been split at a ratio of four shares for one share. As a result, for comparative purposes, net income per share and diluted net income per share for fiscal 2017 and net assets per share at December 31, 2017 were calculated assuming that the stock split was conducted at the beginning of fiscal 2017.

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2018	2017	2018
Numerator:			
Net income attributable to owners of parent	¥8,388	¥27,137	$75,573
Amount not attributable to shareholders of common stock	—	—	—
Net income attributable to owners of parent associated with common stock	¥8,388	¥27,137	$75,573
Denominator:			
Weighted average number of common stock outstanding (shares)	221,178,693	221,177,961	221,178,693
	Yen		U.S. dollars
Basic net income per share	¥37.93	¥122.70	$ 0.34
	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)	281,602	291,511	281,602
[Of which, subscription rights to shares]	(281,602)	(291,511)	(281,602)
	Yen		U.S. dollars
Diluted net income per share	¥37.88	¥122.54	$ 0.34

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

	Millions of yen		Thousands of U.S. dollars
At December 31	2018	2017	2018
Numerator:			
Total net assets	¥188,797	¥198,845	$1,700,875
Amount deducted from total net assets	401	391	3,617
[Of which, subscription rights to shares]	(275)	(260)	(2,483)
[Of which, non-controlling interests]	(125)	(131)	(1,134)
Net assets attributable to common stock	¥188,395	¥198,453	$1,697,258
Denominator:			
Common shares outstanding used in the calculation of net assets per share (shares)	221,179,303	221,178,319	221,179,303
	Yen		U.S. dollars
Net assets per share	¥ 851.78	¥ 897.26	$ 7.67

Note 22 Related Party Transactions

There was no applicable information on related party transactions involving the Company or significant affiliates in fiscal 2018 and 2017 to be disclosed.

Note 23 Stock Options

23.1. Stock option-related expenses

Share-based compensation expenses of ¥41 million (U.S. $375 thousand) arising from stock options were included in selling, general and administrative expenses in fiscal 2018 (¥45 million in fiscal 2017).

23.2. Details of the stock options

23.2.1. 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.

23.2.2. Information on and changes to the stock options

The number of existing stock options, translated into shares at the end of years, are 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	—	23,920	25,000
Granted	10,960	—	—
Forfeited	—	2,200	2,760
Vested	—	1,520	1,920
Outstanding at end of year	10,960	20,200	20,320
Vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	—	—	—
Vested	—	1,520	1,920
Exercised	—	—	—
Forfeited	—	—	—
Outstanding at end of year	—	1,520	1,920

Financial Section

	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	29,880	40,640	49,080
Granted	—	—	—
Forfeited	3,800	4,880	6,680
Vested	2,640	—	—
Outstanding at end of year	23,440	35,760	42,400
Vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	6,040	15,120	20,280
Vested	2,640	—	—
Exercised	—	—	—
Forfeited	—	—	—
Outstanding at end of year	8,680	15,120	20,280

	Subscription rights to shares issued in fiscal 2012
Date of approval	March 30, 2012
Non-vested	(shares)
Outstanding at beginning of year	62,360
Granted	—
Forfeited	9,600
Vested	—
Outstanding at end of year	52,760
Vested	(shares)
Outstanding at beginning of year	28,160
Vested	—
Exercised	1,000
Forfeited	—
Outstanding at end of year	27,160

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	U.S. dollars	Yen	Yen
Exercise price	¥ 1	$ 0.01	¥ 1	¥ 1
Average stock price at the time of exercise	—	—	—	—
Fair value of stock options on the grant date	¥3,838	$34.58	¥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	Subscription rights to shares issued in fiscal 2012
Date of approval	March 27, 2015	March 28, 2014	March 29, 2013	March 30, 2012
	Yen	Yen	Yen	Yen
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
Average stock price at the time of exercise	—	—	—	4,230
Fair value of stock options on the grant date	¥1,462	¥750	¥641	¥ 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.

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

The Company uses the Black-Scholes model for estimating the fair value of stock options.
Main basic assumptions used in the estimation are as follows:

	Subscription rights to shares issued in fiscal 2018
Volatility (*1)	30.566%
Estimated remaining period (*2)	15 years
Estimated dividend (*3)	¥70.00 per share
Risk-free rate (*4)	0.254%

(*1) Volatility is calculated using weekly stock prices during the period (7.34 years) from the listing date to the calculation reference date.
(*2) As making a reasonable estimation is difficult due to insufficient data available, the estimated remaining period is measured based on the assumption that the subscription rights to shares would be exercised in the middle of the exercisable period.
(*3) The amount of the estimated dividend is based on the actual dividends in fiscal 2017.
(*4) The risk-free rate is calculated based on the yield of Japanese government bonds corresponding to the estimated remaining period.

23.4. Method used for estimating the exercise of stock options

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

Note 24 Significant Subsequent Events

(The introduction of a new share-based compensation plan)
At the 13th Annual Shareholders' Meeting, held on March 26, 2019, the Company decided to introduce a new share-based compensation plan (the "Plan"). The Plan, as a replacement for the current stock option plan, shall be applicable to directors and corporate officers of the Company (excluding non-resident persons, for Japanese tax purposes; collectively, the "directors, etc., of the Company"), as well as directors of its subsidiaries (excluding outside directors and non-resident persons, for Japanese tax purposes, collectively, the "directors of subsidiaries"; together with the directors, etc., of the Company, collectively, the "applicable directors, etc.").

1. Purpose and summary of the Plan

The Plan shall, with a view toward materializing the Group's long-term vision and medium-term management plan, be introduced in order to further clarify the linkage between the compensation for the applicable directors, etc., and the business performance of the Group, as well as its stock value, while enhancing motivation for boosting of its corporate value over the medium to long term, and further promoting the common interest shared with shareholders. In particular, the Plan is structured based on the adoption of a scheme referred to as a Board Incentive Plan Trust (the "BIP Trust"). The BIP Trust delivers and grants shares of the Company to the applicable directors, etc., along with the cash proceeds from the conversion thereof (collectively, the "shares in the Company, etc."), commensurate with their individual executive ranking and level of achievement against the corporate performance targets.

2. Outline of the trust agreement

(1) Type of trust: Money held in a trust other than an individually operated specific money trust (third-party benefit trust)
(2) Objective of the trust: Offering incentives to the applicable directors, etc.
(3) Trustor: The Company
(4) Trustee: Mitsubishi UFJ Trust and Banking Corporation (not yet finalized)
(Joint trustee: The Master Trust Bank of Japan, Ltd. (not yet finalized))
(5) Beneficiaries: The applicable directors, etc., that meet the beneficiary requirements
(6) Trust administrator: A third–party specialist that is not an interested party of the Company
(7) Date of trust agreement: May 2019 (not yet finalized)
(8) Trust period: From May 2019 (not yet finalized) to the end of May 2021 (not yet finalized)
(9) Plan inception date: May 2019 (not yet finalized)
(10) Voting rights: Not to be exercised
(11) Class of shares to be acquired: Common shares of the Company
(12) Upper limit of the trust fund: ¥716 million (not yet finalized) (including trust fees and trust expenses)
(13) Method for acquiring shares: From the stock market or through the disposal of treasury shares by the Company
(14) Holder of vested rights: The Company
(15) Residual assets: Residual assets that the Company, as holder of vested rights, is entitled to receive shall not exceed the amount of the trust expense reserve, which is the trust fund minus the funds for acquiring shares

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.

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, 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Pola Orbis Holdings Inc. and its consolidated subsidiaries as at December 31, 2018, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

March 26, 2019
Tokyo, Japan

History

1929	Shinobu Suzuki founds the business in Shizuoka Prefecture.
1940	POLA CHEMICAL INDUSTRIES, INC. is established (incorporated).
1946	POLA Cosmetics, Inc. is established (incorporated).
1954	The Shizuoka Factory is completed.
1961	The Yokohama Factory is completed. Fuji Printing, Ltd. is established.
1964	The Yokohama R&D Center is completed.
1971	POLA Real Estate Inc. is established and the real estate business is launched.
1976	The POLA Research Institute of Beauty & Culture is established.
1977	The Fukuroi Factory is completed.
1979	The POLA Foundation for the Promotion of Traditional Japanese Culture is established.
1983	POLA CHEMICAL becomes a major investor in KAYAKU CO., LTD. and enters the pharmaceuticals business.
1984	ORBIS Inc. is established and the mail-order sales business is launched.
1986	POLA GTS Inc. (currently P.O. TECHNO SERVICE INC.) is established and the building maintenance business is launched. POLA CHEMICAL wins an award at the 14th IFSCC (International Federation of Societies of Cosmetic Chemists) Congress held in Barcelona, Spain.
1987	ORBIS starts full-fledged business activities (in the Tokyo metropolitan area).
1988	ORBIS first publishes its nationwide catalog.
1992	POLA Daily Cosme Inc. is established and retail sales of cosmetics business are launched.
1994	POLA CHEMICAL wins the highest award at the 18th IFSCC Congress held in Venice, Italy.
1996	POLA CHEMICAL wins an award at the 19th IFSCC Congress held in Sydney, Australia. The POLA Art Foundation is established.
1997	ORBIS receives ISO 9001 certification. The Shizuoka and Fukuroi factories receive ISO 9002 certification.
1998	POLA wins the highest award at the 20th IFSCC Congress held in Cannes, France. The Shizuoka and Fukuroi factories receive ISO 9001 certification.
1999	ORBIS The Net (online store) opens.
2000	POLA's corporate message, "Consulting First," is delivered. The first retail store "ORBIS THE SHOP" at Marui department store, in Ikebukuro, Tokyo opens. The Shizuoka and Fukuroi factories receive ISO 14001 certification.
2002	A new business announcement by POLA conveys its aim to "Thoroughly commit to customer first," "Focus and deepen the impact of its businesses," and "Reform its corporate culture and management." The POLA Museum of Art opens at Sengokuhara in Hakone, and the POLA Museum Annex opens in Ginza.
2004	The Fukuroi Factory receives the Prime Minister's Award, recognizing it as an Outstanding Green Plant.
2005	POLA THE BEAUTY premium esthetic salons are launched. ORBIS acquires the Privacy Mark, certifying the proper handling of personal information.
2006	POLA ORBIS HOLDINGS INC. is established and the Group transitions to a pure holding company system. P.O. REAL ESTATE INC. is established and carries on the real estate business. The Group becomes a major investor in the FUTURE LABO group, and the TV mail-order business is launched.
2007	POLA Cosmetics, Inc. is renamed POLA INC. The pharmaceuticals company POLA PHARMA INC. is established. ORLANE JAPON INC. is established through a joint venture with Orlane S.A. of France. decencia INC. is established.
2008	ACRO INC. is established. POLA CHEMICAL wins the highest award (best oral presentation in basic research category) at the 25th IFSCC Congress held in Barcelona, Spain.
2010	POLA ORBIS HOLDINGS INC. is listed on the Tokyo Stock Exchange, First Section.
2011	The Group acquires H2O PLUS HOLDINGS, INC. P.O. MEDIA SERVICE INC. (formerly Fuji Printing, Ltd.) is sold to an outside party.
2012	The Group acquires Jurlique International Pty. Ltd. POLA CHEMICAL wins the Poster Award at the 27th IFSCC Congress held in Johannesburg, South Africa.
2014	The Shizuoka Factory and the Fukuroi Factory are integrated. POLA CHEMICAL wins the highest award (best oral presentation in basic research category) at the 28th IFSCC Congress held in Paris, France.
2015	POLA ORBIS HOLDINGS welcomes outside director. POLA CHEMICAL wins the highest award (best oral presentation category) at the 23rd IFSCC Congress.
2016	POLA redefines its unique values under a new brand strategy—"Science. Art. Love." pdc INC.(formerly POLA Daily Cosme Inc.) and FUTURE LABO INC. are transferred.
2017	POLA debuts *Wrinkle Shot Serum*, the first cosmetics product in Japan with an active ingredient approved as a quasi-drug capable of "improving wrinkles."
2018	ORBIS unveils a new brand message: "Simply you. Simply beautiful." ACRO launches new brands: Amplitude, ITRIM and FIVEISM x THREE. ORLANE JAPON INC. is liquidated. Decision made to transfer shares in pharmaceuticals company POLA PHARMA INC. POLA CHEMICAL INDUSTRIES, INC. obtains approval for quasi-drug product featuring a new active ingredient for skin-whitening.

Corporate Information 〔As of December 31, 2018〕

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	4,181 (for the Group) 127 (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.

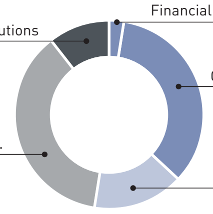
Financial Section

Stock Information 〔As of December 31, 2018〕

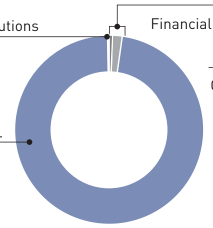
Total number of authorized shares	800,000,000
Total number of issued shares	229,136,156
Number of shareholders	36,463

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	50,650	22.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,771	3.1
Japan Trustee Services Bank, Ltd. (Trust Account)	5,723	2.6
Naoko Nakamura	4,770	2.2
Hiromi Suzuki	3,113	1.4
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	2,357	1.1
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000	2,324	1.1
POLA ORBIS Group Employees' Stockholding	1,970	0.9
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1,728	0.8

Notes: 1. In addition to the above, the Company holds 7,956 thousand shares of 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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