POLA ORBIS HOLDINGS

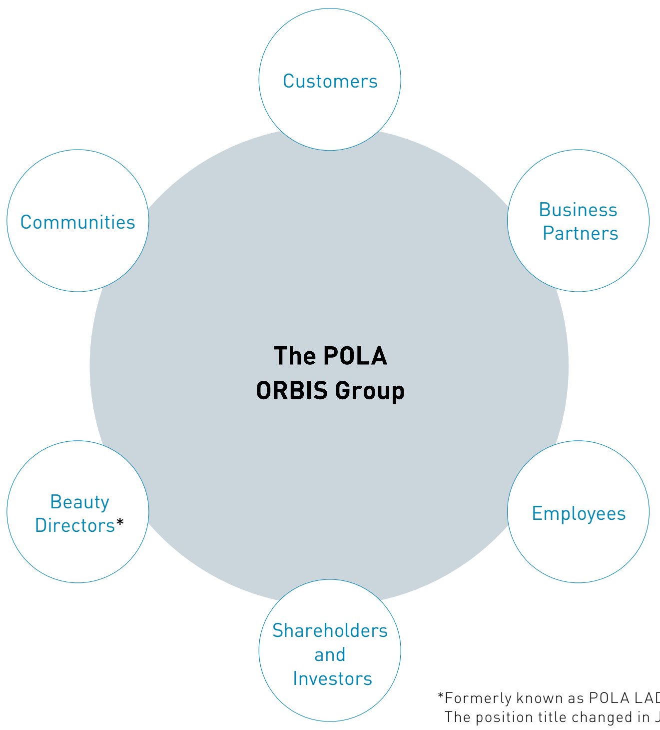
Corporate Report 2015

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).

The POLA ORBIS Group's Stakeholders



*Formerly known as POLA LADIES.
The position title changed in January 2016.

Timeframe

This report focuses on activities and results achieved in fiscal 2015—the 12 months from January 1, 2015 to December 31, 2015—but some fiscal 2016 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 15, 2016.

Contents

Satoshi Suzuki

鈴木郷史

President

The POLA ORBIS Group Philosophy

Inspire all people and touch their hearts.

The POLA ORBIS Group is committed to providing distinctly unique products and services to you, the customer, backed with the assurance of solid scientific testing.

We make every effort to contribute to improving the global cosmetics culture as well as preserving the global environment in the name of beauty and health.

We aim to build a brand that will be forever admired and trusted in every corner of the globe.

Achieving this requires us to approach each and every challenge with humility, and to always strive to find happiness in giving happiness. With this in mind, we, the Group, spend our days at work and at home full of vitality and with a smile on our faces.

In buying our products, customers find delight and inspiration

Our starting point was a cream specifically formulated for just one person. More than 80 years ago, the founder of POLA prepared this cream on his own to soothe the dry, rough hands of his beloved wife. It worked so well, he loaded up his bicycle and went door-to-door to show the cream to other women and explain to them how to use it and achieve great results. This was the beginning of POLA and, by extension, the Group.

The idea for a product kindled by a man's love and concern for his wife's well-being. The knack for creating an impact through one's own handiwork. The desire to deliver products directly to each customer. These building blocks of the founder's business philosophy continue to permeate POLA—and by extension, the Group—and have been redefined to showcase POLA's unique values under a new brand strategy "Science. Art. Love." launched in 2016 that will underpin our activities going forward.

Looking at the domestic market, the number of inbound visitors is increasing every year and, with demand essentially coming to Japan, our brands attract many foreign customers without having to go through overseas sales channels to cultivate interest abroad. On the flip side, purchasing sentiment among Japanese customers remains lackluster. To break the sense of impasse that permeates the market and improve sales, the act of shopping must move beyond a mere individual-oriented economic pursuit, transforming into an experience that imparts delight and inspiration. I believe we will only be able to realize the Group philosophy "Inspire all people and touch their hearts" if we enable our brands to provide customers with a satisfying shopping experience, through the early entrepreneurial spirit that continues to infuse brand operations, like corporate DNA, along with strengths in direct selling and a network of sales channels that evolve with the times. In 2016, we will reevaluate where we stand and strive on a consolidated front to become a corporate group with a distinctive appeal and the capacity to provide experiences that influence customer lifestyles in a positive way.

Looking Back on 2015

Our long-term vision for 2020—to become a highly profitable global company in the field of beauty and health—was announced in 2011, the year of our stock listing. To realize this vision, we are working one step at a time through business strategies divided into three stages, the first of which began back in 2011. The current medium-term management plan, which runs from 2014 through 2016, therefore represents the second stage of this journey, and fiscal 2015 was the second year of this stage.

Fiscal 2015 was a great year in terms of our performance. We dramatically surpassed initial targets for the year, with net sales climbing 8.4% over fiscal 2014, to ¥214.7 billion, and operating income jumping 27.3%, to ¥22.5 billion, on a consolidated basis. As a result, with **ROE** hovering close to 8%, management decided to revise the 2016 target upward to 9%.

In domestic operations, growth was driven by POLA, our flagship brand, and by THREE and decencia, two of our brands under development. POLA recorded a major success with the *White Shot* series of skin-whitening products launched in February. Of note, POLA capitalized on rising inbound demand for the series' beauty supplement product, *INNER LOCK IX*, which fueled higher sales for the company. Also noteworthy, *B.A*, a mainstay in POLA's lineup that was fully renewed in August to mark the series' 30th anniversary, was honored in a number of media-sponsored award programs as best cosmetic. Recognized as a big hit, POLA has firmly established the brand's presence in the anti-aging skincare market.

ORBIS introduced a point system in September 2014 and elicited sustained purchasing activity by rewarding particularly loyal customers with points that they can use for their orders. The company continued to attract new customers at a brisk pace through social networking services but was unable to return to the peak just before the consumption tax increase back in April 2014. Consequently, real growth edged down year on year.

In brands under development, THREE and decencia continued to deliver excellent results, with sales of THREE surging about 60% and sales of decencia nearly doubling. These brands were key drivers of growth in domestic operations and contributed significantly to improved profitability of the segment overall.

In overseas operations, Jurlique continued to encounter challenging conditions in Asia, reflecting sluggish growth in China's cosmetics market as well as the negative impact of fewer travelers to Hong Kong and a partial shift in demand from department stores to e-commerce sites. On the other hand, in Australia, where the brand originated, the company maximized opportunities afforded by inbound tourist activity to boost duty-free sales, and exceeded double-digit growth in sales for the second successive year. At H2O PLUS, the priority was on turning lethargic sales around as quickly as possible, and efforts were directed toward renewal through extensive reform of the management structure, hinging on the appointment of a new CEO in February 2015, and steps to revamp the brand.

WHITE SHOT series

Reshuffling Top Management

From a bird's-eye perspective, it is clear that globalization is accelerating in markets around the world, and the demand environment in each area is changing at a dizzying pace. To ensure we are able to address emerging trends and demonstrate management expertise at a consistently high level, we constantly strive to cultivate the skills of the next generation of management through the Top Management Development Program, which debuted in 2005. Over the past 10 years, participants in this program have enhanced their skills at the management level to the point that, as of January 1, 2016, the executive team at POLA is completely transfused by new blood, hinging on members in their 40s and early-50s who are fully prepared to tackle the responsibilities assigned to the executive class.

Yoshikazu Yokote
Representative Director
and President
POLA INC.

A new brand strategy has been launched under the revitalized management structure. POLA's unique values have been redefined in the slogan "Science. Art. Love."—wherein "science" denotes innovative results achieved through scientific curiosity and willingness to tackle challenges, "art" refers to amazement and inspiration cultivated through remarkable beauty and technique, and "love" represents abundant loving relationships built on mutual respect—and this retuned corporate philosophy will underpin efforts to raise the quality of all corporate pursuits, including activities related to information, products and customer contact. In addition, to ensure sustainable growth, several measures are being introduced, including the bold step of streamlining the number of Beauty Directors* on the frontline and implementing professional training to elevate their capabilities.

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Rebuilding Competencies of Group Directors

The companies under the Group umbrella operate independently, with each management team making decisions on respective business pursuits. To realize sustainable growth while demonstrating the characteristics that make each company special, it is vital, I believe, to build a flexible and highly transparent corporate governance structure and strive to improve corporate value from a Groupwide perspective.

Within the Group, we have long recognized competencies of directors and employees, using these competencies to set targets and evaluate patterns of behavior. And in 2015, with guidance from external consultants, we established a new 13-point list of competencies for directors and made it a standard of evaluation criteria. Across-the-board competency is another unique aspect of the Group. All directors were assessed in terms of these criteria, and took steps that will be reflected in future actions. I, myself, have joined directors in such programs, where patterns of behavior are evaluated. feedback is given and action plans for improvement are drawn up and then announced Groupwide. Through this process, directors at all Group companies gain a clearer picture of their own strengths as well as aspects in need of attention and demonstrate management skills with a touch of their own personality.

In addition, as part of ability development putting competencies to the best advantage, we ran an art workshop using pieces from the collection at the POLA Museum of Art. The world has certainly changed, and it is imperative, if we are to

Art workshop

survive in this new world, that we never be complacent with the status quo but rather explore and discover issues of interest and respond accordingly. The art workshop is an opportunity to kindle an emotional response and develop a keen sense of perspective—identifying the finer points and intuiting impact—through art appreciation. The goal is to hone acuity—touch and sensitivity—which enables each and every director to pinpoint matters of importance. This activity is unique to the Group and made possible only because of the support that the POLA Museum of Art receives as part of the Group. Going forward, we will expand the art workshop program beyond the executive class to include employees as well.

In strengthening corporate capabilities, all human resources—not just directors—must fully demonstrate their individuality and potential. There is a tendency to equate diversity with the empowerment of women, but for the Group, which has since its earliest days—harkening back to the establishment of POLA—supported women in their pursuit of a career as POLA LADIES, the diversity of human resources is not limited to the issue of gender. From the Group's perspective, diversity is providing a setting and workplace environment in which each person can demonstrate individuality, irrespective of age, gender, background or any other factor. In fact, every year at orientation sessions, new employees are asked to think and act as individuals first and then as people in business based on this diversity concept.

Management Commitment

In 2000, when I assumed the post of president at POLA, consolidated net sales hovered around ¥200 billion. We embarked on a management review as the curtain rose on the 21st century, pursued a process of focusing and deepening the impact of our businesses that has continued to the present, and subsequently experienced an unavoidable but thankfully only temporary drop in net sales. After that, we promoted new business models, along with a new Group management structure, pursued a stock listing and worked to expand our presence overseas—all designed to put the Group on a path to growth. In 2015, consolidated net sales hit the ¥200 billion mark—the highest level under the holding company structure—and operating income reached ¥20 billion. For me, personally, the results achieved in 2015 touched me deeply, marking the fulfillment of a responsibility I had carried all through my tenure as president.

But even now, though a crucial target has been met, there is still more to achieve. When the world was jolted by the Lehman shock in 2008, the skincare industry escaped with minor scratches, so for the last seven years or so, POLA and its sister companies now under the Group umbrella have poured considerable effort into R&D and have maximized new concepts in sales channels to secure a firm position in the forte field of skincare. However, in striving to provide customers with ever higher value, we have to be determined to support customers throughout their lives. The sale of cosmetics should not be our sole objective. In fact, we have to ask ourselves what we can do to support women at various stages in their lives, be it work, marriage, raising children, childbirth and elderly care, as this perspective will open the door to new frontiers in business development. The time has come for the Group to be seen as a "**Lifestyle Brand**," transcending the borders of business domains established to date.

Top Management Development Program

To Our Stakeholders

Since POLA ORBIS HOLDINGS listed its shares in 2010, the Company and the Group it leads have worked diligently to ensure good communication with all stakeholders. This position has earned us a stellar reputation, substantiated by a Best IR Award from the Japan Investor Relations Association in 2015 as well as an award for excellence at the 18th Nikkei Annual Report Awards, sponsored by the Cross-Media Advertising & Business Bureau at Nikkei Inc.

To promote an accurate understanding of the Group and its activities and address stakeholders' expectations, we robustly pursue dialogue with stakeholders. I, myself, have participated in these discussions, which provide valuable comments that serve as a compass to guide our operations forward. Just as strategies in the current medium-term management plan serve as approaches to improve capital efficiency and our own corporate governance code, I feel dialogue with stakeholders yields insights that inevitably lead to new levels of achievement.

The newly structured Board of Directors has started discussions on a vision for our 100th anniversary in 2029—strictly speaking, POLA's 100th anniversary—and I would like the next medium- to long-term vision to present a clearer, more enduring raison d'être for POLA ORBIS HOLDINGS and the Group.

We will continue to make time for dialogue with stakeholders and implement business pursuits that contribute to higher corporate value. The support and encouragement of our stakeholders will, as always, be integral to our mutual success.

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 86-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

New lifestyles emerge paralleling greater participation of women in society.
POLA diversifies business content to match evolving trends.
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

Brands under Development

- 1992 The current pdc INC. is established.

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.
ORBIS expands retail store network and promotes sales overseas.

- 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

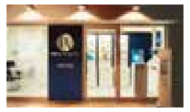
Launches multiple brands matched to diversifying customer needs.
Establishes individual image for each brand and expands market share.

- 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.



- 2005 ORBIS enters the Hong Kong market.
- 2006 ORBIS enters the Taiwanese market.
- 2008 ORBIS enters the Chinese market.

2006~2008

The Group becomes a major investor in the FUTURE LABO group.
decencia INC. is established.
ORLANE JAPON INC. is established.
ACRO INC. is established.

FUTURE LABO / decencia / ORLANE PARIS / THREE

2011 — 2013 Accelerated growth through stock listing

Stronger domestic platform

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

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.
- 2012 The Group acquires Jurlique International Pty Ltd in February.

2014 — 2020 Seeking to be a highly profitable global company

Acceleration of overseas expansion

Overseas expansion to further accelerate, especially in China and other parts of Asia.
Positioned to achieve remarkable progress toward becoming a highly profitable global company.

2014–2016 Medium-Term Management Plan

Management Indicators (Plan)

Consolidated net sales	CAGR 3%–4% ¥210.0 billion in FY2016
Overseas sales ratio	15% or higher in FY2016
Operating income	CAGR 15% or higher
Operating margin	11% or higher in FY2016
Capital efficiency	Target for ROE 8% or higher in FY2016 → Revised upward to 9%
Shareholder returns: Consolidated payout ratio	50% or higher from FY2014

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

Long-Term Vision for 2020

Management Indicators (Plan)

Consolidated net sales	¥250.0 billion or higher
Overseas sales ratio	20% or higher
Operating margin	13%–15% (Industry-leading profitability)

Basic Policy

Becoming a global enterprise in the field of "beauty and health," based on the Group's philosophy: "Inspire all people and touch their hearts."

Environment/Society/Governance Efforts

- 1937 POLA hires its first female sales representatives.
- 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.
- 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 Introduced executive officer system.
- 2015 Appoints two outside directors.
- 2015 Measures and redefines director competencies
- 2015 Considers corporate vision ahead of POLA's 100th anniversary
- 2015 Promotes communication with stakeholders (Best IR Award)

Strengths of the POLA ORBIS Group

Sources of Strength Come from Making and Marketing Products In-house and an Ability to Respond to Change

The POLA ORBIS Group adheres to a business model emphasizing in-house production and sales. Efforts are made to pinpoint even the slightest change in customer lifestyles and beauty care needs, including preference for cosmetics, and then anticipating market conditions and social trends, operations evolve to meet changing times and consumer preferences. The spirit of this evolution infuses the Group like DNA—a quality that runs through its generations—all the way back to POLA's establishment in 1929.

Direct Selling Provides a Direct Connection to Customers

At POLA ORBIS, we believe that a direct connection to customers is the Group's most important business resource. 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 Beauty Directors—about 130,000 of them—to deepen communication with customers through face-to-face meetings and consultation opportunities.

ORBIS, while focused on mail-order sales, reinforces its connection to customers through one-to-one communication over the Internet. As a result, ORBIS can receive customer comments in real time.

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 16 million entries on the condition of Japanese women's skin and collected other useful information, such as customers' product preferences, purchasing history, and profiles. This diverse information is analyzed and pertinent results are used in R&D, product planning, and marketing activities, allowing POLA and ORBIS to build strong, trusting relationships with customers and to secure extremely high rates of repeat purchases not only from an in-house perspective but also from an industry perspective, achievements that are impossible for other companies to attain.

R&D Structure Centers on Concentration of Corporate Resources into Skincare

Skincare products are now seen by women as a necessity, which underpins demand stability. Against this backdrop, the Group's biggest strength from an R&D point of view is the concentration of corporate resources into products that fight the two biggest skincare concerns of women—dark spots and wrinkles. Basic research into anti-aging and skin-whitening and the development of new materials have generated uniquely original ingredients, which extend the range of innovative materials and patents in possession for application in the development of new products. Of notable achievements, POLA pioneered the world's first application of hyaluronic acid in cosmetics products and brought these products to market.

In addition, the skincare market is stable and has been for some time, based on past statistics. Efforts to refine skincare-oriented research and technology development capabilities underpin the competitiveness and excellence of each Group brand and fuel high rates of repeat purchases and enhanced profitability overall.

Multi-brand Strategy Attracts Customers from Wide Consumer Demographic

Today, with customer perceptions and lifestyles becoming increasingly diversified, a single-brand approach to attract many customers dilutes brand concept and damages image cohesiveness. That's why POLA ORBIS HOLDINGS stresses a different approach.

Women's lifestyles and value perceptions change with the times. To better address trends whenever they may appear, POLA ORBIS HOLDINGS oversees a portfolio of nine cosmetics brands, each with its own concept, sales channels, and price range. In this way, each brand is distinct and facilitates targeted brand identity through independent management to expand respective shares of the cosmetics market.

Business Structure and Brand Portfolio

Business Structure

Net Sales Breakdown by Business Segment

Real Estate

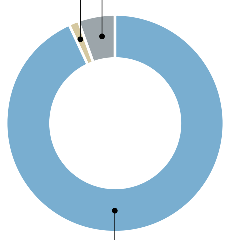
¥2,951 million

Business focus on leasing office space

Others

¥11,266 million

Pharmaceuticals and building maintenance businesses, etc.

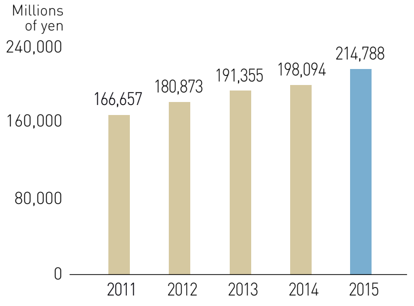


Beauty Care

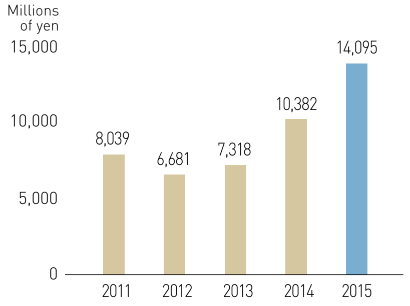
¥200,570 million

Core business built on nine cosmetics brands, with emphasis on POLA and ORBIS

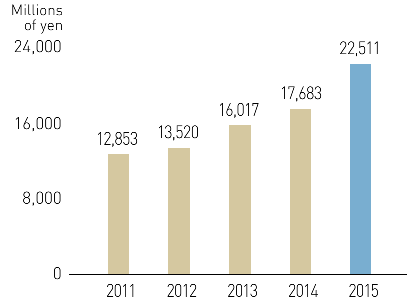
Net Sales



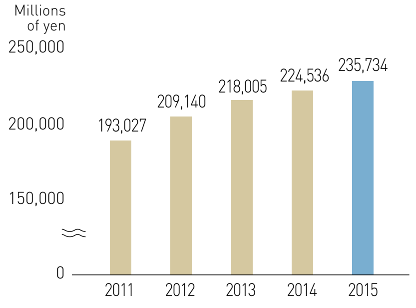
Net Income



Operating Income



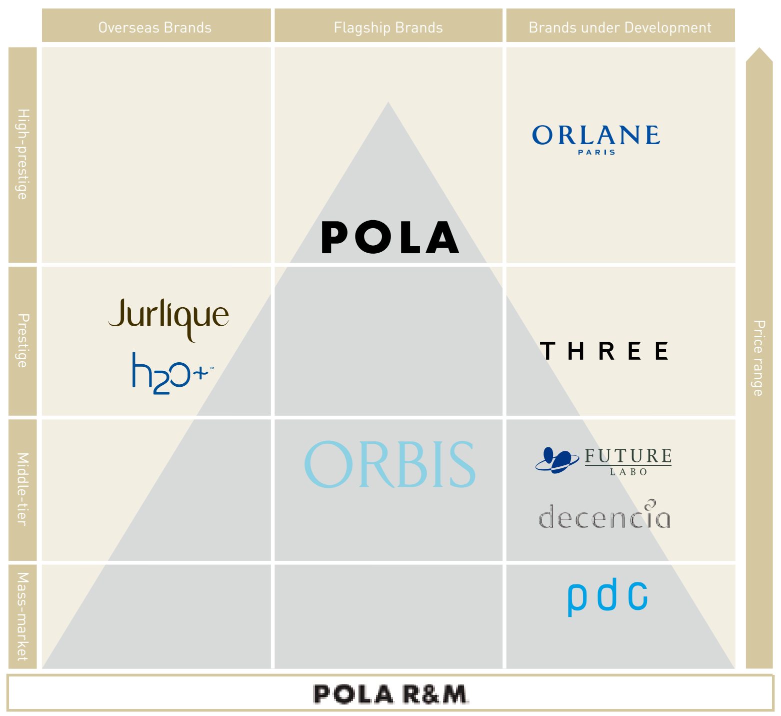
Total Assets



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

Distinctive Product Series
B.A, *APEX*, and *WHITE SHOT*

Sales Channels
POLA THE BEAUTY, Esthe Inn, conventional door-to-door business, and department stores

ORBIS

Concept
Original-concept 100% oil-free skincare

Distinctive Product Series
ORBIS=U, *AQUA FORCE*, and *CLEAR*

Sales Channels
Mail-order business (catalog and Internet) as well as directly operated retail stores

Overseas Brands

Jurlique

Concept
An organic skincare brand featuring ingredients made from herbs grown on the company's own farm in Australia

Distinctive Product Series
Purely Age-Defying, *Herbal Recovery*, and *Nutri-Define*

Sales Channels
Sold at department stores and shopping malls in approximately 19 countries and regions, including China, Hong Kong, as well as at duty-free shops in Australia

h2o+

Concept
A skincare brand based on marine science, featuring natural, sea-derived ingredients such as seaweed

Distinctive Product Series
Oasis™ and *Total Source*, developed with POLA CHEMICAL INDUSTRIES

Sales Channels
Sold at shopping malls and specialty cosmetics stores primarily through agents in approximately 14 countries and regions, including the United States, China, and Hong Kong

Brands under Development

THREE

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

Distinctive Product Series
Balancing, *Conditioning*, and *Concentrate*

Sales Channels
Directly operated stores, department stores and semi-self-select stores

decencia

Concept
Skincare products for dry, sensitive skin

Distinctive Product Series
ayanasu, *saeru*, and *tsutsumu*

Sales Channels
Mail-order business (catalog and Internet)

ORLANE PARIS

Concept
Well-established high-prestige brand of skincare cosmetics from France with anti-aging properties

Distinctive Product Series
Royale, *Absolute Skin Recovery*, and *Extreme Line-Reducing*

Sales Channels
Department stores and specialty cosmetics stores

FUTURE LABO

Concept
Cosmetics brand with unique features

Distinctive Product Series
Derma QII and *White Diamante*

Sales Channels
TV shopping channels

pdc

Concept
Affordably priced cosmetics with a skincare focus

Distinctive Product Series
Pure Natural, *Liftarna*, *Naturina*, and *Pidite*

Sales Channels
Drugstores, supermarkets, and general retail outlets

Global Expansion

Overseas Strategy Reframed to Sustain High Growth of Overseas Brands and Boost Contribution to Net Sales

Within the POLA ORBIS Group, an enthusiastic push is on to promote domestic flagship brands POLA and ORBIS as well as THREE, one of the brands under development, as overseas brands from Japan. In addition, POLA ORBIS HOLDINGS is keen to follow the acquisitions of Jurlique and H2O PLUS and accelerate growth of the Group through more M&A activity. Guided by the corporate philosophy "Inspire all people and touch their hearts," operating brands will pick up the pace of overseas expansion, with a priority on Asia, where demand for skincare is high and local markets present obvious growth potential.

Jurlique

- Presence in approximately 19 countries, mainly in department stores
- Presence expanding mainly in China, Hong Kong, Australia, and duty-free shops
- Founded in Adelaide, Australia
- Pioneer organic skincare brand featuring ingredients made from plants grown on the company's own farm

h2o+

- Presence in approximately 14 countries
- Presence expanding in the United States, China and Russia
- Headquartered in San Francisco in the United States
- Cosmetics based on marine science, featuring sea-derived ingredients

POLA

- Presence in eight countries
- Key markets are China (department stores), and Thailand (door-to-door business)
- Sales emphasizing *B.A* series, as well as limited editions overseas

ORBIS

- Presence in five countries
- Full-scale entry into China's mail-order market; opened stores strategically located in Singapore in advance of anticipated ASEAN expansion
- Sales emphasizing skincare and health foods

THREE

- Presence in four countries
- Sales in Thailand, Taiwan, Indonesia and Malaysia (from April 2016)
- Focus on skincare and foundation makeup

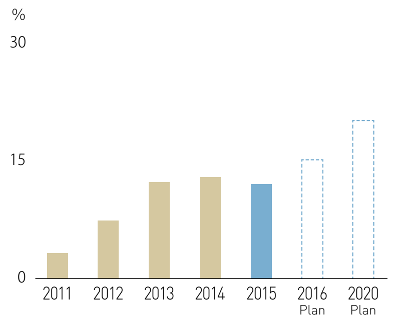
Asia Is Focus of Expanding Presence for Five Key Brands, Seeking Overseas Sales Ratio of 20% by 2020

China has been tapped as a key market in overseas development strategies for brands under the Group umbrella, but efforts have also been directed toward expanding brand presence to neighboring countries, particularly Thailand, Hong Kong and Singapore. The Group's overseas sales ratio, which hovered around 3% in 2011, reached about 12% in 2015, and the goal for 2020 is 20%. Efforts are in progress to speed the Group's journey toward this goal.

Three of the Group's domestic brands—POLA, ORBIS and THREE—have entered core Asian markets. Of note, THREE debuted in Indonesia in February 2015 and became available in Malaysia in April 2016. Malaysia, the fourth country on THREE's expansion list, presents tremendous potential due to the size of its population and continuing economic growth.

The overseas brand portfolio is headlined by Jurlique, from Australia, and H2O PLUS, from the United States. Both brands are carving demand that transcends the borders of their home territories, primarily through the department store route, mainly in China, Hong Kong and Russia. Jurlique has established a presence in 19 countries, while H2O PLUS maintains a market profile in 14 countries. Going forward, an emphasis will be placed on duty-free shops and approaches to draw on the unique concepts of each brand to boost sales.

Long-Term Vision for 2020: Group Overseas Sales Ratio



Jurlique Marks Favorable Growth at 30th Anniversary, H2O PLUS Looks to Rebuild Brand under New Structure

Jurlique is a pioneer organic skincare brand that originated in Adelaide, Australia, in 1985. Emphasizing production techniques using organic ingredients grown on its own farm, the company seeks to nurture beautiful skin by fusing the power of nature with the power of science.

In 2015, Jurlique brought one new product after another to market, kicked off by a night cream in its mainstay *Purely White* series. In April, the company debuted its first suncare series, and in August, a product to commemorate its 30th anniversary and additional products to the *Nutri-define* lineup. These introductions helped to invigorate demand at existing stores. Successive product launches were well received by loyal fans of the brand in Australia, fueling steady sales. Of note, one of the new items—a hand cream crafted to celebrate the company's 30th anniversary—is a higher-quality version of a signature product loved worldwide, and for the limited edition product, Jurlique switched from the regular aluminum tube to a recyclable plastic tube, a move indicative of its commitment to the environment, and the effort earned positive reviews from customers.

H2O PLUS, coming out of Chicago originally, is a skincare brand based on marine science, using sea-derived ingredients. The brand was added to the Group portfolio in 2011, and H2O PLUS has promoted growth strategies utilizing synergies stemming from the Group's technological expertise. In 2015, the company endeavored to restage the brand, a process hinging on the appointment of a new CEO, and one of the first steps was to relocate the headquarters to San Francisco. This city has trendsetting power and offers great access to excellent human resources. H2O PLUS also shuttered the factory at its former headquarters in Chicago and shifted toward a business model that focuses on sales and marketing.

Jurlique store in Sydney

VOICE

Restaging the brand with support from retailers and distributors worldwide

Joy Chen
H2O PLUS HOLDINGS INC.
CEO

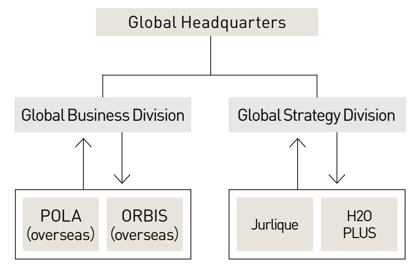
Since being appointed CEO in February 2015, I have overseen efforts to devise a new business model at H2O PLUS. In July, the company announced plans to shift away from the old business model, which covered all aspects of operations, from manufacturing through to marketing and sales, and instead focus on innovation, sales and marketing. This was, for us, an extremely bold and courageous move, but it was a crucial step in breathing new life into the brand. San Francisco, the new home of our corporate headquarters, is a place where the country's leading-edge technologies converge and it also affords easier access to Asian markets. The relocation in November 2015 marked the closure of our Chicago manufacturing site and the start of outsourced manufacturing, but this approach should underpin brand restaging and accelerate a return to profitability.

H2O PLUS is an exceptional brand with a bright future. The key to realizing this future is to reassert our DNA as a forward-looking, innovative company with products that inspire and attract customers. I am confident that we now have the right structure in place to take H2O PLUS forward.

New Organizational Structure Designed to Reinforce Overseas Expansion

POLA ORBIS HOLDINGS integrated and reorganized the divisions involved in overseas business to expand activities abroad, create synergies among brands in its portfolio and reinforce management functions, culminating in the establishment of a Global Headquarters, effective from January 2016.

The newly established Global Headquarters comprises two divisions—the Global Strategy Division and the Global Business Division—and will coordinate the activities of overseas businesses under the Group umbrella, formulate medium- to long-term business expansion strategies and cultivate synergies among brands, reinforce overseas governance, plan and monitor corporate strategies for overseas businesses, and plan and support implementation of measures related to branding, marketing, sales and distribution for each brand. This headquarters structure will underpin overseas expansion efforts.

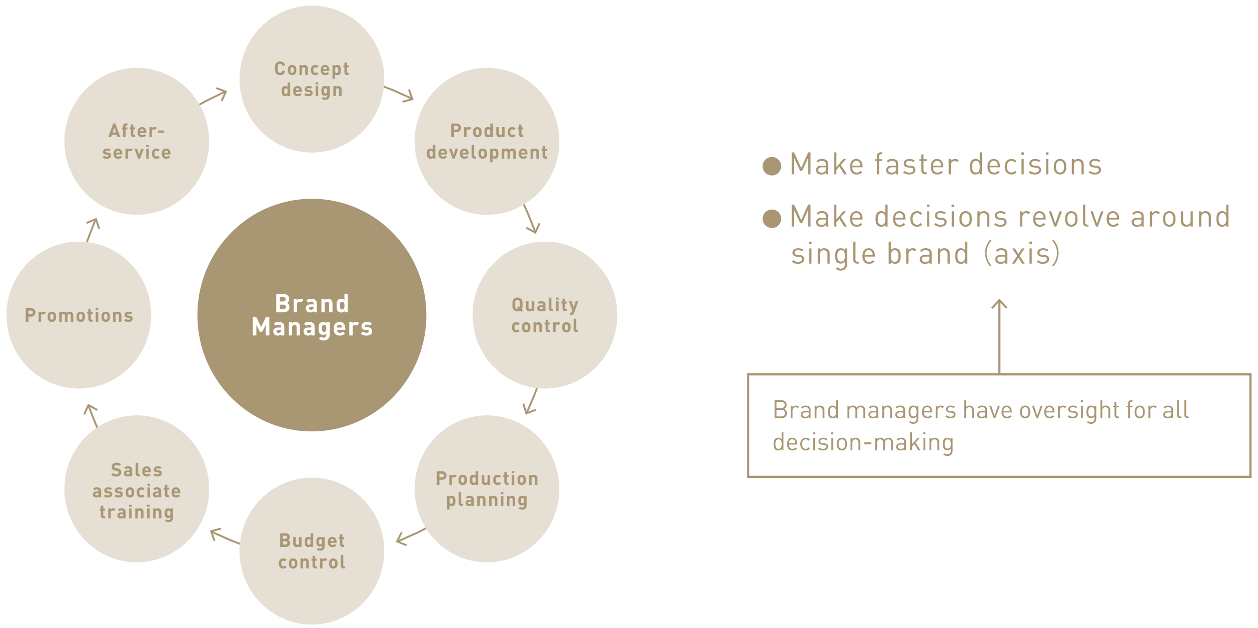


Special Feature

POLA Brand Manager System

—New Stage in Value Creation for Reformulated *B.A* Series—

***B.A*, the high-prestige anti-aging skincare series from POLA represented a new concept in skincare based on research into the effects of aging on the skin. To mark the series' 30th anniversary, in 2015, POLA revamped the lineup and embarked on a new stage in value creation. Behind the new series launch was the introduction of a brand manager system, indicative of large-scale organizational reform within POLA, which is having a hugely positive impact on operations. By putting this system into full drive, POLA has established a new value chain that facilitates shared awareness of *B.A* brand value end-to-end across all operations, from planning and development through sales, and provides value to customers that evokes a sense of consistency as well as speed.**



Brand Managers at Core of New Structure Linking All Divisions Laterally

Goals of organizational reform are faster speed and maximized customer value

At POLA, brand managers are charged with overseeing the entire value chain, determining if all divisional functions and activities are leading directly to customer-oriented value, and striving to optimize capabilities.

The structure used to be function-specific, with product planning, R&D, production and sales independent of each other. The excellent aspects of this structure were enhanced performance and efficiency at each division. But there was a drawback. It hindered feedback, namely, the flow of information from downstream to upstream.

The new structure, while based on the previous function-specific format, features lateral spokes that connect divisions with responsibility for some aspect—from product planning through sales—of the same brand, forming a brand management team dedicated to a particular series or lineup. The newly established position of brand manager, targeting a specific brand or series, coordinates team activities. By adopting a team system wherein a single brand becomes the axis around which the associated divisions revolve and cooperative efforts are more synchronized, development, production, sales and planning, promotions and area divisions can kick off activities at the same time that product planning starts. Also of note, because this brand management team enables all associated divisions to work cohesively to identify, form a consensus and initiate activities on parallel timetables, the development process moves at unprecedented speed and through a more efficient plan-do-check-act cycle. Furthermore, with upstream divisions and downstream divisions, which are closest to customers, jointly pursuing solutions to issues requiring attention, it is much easier to make decisions that translate directly into customer value. This is the principal objective of the recent organizational reform.

Changes Resulting from New Structure and Heightened Vitality Will Guide Brands Toward Further Growth

One-to-one communication throughout the organization

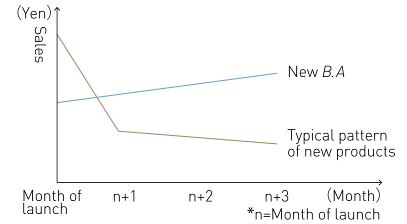
The new structure is delivering success beyond POLA's initial objective and bringing about various changes for the better within the organization. For example, by narrowing the scope of brand analysis to *B.A*-only business results and customer information from across the organization, challenges that plague *B.A* and opportunities that favor the brand emerge with greater clarity. The new structure enables headquarters staff to focus their analysis of trends in customer behavior on *B.A* rather than on all brands under the POLA label. It facilitates one-to-one marketing, fine-tuned to each customer, to discern product lines that the most loyal fans of the brand favor or to identify the behavioral characteristics of customers who might be encouraged to try more or different items in a particular *B.A* lineup at some point in the future. The results will be useful when considering additional product lines and sales targets as well as services for particularly loyal customers. In addition, POLA's Beauty Directors—the face of POLA to customers—have typically been the ones to convey a sense of appreciation to customers for their allegiance to the brand, but in launching the reformulated *B.A*, POLA headquarters was keen to express corporate appreciation directly to its loyal customers. Before general sales began, personalized sample sets were given to customers so they would be the first to try the revamped line. This approach precipitated a stronger connection between customers and POLA headquarters, exemplified by letters of thanks from customers to the brand manager of *B.A*.

Shift to product development where "people" not "skin" is the starting point

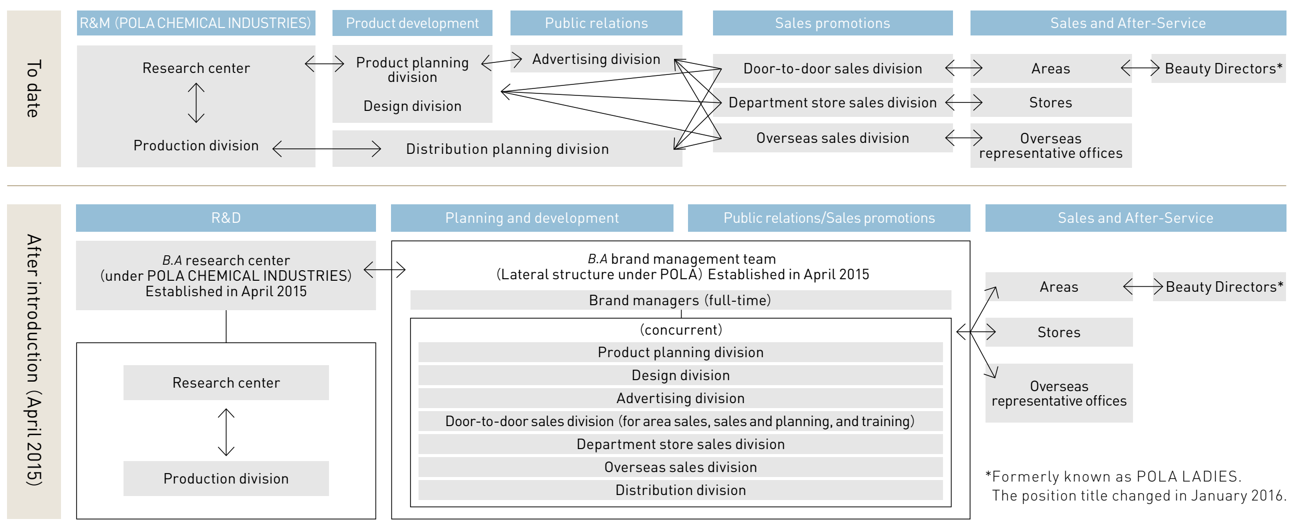
Under the new system, all divisions send representatives to development meetings and regular meetings. In the beginning, division representatives put their own division first, and opinions sometimes clashed. But gradually, a shift occurred, and comments started coming from a customer perspective.

Also noteworthy, the revamped *B.A* series, launched under the new structure, showed revenue composition different to that of previously released products. Typically, when POLA brings new products to market, sales are highest in the month of launch. But the new *B.A* showed progressively higher sales month-to-month, with sales the month after launch higher than the month of launch and the third month higher than the second. This was not because of all the talk about the brand or the novelty factor that piqued customer interest but rather a deep awareness of *B.A* value on the frontlines, efforts there to convey the value message to customers, and that message being heard.

Interpretation of Shift in Sales of New *B.A* to Customers



Brand Manager System



*Formerly known as POLA LADIES. The position title changed in January 2016.

Establish Unprecedented "Lifelong Brand"

Pour every single drop of organizational resources into customer value to elicit greater brand loyalty

Through the recent organizational reform, headquarters staff and frontline Beauty Directors share a more similar perspective than before, with the approach to consulting-based sales—a POLA strong point—becoming more deeply entrenched. Headquarters staff will actively apply this advantage to measures not attempted before.

The key to further growth of the *B.A* series will hinge not on a steady increase in customers but on getting customers to look forward to future products in the series and to be truly satisfied with *B.A*. Going forward, an emphasis will continue to be on raising customer loyalty by pairing scale, a feature provided only by headquarters, with details, available only to Beauty Directors who connect with customers directly. As part of this effort, POLA will introduce a *B.A* loyalty program, dubbed Club *B.A*. This approach gives members access to information—thoughts—that POLA shares about *B.A* beyond the realm of products, as well as experiences that POLA has not been able to showcase through cosmetics. This will promote longevity of the series and continued use of *B.A* products by customers.

On the store front, POLA will boost sales by strengthening demand for services, such as esthetic treatments, and products that customers can experience and touch, essentially, trying out before purchasing. Efforts to upgrade training methods will therefore continue, with an emphasis not on the effect that products have on the skin but on the best approach to convey POLA value to customers from a customer perspective. Headquarters staff will share ideas with Beauty Directors to achieve the most effective results.

VOICE

Miwa Isago
B.A Brand Manager

Keen to see *B.A* be a lifelong brand, always evolving from a customer perspective

A strength of POLA's brand manager system is not that respective functions within the company mesh logically in line with the value chain but that synergies emerge without stop, vertically as well as horizontally. That's the appeal. It simultaneously creates resonance and reaction in several departments, precipitates new workstyles and elicits a wow effect. Against this backdrop, I'm putting my energy into building starting points that turn new resonance into new value.

Three Points of Emphasis for New *B.A*

Point 1

Cutting-edge theory and active ingredient development

For the new *B.A* series, POLA went in search of *seimeibi* (beauty of life). Researchers focused on versican, a key component of the skin-building mechanism. This substance is produced in abundance as skin forms during the fetal stage of development, when growth is at its most dynamic level, and gradually decreases with age. POLA came up with the amazing idea to apply such a skin-building mechanism to adult skin and return aging skin to its youthful density glowing with vitality. This is the Genesis Bio-Active Theory, and it is the cornerstone of the new *B.A* series. POLA has combined several original ingredients, notably Golden LP extracted from rare golden silk cocoons to promote versican production, and Bio-Active core liquid, into the new series for the best results.

Point 2

Incorporating cutting-edge formulation technology

Each product in the new *B.A* series is optimized to penetrate deeply into the skin and works to prepare a perfect foundation for the following item in the range to enhance permeation of active ingredients to the greatest extent possible. The rich treatment lotion blends more quickly into the skin, thanks to a moist volume penetration formulation. The silky soft milk has a deep oil cushion formulation that delivers beauty ingredients to every layer of the skin through a flexible lamellar structure. The cream delivers its beauty ingredients over an extended period of time, enveloping permeable membranes with a protective film. This three-step beauty routine creates hydrated, dimensionally firm skin with volume.

Point 3

Quality that raises perception of true beauty

By appealing to feminine sensibilities, in terms of product texture, fragrance and design, POLA elicits the desire to be more beautiful. The texture of the reformulated *B.A* series is smooth and luxurious, soaking deep into the skin. The fragrance, a blend of three different fair-trade natural scents, represents the many facets of a woman. In advertising, the containers, in the series' original black, are set within a piece of art by floral artist Makoto Azuma to evoke the inherent beauty and vitality in plants. The design is meant to express the desire to change by aspiring to something better and the potential that simmers within.

Orginal Value Chain

Group Strengths Drive the Creation of Medium- to Long-Term Value

The POLA ORBIS Group has created an original value chain that integrates all product stages, from research through marketing. Direct marketing provides a direct connection to customers, which makes it possible to collect various information including real-time sales data and customer comments. We apply this information, along with many years of R&D experience and the benefits of a brand manager system, to product development, and undertake business activities with the aim of contributing to better lifestyles, not just better skin, through cosmetics. The strengths that characterize our domestic brands create synergies at overseas subsidiaries as well.

Six Key Types of Invested Capital

1. Funds
2. Human resources
3. Technologies
4. Infrastructure
5. Society
6. Energy

Value Creation Process (Value Chain)

Created Value

Financial Capital 1
- Sound financial status
- Creation of free cash flow to facilitate growth investment

Human Capital 2
- Brand management
- Opportunities that allow diverse human resources to be active
- Opportunities that allow women to be active

Intellectual Capital 3
- Research papers, patents
- Customer data (Big Data)
- Design capabilities, creative capabilities
- Spreading sense of beauty through cultural activities

Manufactured Capital 4
- Integrated manufacturing and sales supply chain defined by "customer first" concept
- Ingredients research specific to skincare and skin-analysis technology

Social and Relationship Capital 5
- Job opportunities for women
- Encouraging female entrepreneurs
- Cooperative product planning utilizing local products and traditional techniques
- Good relationships with customers

Natural Capital 6
- Fewer natural resources used in production activities and lower environmental impact
- Environment-friendly products

The POLA ORBIS Group's Value Creation Process (Value Chain)

Concept Creation/Product Development/R&D

The Group's cosmetics portfolio features nine brands, hinging on POLA and ORBIS, each with its own concept and target market to better meet diversifying customer needs. For example, the concepts for POLA *White Shot,* promoting the idea of a contract, and other products under this flagship brand track back to product development. POLA CHEMICAL INDUSTRIES, tapped with R&D and manufacturing duties for the Group's domestic brands, concentrates research resources into skincare and has earned a stellar reputation for a long-standing investment emphasis on basic research and the announcement of award-winning research results at scientific conventions. In 2015, this dedication secured POLA CHEMICAL INDUSTRIES more industry recognition—Best Oral Presentation Award—at the IFSCC* Conference in 2015. The company's research capabilities were recognized in Japan as well, with the Most Excellent Paper Award, the Excellent Paper Award and the Best Presentation Award from the Society of Cosmetic Chemists of Japan. Further evidence of excellence came with a Best of the Best Award for *White Shot* packaging in the Red Dot Award: Communication Design category in 2015.

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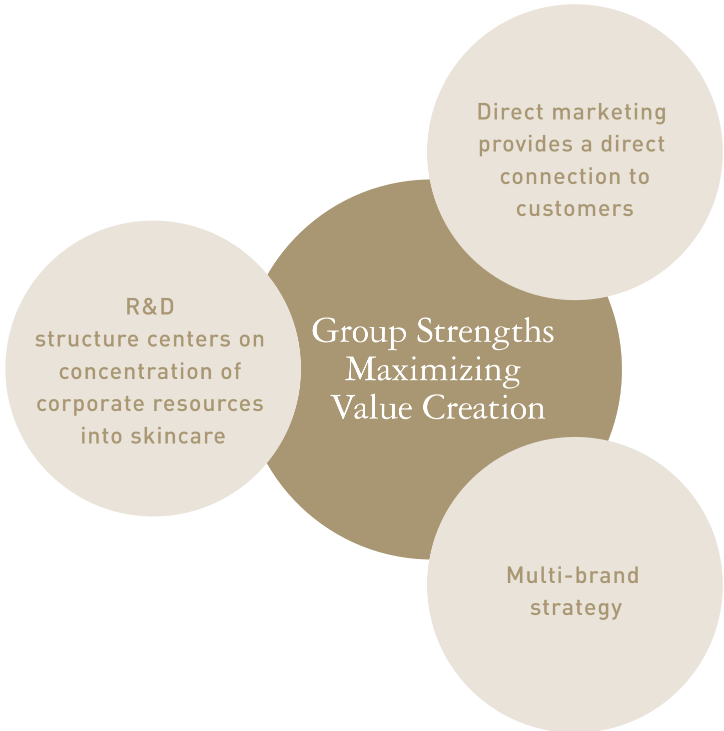
* International Federation of Societies of Cosmetic Chemists (IFSCC) is an organization regarded as the world's most authoritative in cosmetic-related science. The IFSCC holds congresses every two years and conferences in the interim years.



Production System/Quality Control

Domestic production of cosmetics is consigned to a single location—the Fukuroi Factory—which specializes in the production of skincare and foundation makeup. New technology was developed and introduced for the tube line, leading to higher productivity. To deal with constantly changing market conditions, POLA ORBIS HOLDINGS has encouraged alliances with factories outside the Group and a commitment to achieve mutual improvement with these partners. Quality control activities cut laterally through the Group and rotate through a PDCA (plan-do-check-act) cycle. Comments from customers are promptly shared throughout the Group, including with management. POLA CHEMICAL INDUSTRIES, which carries the R&D torch for the Group, endeavors to enhance quality control activities to anticipate possible risks at the design stage with the aim of preventing discrepancies in product quality.

p.27

Sales/After-Service

The Group, which traces its earliest activities through POLA and its door-to-door business, places importance on customer contact. To be the only brand that customers see, each operating company under the Group umbrella strives to raise customer loyalty through various approaches, such as online access, in addition to direct dialogue. POLA took a dramatic step, redefining its perception of the ideal POLA LADY—the face of its door-to-door business—and changing the position title, as well, to Beauty Director. ORBIS is keen to create an ambiance of friendliness and warmth by communicating with customers over the Internet and making them feel that the company is sincere and approachable. decencia utilizes Web-based direct marketing but maintains a round-table discussion system to meet with customers, lends an ear to customer requests, and is committed to communicating corporate concepts.

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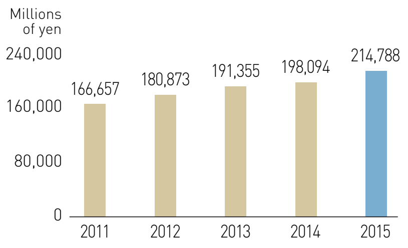
Financial and Non-Financial Highlights

❶ Financial Capital

Favorable progress toward targets for last year of current medium-term management plan and 2020 long-term vision

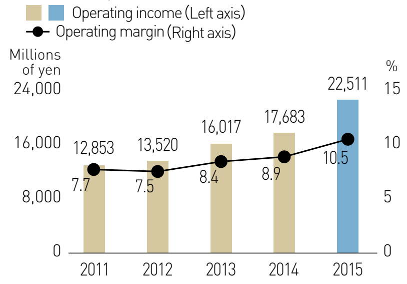
Net sales

¥214,788 million



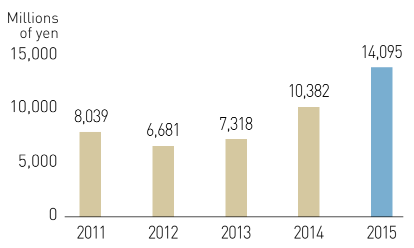
Operating income/Operating margin

¥22,511 million



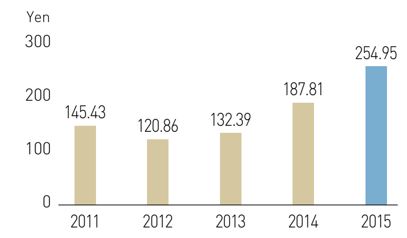
Net income

¥14,095 million



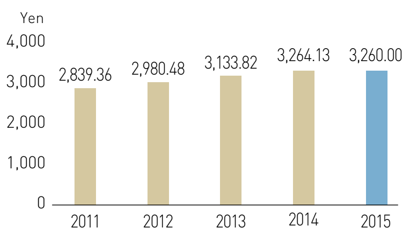
Net income per share

¥254.95



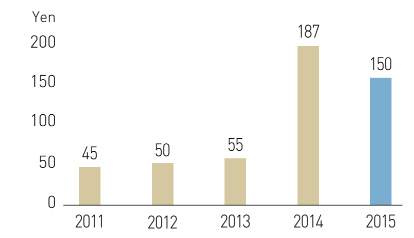
Net assets per share

¥3,260.00



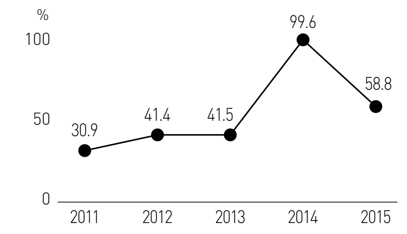
Cash dividends per share

¥150



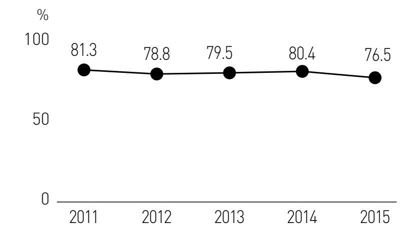
Payout ratio

58.8%



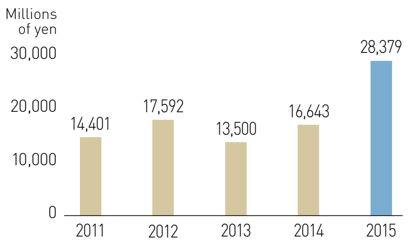
Equity ratio

76.5%



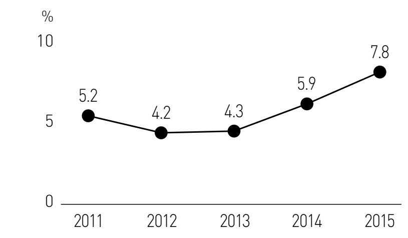
Cash flows from operating activities

¥28,379 million



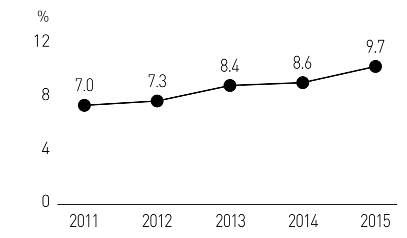
Return on equity

7.8%



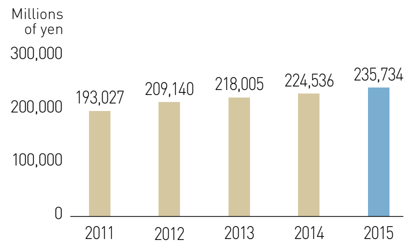
Return on assets

9.7%



Total assets

¥235,734 million



Non-Financial Capital

❷ Human Capital

The POLA ORBIS GROUP seeks to provide settings and office environments in which its human resources can demonstrate individuality, irrespective of age, gender, background or any other factor. As far as training is concerned, the Group recently showcased 13 competencies that directors should have and describes the conduct and necessary proficiency required of management, followed by the preparation of action plans with input from external consultants. Also, to cultivate the skills of the next generation of management, the Group runs three programs—the Future Study Program, the Top Management Development Program and the Coaching Program—and the president of POLA ORBIS HOLDINGS gives guidance on how to foster innovation within their respective organizations.

Ratio of women in management positions in the Group (As of Dec. 31, 2015)	46.2%

❸ Intellectual Capital

At POLA CHEMICAL INDUSTRIES, nearly all research resources are concentrated on skincare, and investment in basic and core technologies pertaining to skincare is an ongoing commitment. Researchers are keen to present the content of their research at scientific conferences and have earned high praise at home and abroad for their results. The Group as a whole benefits from a huge database with upwards of 16 million entries on the condition of Japanese women's skin. The data is compiled from daily sales activities undertaken by 130,000 Beauty Directors across the country and facilitates efforts to provide new value to customers. Packaging is also an important aspect of a product, from the perspective of exciting the senses, meaning in-house designers are tasked with the development of attractive packaging. Their efforts have yielded real rewards, substantiated by a Best of the Best Award for *White Shot* packaging in the Red Dot Award: Communication Design category in 2015. Meanwhile, in cultural activities, POLA Museum Annex and the POLA Research Institute of Beauty & Culture strive to promote aesthetic appreciation.

Number of patents held by POLA CHEMICAL INDUSTRIES (As of Dec. 31, 2015)	615
Number of patent applications filed in 2015 by POLA CHEMICAL INDUSTRIES	22
Database entries on skin conditions (aggregate)	16 million

❹ Manufactured Capital

With the integration of domestic production activities under one roof, POLA CHEMICAL INDUSTRIES established a production structure hinging on its specialized fields of skincare and base makeup. In 2015, a new tube line was developed and installed, boosting productivity by 40%. The company is accelerating the pace of outsourcing for production of point makeup—for specific areas of the face—and is seeing the merits of this approach in lower product costs and access to external technologies used in making these products.

Consolidated cost of sales ratio

2014 19.85%

2015 19.46%

❺ Social and Relationship Capital

Since 1937 and the creation of a female sales representative position, POLA has given several million women the opportunity to have a career. Today, the company's 130,000 Beauty Directors build close relationships with their customers and their communities through products, esthetic treatments and personal consultation that ensure customer satisfaction. In addition, POLA runs the "3-9 Project," an initiative to energize local industry through corporate activities. The project name plays on the Japanese reading of "3-9"—*san kyu*—which sounds like "thank you." In 2015, the project showcased two umbrellas, one in a *hogushi* weave, where the fabric is loosely woven with a temporary weft (lateral threads) to keep the warp (longitudinal threads) in order during printing and then removed—hence the term *hogushi*, derived from *hogusu* ("unravel" or "take threads apart") —and replaced, giving the final pattern a three-dimensional depth, and one in a jacquard weave umbrella. Both designs draw on traditional techniques handed down from one generation to the next in the city of Fujiyoshida, Yamanashi Prefecture. Meanwhile, ORBIS continued to emphasize one-on-one communication, with a focus on approaches that evoke a human touch—a touch of warmth—even though orders are placed online.

POLA sales offices	4,756
POLA THE BEAUTY locations	630
ORBIS' friends on LINE (As of Dec. 31, 2015)	20.96 million

❻ Natural Capital

Aware of the impact that product containers can have on the environment, POLA took a trailblazing approach in industry with the introduction of refills for high-prestige products, while ORBIS has promoted greater use of pillow-packaging for its containers. POLA CHEMICAL INDUSTRIES emphasizes measures to conserve resources, based on ISO 14001 certification, and has soundly achieved its annual CO_2 reduction target of 1%. Jurlique is working toward a reduction of 20% in energy and water consumption by 2020. pdc has switched over to eco-cars for driving during business hours. And, with biodiversity and animal welfare in mind, the practice of animal testing in cosmetics research and development activities has been abandoned.

CO_2 emissions from domestic cosmetics factory in 2015	80.9% (Fiscal 2014 = 100%)
Total waste from domestic cosmetics factory in 2015	72.1% (Fiscal 2014 = 100%)

Concept Design/Product Development

Product Groups Targeting Different Market Segments

The POLA ORBIS Group's cosmetics portfolio centers on POLA and ORBIS but comprises nine brands in total to match diversifying customer lifestyles and needs. Each brand features a concept and products, carefully designed and developed with due consideration given to respective sales channels, price range and distinctive appeal.

Realizing Enduring Happiness for Everyone, and Society as a Whole, Who Wishes for Beauty and Health

High-prestige brand that makes the most of cutting-edge technology

POLA is a high-prestige brand built on leading-edge technology in the fields of anti-aging and skin-whitening. It features products that tackle wrinkles and dark spots—the two biggest skin concerns of women—as well as sagging and loss of firmness, and appeals to women who seek to be beautiful and ardently invest to achieve this goal.

Packaging design that excites the senses

Stemming from the idea that cosmetics should excite the senses, POLA believes design is part of the equation—a form of communication.

White Shot, which was revamped in February 2015, is the perfect example of this. The packaging was designed under an "agreement" concept that implies "a promise to provide customers with proven effectiveness."

The longhand logo evokes the image of a signature on an agreement, while the container itself is noteworthy for its unpretentious design, a minimalist approach taken to accentuate the logo.

Interestingly, this minimum produced a maximum, as the packaging for *White Shot* earned a Best of the Best Award for packaging in the Red Dot Award: Communication Design category in 2015.

Product development attuned to customer psychology

The mainstream marketing approach used to begin with esthetic treatments, which captured interest in the brand, and then, every month when customers came in for a session, they would be introduced to products for use at home. However, interviews and other activities conducted to ascertain that this approach was indeed a match to customer psychology indicated that customers were not really in the mood to listen to a spiel about products after an esthetic treatment.

So POLA embarked on product development more attuned to customer psychology to elicit an immediate purchasing response following an esthetic treatment.

Toward this end, Hiroe Yamaguchi, a manager in the Product Planning Division, headed up a workshop with seven designers and placed herself in the position of target user. The process required delving deeply into the characteristics of the target customer, so the designers were invited to Ms. Yamaguchi's home, where they could see the kind of things she likes and how she lives. These details were reflected in the proposal.

It was through this novel idea to product development that *+9* ("add ninth") debuted in January 2015, with three items—hand cream, balm and bath tablets—in a price range hovering around ¥3,000, which is, psychologically speaking, not too much to spend and would be accepted as a welcome recommendation after an esthetic treatment. This typifies POLA efforts to develop products that boost customer loyalty.

White Shot logo

+9 series

Hiroe Yamaguchi

Manager, Product Planning Division at POLA, responsible for *+9* planning

Sensitive Skin Can Be Beautiful, Too

Shift from no-choice-but cosmetics to wished-for and love-to-use cosmetics

decencia was conceived by a researcher hoping to see a smile return to the face of his little sister who suffered from atopic dermatitis. Since pinpointing the target customer group and brand concept more clearly, decencia has sustained phenomenal growth. Premised upon a formulation gentle and less likely to irritate, decencia successfully cleared an additional hurdle—added value—in the specialized area of cosmetics for dry, sensitive skin under a trailblazing concept "Sensitive skin can be beautiful, too."

decencia targets city-working women in their 30s who are contributing significantly to society these days but whose skin is easily affected by all the added daily stresses.

In many circumstances, women with sensitive skin reluctantly select cosmetics that are suitable for their skin type but not necessarily products that they like. Responding to this situation, decencia applied POLA CHEMICAL INDUSTRIES' Vitacycle Veil technology into the development of cosmetics that are deeply moisturizing and reduce the chance of inflammation. Sales have soared, skyrocketing 16.2 times since 2010. The CC cream and face powder, which went to market in 2015, continue to chart upward growth, fueled by an enthusiastic market response. The tremendous popularity of these products is substantiated by magazine-based best cosmetic awards recognizing innovative cosmetics.

Ayanasu series

Achieving Personal Comfort Levels

Launched skin-whitening beauty liquid boasting 95% naturally derived ingredients

THREE, noted for its use of naturally derived ingredients produced in Japan, is sold through department stores and directly operated stores and has been well received by and enlarged its target customer base—women with an edgy sense who are at the leading edge of new trends. In 2015, the company debuted a skin-whitening beauty liquid, *Balancing White Clear Essence*, with 95% naturally derived ingredient content. The product clearly appeals to customers seeking safety and performance. The quasi-pharmaceutical skin-whitening product with 95% naturally derived ingredient content is a domestic first and has earned top marks from the market, capturing upper levels in surveys by several magazines ranking the best cosmetics.

For the development of a hand cream, bath serum and soap, which were launched in spring 2016, THREE obtained Ecocert certification,* along with organic certification, not only for ingredients but for entire products.

THREE provides products not found anywhere else in the world.

Balancing White Clear Essence

THREE 2016 SEASON COLLECTION—SAKURAISM

* A certification system established by an international organic certification body. Only products clearing a difficult auditing process are certified. The audits involve confirmation of compliance to regulations on organically certified ingredients contained in products and monitoring of production processes and product traceability, and extend to the entire production system, including inputs, manufacturing methods and controls used in making environmentally conscious products.

R&D/Production/Quality Control

Innovation in Research

POLA CHEMICAL INDUSTRIES handles R&D and manufacturing duties for products under the labels of brands in the POLA ORBIS Group's portfolio. The Yokohama R&D Center is involved in various pursuits, from basic research focusing on skincare through product development. But it is the company's tremendous strengths in the fields of anti-aging and skin-whitening that are of particular significance. Pursuing in-house development of original ingredients transcending pre-existing concepts, the company has achieved research results and a level of technological capability that have also garnered high praise at academic conferences around the world.

Industry-Leading R&D Capabilities

Three key features of POLA CHEMICAL INDUSTRIES' research division

1. Research resources concentrated into skincare
2. Continuous investment in basic research
3. Always actively participating at academic conferences to announce results

1. Research resources concentrated into skincare

An absolute must in raising the value of products as high-prestige cosmetics is the development of materials and formulations from a variety of entry points, such as skin finish, texture, long-lasting cosmetic film, and protection from UV rays. POLA CHEMICAL INDUSTRIES has always been a market leader in regard to research on wrinkles and dark spots—the two biggest skin concerns of women—and its steady stream of successes include Japan's first skin-whitening product in 1951, and later, the world's first skincare product containing hyaluronic acid.

2. Continuous investment in basic research

Research activities at POLA CHEMICAL INDUSTRIES are not limited to cosmetics. The company delves into research from physiological and social perspectives as well.

In 2015, researchers at the company discovered a net-like fibrous structure in the skin thought to trigger sagging and found that appropriately formulated cosmetics had the potential to improve the situation, an aspect of skincare that had not been sufficiently addressed before. Going forward, POLA CHEMICAL INDUSTRIES will work to apply this discovery on a practical basis to products in the Group's brand portfolio as well as esthetic treatments.

3. Always actively participating at academic conferences to announce results

In 2015, POLA CHEMICAL INDUSTRIES picked up three awards from the Society of Cosmetic Chemists of Japan (SCCJ), the largest cosmetics conference in Japan. These awards were the Most Excellent Paper Award and the Excellent Paper Award at the 18th Excellent Paper Selection in June, and the Best Presentation Award at the Research Symposium in November, and recognize the authors of papers who contribute to better cosmetic science and technology and promote further development of the industry. The company also won the top award—Best Oral Presentation Award—at the 23rd International Federation of Societies of Cosmetic Chemists (IFSCC) Conference held in Zurich, Switzerland, in September 2015.

History of Innovative Products

1951 Skin-whitening — POLA
Japan first
Peculiar Cold Cream, the first product in Japan to coin the term "skin-whitening"

1982 Hyaluronic acid — POLA
World first
Perbona, the world's first cosmetic product to contain hyaluronic acid

1987 Oil-free — ORBIS
Industry first
ORBIS, the first 100% oil-free skincare brand in the cosmetics industry

2009 Anti-glycation — POLA
New concept
New anti-aging series *B.A* targeting glycation

IFSCC Award-Winning History

2015	Highest award (best oral presentation category)
2014	Highest award (best oral presentation in basic research category)
2012	Highest award (best poster presentation category)
2008	Highest award (best oral presentation in basic research category)
1998	Highest award
1996	Award for excellence
1994	Highest award
1986	Award for excellence

Innovative Changes to *Monozukuri**Approach

A change in the *monozukuri* structure for the POLA ORBIS Group occurred in September 2014 with the consolidation of domestic production activities at one site—the Fukuroi Factory. By focusing on skincare and base makeup and effectively maintaining consistent levels of quality, the one-site production structure contributes to a better revenue structure for the Group as a whole while providing customers with products that are safe and can be used with peace of mind. The shift toward outsourced production of point makeup presents many advantages, including the potential for new value creation.

*Manufacturing from a product creation perspective.

Production Division Seeks New Value Creation Opportunities

One-site production improves productivity

Since the 2014 consolidation at the Fukuroi Factory, POLA CHEMICAL INDUSTRIES has pursued innovation in technology applicable to production. In 2015, a new tube line was developed and installed, boosting productivity by 40%.

Many aspects of tube quality inspection are only possible because of human involvement, relying on the ability of people to pinpoint defects, and this factor has been an obstacle to automation. But the engineers at POLA CHEMICAL INDUSTRIES went beyond department borders to draw on composite expertise, and after two years of investigation and consideration, automated inspection became a reality. This highly commendable achievement had the added benefit of personal growth for the employees themselves.

As a result, the 2015 consolidated cost of sales ratio for the Group improved about 0.4 point over 2014. And what's more, a cost reduction of up to ¥1.5 billion is likely, which will reinforce the revenue structure of the Group.

Product development using OEM technologies also now a reality

POLA CHEMICAL INDUSTRIES is accelerating its use of outsourcing for production of point makeup and other items in fields outside the priority view of the Fukuroi Factory. This decision was aimed at cutting product costs but it is also generating various advantages, including access to outside technology to make products.

For example, *Whisper Gloss for Eye*, a new and tremendously popular eye shadow from THREE, has such a unique quality because it came about through OEM technology and THREE's original idea.

Going forward, value will be created like never before through cooperative efforts with many providers of outsourced production.

Own FMEA* for steady success in quality control

To underpin quality control at POLA CHEMICAL INDUSTRIES, the company introduced its own version of failure modes and effects analysis (FMEA) and is directing concerted effort into preventing risks that could lead to failures. The company reinforced activities at the development stage in the laboratory rather than once into manufacturing processes to deduce, from various angles, risks linked to design flaws, and dramatically reduced the number of complaints and in-process defects compared with the level in 2014.

The share of outsourced products continues to expand, and POLA CHEMICAL INDUSTRIES seeks to ensure the quality of these products as well. Toward this end, action plans are drafted, primarily by quality assurance managers at each company, all-out efforts are made to prepare and implement rules to guide the process of manufacturer selection, and audits are performed on a regular basis. In addition, the Subcommittee on Quality Assurance, an internal structure that cuts across the Group, confirms status every quarter.

Complaints or criticisms from customers and retailers are conveyed to the respective internal division through a weekly report and presented at the Group Strategy Meeting on a regular basis.

*An approach for assessing risks inherent in products and processes, mainly at product design stages and process design stages, and identifying methods to eliminate or at least reduce these risks as much as possible.

Sales/After-Service

Customer Satisfaction Matched to Sales Channels

POLA—and by extension, the POLA ORBIS Group—began from the sales channels of its door-to-door business, and interaction with customers has always been an integral part of its business. The company lends a corporate ear, listening directly to customers not only to identify their skin-related concerns but also to discover their latent needs as well, and strives, through each brand in its portfolio, to present cosmetic products and services that make skin feel and look more beautiful and foster enduring loyalty to the chosen brand.

Transition, Favoring Quality over Quantity, on the Sales Frontline — POLA

To properly provide POLA brand value

At POLA, the thinking used to be that boosting the number of POLA LADIES created employment for women and attracted a larger base of customers who love the products, which in turn supported organizational growth and by extension higher sales. However, the external environment is changing and customers are acquiring a more critical eye, prompting management to see that training to polish the skills of human resoureces is a key factor in long-term growth. POLA embarked on a major policy shift highlighting the evolution of POLA LADIES into professional advisors on beauty. To reflect this more specialist status, the title "POLA LADIES" was changed to "Beauty Directors." The compensation structure for Beauty Directors was revised, effective from 2016, and now links commissions on a fluid scale matched to the level of professional expertise. This proposal was met with some opposition within the company as well as on the frontline, but the bold decision was made so that resources could be concentrated into the development of excellent Beauty Directors.

Shift to training policy harkening back to starting point of face-to-face sales

In January 2015, POLA established a sales training division—with a mission to determine the approach that would be most effective for developing Beauty Directors with professional expertise. The division started by sorting out a list of requirements—the skills that are needed for a Beauty Director to succeed in the position and move up from a Beauty Director to the manager of a larger organization. The process drew on historical theories in education and psychology and culminated in the creation of a training policy unique to POLA.

The training policy highlighted the idea that Beauty Director development is akin to personal growth. Indeed, the most important facet is not skill training at all but a shared philosophy. So the emphasis changed from the existing approach, where participants learned about the ingredients in new products and their special features and mastered consulting and sales techniques—what to say, how to say it—to philosophy training, which promotes philosophy-based responses to customer needs. Another way to improve services from a customer perspective comes through the introduction of a mystery shopper program at POLA THE BEAUTY stores. External evaluation encourages store owners to be more diligent in their efforts to improve the way customers are served, and this inevitably leads to higher scores with every mystery shopper visit.

POLA also ran a customer service contest, where Beauty Directors showcased to other Beauty Directors how they deal with customers, and encouraged efforts to raise the quality of customer service. For participating Beauty Directors, the contest provided a great opportunity to rethink personal customer service techniques from a customer perspective.

Recruiting standard emphasizes the process of getting results not just the results themselves

The Beauty Director recruiting standard typically targeted housewives and appealed to their desire for meaningful work. Now the standard includes being an expert. To recruit experts, the conventional full-commission workstyle is not enough of an incentive. A system with a rising fixed salary component is needed. This attracts more candidates with a background in esthetics and sales and also helps secure new Beauty Directors with a high level of professional competence. In 2016, the responsible division was renamed Human Resources Development Division, reflecting the fact that efforts do not stop at training but extend to the development of human resources, as well.

Even Through Mail-Order Sales, Customer Service Exudes Cordial Warmth — ORBIS

Human touch—a vital aspect of business since earliest days

Mail-order selling is a convenient approach to shopping but it typically creates an invisible wall between customers and company. However, ORBIS has grown its business by closing that perceived distance and enabling customers to feel a sense of corporate sincerity and closeness fostered through a philosophy of integrity and customer service that exudes cordial warmth as well as the expected convenience. At ORBIS, this cordial warmth is regarded as its human touch.

At the time of its establishment, ORBIS took orders through a call center over the phone, but in 1999, the company introduced round-the-clock online ordering that allowed customers to place orders for products at whatever time they like. The percentage of orders placed online has risen, along with a changing social landscape shaped by the spread of the Internet. At ORBIS, the emphasis has always been on communication that conveys a human touch—a sense of contact—that customers can feel even when placing an order online.

The evolution of one-to-one marketing

ORBIS revamped the customer relationship management (CRM) system on its corporate website in 2013 and, by analyzing the engagement process through to purchase, was able to pinpoint areas of interest for each customer. This knowledge allowed the company to provide information and products tailored to the specific purchasing cycle of each customer.

The company looks at the website activity of not just existing customers but also of the people who browse the site without making a purchase, and applies the trends to promote one-to-one suggestions for possible orders in the future.

Achieving a distance that feels comfortable, from a customer perspective

A tweet appeared on ORBIS' official Twitter account suggesting some dissatisfaction with the minimal color variation available for a particular product. In response, an employee at ORBIS immediately tweeted back and informed the customer that new shades would be launched. The tweet from ORBIS was thus seen as a friendly overture. ORBIS knows how to shorten the distance between itself and its customers by utilizing the special features of social networking services (SNS), like the use of symbols to write messages matched to the style of customer comments. Through this online connection, as well as call center and store-based customer interaction, ORBIS has created a unique sense of familiarity that makes customers comfortable. The exchange of messages with customers through SNS circulates the content to other customers, makes ORBIS' fine-tuned responses seem uncontrived, and leads to widespread attention. This human touch is central to ORBIS' corporate philosophy.

Regular Round-Table Discussions with Customers — decencia

Working through concerns individuals have about their skin

decencia, a brand of cosmetics especially for women with dry, sensitive skin, is available only through the company's mail-order business. Consequently, direct communication with customers falls on the shoulders of call center operators, and employees responsible for product planning rarely have the opportunity to meet and speak with customers. The business might then become biased toward a product-out strategy—pushing products but missing the market. To prevent such an outcome, management decided at the time the company was established to run a program of round-table discussions bringing employees and customers together, face-to-face, so that employees could convey management's gratitude to customers for choosing decencia, ask if anything about the brand is disappointing or disconcerting, and brainstorm together on what women with sensitive skin really want. The goal, of course, has always been to create products and services that target the root cause of concerns that women with dry, sensitive skin have and bring out their true beauty. In 2015, discussions were held in Tokyo in March, April, June and September. In 2016, the plan is to hold sessions outside urban regions as well. Going forward, decencia will continue to pursue face-to-face contact with customers, reflect each and every comment heard in the products and services offered, and enable women with sensitive skin to be beautiful.

Scene from round-table discussion

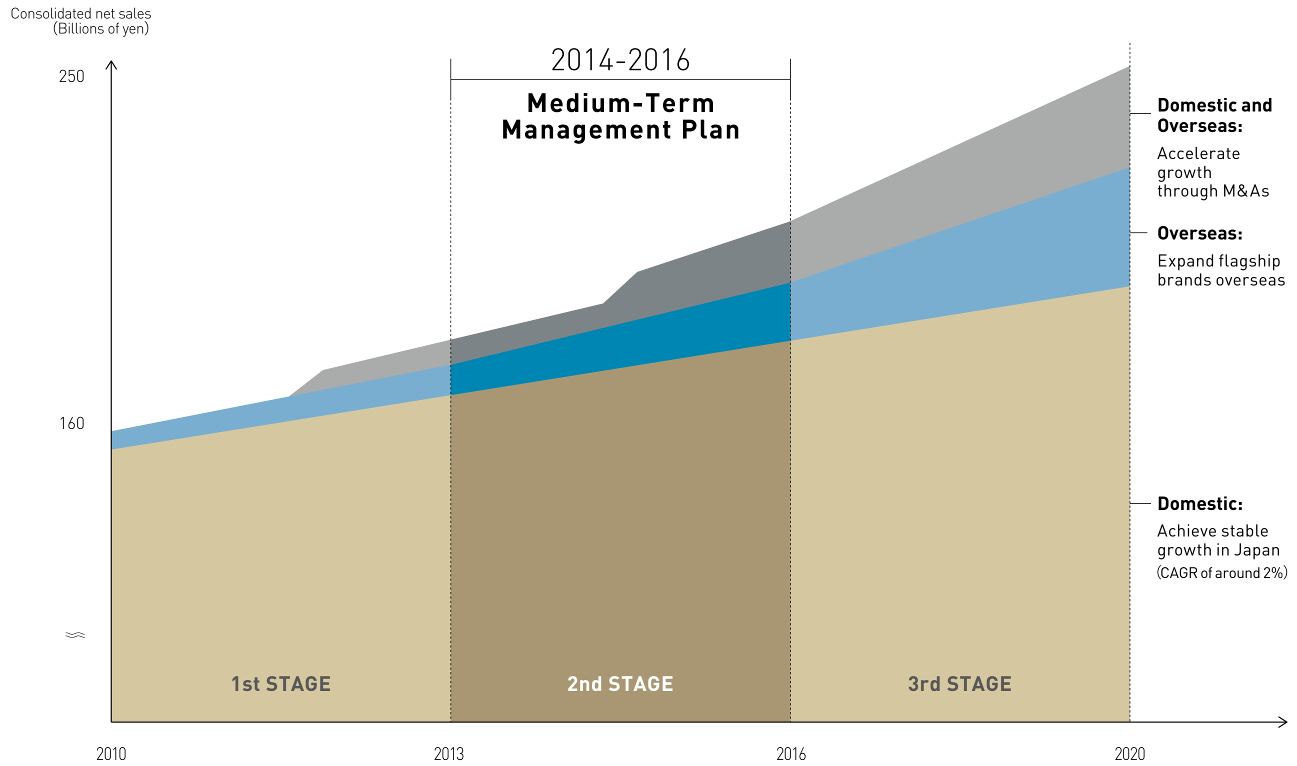
The Group's Growth Strategies

The Second Stage of Our Long-Term Vision: 2014–2016 Medium-Term Management Plan

In 2011, POLA ORBIS HOLDINGS announced a long-term vision with the ultimate objective of becoming a "highly profitable global company" in the beauty and health field by 2020. The current medium-term management plan is the second stage of our long-term journey toward this destination.

The underlying strategies of the current medium-term management plan are to further strengthen the domestic earnings structure and accelerate overseas expansion while improving corporate value though enhanced capital efficiency. We are working steadily toward these targets.

Long-Term Vision—Goals for 2020



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

FY2013 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

Goals for FY2016	
Net sales	approx. ¥210.0 billion
Overseas sales ratio	15% or higher
Operating margin	11% or higher

3rd STAGE
Become a "highly profitable global company"

Goals for FY2020	
Net sales	¥250.0 billion or higher
Overseas sales ratio	20% or higher
Operating margin	13%–15%

Recognizing Opportunities
- Return to growth through ORBIS brand restructuring
- Growth in China and ASEAN region and inbound demand
- Brands under development with potential to fuel high growth

Knowing Risks
- A changing market environment (e.g., higher consumption tax)
- Heightened governance responsibilities
- A quick return to profitability for operations in the red

Understanding Issues
- Improve capital efficiency
- Pinpoint markets for successful overseas brand development and higher earnings
- Develop skills of personnel capable of supporting business expansion on a global basis

Allocating Resources
- Foster stable earnings through flagship brands and invest in overseas brands and brands under development
- Concentrate resources into cosmetics business and skincare (anti-aging and skin-whitening) fields by withdrawing from non-core, underperforming businesses or integrating these operations to streamline activities

2014–2016 Medium-Term Management Plan

Aim to enhance corporate value by further strengthening domestic earnings structure, accelerating overseas expansion and improving capital efficiency

Strategy 1
Sustain stable growth of flagship brands to lead Group earnings

Strategy 2
Sales growth and monetization of brands under development

Strategy 3
Overseas brands contributing to profitability through high sales growth

Strategy 4
Restructure overseas expansion of flagship brands

Strategy 5
Reinforce the operating base (Human resources, R&D, and production)

Strategy 6
Improve capital efficiency and shareholder returns

Consolidated net sales	
Consolidated net sales	CAGR 3~4% (¥210.0 billion in FY2016)
Overseas sales ratio	15% or higher in FY2016

Operating income	
Operating income	CAGR 15% or higher
Operating margin	11% or higher in FY2016

Capital efficiency	
Target for ROE	8% or higher in FY2016 → Revised upward to 9%

Shareholder returns	
Consolidated payout ratio	50% or higher from FY2014

FY2015 Results

Consolidated net sales	Operating income	Net income	Overseas sales ratio	ROE	Consolidated payout ratio
214,788 million	22,511 million	14,095 million	11.9%	7.8%	58.8%
(Up 8.4% yoy)	(Up 27.3% yoy)	(Up 35.8% yoy)	(Down 0.9 ppt yoy)	(Up 1.9 ppt yoy)	(Up 12.5 ppt yoy)*

*Excludes special dividend distributed in previous fiscal year

Growth Strategy by Brand (Flagship Brands)

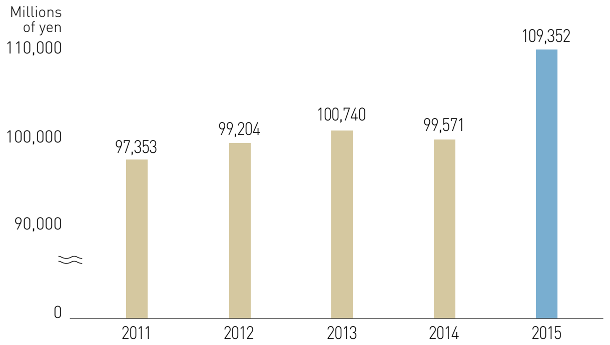
POLA

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


WHITE SHOT series   *B.A* series

Net Sales

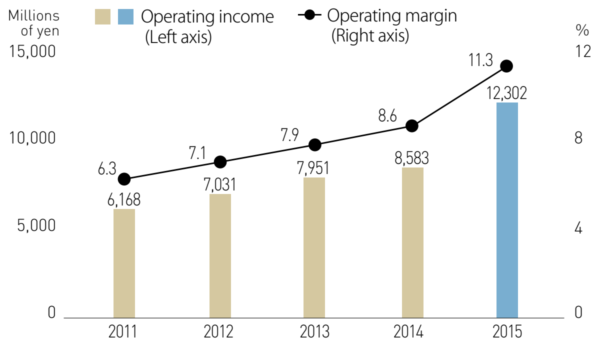
¥109,352 million (Up 9.8%)



Note: Consolidated basis

Operating Income and Operating Margin

¥12,302 million (Up 43.3%)



Note: Consolidated basis

Fiscal 2015 Results

POLA scored a major hit with the skin-whitening series *White Shot*, which debuted in February 2015. *INNER LOCK IX*, the series' supplement product, was of particular interest to inbound tourists, and steady demand fueled corporate growth. Then in August, POLA revamped its mainstay series, *B.A*, to celebrate the series' 30th anniversary, and established a rock-solid position in the anti-aging skincare market with several best cosmetic awards. As a result, annual purchasing per customer rose about 8% and net sales climbed 9.8% over the previous fiscal year. By sales channel, POLA THE BEAUTY remained a very favorable route, showing high growth of about 22% year on year at existing stores.

Operating income soared 43.3%, not only because of an increase in gross profit on the heels of higher sales but also because of successful efforts to trim marketing costs. Consequently, the operating margin rose 2.7 percentage points, to 11.3%, and for the first time surpassed the threshold that indicates major moneymaker status.

Next-Stage Growth Strategies

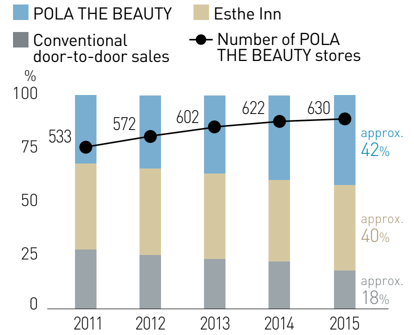
Completely new management team with flexible thinking

In Japan, the term "baton touch" transcends relay race imagery to include a changing-of-the-guard quality. And 2016 has seen POLA execute such a move with the appointment of a completely reenergized management team in January. Hinging on young executives with flexible thinking, it is the mandate of this new management team to improve the company's responsiveness to change and build a stronger relationship with the sales frontline. Underpinned by the new management structure, the company has launched a new brand strategy. The company's unique values have been redefined under the slogan "Science. Art. Love." and efforts will be directed toward raising the quality of all corporate pursuits, including activities related to products, customer contact and information, and to promoting sustainable growth. As part of this process, the company will reinforce frontline training to hone the professional expertise of its sales associates, take beauty skills and counseling techniques to new levels, and improve the revenue structure through such steps as a review of the sales commission structure.

Inbound demand

The inbound market is expected to grow even bigger, and while POLA will strive to raise brand recognition among overseas customers, the company will keep setting limits, particularly in regard to excessive purchasing volume, as such behavior can damage a brand, persistently emphasize counseling-style sales and focus on repeat domestic clients.

Sales Breakdown by Business Format and Number of POLA THE BEAUTY Stores



TOPIC

Start of New Brand Strategy

In January 2016, POLA launched a new brand strategy. The unique values that POLA has cultivated since its earliest days have been redefined:

Science. Innovative results achieved through scientific curiosity and a willingness to tackle challenges.

Art. Amazement and inspiration nurtured through exemplary beauty and technique.

Love. Loving relationships built on mutual respect.

Guided by these unique values, POLA will strive to enhance brand profile, through a complete redesign of the corporate logo and visual, and to raise quality still higher in all corporate pursuits, kicked off by a total revamp of the esthetic treatment menu in spring 2016.

POLA

The new corporate logo is black, rather than blue as it was previously. Black represents the character of POLA—a brand imbued with unshakable confidence that makes it impervious to unsolicited change. The "POLA dots" used in the new visual convey the idea of infinite expansion, as if the products created by POLA are spreading drop by drop across boundless time and space.

Gradually, POLA will work the new brand strategy into visible symbols, such as POLA THE BEAUTY store visuals, shopping bags, the website and items worn by staff, which will create a stronger impression of the brand in the minds of existing and potential customers.

For Stakeholders

My name is Yoshikazu Yokote. I assumed the position of representative director and president at POLA in January 2016.

Fiscal 2016 is the first year of rebranding POLA, and corporate activities will be rolled out to elevate brand value. The values that POLA has held dear have been redefined under the slogan "Science. Art. Love." and our goal now is to polish these unique values to a brighter shine for the future. The planning and development of advanced anti-aging skincare is, of course, a priority, but we will also rebuild our investment and training structure to enhance the professional expertise of sales associates along with a shift toward a frontline-tied promotion structure, efforts to boost customer satisfaction through revamped esthetic services and other approaches to thoroughly improve the services that POLA offers, maintain customer interest and encourage even greater loyalty to the brand. We will seek to evolve and thereby provide greater inspiration to our customers, and we will elicit a different perspective among employees and rethink the headquarters structure and business content. It is my hope that through these efforts, we will realize continuous and stable growth as the core brand of the POLA ORBIS Group.

Yoshikazu Yokote
Representative Director and President
POLA INC.

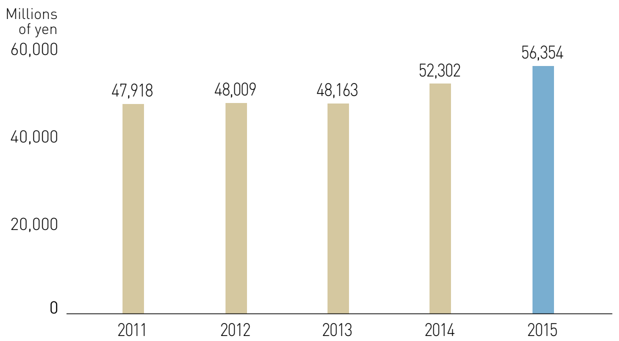
ORBIS

Change is beautiful.
Skincare based on an original oil-free concept

ORBIS=U series

Net Sales

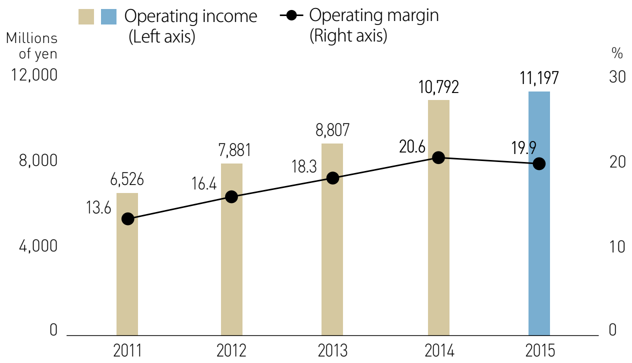
¥56,354 million (Up 7.7%)



Note: Consolidated basis

Operating Income and Operating Margin

¥11,197 million (Up 3.7%)



Note: Consolidated basis

Fiscal 2015 Results

Net sales in fiscal 2015 increased 7.7% year on year due to ORBIS changing the basis for recording sales, following the introduction of a point system in September 2014. Real sales growth, excluding the boost from sales through the point system, was down slightly from fiscal 2014. This is largely because the company was unable to bridge the gap caused by a rush of purchasing activity ahead of the consumption tax increase in April 2014 and the subsequent drop in demand after the higher tax took effect. Nevertheless, the underlying goal of the point system—to build customer loyalty through one-to-one marketing rather than across-the-board discounts—definitely delivered the hoped-for results. On the product front, in the first half of fiscal 2015, the company debuted the renewed *CLEAR* skincare series, in its mainstay anti-acne line, to rave reviews from customers. The company also debuted *ORBIS=U encore*, a luxury-priced line in the *ORBIS=U* series.

On a positive note, operating income edged up 3.7% year on year, buoyed by the launch of new, luxury-priced skincare products, an improvement in the online sales ratio, and tighter control of expenses. The operating margin hit 19.9%. If the effects of the point system had not been felt, the operating income margin would have been 21.6%, or one percentage point better than in fiscal 2014.

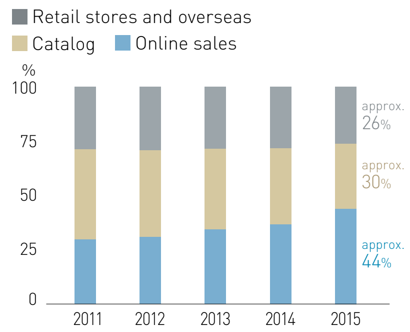
Next-Stage Growth Strategies

Growing *ORBIS=U* into a flagship brand
ORBIS worked to enrich the *ORBIS=U* lineup, adding *ORBIS=U encore*, a full-fledged anti-aging skincare response targeting women in their 40s–50s and older, in fiscal 2015 and just recently, in 2016, introducing *ORBIS=U WHITE*. Going forward, the company intends to grow the *ORBIS=U* series into a flagship brand.

New sales channels
Seeking wider access to customers, ORBIS set up its own mail-order website and also began offering products on external mail-order websites, namely, LOHACO in 2015 and Amazon in 2016. The objective is not merely to expand sales volume but to create complementary points of contact that have the potential to attract new customers to the ORBIS brand.

Marketing with an aggressive SNS twist
Marketing strategies utilizing LINE, a very popular instant messaging app in Japan, remains an effective conduit to customers, and ORBIS is keen to expand the base of new users and boost the repeat purchase rate through one-to-one marketing aimed at individuals.

Sales Breakdown by Sales Channel



TOPIC

Debut of *ORBIS=U WHITE*

To promote the development of ORBIS as a brand that meets the skincare needs of customers throughout their lives, the company debuted *ORBIS=U*, a new anti-aging skincare series, in 2014. It has been a hit with customers since it appeared on the market. *ORBIS=U WHITE*, a follow-up line in the series, is based on the oil-free skincare concept of the brand and provides dual care—skin-whitening and anti-aging benefits—to address the common concerns of wrinkles and dark spots that appear due to age.

The debut of *ORBIS=U WHITE* opened more eyes to the potential of oil-free skincare, and ORBIS intends to continue evolving as a brand of high-value-added skincare, hinging on the *ORBIS=U* label, with products matched to the skincare needs of customers throughout their lives and thereby maximize customer LTV* through a rising retention rate.

*Life-time Value

For Stakeholders

ORBIS is starting to see progress toward long-term growth and expansion of its customer base through rebranding efforts. The development of new sales channels, such as Amazon, is part of this evolution, but the company still has to enrich the product menu to match customer lifestyles. To date, ORBIS has provided value with an emphasis on product performance. But going forward, performance alone will not be enough to differentiate the brand. I believe the key to amplifying brand value goes beyond product performance to the way we evoke that something extra customers perceive as value when they use our products and in what situations they use our products. Therefore, we aim to become a lifestyle brand that resonates in the lives of our customers, and toward this end, we will strengthen development capabilities over a wide spectrum of products, raise the profile of the brand to reach more customers, and create more points of contact to reinforce communication with our customers.

Specifically, we will accurately identify the kind of people who are and who might potentially become ORBIS customers and strive to understand their lifestyles. We will provide the ORBIS view of the world to those who have embraced the brand and offer related information, and we will increase the range of product materials so that our customers readily perceive the value we offer.

Yoshifumi Abe
Representative Director and President
ORBIS Inc.

Growth Strategy by Brand (Overseas Brands)

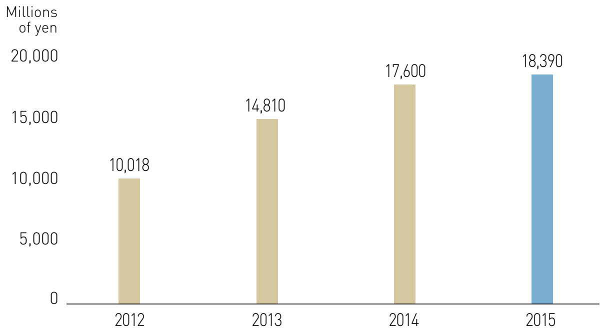
Jurlique

An organic brand featuring ingredients made from herbs grown on the company's own farm in Australia


Nutri-Define series

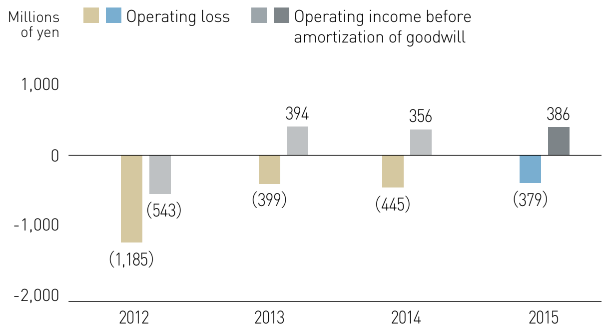
Net Sales

¥18,390 million (Up 4.5%)



Operating Loss

¥379 million (¥66 million improvement)



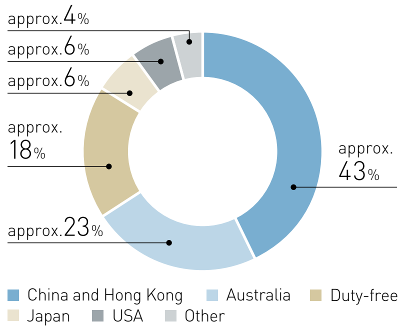
Fiscal 2015 Results and Next-Stage Growth Strategies

On the product front, Jurlique launched additions to its mainstay *Nutri-Define* anti-aging skincare line as well as other products featuring organic ingredients that accord a sense of security and performance. With regard to sales channels, the company found demand conditions challenging in China and Hong Kong, reflecting lackluster growth in China's cosmetics market and a shift away from department stores in favor of e-commerce routes there, and reduced demand from shoppers in Hong Kong due to a drop in tourist numbers. The trend was different in Australia, which is the brand's home territory, and efforts to capitalize on steady demand from inbound travelers underpinned more than double-digit sales growth, matching fiscal 2014. Consequently, sales rose 4.5% and the operating loss was a lighter shade of red, at ¥66 million.

Growth Strategies Going Forward

Seeking to turn a profit in fiscal 2016 after amortization of goodwill, Jurlique will embrace a different business model for operations in China, which remains a key market for the company. The company will emphasize a stronger e-commerce presence, shift toward agencies to distribute products as a way to keep fixed costs in check, and strive to improve its revenue structure. Meanwhile, in Australia, the company will draw on high brand recognition and continue to meet demand from overseas travelers.

Sales by Region (2015)



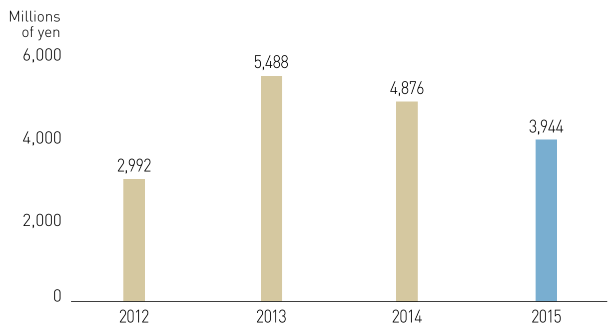
H2O+

Marine science cosmetics featuring sea-derived ingredients


Total Source series

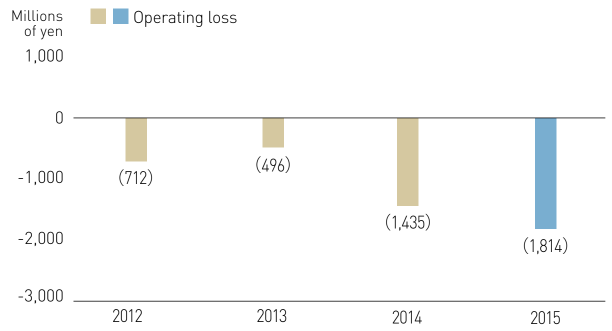
Net Sales

¥3,944 million (Down 19.1%)



Operating Loss

¥1,814 million (¥378 million deterioration)



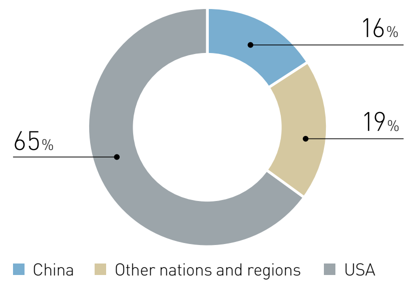
Fiscal 2015 Results and Next-Stage Growth Strategies

The strategy-directed closure of unprofitable stores in China—a process rolled out in 2014—as well as a review of sales channels in North America led to a 19.1% decline in sales and a decrease in operating income. However, in line with a brand restaging plan, the company relocated its headquarters, leaving Chicago for San Francisco, and transitioned to a new organizational structure. Paralleling the move, the factory attached to the old Chicago headquarters was shuttered and production activities outsourced. This frees the company to concentrate on product planning, marketing and sales under a new business model that takes development and production out of the operating equation.

Growth Strategies Going Forward

Under a new CEO appointed in February 2015, H2O PLUS implemented a redesigned brand concept as part of its approach to breathe new life into the brand. As a test of success, the company plans a stepped launch of products based on the new concept in the first half of 2016, starting off with the U.S. market. Utilizing this as an opportunity to put sales back on a growth track, the company aims to get into the black in 2017. The company is keen to realize a turnaround in China, too, and is looking to use agents to handle distribution activities to trim fixed costs.

Sales by Region (2015)



Growth Strategy by Brand (Brands under Development)

THREE

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

Balancing series

decencia

Skincare products for dry, sensitive skin

ayanasu series

ORLANE PARIS

Well-established high-prestige brand of skincare cosmetics from France with anti-aging properties

B21 EXTRAORDINAIRE series

FUTURE LABO

Cosmetics brand with unique features

Derma QII series
Shine Days series

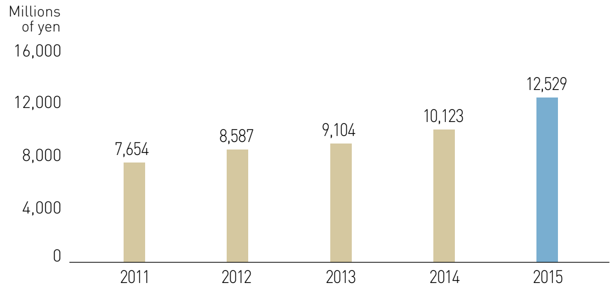
pdc

Affordably priced cosmetics with a skincare focus

Pure Natural series
Liftarna series

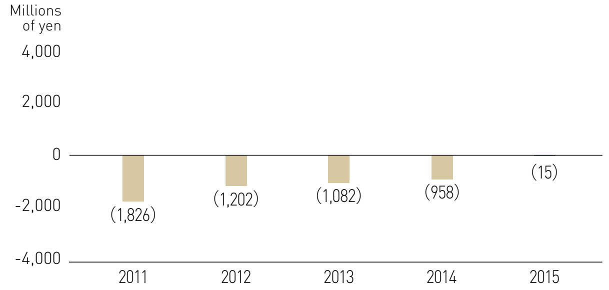
Net Sales

¥12,529 million (Up 23.8%)



Operating Loss

¥15 million (¥943 million improvement)



Fiscal 2015 Results

THREE

With a concept that combines skincare featuring naturally derived ingredients extracted from plants and stylish makeup supervised by New York artists, THREE continued to achieve high growth through domestic department stores, semi-self-select stores* and directly operated stores. The brand has garnered increasingly positive reviews from customers and industry professionals, substantiated by yearly best cosmetic awards for many items. Sales surged more than 60% over the previous fiscal year, and operating income hovered at ¥700 million, with the brand approaching a level, on a non-consolidated basis, that indicates profitability is at last within reach.

decencia

The decencia concept is "Sensitive skin can be beautiful, too," and the company showcases anti-aging and skin-whitening cosmetics suitable for people with dry, sensitive skin. The brand has earned top marks from customers, and *ayanasu moist finishing pact*, which went on sale in October 2015, was a tremendous hit, dramatically exceeding initial expectations in just a month after launch. As a result, sales skyrocketed, nearly doubling year on year, and operating income increased about ¥200 million over fiscal 2014, for a double-digit operating income ratio.

Next-Stage Growth Strategies

THREE

THREE intends to vigorously expand sales locations, particularly at semi-self-select stores* and directly operated stores in Japan. The company will also run conversation-making event promotions to coincide with sharp new product introductions. For example, the company utilized the appeal of cherry blossom season in Japan to launch a cherry-themed seasonal collection of makeup and skincare, starting off in Kyushu, in the south, and gradually moving northward as the cherry trees blossomed in other areas. Brand recognition is growing, even overseas, and the company receives many inquiries from outside Japan. This rising profile encouraged the company to launch products in Malaysia in April 2016, which is the fourth country, after Thailand, Taiwan and Indonesia, where THREE has a local market presence outside Japan. The company expects to turn a profit in 2016, with operating income on a non-consolidated basis, by boosting earnings and reviewing product design to trim its cost of sales ratio.

decencia

decencia aims to build a bigger customer base by executing a complete renewal of its mainstay anti-aging skincare line and enhancing its media marketing results. The company also seeks to establish itself as a recognized authority in cosmetics perfectly suited to sensitive skin and plans a complete rebranding to showcase the specialty of the brand. Looking to the future, decencia is keen to broaden its sales channels, including store development beyond the online conduit, and expand business in line with profitability.

*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, counseling-driven process at department stores.

Capital Efficiency and Shareholder Returns

Emphasizing Both Higher Capital Efficiency and Stable Returns to Shareholders

We will steadily improve corporate value by achieving growth in net income that exceeds growth in operating income and by enhancing shareholder returns through a basic policy centering on a consolidated payout ratio of at least 50%.

Improve Capital Efficiency

Toward higher return on equity (ROE) and further improvement in corporate value, we are targeting ROE of 9%, exceeding capital costs,* in fiscal 2016.
*Capital costs estimated at 6%-7%

EPS Earnings per share

Operating income: CAGR 15% or higher

Realize higher net income growth than operating income growth
→ Lower normal effective tax rate by reducing loss in overseas business
→ Tax revision (elimination of special corporate tax for reconstruction related to earthquake damage)

BPS Book value per share

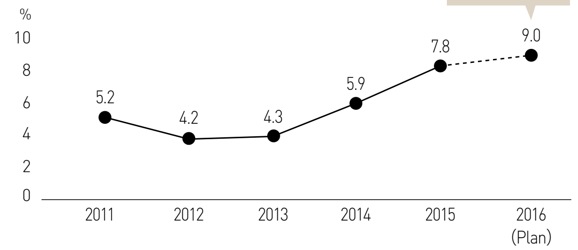
Enrich shareholder returns

Growth investments with financial efficiency in mind

Higher returns from net assets → Average consolidated payout ratio over the past 3 years: 38% → Aim for 50% or higher

ROE reached 7.8% in fiscal 2015, up 1.9 percentage points year on year. We aim to boost capital efficiency by achieving stable profit growth while maintaining growth investments based on return on investment and enriching shareholder returns.

Return on Equity



Enrich Shareholder Returns

Dividend policy: Aim for stable improvement in shareholder returns, underpinned by a consolidated payout ratio exceeding 50%

Dividends per Share for Fiscal 2015 (Results)

Annual dividend: ¥150

Comprising ¥70 interim and ¥80 year-end dividends
Consolidated payout ratio: 58.8%

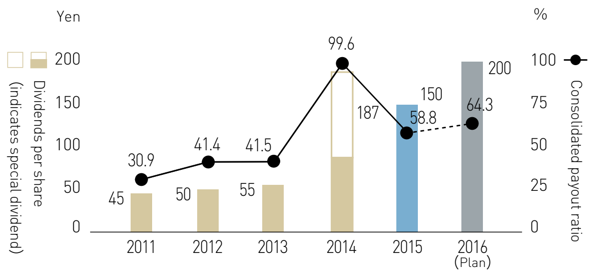
Dividends per Share for Fiscal 2016 (Forecast)

Annual dividend: ¥200

Comprising ¥90 interim and ¥110 year-end dividends
Consolidated payout ratio: 64.3%

From a liquidity perspective, treasury stock buybacks are not undertaken at present.

Annual Dividend and Payout Ratio



VOICE

Naoki Kume
Director and Vice President
POLA ORBIS HOLDINGS INC.

Enhance corporate value by improving capital efficiency

Listed companies are required to generate a level of capital efficiency that exceeds capital costs, and work toward enhanced corporate value. POLA ORBIS HOLDINGS set itself the specific target of ROE of 8% by 2016 and came close to achieving this, and has subsequently raised this target to 9%. To raise ROE higher, there are two key things we must do.

First, we have to boost net income, the numerator in the ROE equation, by expanding cosmetics sales, our core business. Then, we have to enhance the efficiency of net assets, the denominator. Growth in net income is dependent upon our success in improving operating income.

So we have been working not only to boost net sales but also to improve the cost of sales ratio, mainly by consolidating production sites and reviewing product design. In fiscal 2015, the cost of sales ratio improved about 0.4 percentage point. The success of factory consolidation is delivering good results, in line with initial expectations. And by maintaining a determined approach to keep selling, general and administrative expenses below net sales growth, we will realize a compound annual growth rate of 15% or higher for operating income. In conjunction with this, we will see net income growth exceed operating income growth, primarily because of better profitability conditions at overseas operations, which will lead to a lower effective tax rate, and because of tax system reform.

Meanwhile, to enhance the efficiency of net assets, we have embraced a new dividend policy, as described in the current medium-term management plan, and will strive to boost return to shareholders. The consolidated payout ratio has to be decided each term, taking into consideration the status of shareholders' equity, but the basic policy on returns to shareholders sets the payout ratio at 50% or higher, on a consolidated basis. In line with this policy, the ordinary annual dividend for fiscal 2015 was ¥150 per share, up ¥63 per share from fiscal 2014. We anticipate an increase of ¥50 per share in fiscal 2016, to ¥200 per share.

Given brisk improvement in ROE, management upwardly revised the ROE target for 2016 to 9%. But this is nonetheless a transit point and the ultimate goal is to achieve a double-digit figure as quickly as possible and become a highly profitable global enterprise.

Progress of FY2014 – FY2016 Medium-Term Management Plan

POLA ORBIS Group mainly on track to achieve FY2016 targets (final year of current medium-term management plan)

Management Indicators

	Initial targets for FY2014 — FY2016	Results as of FY2015	Evaluation	Progress
Consolidated net sales	CAGR 3～4%	FY2014-2015 CAGR 5.9%	Excelled	■ POLA and brands under development were drivers ■ Achieved ¥210 billion target of FY2014–FY2016 medium-term management plan
Overseas sales ratio	15% or higher in FY2016	11.9% In FY2015	Behind	■ Jurlique and H2O PLUS both struggled in China
Operating income	CAGR 15% or higher	FY2014-2015 CAGR 18.5%	On track	■ In addition to profit growth of flagship brands, brands under development boosted operating income through business expansion and improved profitability
Operating income margin	11% or higher in FY2016	FY2015 10.5%	On track	■ Cost of sales ratio improved and flagship brand costs kept well in check ■ Increased online sales ratio at ORBIS
ROE	8% or higher in FY2016 New 9% target	FY2015 7.8%	On track	■ Improved through significant profit growth and enhanced shareholder returns □ *New target of 9% has been set
Consolidated payout ratio	50% or higher from FY2014	FY2015 58.8%	On track	■ Provided shareholder returns of more than 50%

Selected FY2016 Targets

Consolidated net sales	Operating income	Net income attributable to owners of parent	ROE	Consolidated payout ratio
219,000million (Up 2.0% yoy)	25,000million (Up 11.1% yoy)	17,200million (Up 22.0% yoy)	9.0% (Up 1.2ppt yoy)	64.3% (Up 5.5ppt yoy)

Basic Stance on Corporate Governance

Toward Improvement in the Overall Corporate Value of the Group

Guided by the philosophy "Inspire all people and touch their hearts," POLA ORBIS HOLDINGS adheres to a multi-brand strategy designed to enhance overall corporate value of the POLA ORBIS Group through a portfolio of several original and distinctive brands and showcases efforts to grow the associated businesses that control these brands. 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.

In conjunction with this philosophy and approach to operations, POLA ORBIS HOLDINGS incorporates compliance into its basic CSR activities and emphasizes this as an integral component of business incumbent upon any company. Therefore, should the Company be put in a position to consider a transaction with a controlling shareholder, the Board of Directors will, in accordance with the guiding principle set forth in the Code of Conduct, base any decision on careful discussion of such issues as transaction necessity and fair value so as not to impair the interests of minority shareholders.

The Company, with its Board of Directors, which is primarily tasked with decision-making and supervising business execution for the Group, introduced a Group Officer System, under which the Board of Directors selects and appoints directors and executive officers at key operating companies. The Company's Board of Directors, by delegating authority for business execution to Group officers, clarifies responsibility for results, such as Group business performance, and responsibility for executing business. In addition, the Company's Board of Directors created the Group Strategy Meeting, with most members being Company directors and Group directors, to receive reports for each Group company on important matters at the respective company and then discuss implementation status of management strategies and issues requiring attention.

Structural Overview

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

As of March 31, 2016

Steps in Governance

2006	Shifted to holding company structure
2008	Added an outside corporate auditor to structure
2010	Listed on First Section of the Tokyo Stock Exchange
2013	Introduced executive officer system
2015	Welcomed two outside directors
2016	Established Basic Policy on Corporate Governance

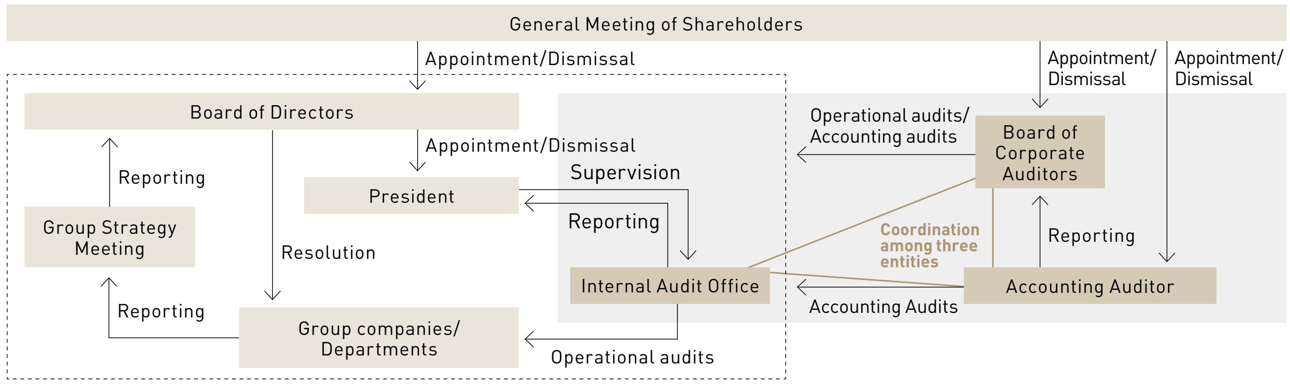
The Company's Stance on Its Response to the Corporate Governance Code

The Company's Board of Directors will revisit corporate governance practices to date and turn application of the Corporate Governance Code into an opportunity for further evolution in the constant pursuit of sustainable improvement in the corporate value of the Group. The Company's Board of Directors formulated "Basic Policy on Corporate Governance," based on five fundamental principles described in the Corporate Governance Code, to address the expectations of stakeholders, including shareholders, and fulfill inherent responsibilities to stakeholders.

Five Fundamental Principles

1. Securing the Rights and Equality of Shareholders	The Company shall respect shareholder rights and develop an environment as well as provide information so that shareholders can exercise their rights appropriately, and endeavor to secure substantive equality of shareholders.
2. Appropriate Cooperation with Stakeholders	The Company shall strive to realize sustainable development of the Group through initiatives where the Group, as a good corporate citizen, works to deepen cooperation and establish trustful relationships with various stakeholders, including shareholders and business partners, and fulfills its corporate responsibilities.
3. Ensuring Appropriate Information Disclosure and Transparency	The Company shall strive to ensure fairness and transparency in decision-making by disclosing financial information and non-financial information of the Group in an appropriate and proactive manner in accordance with the disclosure policy separately established, in addition to carrying out appropriate information disclosure in compliance with relevant laws and regulations.
4. Responsibilities of the Board of Directors, etc.	The Company shall strive to ensure the effectiveness and fairness of the Board of Directors so as to fulfill its administrative and supervisory function over the management of Group companies as a pure holding company in charge of the business administration of multiple subsidiaries.
5. Dialogue with Shareholders	The Company shall make efforts to engage in constructive dialogue with stakeholders and enhance the efficiency thereof by proactively implementing public relations and investor relations activities.

Corporate Governance Structure



Overview of Key Corporate Governance Structures

	Purpose and Activities	Members	Meeting Schedule
1. Board of Directors	Supervises subsidiaries, makes decisions for the Group regarding important matters, and makes resolutions and reports regarding key management issues	8 directors	At least once a month. In 2015, directors met 25 times, including extraordinary meetings
2. Group Strategy Meeting	Receives reports from the Company and its subsidiaries about important matters and discusses the content to identify steps to promote profitability and support development of the Group as a whole	Mainly directors and full-time corporate auditors of the Company as well as selected subsidiary presidents and directors	Monthly. In 2015, strategy meetings were held 21 times
3. Board of Corporate Auditors	Corporate auditors attend general shareholders' meetings, Board of Directors' meetings, Group Strategy 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 2015, corporate auditors met 14 times, including extraordinary meetings
4. Internal Audit Office	Evaluate and verify management activities (risk management, internal controls, governance) that will contribute to achievement of management targets at the Company and each Group company, and offer advice, recommendations, and suggestions for improvement	12 members, 7 of whom are in charge of internal audits	In 2015, there were 14 audits at 15 companies
5. 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 2015, the Group CSR Committee met five times, and the CSR executive office managers met 12 times

Matters related to the Board of Directors

Duties Incumbent upon the Board of Directors

Functions and duties assigned to the Board of Directors

1. The Board of Directors, in accordance with the law, the Articles of Incorporation and the provisions of various rules and regulations set forth by the Company, will oversee management of the Group, with an emphasis on decision-making related to important issues that could impact the management direction, management plans and management strategies of the Group and on supervising the execution of business at each Group company as per Board resolutions.
2. The Board of Directors will clearly lay out the Group's management direction, management plans and management strategies and, based on these management parameters, establish an environment in which each Group company can quickly and flexibly execute administrative responsibilities, namely drafting and carrying out strategies and measures.

In addition, the Board of Directors will be alert to changes, namely, society and market changes, and analyze and assess emerging conditions in a timely fashion so that top management can make improvements and successfully address changes in the operating environment.

3. The Board of Directors will take a long-term view toward developing and retaining personnel with management potential within the Group and discuss and plan strategies tactically aimed at nurturing the capabilities of candidates for the next-generation of top management.
4. The Board of Directors will regularly verify and assess the performance of the Board itself, in such areas as judgments and decision-making, and implement improvements in an effort to enhance the effectiveness of the Board.

Functions and duties assigned to outside directors

1. Outside directors will assume functions and duties as directors, in accordance with the law and the Articles of Incorporation, and also participate in discussions on the understanding that they take a position independent of the Board of Directors, top management and controlling shareholders, in deciding management direction and management strategies for the Group and supervision thereof, and will properly represent the opinions of stakeholders, particularly minority stakeholders, to the Board of Directors.
2. Outside directors will undertake activities with an eye toward sustainable corporate growth and higher corporate value, based on personal insights.

Independence Evaluation Criteria

Outside directors and outside auditors (collectively,"Outside Executives") as well as candidates for outside executive positions are considered to have independence from the Company and carry no potential conflict of interest with ordinary shareholders of the Company if, after an inquiry by the Company to an extent deemed reasonably possible, none of the following applies.

1 A person involved in the execution of business[1] at the Company or the Company's subsidiaries (collectively, "the Group"), or a person involved in executing the business of the Group in the past 10 years;
2 A party for whom the Group is a major business partner[2] or a person involved in executing business at such a party;
3 A major business partner[3] of the Group or a person involved in executing business at such a business partner;
4 A consultant, certified public accountant, lawyer or other person providing specialized services who receives large amounts of money or other financial benefits[4] other than director compensation from the Group;
5 A person involved in executing business at a company that appoints to the position of director a person from the Group who executes business;
6 A person who accepts large donations from the Group (if said large donations are received by an incorporated entity, partnership or other organization, this item refers to a person involved in executing business at such an organization);
7 A shareholder who holds directly or indirectly more than 10% of the Company's voting rights (if said shareholder is an incorporated entity, partnership or other organization, this item refers to a person involved in executing business at such an organization);
8 A person who falls under any of the items 2 through 7 above, in the last three years;
9 A relative[5] (person in significant position[6]) who falls under any of the items 2 through 7 above; and
10 Any person who could present a conflict of interest with ordinary shareholders and whose circumstances would reasonably be deemed to prevent fulfillment of duties as an independent outside executive.

1 "A person involved in the execution of business" refers to an executive director, executive officer (under the Companies Act), corporate officer (non-statutory) or any member of staff or employee who is responsible for executing business.
2 "A party for whom the Group is a major business partner" refers to a business partner who provides products or services to a company, or companies, of the Group with a transaction value in the most recent business year that exceeds 2% of said business partner's net sales on a consolidated basis.
3 "A major business partner" refers to a business partner to whom the Company, or a company(ies) of the Group, provides products or services with a transaction value in the most recent business year that exceeds 2% of the Group's net sales (the Company's consolidated net sales).
4 For "large amounts of money or other financial benefits" and "large donations," the term "large" is applicable when money or other financial benefits received in the most recent business year exceed ¥10 million.
5 "Relative" refers to a spouse, a person within two degrees of kinship, or a relative living under the same roof.
Notwithstanding the above, the Company does not make a decision on the independence of an Outside Executive based solely upon term or tenure but rather emphasizes the ability to remain effectively independent. Term and tenure are set, as general policy, when a candidate is named by the Board of Directors for the position of outside director and are determined after careful discussion.
6 "Person in significant position" refers to an executive director, executive officer (under the Companies Act), non-statutory corporate officer or any other person objectively and reasonably deemed to be in a position of similar significance.

Reasons for Nominating Candidates for Outside Director and Attendance Rate at Board of Directors' Meetings

Name	Reasons for Nomination	Attendance Rate
Kazuyoshi Komiya	Mr. Komiya has experience not only as the representative director of a company he himself established but also as an outside director and outside auditor at several companies. Management feels he can offer accurate advice and suggestions based on this wealth of experience and accumulated knowledge and supervise the execution of business by directors from an independent position, and further, has determined that he presents no conflict of interest with ordinary shareholders. Mr. Komiya was thus appointed to the position of outside director.	82% 14 of 17 meetings
Yumiko Kamada	Management feels Ms. Kamada can offer accurate advice and suggestions based on a wealth of experience and knowledge in corporate management and the service sector and supervise the execution of business by directors from an independent position, and further, has determined that she presents no conflict of interest with ordinary shareholders. Ms. Kamada was thus appointed to the position of outside director.	100% 17 of 17 meetings

Outside Executives' Meeting—Agenda Items

POLA ORBIS HOLDINGS set up a meeting just for independent outside executives, believing that the opportunity to discuss matters on their own would enable them to contribute more dynamically to discussions undertaken by the Board of Directors. The meeting produced several suggestions to enhance approaches within the Group, which were fed back to the Board of Directors for consideration. Highlights from the meeting in 2016 are presented below. This meeting format will be maintained and practiced, with viable suggestions used to improve the efficiency of the Board of Directors.

Meeting Date

Friday, January 29, 2016

Participants

Outside directors: Kazuyoshi Komiya, Yumiko Kamada
Outside auditors: Akio Sato, Motohiko Nakamura

Overall impression of executive meetings

- This is a company that contributes to society and everyone identifies with the corporate philosophy.
- Management—as in the running of the Company and, by extension, the Group—is imbued with a sense of stability, thanks to a solid business model hinging on domestic operations. Also, brands under development present huge latent potential and there is certainly a sense that this business segment has growth prospects.
- Executive meetings are highly transparent, with participation in discussions fine-tuned and animated.
- The corporate culture epitomizes dedication and thoroughness, and these qualities extend to meeting materials and other preparations as well, right down to the last detail.

Outline of suggestions

Running meetings of the Board of Directors

- There seems to be a few too many themes in individual or detailed business execution reports. Executive meetings should be venues for actively articulating topics related to direction and medium- to long-term strategies. More time should be allocated to key themes, with discussions focusing on selected issues.
- The medium-term management plan, while a three-year blueprint, is tweaked every year. This could create the impression that the plan is being extended from that particular point in time. Medium- to long-term strategies should be discussed deductively from a future—not present—perspective.

Key themes

① Overseas operations

- Detailed progress comes out for domestic operations, but information on specific events occurring locally at overseas operations is rather thin. Discussions on overseas operations would certainly be more productive if based on a deeper pool of specific events.
- Utilizing local human resources is important, too, but from a governance perspective—that is, to make governance more effective—POLA ORBIS HOLDINGS really needs to be more proactive about having its own personnel take up positions at overseas subsidiaries.

② Governance that takes utilization of human resources into account

- It seems POLA ORBIS HOLDINGS pursues relatively few discussions from an employee perspective, with most discussions broached from a stakeholder perspective, namely, that of customers and shareholders.
- In its efforts to reinforce systems and structures, the Company has achieved commendable results. But the Company must also enrich programs designed to generate better results by motivating employees and encouraging them to excel.

Management Structure (As of April 1, 2016)

Satoshi Suzuki

Representative Director, President

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

Reasons for appointment

Mr. Suzuki was the driving force behind the establishment of POLA ORBIS HOLDINGS and the transition to today's Group management structure in 2006 as well as the Company's stock listing in 2010. He laid out the long-term vision for 2020 and has demonstrated leadership in steering the Group along a steady growth path since the stock listing. He also showed his management mettle in realizing stable improvement in the Group's performance and higher corporate value by pushing the prevailing multi-brand strategy and building a strong brand portfolio. He is keen to acquire an accurate understanding and assessment of business results and future expectations through communication with various stakeholder groups, including shareholders and investors. With 2020 fast approaching, a management priority of the utmost importance for Mr. Suzuki is to settle on and implement management policies designed to achieve the long-term vision for 2020 and ensure sustainable growth thereafter.

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, 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, Vice President, POLA ORBIS HOLDINGS
April 2016	Director, Vice President, POLA ORBIS HOLDINGS Global Headquarters Chief Global Officer (current) Director, POLA (current) Director, ORBIS Inc. (current)

Reasons for appointment

Mr. Kume has experience as a person responsible for business execution, particularly in the areas of accounting and corporate planning. Following his appointment as a director of POLA ORBIS HOLDINGS in 2008, he drafted and rolled out the Group's financial and management strategies during its reorganization phase and continued to shoulder this important responsibility after the Company's listing. Under the current medium-term management plan, which runs until the end of fiscal 2016, Mr. Kume has promoted approaches to boost the Group's capital efficiency, from a financial perspective, and has demonstrated his capabilities in this regard. A management issue that Mr. Kume regards as important is the continued success of the Company's disciplined approach to investment and efforts to raise capital efficiency still higher, which are key to achieving the long-term vision for 2020 and ensuring sustainable growth of the Group into the future, while maintaining financial stability.

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, 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 (current)
December 2010	Director and General Manager, PR & IR, POLA ORBIS HOLDINGS
January 2011	Director, POLA ORBIS HOLDINGS
January 2015	Director and General Manager, Corporate Communications, POLA ORBIS HOLDINGS (current)

Reasons for appointment

Mr. Fujii has gained a wealth of business experience at POLA. Since assuming his position as a director at POLA ORBIS HOLDINGS in 2008, he has focused on polishing the reputation of the Company and, by extension, the Group as a person in charge of public relations. He has demonstrated his skills in building a stronger investor relations structure following the Company's listing. In addition, Mr. Fujii has worked to improve the organizational capabilities of the Group through non-financial activities as well, including environmental, social and governance (ESG) practices, as chair of the Group CSR Committee. A management priority from Mr. Fujii's perspective is to shape and reinforce the corporate value evaluation process through dialogue with various stakeholder groups and to ensure continued improvement in corporate governance practices.

According to his director competency evaluation, Mr. Fujii shows his strengths by enthusiastically voicing suggestions for strategies and measures that the Company should run with, 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.)
October 2003	Manager, General Coordination Office, POLA Cosmetics
August 2006	Representative Director, President, FUTURE LABO INC.
July 2011	Chairman, Managing Director, POLA CHINA BEAUTY CO. LTD. (POLA Shenyang) (current)
January 2015	Corporate Officer, General Manager, Product Planning Division, POLA
January 2016	Representative Director, President, POLA (current)
March 2016	Director, POLA ORBIS HOLDINGS INC. (current)

Reasons for appointment

After accumulating a wealth of business administration experience in the advertising division and corporate planning division at POLA, Mr. Yokote served as the president of an overseas subsidiary, and since 2015, has been in charge of formulating next-generation brand strategies in the advertising and product planning segments as a corporate officer responsible for marketing. He unveiled "Science. Art. Love."—which redefines the unique value inherent in the POLA brand—as the pillar of brand strategy, and since January 2016 has been the force behind this slogan as representative director and president of POLA. Going forward, Mr. Yokote will continue to emphasize efforts to raise the value of the POLA brand and build on the flagship status of the brand to support growth of the Group, as this is a key management priority with relevance from a Group perspective.

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.

Takao Miura

Director

April 1984	Joined POLA Cosmetics, Inc. (currently POLA INC.)
March 1994	Head, Secretariat, POLA Cosmetics
January 2002	Corporate Officer and Head, Corporate Legal Affairs, POLA Cosmetics
March 2005	Director, POLA Cosmetics
December 2006	Representative Director, President, P.O. REAL ESTATE INC.
January 2007	Corporate Officer and General Manager, Legal Affairs, POLA ORBIS HOLDINGS INC.
January 2008	Director and General Manager, Legal Affairs, POLA ORBIS HOLDINGS
January 2009	Director, Vice President, POLA ORBIS HOLDINGS
June 2013	Director, POLA ORBIS HOLDINGS Director, Senior Executive Vice President, POLA CHEMICAL INDUSTRIES INC.
January 2015	Director, POLA ORBIS HOLDINGS Representative Director and President, POLA CHEMICAL INDUSTRIES INC. (current)

Reasons for appointment

After assuming his position as a director in 2008, Mr. Miura focused on realignment of the Group's management structure as the director responsible for human resources and legal affairs. Since 2013, as director and senior executive vice president at POLA CHEMICAL INDUSTRIES and then as the company's representative director and president, he has worked to boost production efficiency and the quality of products, notably in spearheading reorganization of the domestic production structure. Going forward, a management priority with trickle-down effects for the Group is to enhance R&D capabilities and realize further improvement in production efficiency and product quality, and Mr. Miura will continue to emphasize these themes.

According to his director competency evaluation, Mr. Miura demonstrates a unique leadership style in that even when faced with particularly challenging situations, he has the ability to take the right steps, on an individual and organizational level, and set the stage for cultivating a good corporate culture.

Yoshifumi Abe

Director

April 1980	Joined POLA Cosmetics, Inc. (currently POLA INC.)
February 1998	Representative Director and President, POLA Kita-Kyushu Sales Co., Ltd.
January 2005	POLA Cosmetics, Inc. (currently POLA INC.) Manager, CRM and Customer Call Center
January 2007	General Manager, Management Planning Division, POLA INC.
July 2008	General Manager, Management Planning Division, POLA ORBIS HOLDINGS INC.
January 2012	Director, Vice President, ORBIS Inc.
September 2014	Director, Senior Executive Vice President, ORBIS Inc.
December 2014	Representative Director, President, ORBIS Inc. (current)
March 2015	Director, POLA ORBIS HOLDINGS (current)

Reasons for appointment

Mr. Abe gained a wealth of business experience at POLA and had oversight for Group business management as a person responsible for corporate planning at POLA ORBIS HOLDINGS. Since 2012, he has served as director and senior executive vice president and then representative director and president at ORBIS, and by leveraging ORBIS as a highly profitable brand, he has led the company to improved business results and thus higher corporate value for the Group. To Mr. Abe, a management priority with Groupwide relevance is to maintain efforts that will spur evolution of the ORBIS brand inside and outside the company and utilize the brand's flagship status within the Group to support further growth of the Group.

According to his director competency evaluation, Mr. Abe's strong point is that he does not confine himself to existing concepts or mainstream interpretations. Rather, he is always keen to incorporate new perspectives into his own, which translates into a high degree of adaptability to changing conditions and market influences.

Kazuyoshi Komiya

Outside Director

April 1981	Joined The Bank of Tokyo, Ltd. (currently The Bank of Tokyo-Mitsubishi UFJ, 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.
January 1996	Representative Director, President, Komiya Consultants, Inc. (current)
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 2008	Director, Nippon Fukushi Service K.K. (currently SAINT-CARE HOLDING CORPORATION) INC.
June 2011	Outside Corporate Auditor, APOLLO MEDICAL HOLDINGS Co., Ltd. (current)
May 2012	Outside Director, Kindware Corporation (current)
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)

Yumiko Kamada

Outside Director

April 1989	Joined East Japan Railway Company
December 2001	Deputy Chief, Group Leader of Property Promotion Division, Life-style Business Development Headquarters, East Japan Railway Company
June 2005	Representative Director, President, JR East Station Retailing Co., Ltd.
November 2008	Director General, Life-style Business Development Headquarters, East Japan Railway Company
May 2013	Deputy Manager, Frontier Service Development Laboratory, Research & Development Center of JR East Group, East Japan Railway Company
January 2015	Resigned from East Japan Railway Company
February 2015	Senior Executive Officer, CALBEE, Inc. (current) Part-time Director, LUMINE CO., LTD. (current) Adviser, THE MICHINOKU BANK, LTD. INC.
March 2015	Outside Director, POLA ORBIS HOLDINGS INC. (current)
June 2015	Outside Director, THE MICHINOKU BANK, LTD. (current)

Note 1: Director competency assessment undertaken with assistance from the Korn Ferry Hay Group.
Note 2: The director competency model is described on page 50.

Hisao Iwabuchi
Corporate Auditor

April 1976	Joined POLA CHEMICAL INDUSTRIES INC.
February 1998	POLA Cosmetics, Inc. (currently POLA INC.) General Manager, Product Planning, Door-to-Door Sales and Planning Division
January 2002	Corporate Officer and General Manager, Research Planning Division, POLA CHEMICAL INDUSTRIES
March 2004	Director and General Manager, Research Planning Division, POLA CHEMICAL INDUSTRIES
January 2007	Director, Vice President, POLA CHEMICAL INDUSTRIES
January 2013	Corporate Auditor, POLA CHEMICAL INDUSTRIES In charge of public relations at POLA INC.
March 2014	Corporate Auditor, POLA CHEMICAL INDUSTRIES (current)
March 2015	Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)

Akio Sato
Outside Corporate Auditor

April 1997	Registered as an attorney at law (Daini Tokyo Bar Association)
March 2003	Opened Sato Sogo Law Office
March 2008	Outside Corporate Auditor, POLA ORBIS HOLDINGS INC. (current)
December 2008	Outside Director, GMO Payment Gateway, Inc. (current)
January 2012	Outside Director, GMO CLICK Holdings, Inc. (current)
April 2013	Part-time Lecturer, Keio Business School (current)
October 2014	Outside Director, Tokyo TY Financial Group, Inc. (current)
June 2015	Outside Director, Kirayaka Bank, Ltd. (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. (current)
July 2013	Chief Executive, JICPA (current)
May 2015	Independent Committee Member, Nitori Holdings Co., Ltd. (current)
June 2015	Outside Corporate Auditor, Jorte Inc. (current)
January 2016	Professor, Graduate School of Accounting & Finance, MBA Program, Chiba University of Commerce (current)

Thoughts on Director Training

Continuous skill improvement enables the Board of Directors to fulfill assigned duties, and toward this end, the Board submits itself to self-assessment of director competencies as well as external evaluations, formulates and implements action plans based on associated assessments and evaluations, and also takes advantage of executive coaching as necessary.

New directors are informed of the role they will be expected to play at the time of appointment and their legal responsibilities, and every effort is made to ensure they fully understand what their respective roles and responsibilities entail. For newly appointed outside directors and outside auditors, an opportunity is set up for directors with responsibility and the corporate planning division to explain not only what is expected of each person in his/her role at the time of appointment but also the background on the Group's management strategies and management plans, the operating status and operating environment at Group companies, and other management-related issues, so as to ensure that all relevant facts are understood.

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VOICE

Miki Otaka
Principal, Korn Ferry Hay Group

Transformative and practical—Good balance of leadership styles is a strength

The effectiveness of composing a board depends on two key factors in each executive:

1. Each one must be qualified to possess competency as an excellent executive
2. The unique characteristics of each executive must contribute to enhancing diversity

With these factors in mind, we set a figure of an executive thriving in global situations as a benchmark, defined "executive competencies" taking into account the characteristic qualities of the POLA ORBIS Group, assessed their leadership capabilities, and provided feedbacks to each executive.

The evaluation criteria include a concept "*Bi-i-shiki*" (or Esthetic Sense), which means to ask each executive if their individual strengths and attractiveness are fully demonstrated in their own leadership. We have helped articulate the management philosophy of the Group: the principle of interacting with others not as a boss influencing them by their position powers but as an individual attracting and encouraging them to take actions.

We have found that although each executive has different strengths and weaknesses, most of them not only have hypothetical thinking skills but also are capable of transforming the organizational climate to create practical results. We consider this the excellence of the board. On the other hand, a developmental area of the board will be diversity and inclusion. Considering the business globalization as the major trend in the world, each executive's strength of respecting different values and perspectives would be a great contribution to further development of the Group.

A well-balanced composition of the board, consisting of transformative and practical types of executives, will surely contribute to open, healthy discussions and effective decision-making for the entire group.

Compensation for Directors and Corporate Auditors

Compensation for directors, in accordance with the Company's rules, takes into account such factors as individual position and the level of contribution to business results, and is paid as a fixed basic component and a performance-linked bonus.

Compensation for each director is finalized after discussion by the Board of Directors, which includes several outside directors.

The Board of Directors is kept small, given the scale of Group operations, which expedites decision-making and enables outside directors to actively participate and voice their opinions during the decision-making process. Management believes it is essential that such opinions are reflected in decisions about director nominations and compensation to ensure reasonable and objective judgments. Therefore, POLA ORBIS HOLDINGS has opted not to have any advisory committees with independent outside directors as key members that would be involved in the decision-making process for nominating directors and top management and determining compensation.

The Board of Directors at POLA ORBIS HOLDINGS ensures transparency and fairness by clarifying policy regarding decisions about nominating directors and top management and determining compensation, prudently discussing these topics at Board of Directors' meetings and making decisions, and fulfilling the obligation to explain policy and actions through dialogue with shareholders and investors.

Director and Corporate Auditor Compensation Amounts in Fiscal 2015

Category	Number of persons	Compensation amount
Directors (of which, outside directors)	9 (2)	¥193 million (¥12 million)
Corporate auditors (outside corporate auditors)	4 (2)	¥33 million (¥13 million)
Total	13	¥226 million

Breakdown of Director Compensation by Type (Fiscal 2015, actual)

Type of compensation		Ratio	
Fixed compensation	Monthly payment		73.2%
Variable compensation	Bonuses	8.9%	26.8%
	Stock options	17.9%	
Total			100%

*Excludes outside directors, corporate auditors and outside corporate auditors

Developing Human Resources Strategy that Maximizes Individuality and Capabilities of Each Employee

World markets, as well as suitable approaches to business within these markets, are changing at a rapid pace. If the POLA ORBIS Group is to achieve sustainable growth in this operating environment, it is essential to create opportunities for employees to develop capabilities highly sensitive to changes in society and in evolving market conditions and to establish a corporate atmosphere in which diverse human resources can demonstrate their skills. POLA ORBIS HOLDINGS has laid out a human resources strategy for the Group that seeks to fully utilize the individuality and responsiveness of each employee to underpin growth into the future.

Competency-Enhancing Model Evolving Patterns of Behavior

Rebuilding competencies of Group directors

The qualifications required of top management have gradually evolved, paralleling changes in the POLA ORBIS Group's operating environment and in society, particularly accelerated globalization. Against this backdrop, POLA ORBIS HOLDINGS initiated a process extending throughout the Group to restate the requirements for director competency that were established in 2006 and hammered out a strategy that tackles competency from two fronts: ongoing development of skills for current top management and nurturing the capability of candidates for the next-generation of top management.

Group director competencies, completed in May 2015, indicates the performance characteristics of personnel who carry management responsibilities within the Group and defines 13 required competencies, including insight into markets and the operating environment, persuasiveness, and sense of beauty. This competency model is noteworthy in that it extols efforts by each person in a management position to apply an independent perspective to his or her responsibilities and demonstrate leadership skills shaped by personality and charisma. POLA ORBIS HOLDINGS collected case examples on patterns of behavior exhibited by 19 Group company directors, including overseas subsidiaries, and isolated key characteristics of success. These behavioral patterns became the starting point of a check-and-compare process against the skills that global corporations expect of their executives, with the number of competencies for Group purposes eventually narrowed down to 13.

POLA ORBIS Group Director Competency Model*

Strategic thinking	1. Insight into markets and operating environment	Ability to know own company's position in the markets, accurately perceive conditions at competitors and partner companies, and recognize the interaction between those companies and own company
	2. Hypothesis testing capability	Ability to gather various information from inside and outside own company as well as differing viewpoints, and apply wide-angled perspective to verify personal ideas
	3. Long-term vision	Ability to render a clear picture of the future ideal (what form company should take in future), business direction and corporate vision, from a long-term perspective
Involvement with stakeholders	4. Persuasiveness	Ability to apply logical persuasion and influence using organizational dynamics, encourage other parties to entertain discussion of company's needs, and get these people on-side
	5. External networking capability	Ability to maintain and develop extensive external network based on trust to effectively influence work-related problem-solving efforts
	6. Respect for diversity	Ability to promote diversity in human resources (including race, gender, social status, career, and value perceptions) to enable all employees to demonstrate their full potential as they strive to reach goals
Cultivating commitment	7. Sense of beauty	Ability to demonstrate unique style of leadership, relying not on position within the organization or on title but rather utilizing personality and charisma
	8. Delegation of authority	Ability to delegate authority at own discretion and enable employees to execute assigned tasks with a clear sense of purpose
	9. Grooming candidates for next-generation of top management	Ability to promote growth of employees over the long term and groom those with potential to one day assume an executive role
	10. Promoting better corporate culture	Ability to present a standard, instill it widely, and cultivate a better corporate culture to create an organizational climate geared toward achievement of management targets
Tenacity for success	11. Eagerness to succeed	Ability to take risks, as necessary, and maintain driving ambition to achieve great things
	12. Decisiveness	Ability to tackle difficulties with confidence, and state opinions candidly and directly, even to someone of higher rank
	13. Sincerity	Ability to act ethically (in line with company rules, corporate conduct, social responsibility, etc.) and encourage others to follow suit, in business and in personal life

*Competency model establishment and assessment undertaken with the assistance of Korn Ferry Hay Group.

Assessments by external organization

As part of skill development using Group director competencies, POLA ORBIS HOLDINGS introduced competency assessments for directors in 2015, based on the Group's director system. The goal is to enable each director to understand the personal qualities under the spotlight in the director competency model and polish leadership skills with personal flair.

The assessment process goes like this. An external consultant with expertise in human resource development conducts personal interviews with directors and compiles examples of pattern of behavior in directors. Content is compared against the 13 competencies for evaluation and analysis. The results are fed back to each person and then all directors, based on personal assessment, prepare an action plan indicating how they will use strengths and personality to deliver a higher level of leadership. Assessments will be an ongoing exercise in director evaluation, on a schedule of once every other year.

POLA ORBIS HOLDINGS also introduced assessment using director competencies to evaluate employees, currently at the manager level, within the Group who have been tapped as next-generation candidates for top management positions. This executive-in-waiting assessment process hinges on the 360° Survey, which takes in comments from the person being evaluated as well as supervisors, junior staff and colleagues with whom he or she works regarding level of competency exhibited. Such assessments enable POLA ORBIS HOLDINGS to help employees notice things about themselves that can lead to more successful patterns of behavior.

Scene from manager-level seminar

Art Workshop Raises Sense of Beauty Competency

—Nurture awareness of implication, conceptualization and creativity through art appreciation—

One of the 13 director competencies is sense of beauty. A pattern of behavior viewed as extremely important within the POLA ORBIS Group is defined as the ability to influence the actions or perceptions of others through personality and charisma unique to the individual. In 2015, as part of its approach to elevating what the Company terms "sense of beauty," POLA ORBIS HOLDINGS launched an art workshop in which participants share their particular viewpoints and feelings through art appreciation.

An art workshop was held at the POLA Museum of Art in November 2015 for directors. After looking at "The Pink Skiff" (1890) by Claude Monet, each participant described for the group different aspects of the painting, such as the intuitive impact and the meaning they derived from the scene. Paintings are like mirrors, reflecting the personal experience and mental imagery of whoever gazes upon them. Comments from participants included "We all looked at the same painting and yet our feelings and interpretations were all different" and "I was painfully aware of how difficult it is to put an impression into words and convey that feeling to others."

The workshop was a training venue for enhancing creative intuition, discerning complexities and then analyzing and verbalizing impressions. The goal was to encourage each participant to recognize that perceptions differ from person to person and to think outside the box and be receptive to diverse value judgments, and to facilitate the expression of personal insights and sensitivities to other people.

POLA Museum of Art
Art workshop theme and purpose

Theme

What is beauty to you?

Purpose

1. Look at art to understand the way people perceive things, and make opportunities to enhance creative thinking and sensitivity
2. Promote shared awareness of different points of view and perceptions through discussion, and broaden field of vision

Skill Development for Next-Generation Management Through Cross-Group Training

Promote improvement from performance level of each person

For the POLA ORBIS Group to achieve enduring growth, it must produce a steady stream of talented individuals who appreciate the sense of values that permeate the Group and grasp demand conditions for each brand and in each geographical region, and thereby are able to effectively respond to change. With this in mind, efforts began in 2005, initially by POLA, to enrich in-house training and today hinge on three cross-Group programs: the Future Study Program, the Top Management Development Program and the Coaching Program. The training objective in all three programs is to promote improvement from whatever performance level each participant is at so that the acquired skills translate into director competencies. Toward this end, all training materials comprise practical content, that is, themes—areas for improvement—that each participant pinpoints as a concern at his or her own company and hopes to successfully address through whatever program they attend.

The Future Study Program brings together about a dozen young employees, invited from Group companies, to master management basics, set goals for improvement in their respective departments and implement action plans. The Top Management Development Program is for specially selected middle managers from Group companies and provides a venue for practice-solving issues that require attention on a Groupwide basis and for developing leadership skills built on diverse perspectives. This program features a colorful assortment of learning opportunities, including discussions with outside business leaders and joint lectures by executives from companies in different industries—in 2015, the participating companies were Kagome Co., Ltd., and Terumo Corporation—intended to capture the viewpoints and attitudes of those who might become tomorrow's top management. The Coaching Program, meanwhile, is designed for directors and emphasizes an enhanced ability to influence others in a positive way, which is one of the required director competencies.

Since the first program kicked off in 2005, training to develop the skills of human resources has certainly paid off. Of note, as of December 31, 2015, the Top Management Development Program had produced three presidents and 10 directors at key Group companies.

TOPIC

Group employee satisfaction survey 2015

—High levels, substantiated by overall satisfaction grade of 3.92 points, and pride in products and services at 4.02 points—

To gauge how deeply the Group philosophy has permeated the minds of employees and understand employee engagement in the workplace and work itself, POLA ORBIS HOLDINGS conducts an employee satisfaction survey every year. The 2015 survey polled employees and directors at 14 domestic companies and nine overseas companies under the Group umbrella, garnering valid responses from 4,659 people.

The responses indicated a relatively high degree of employee satisfaction overall. Worth noting, the question "Overall, are you happy working at this company?" took 3.92 stars out of five, and the statement "Employees in your company (workplace, assigned division) are proud of the products and services provided by your company" captured 4.02 stars. The survey did, however, indicate some issues that require attention, namely, overtime is par for the course in some divisions. Each division is preparing an action plan, based on issues that came to light through survey responses, to dissolve trouble spots.

Create Corporate Culture Aimed at Boosting Value of Each Brand

Within the POLA ORBIS Group, it is policy to respect the diverse value perceptions of employees and promote an environment in which everyone can fully demonstrate respective capabilities. Among various initiatives, one of increasing importance is to turn women into more of a dynamic force, and toward this end, POLA ORBIS HOLDINGS is expanding its approach from realization of a good work-life balance to career development support.

Sustained Effort to Promote Real Diversity Management (POLA)

POLA has progressively taken praiseworthy steps to create an organization in which women can take active roles. Not resting on its laurels, however, POLA seeks to be a company brimming with a sense of vitality, where the personality of each employee, regardless of age or gender, can shine and has reinforced programs that lead to this destination. Concrete examples include 1) establishment and use of a support system designed from a work-life balance perspective, 2) human resources development using a career challenge system, 3) in-practice philosophy that espouses work-life balance for each employee, and 4) guaranteed environment that enables Beauty Directors of any age to be active. POLA's commitment to putting this kind of diversity management into practice has attracted notice and got the company selected as a winner in the 2015 Diversity Management Selection 100.*

POLA set up a diversity promotion team in 2016 and will pursue activities that foster greater diversity in its effort to become a company where employees write their own futures and approach work fully engaged.

* A project whereby Japan's Ministry of Economy, Trade and Industry gives recognition to companies that have achieved higher corporate value through diversity management. The project was launched in 2013.

Seeking Improved Corporate Culture Through Innovaction (POLA CHEMICAL INDUSTRIES)

To deliver results of extraordinary distinction the world over 10 years and even 20 years from now, innovation is obviously essential in research but equally vital in development and production processes. At POLA CHEMICAL INDUSTRIES, each division responsible for research allocates 5% of its basic research budget to innovative pursuits.

As part of this effort, the company rolled out a program—dubbed "innovaction." Employees get together on their own once a month or so under a workshop format. They exchange opinions on society-driven topics, a process that is generating some great derivatives, such as seeing an issue from a totally different viewpoint or approach and prompting fresh ideas on old subjects.

Thanks to innovaction, the corporate culture has changed, with employees in research able to move more quickly ahead on their tasks.

High Marks for Change (ORBIS)

ORBIS has leaned toward the individual since its earliest days, always looking beyond the borders of age and gender. In its hiring of women, the company was ahead of the industry curve in turning its beauty consultants into full-time employees and establishing a system that made it easy for women to work after childbirth. The corporate attitude toward women in positions of responsibility is reflected in a female-to-male manager ratio, which hit 56%, as of December 31, 2015, and has been charting an upward path for years.

The company also assigns jobs of responsibility to young employees of both sexes so that they can develop their skills. Case in point—the appointment of a male employee, newly graduated from university, into product planning led to hit products. Another example—ORBIS=U Encore, which debuted in September 2015 and is turning in brisk sales, was developed under the lead of a male employee in his 30s. Personnel decisions made with the expectation of new ideas and approaches to business have certainly paid off.

Also of note, in 2013, ORBIS made style evaluation, based on ORBIS STYLE behavioral guidelines, a component of personnel evaluations, and also shifted away from the prevailing points-off assessment in favor of a points-earned emphasis. In conjunction with the new corporate slogan "Change is beautiful.," ORBIS is encouraging employees to retune their attitude by equating change with a willingness to embrace challenges.

Structure Supported by All—from Management to Employees—to Boost Effectiveness of CSR Activities

Drawing Up a Standard of Conduct

As a basis for efforts to strengthen its relationship with various stakeholders, POLA ORBIS HOLDINGS established the CSR Charter as a cornerstone for strict observation of laws and social ethics by each and every employee under the Group umbrella so that the Group as a whole can fulfill its responsibilities as a good corporate citizen in contributing to society. In addition, the Company formulated the POLA ORBIS Group Code of Conduct as a standard of concrete guidelines of behavior to put the CSR Charter into practice, and promotes widespread and thorough awareness of content among employees and raises the effectiveness of CSR activities by regularly posting a top management message on the in-house intranet.

Instilling thorough awareness of standard of conduct

The POLA ORBIS Group CSR Handbook, which describes the Code of Conduct, is distributed to all executives and employees, and everyone is asked to submit a written pledge to the effect that they will abide by the stated standard of conduct. In addition, the Company creates opportunities—once every two quarters—where each division reads through the handbook to encourage widespread and thorough awareness of the standard of conduct that everyone is held to.

The Group's meeting of managers from all divisions, which takes place every March, is used as the venue for recognizing excellent CSR efforts, based on the CSR Charter, and the presentation of the President's Award to deserving employees.

Putting PDCA cycle to work

Overall promotion of CSR activities in general, including compliance, within the Group hinges on employees responsible for promoting CSR practices at each company under the Group umbrella and supported by the CSR secretariat and workplace managers who support the efforts of those with responsibility for CSR activities. These CSR specialists handle training and education programs, monitor activity status, consider and implement steps to correct problem points, and keep the process moving through a Plan-Do-Check-Act (PDCA) cycle.

Compliance education

To preclude possible violations of compliance, POLA ORBIS HOLDINGS strives to enable all executives and employees in Japan to appreciate compliance issues and endeavors to instill the concept of compliance deep into the corporate consciousness.

Through June and July 2015, the Company held lectures at 14 different locations on the topic of insider trading for executives and employees of Group companies in Japan. Any employee who was unable to attend a lecture on the day it was given had the opportunity to watch a video of it later. Also for domestic executives and employees, the Company ran a program of CSR-themed e-learning opportunities in August and September and made content available in booklet form for employees without access to an online environment. In addition, the whole month of August was designated as a time for thinking about CSR, with each company spotlighting CSR topics, including compliance, and implementing steps to reinforce information security and other improvement activities.

Overseas, seminars on corruption prevention were held for employees at offices in China.

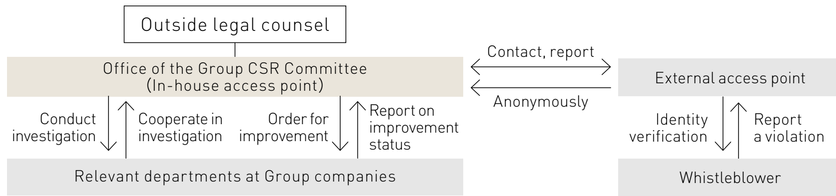
Group CSR lecture

Implementing monitoring practices

POLA ORBIS HOLDINGS undertakes a compliance survey encompassing the Group once a year to ascertain if the Code of Conduct is being upheld and if issues identified in the previous year have been rectified, and objectively evaluates the results.

The Company also maintains a structure that enables executives and employees throughout the Group to voice concerns or ask questions if they suspect a situation in the workplace might violate compliance, thereby giving the Company direct access to information on internal risks. Awareness leads to steps that can minimize risks and prevent infractions. Of reports in 2015, the majority tended to be communication problems in the workplace. The Company instructs each Group company to formulate action plans and seek improvements to these problems along with issues extrapolated from the results of the compliance survey.

Helpline Chart



Other Activities

Groupwide BCP creation and training

Drawing on lessons learned from the Great East Japan Earthquake of March 2011, POLA ORBIS HOLDINGS encourages Group companies to prepare business continuity plans (BCPs) and to run drills every year to verify the effectiveness of initial response measures.

Training activities in 2015 covered efforts to confirm the well-being of employees at domestic operations, set up BCP headquarters at the Company and at domestic Group companies, and carry out initial response simulations at all domestic companies, assuming an emergency makes it difficult for employees to get home. These activities provided practical experience and also highlighted issues in need of attention.

Paralleling this, POLA ORBIS HOLDINGS is working on provisional responses—that is, prioritizing operations for the return to business and defining a plan to carry out such a recovery—, and lead-off measures and drills were undertaken at POLA ORBIS HOLDINGS in 2015, with the rest of the Group expected to follow suit in 2016, which will prepare a structure that facilitates the return to business as quickly as possible after unavoidable interruption.

BCP preparation for businesses with locations overseas began in 2015, and initial response drills, including confirmation of employee safety, were conducted.

Going forward, the goal will be to achieve BCP content on the same level as that of domestic Group companies.

Legal compliance

At POLA, with the door-to-door business being the primary sales channel, the company provides training on issues pertaining to the Act on Specified Commercial Transactions and monitoring methods, such as efforts by headquarters to detect possible issues in the sale of items to the elderly or minors, and strives to improve the quality of its sales techniques. At ORBIS, with the mail-order business being the primary sales channel, the company draws on the expertise of external consultants on the right kind of text to use in its catalogs and runs in-house awareness programs to ensure appropriate advertising expressions and legal compliance.

Managing personal information

The main sales method used by members of the Group is direct selling, so particular care must be given to safeguard personal information. Several policies guide efforts, such as the privacy policy and information security policy.

At each Group company, an employee is assigned to promote information security measures, and an inventory of personal information is performed on a Groupwide basis twice a year, in May and in November. In addition, to ensure thorough management of business associates' information, POLA ORBIS HOLDINGS has since 2014 scoured providers contracted to handle personal information and has required some of them to submit to at least one audit.

POLA's e-commerce site is PCIDSS*[1]-compliant. ORBIS and FUTURE LABO have acquired the Privacy Mark*[2].

Notes: 1. The Payment Card Industry (PCI) Data Security Standards (DSS), or PCIDSS, provides a global baseline of technical and operational requirements shared by international credit card brands and designed to protect cardholder data.
2. Given by the Japan Information Processing Development Center to businesses recognized for proper personal information handling safeguards and management.

Utilizing Stakeholder Dialogues* in Corporate Management

At POLA ORBIS HOLDINGS, we promote dialogue with external stakeholders to confirm that our corporate activities are in line with the expectations and requirements that society places upon the POLA ORBIS Group and to identify the products and services that society wants from our group of companies.

* Stakeholder dialogues: These are opportunities to talk with stakeholders—people whose corporate interests are grounded in different perspectives—and confirm positions that match the corporate stance and understand those that do not and the associated background factors, and then find common ground wherever possible. From a corporate standpoint, such common ground provides a basis for actions that reflect stakeholders' opinions in the business activities of Group companies and promote development of the Group as well as society.

POLA

- Ninth stakeholders' dialogue held on August 27, 2015
- Discussion theme: Raising corporate value at POLA
  Participants gave their opinions on what POLA needs to do to boost customer satisfaction as the market matures and customer needs become increasingly diversified and sophisticated.

Comments from Stakeholders

Kumiko Sasaki Sales Branch Manager, NAVI Sales Branch, Kyoto area, POLA

It is vitally important, I believe, to cultivate the skills of Beauty Directors so that they are able to address whatever needs their customers have without messing with the POLA philosophy and/or tarnishing the view of the world inherent in the brand. In recent years, with expansion of the sales network, I sense a bit of polarization in the Beauty Director concept. So that headquarters' ideas are fully communicated to the frontline of sales in a consistent manner, it would be really helpful if POLA could get involved in the development of Beauty Directors, particularly in initial training efforts. Another area of collaboration that would increase contact with customers would be alliances with companies outside of the Group. For example, if Beauty Directors were sent out to companies with branches across the country to run makeup classes on a large scale under headquarters' lead, working women throughout Japan would get a clearer picture of what Beauty Directors do, don't you think?

Junko Yatsunami Lead Analyst, Nissay Asset Management Corporation

I agree to the importance of promoting awareness of Beauty Directors to further increase customer contacts. As more people recognize POLA's contribution in creating an attractive career path for women and its strength in leveraging the skill sets of its people, the value of the brand would no doubt shine more brightly. I can also see POLA's corporate value reaching new heights when all employees, including Beauty Directors, share the commitment to achieve sustainable growth by enhancing customer satisfaction. I would recommend setting KPIs (key performance indicators that measure progress toward organizational goals) that would allow management to also quantitatively confirm how well POLA is able to promote its core values.

Masahiro Tamiya President and Representative Director, AQUANET FRANCHISE MANAGEMENT INSTITUTE, and Chairman, Nippon Franchise Consultant Association

The franchise business model is slightly different to the POLA business model, but the most important factor in the franchise business is brand image. To push the brand image that you are delivering deep down to the frontline of sales, you need a structure. The expertise of Field Counselors will be instrumental in this. Training for Beauty Directors is, of course, important, but it is also important, extremely so, I believe, to train Field Counselors and create a store support structure. Corporate collaboration and alliance plans would be a strength for companies, like POLA, with locations across the country. Pursuing this, under headquarters' lead, and with a focus on Field Counselors who act as a bridge between the frontline and headquarters, is sure to accelerate the merits of building a store support structure.


Kumiko Sasaki


Junko Yatsunami


Masahiro Tamiya

POLA's Response

At the last stakeholders' dialogue, an issue brought to light was that POLA had not completely conveyed its value to the market or to its customers. Going forward, we will make it a priority to adopt a more customer-oriented perspective by conclusively communicating our corporate ideology—thoughts and views—to Beauty Directors and introducing measures to instill this ideology on the frontline so that it permeates sales practices.

POLA has taken a view that all Beauty Directors should be beauty professionals, and toward this end, decided to revise the way Beauty Directors are compensated. In addition, the criteria for capabilities required of Beauty Directors were adjusted, and the training curriculum was changed to reflect a training policy that emphasizes the communication of corporate principles rather than skills.

The point made about expanding customer contact drove home the realization that efforts on the frontline can only accomplish so much and that headquarters and Field Counselors play an extremely important function in going further. Therefore, we will build a store support structure that expertly utilizes Field Counselors, a process that will include fine-tuning the function of Field Counselors and reviewing required training and the associated evaluation system.

Representing POLA: Hiroki Suzuki (Representative Director and President, POLA, and Director, POLA ORBIS HOLDINGS INC.); Miki Takenaga (Director, responsible for door-to-door sales diversification business); Nobuo Shimizu (Director, responsible for door-to-door sales cosmetics business and area sales); Yoshikazu Yokote (Corporate Officer, responsible for marketing); Akira Gogo (Corporate Officer, responsible for door-to-door sales cosmetics business, sales planning and training)

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

ORBIS

- Tenth stakeholders' dialogue held on September 3, 2015
- Discussion theme: From brand restructuring to evolution—Seeking to create new value
  ORBIS embarked on a new stage of corporate development in 2015. Participants gave their opinions on what value creation steps are needed to raise brand value still higher.

Comments from Stakeholders

Rie Kida Representative Director and Manager, Woman's Feelings Marketing Laboratory

When promoting business through both online sales and physical stores, you have to link the two and generate many points of contact with customers, create a format that impresses people, and encourage them to make a purchasing decision quickly. In addition, I sense a lack of enthusiasm toward people who do not really know ORBIS well, that is, they do not have a close relationship with the brand or the company. At stores, in particular, I think you still have some work to do to generate communication and story creation with a playful quality—a feeling of fun.

Also, you do not really convey what makes ORBIS special or how your products make women happy. I think efforts to enhance value creation evoking the perception that ORBIS supports the way women live would serve you well.

Takashi Okutani Ryohin Keikaku Co., Ltd.

At Ryohin Keikaku, we strive to use the Internet not just as a tool for online sales but also as a conduit through which we visualize customer time, while physical stores are venues where we seek contact with customers and provide hands-on events. The essence of new value creation is based, I think, in dedicated and sincere *monozukuri* (manufacturing from a product creation perspective), but the key elements are a stance on product development and a sense of balance. If you over-spotlight existing customers, you may fail to notice the needs of new customers. Always ask yourself what makes ORBIS special, and once in a while pursue something other than efficiency. That is sure to lead you to new value.

Eiichiro Adachi Counselor, The Japan Research Institute, Limited

I think that cultivating a sophisticated sense of fun within your corporate culture of sincerity and dedication would blossom into a spirit that encourages people to embrace challenges, which in turn will lead to new value creation. To integrate perceptions among divisions in the pursuit of innovation, some companies engage in activities without any immediately obvious direct benefit to operations in an attempt to derive inspiration that will underpin business development. ORBIS needs that kind of structure, too.

When you go in search of the quality that makes ORBIS special, look for contact points with customers from angles other than product development and sales promotions. For example, if you put social contribution activities connected to business into communication efforts with customers, you should be able to create value that strikes a chord with women from a unique stance.


Rie Kida


Takashi Okutani


Eiichiro Adachi

ORBIS' Response

The comments reaffirmed the idea that for us to move forward we have to take a more vigorous approach in showcasing what the brand does for customers. We will identify a unifying point for the brand and pursue discussions on how best to forge a connection between online sales and physical stores.

Sincerity is a part of the corporate culture that elicits pride at ORBIS. However, charging ahead on sincerity alone will not elicit value exceeding customers' expectations. From the comments received, we acquired a new appreciation of value beyond that inherent in products and how important it is to amaze customers, in terms of emotions and feelings.

To us, what makes ORBIS special goes beyond the functional value of products to an understanding of women's lifestyles and their sense of values. We will clarify this perspective on value and make more of an effort to deliver the message to the market. We believe that new value creation itself will be instrumental in reinforcing the bond between ORBIS—company and brand—and customers. We will pursue various touchstones of activity so that as many people as possible recognize ORBIS value.

Representing ORBIS: Yoshifumi Abe (Representative Director, President); Hiromi Kumamoto (Corporate Officer, responsible for product planning); Masaki Motoki (General Manager, mail order & online business); Ryosuke Imai (Section Chief, marketing promotion team, store business division)

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

Proactive Communication 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 a broader spectrum of information, such as Group history, long-term vision, the medium-term management plan, management direction, and key strategies aimed at future growth, which promotes a deeper understanding of business activities and encourages long-term, stable investment. For this purpose, the Company established a division dedicated to IR and adheres to a basic policy stressing timely and accurate IR activities for institutional investors and individual investors.

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

POLA ORBIS HOLDINGS actively reflects comments shared by institutional investors during IR briefings in setting management targets. For example, capital policy underlying the return-on-equity target and the policy on return to shareholders as well as the appointment of outside directors to the Board of Directors are just some of many suggestions offered during conversations with shareholders. The Company also holds small meetings with the president for analysts and organizes tours of facilities, including factories, and will continue to welcome such requests.

Meanwhile, in IR activities for individual investors, POLA ORBIS HOLDINGS has actively hosted IR seminars, particularly for female investors, since its stock listing. By incorporating beauty-related subjects, such as skincare and makeup, into the ladies-only seminar content, the Company enables female investors to have fun while learning about brands in the Group portfolio, and this inevitably encourages them to become customers as well as investors.

POLA ORBIS HOLDINGS also came up with an ingenious points-based incentive program for shareholders. This program allows shareholders to exchange points for products in the multi-brand portfolio, based on the number of shares held and the number of years these shares have been held. Special perks like this have led to a higher number of individual shareholders, contributed to higher value of portfolio brands, and expanded the ratio of long-term shareholders.

In accordance with the Corporate Governance Code, POLA ORBIS HOLDINGS respects the rights of shareholders, including voting rights, strives to protect such rights and responds with impartiality to any and all shareholders.

Fiscal 2015 Activity Results

Number of briefings with domestic and international investors	More than 450 during the year (650 companies)
Overseas IR	Nine trips (Europe, North America, Asia) with participation from representative directors, director responsible for financial affairs and director responsible for IR
Financial results briefings/ teleconferences	Four times (two Financial results briefings, two teleconferences)
Female investor ratio	46.6% (36.6% in 2010)
Shareholder perks evaluation	97.4% positive (through Company perks questionnaire)
Awards	Fiscal 2015 The IR Award: Best IR Award (Sponsor: Japan Investor Relations Association) Fiscal 2015 All Listed Company Website Quality Ranking: Best Site (Sponsor: Nikko Investor Relations Co., Ltd.) Fiscal 2015 Internet IR Excellence Award (Sponsor: Daiwa Investor Relations Co., Ltd.) Fiscal 2015 Nikkei Annual Report Awards: Award for Excellence (Sponsor: Cross-Media Advertising & Business Bureau at Nikkei Inc.) Fiscal 2016 Fourth 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* 2016 Edition ("Useful Information on Shareholder Perks"), published by Nomura Investor Relations Co., Ltd.)

In Cooperation with Local Communities

POLA ORBIS HOLDINGS Contributing to Local Communities Through Cooperation

Support for local industry revitalization (POLA)

Since 2009, POLA has run the "3-9 Project," an initiative to highlight the essence of Japan's proud history of *monozukuri* (manufacturing from a product creation perspective) and to energize local industry. The project name plays on the Japanese reading of "3-9"—*san kyu*—which sounds like "thank you." In 2015, the project showcased two umbrellas, one in a *hogushi* weave, where the fabric is loosely woven with a temporary weft (lateral threads) to keep the warp (longitudinal threads) in order during printing and then removed—hence the term *hogushi*, derived from *hogusu* ("unravel" or "take threads apart")—and replaced, giving the final pattern a three-dimensional depth, and one in a jacquard weave. Both designs draw on traditional techniques handed down from one generation to the next in the city of Fujiyoshida, Yamanashi Prefecture. These umbrellas were presented to customers who had high annual spending totals. While the weaving techniques are worthy of worldwide attention, traditional industries like this one are now in decline in Japan, primarily due to a shortage of successors. The "3-9 Project" put this industry in the spotlight.

Contribute to effective use of unattended forest (ORBIS)

ORBIS is involved in the mail-order business, which is catalogue-based, and thus uses lot of paper. To mitigate some of the environmental impact caused by its reliance on catalogues, the company began reforestation activities in 2002, specifically, tree-planting on unattended and thus unusable land. In 2015, work started on the cultivation of wine grapes on a section of Koshu City ORBIS Forest—about five hectares—perfect for the cultivation of grapes by a local company with facilities in Koshu, Yamanashi Prefecture. This will lead to effective utilization of the forest.

Also, thinking about ways to help people in the area impacted by the disasters that accompanied the Great East Japan Earthquake in March 2011 get back to a normal life, ORBIS presented the idea of turning the points that customers earn with their purchases into donations for support activities or as contributions to fund reconstruction efforts. This approach generated more than ¥100 million.

Rental condominiums present beautiful ways to live (P.O. REAL ESTATE INC.)

In March 2014, on land where a POLA CHEMICAL INDUSTRIES research facility once stood, construction on Brote Yokohama Takashimadai was completed, elegantly styled building of rental condominiums brimming with resort appeal. In support of biodiversity activities spearheaded by the city of Yokohama, Kanagawa Prefecture, P.O. REAL ESTATE embraced such approaches as preserving or reproducing local ecosystems to give residents a sense of living close to nature. The building also rents space for a vegetable garden and holds events that help to foster a community spirit.

Brote Yokohama Takashimadai was recognized with a Good Design Award*1 and Kids Design Award*2 in 2015 for presenting a beautiful way to live, where people and nature coexist in the city and good communication flows between people.

Umbrellas in *hogushi* weave and jacquard weave

Rooftop vegetable garden at Brote Yokohama Takashimadai

*1 A comprehensive design promotion system operated by the Japan Institute of Design Promotion, a public interest incorporated foundation. The system seeks to enrich lives, industries and society as a whole by highlighting and celebrating good design.

*2 A commendation system, run by the Kids Design Association, a Cabinet-approved NPO, to recognize exceptional products, spaces and services for children or for raising children and to promote awareness of winning achievements widely throughout society.

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. Spearheaded by POLA, 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.

Activities at the POLA Museum Annex

The POLA Museum Annex, an art gallery operated by POLA ORBIS HOLDINGS, reflects the Group's commitment, as a corporate group providing "beauty," to support culture and art as a bridge to inner beauty and deliver a message of corporate value to stakeholders at home and abroad.

In 2015, the annex held various exhibitions that fell outside the conventional definition of art and strengthened its calendar of events that enable artists to connect directly with the public. As a result, the number of visitors to the annex hit a record high—more than 120,000—and polished the Group's reputation for promoting culture and art to a brighter shine.

The "Ultra Plants Exhibition," by plant hunter Seijun Nishihata, ran July 3 through August 16, 2015, under an expo-style format showcasing exotic plants from around the world. More than 27,000 people came to see the interesting assortment of plants on display at the annex.

Then for "teamLab Exhibition: Walk Through the Crystal Universe," which ran August 21 through September 27, the annex gallery turned into an atmospheric interactive space through teamLab's original cutting-edge technology and nearly 70,000 LEDs to give the illusion of light movement, like stars, in the cosmos. The exhibition was immensely popular with people of all ages, drawing a daily average of 1,378 people and marking an all-time attendance record for planned exhibitions.

Ultra Plants Exhibition

teamLab Exhibition, Walk Through the Crystal Universe

Activities of the POLA Research Institute of Beauty & Culture

The POLA Research Institute of Beauty & Culture undertakes a broad array of research pursuits, including studies into the history of cosmetics in the East and West, surveys to gauge women's beauty awareness, and exhibitions highlighting the culture of cosmetics, which contribute to an enhanced culture of cosmetics. Efforts revolve around the catchphrase "Cosmetics, women, and perceptions of beauty." The institute facilitates wide access to the information acquired through these activities, enabling universities and research organizations as well as individuals and companies to utilize the valuable results of its research as scientific materials for their own pursuits.

The institute's activities contribute to cultural programs in various communities, while shaping corporate culture and enhancing the value of the POLA brand as well as Group value.

Activities in 2015 included an exhibit, the "POLA Collection: In Search of East-West Perceptions of Beauty—Dressing Up in Japan and Europe" at the Kokura Castle Japanese Garden in Kitakyushu. The institute also took part in lectures at museums across Japan.

Exhibition at Kokura Castle Japanese Garden

Support for the POLA Art Foundation

The POLA Art Foundation, which has the overall support of the POLA ORBIS Group, provides financial assistance to young artists studying overseas, for investigative research by art museum staff, and international art-related exchanges. In 2015, the foundation granted assistance to 42 projects.

In its assistance for overseas study, the foundation holds group exhibitions showcasing the art of selected artists at the POLA Museum Annex to encourage artists to actively incorporate new knowledge and techniques into their work.

The POLA Museum of Art marked its 13th anniversary in September 2015 and welcomed its three millionth visitor.

In 2015, planned exhibitions included "Cézanne: Pioneer of Modern Art" and "Nature and the City: Impressionism to École de Paris."

Milestone: POLA Museum of Art welcomes three millionth visitor

Supporting the POLA Foundation for the Promotion of Traditional Japanese Culture

The POLA Foundation for the Promotion of Traditional Japanese Culture, which has the overall support of the POLA ORBIS Group, handles four programs—an awards program, an assistance program, an archive-creation program, and a program for promoting, collecting and preserving examples of the traditional arts—designed to keep traditional Japanese culture alive.

The POLA Traditional Japanese Culture Awards is a program to recognize people who have demonstrated tremendous achievement in the fields of traditional arts and crafts, traditional performing arts, and folk performing arts. Each year, the number of award recipients and the awards to be won vary. At the 35th anniversary presentation, awards were given to three people, including Kazuo Nakata, for passing on his practical skills and knowledge and crafting *yuri kinsai* (an underglaze gold decoration porcelain noted for its highly transparent overglaze on the gilded surface) and Takako Sato, for passing on her practical skills and knowledge and creating Ryukyu dance performances. This occasion also saw one person receive an incentive award and five organizations earn regional prizes.

Prize recipients at the 35th POLA Traditional Japanese Culture Awards

The POLA ORBIS Group Embracing Environmentally Conscious Business Activities

POLA ORBIS Group Environmental Principles

The following principles guide the POLA ORBIS Group in executing business activities with the environment in mind.

1. Strive to reduce environmental impact throughout the lifecycle of products.
2. Set environmental targets and work toward sustainable improvement of environmental performance and pollution prevention to the extent technologically and economically possible.
3. Emphasize environment-friendly product development and, at business sites, promote resource- and energy-saving and waste-reduction measures to protect the global environment and make it better.
4. Ensure compliance, including respect for environment-related laws, local regulations, and agreements as well as voluntary standards.
5. Strive to coexist with society at the community level and beyond, and promote activities to protect the environment and make it better.

Policy on Animal Welfare

As a policy,* POLA ORBIS HOLDINGS has abolished the practice of animal testing in R&D for cosmetics, including quasi-pharmaceuticals, throughout the Group as well as at its outsourcing companies, in tandem with the establishment of alternative methods and technologies.

* This policy will not apply if, for whatever reason, the company involved in R&D or production is required to be accountable for safety to the public or government in certain countries that demand animal testing of cosmetics, including quasi-pharmaceuticals.

Activities at POLA CHEMICAL INDUSTRIES

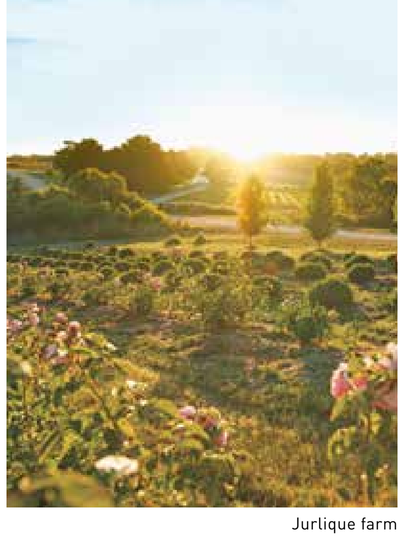
Based on ISO 14001, international certification for environmental management systems, POLA CHEMICAL INDUSTRIES sets targets in four areas—1) energy- and resource-saving efforts, such as reducing CO2 emissions, conserving water, and reducing power consumption; 2) resource recycling, including reduction of industrial waste materials; 3) risk management, including efforts to prevent environmental pollution; and 4) environmental awareness training for employees and in the community—and works through a PDCA cycle to achieve constant improvement. The company puts particular emphasis on efforts to conserve natural resources, highlighted by its use of power-saving boilers, cooling equipment that runs on electricity, and a solar power generation system. As a result, the company has easily met its CO_2 reduction goal of 1% each year since 2001.

In resource recycling, POLA CHEMICAL INDUSTRIES reached its target of zero emission status in 2003.

Activities at Jurlique

Since 2010, Jurlique has been working to reduce energy and water consumption by 20%. On the energy front, the company installed solar panels on the farm and warehouse in January 2015 and is enthusiastically engaged in regular energy-saving measures and other approaches that have led the company very close to achieving its target. And on the water front, Jurlique saves 2,000 kiloliters of water every year through a factory wastewater recycling project started in February 2015 which involves collecting good quality factory wastewater in tanks and transporting it to the company farm, just down the road, to irrigate plants. Everyone at Jurlique is behind a new goal to achieve another 20% reduction in energy and water consumption by 2020.

In regard to raw materials, it is company policy to use sustainable ingredients wherever possible, with the ultimate goal being 100% sustainable ingredient content, including palm oil.



Jurlique farm

Financial Section

Contents

Five-Year Summary of Selected Financial Data

Years ended December 31	2011	2012	2013	2014	2015	2015
	Millions of yen (Except per share data)					Thousands of U.S. dollars[*1] (Except per share data)
Operating Results						
Net sales[*2]	¥166,657	¥180,873	¥191,355	¥198,094	¥214,788	$1,780,852
Beauty Care	154,778	168,811	178,306	184,475	200,570	1,662,968
POLA	97,353	99,204	100,740	99,571	109,352	906,661
ORBIS	47,918	48,009	48,163	52,302	56,354	467,245
Overseas Brands	1,851	13,011	20,298	22,476	22,334	185,182
Brands under Development	7,654	8,587	9,104	10,123	12,529	103,881
Real Estate	3,089	2,841	3,035	3,179	2,951	24,473
Others	8,790	9,220	10,013	10,440	11,266	93,410
Operating income	12,853	13,520	16,017	17,683	22,511	186,646
Beauty Care	10,787	11,812	14,780	16,535	21,290	176,526
POLA	6,168	7,031	7,951	8,583	12,302	102,003
ORBIS	6,526	7,881	8,807	10,792	11,197	92,841
Overseas Brands	(81)	(1,897)	(895)	(1,881)	(2,194)	(18,192)
Brands under Development	(1,826)	(1,202)	(1,082)	(958)	(15)	(126)
Real Estate	1,283	1,139	1,258	1,227	1,265	10,496
Others	501	335	410	472	293	2,436
Operating margin (%)	7.7	7.5	8.4	8.9	10.5	
Net income	8,039	6,681	7,318	10,382	14,095	116,865
Financial Position						
Net assets	157,057	164,896	173,887	180,793	180,635	1,497,686
Total assets	193,027	209,140	218,005	224,536	235,734	1,954,518
Cash Flows						
Cash flows from operating activities	14,401	17,592	13,500	16,643	28,379	235,296
Cash flows from investing activities	(3,444)	(39,625)	(2,452)	(8,391)	(7,331)	(60,783)
Cash flows from financing activities	(4,093)	(3,280)	(2,815)	(3,661)	(13,896)	(115,217)
Cash and cash equivalents at end of year	50,246	25,106	34,137	39,111	45,843	380,093
Depreciation and amortization	5,374	6,466	6,704	6,948	6,528	54,125
Capital expenditure	5,048	9,609	8,670	8,257	12,074	100,108
Financial Indicators						
Equity ratio (%)	81.3	78.8	79.5	80.4	76.5	
Return on equity (%)	5.2	4.2	4.3	5.9	7.8	
Return on assets (%)	7.0	7.3	8.4	8.6	9.7	
Price-earnings ratio (times)	14.3	20.5	28.4	25.9	31.5	
Per Share Date						
Net income per share (¥/$)	145.43	120.86	132.39	187.81	254.95	2.11
Net assets per share (¥/$)	2,839.36	2,980.48	3,133.82	3,264.13	3,260.00	27.03
Cash dividends per share (¥/$)	45	50	55	187	150	1.24

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1=¥120.61 as of December 31, 2015.
*2 Net sales do not include consumption taxes.

Management's Discussion and Analysis

Summary of Business Results

In fiscal 2015, ended December 31, 2015, conditions in the domestic cosmetics market shifted favorably, fueled by a recovery tone that permeated the business environment and also by steady shopping activity from inbound tourists. But if the effect from inbound spending is excluded, the size of the market actually shrank compared with 2014. Overseas, the cosmetics market sustained a gradual expansion trend overall, despite a perceived weakening in the economic strength of some nations, particularly Asia's emerging markets.

Against this market backdrop, the POLA ORBIS Group continued to push ahead on measures to reinforce the domestic earnings structure, accelerate overseas expansion and boost corporate value through more efficient use of capital in this second year of the three-year medium-term management plan launched in fiscal 2014. As a result, POLA ORBIS HOLDINGS achieved another year of higher sales and income, on a consolidated basis.

Analysis of Operating Results: Comparison of Fiscal 2015 and Fiscal 2014

Net sales

Net sales climbed 8.4% over the fiscal 2014 level, to ¥214,788 million, reflecting heightened inbound demand for POLA-brand products and favorable business development for THREE and decencia—two brands under development—as well as a switch to a point system for ORBIS.

Cost of sales, and selling, general and administrative expenses

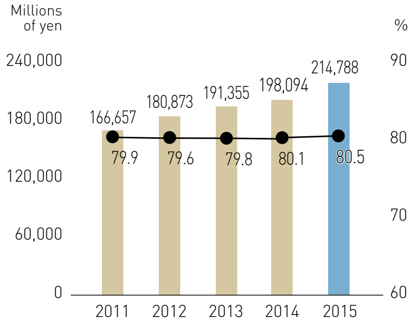
Cost of sales rose 6.3% year on year, to ¥41,800 million, paralleling higher net sales. The cost of sales ratio—cost of sales as a percentage of net sales—improved 0.4 percentage point, to 19.5%, primarily due to price increases for ORBIS products and a corollary effect of that brand's point system.

Selling, general and administrative expenses were up 6.7% over fiscal 2014, to ¥150,477 million, owing to higher sales at POLA and higher expenses paralleling the switch to the point system at ORBIS. The ratio of selling, general and administrative expenses to net sales decreased 1.2 percentage points, to 70.1%, mainly because cost-cutting efforts successfully boosted operating efficiency on a Groupwide basis.

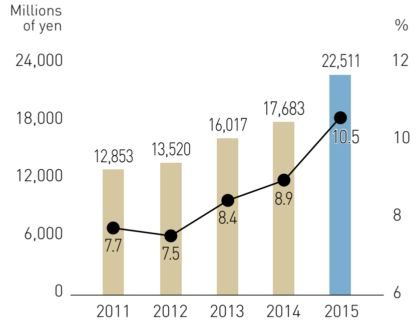
Operating income

Operating income jumped 27.3% year on year, to ¥22,511 million, as the stronger net sales starting point again drove gross profit higher. The operating margin continued to chart an upward path, rising 1.6 percentage points over fiscal 2014, to 10.5%.

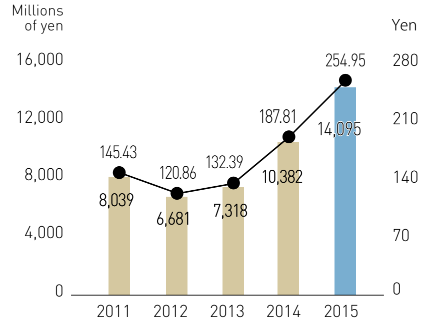
Net Sales and Gross Margin



Operating Income and Operating Margin



Net Income and Net Income per Share



Income before income taxes and minority interests
Income before income taxes and minority interests, which dipped in fiscal 2014, rebounded in a big way—74.8%—in fiscal 2015, to ¥22,685 million. The primary factors in this change were an increase in ordinary income, along with extraordinary income, namely, ¥538 million in gain on reversal of foreign currency translation adjustments paralleling completion of business liquidation accompanying the withdrawal of the ORBIS brand from South Korea and ¥738 million in proceeds from the sale of idle assets, and extraordinary loss, namely, ¥539 million in loss on business restructuring accompanying withdrawal of the POLA brand from Russia and closure of the Hong Kong office for the ORBIS brand.

Net income
Given the reasons described above, net income surged 35.8% year on year, to ¥14,095 million. Net income per share zoomed to ¥254.95, from ¥187.81 in fiscal 2014. Return on equity climbed to 7.8%, up from 5.9% a year ago.

Business Segment Performance

Beauty Care
The Beauty Care business covers flagship brands POLA and ORBIS, overseas brands Jurlique and H2O PLUS, and brands under development (pdc, FUTURE LABO, ORLANE, decencia, and THREE).

At POLA, efforts were directed at boosting customer satisfaction, with an emphasis on developing new products in the anti-aging and skin-whitening fields and improving the quality of sales practices, including better consulting techniques. In the domestic market, POLA saw favorable sales activity throughout the year, fueled by the February 2015 debut of *White Shot INNER LOCK IX*, a beauty supplement product of particular interest to inbound tourists. The company also pursued aggressive strategies, including the August 2015 revamp of the anti-aging series *B.A*—the New *B.A*—which spotlights a key component of the skin-building mechanism. Overseas, POLA had success with new product launches and sales promotion activities, which spurred corporate growth. Consequently, the brand delivered higher sales than in fiscal 2014.

At ORBIS, the emphasis was on leveraging the solid business platform achieved recently through brand restructuring to enhance corporate branding, enrich the lineup of skincare products and elevate the level of personalized services extended to customers through sales promotions. In Japan, the company targeted further evolution of the restructured brand and implemented confident approaches, such as the September 2015 debut of *ORBIS=U Encore*, a full line of anti-aging skincare, and sales promotions utilizing social networking services. Overseas, the company had success with the launch of a new product in Taiwan and associated advertising and promotional activities. Nevertheless, the lack of sales activity in South Korea, due to ORBIS' withdrawal from that market in August 2014, caused overseas sales to decline. Consequently, while ORBIS recorded an increase in net sales over fiscal 2014, if the boost from the point system is taken out of the equation, real sales growth was essentially on a par.

For overseas brands, the objective was to sustain a high rate of expansion, focusing on Asia as a driver of growth, and to realize a bigger contribution to consolidated earnings. Jurlique still encountered challenging conditions in China, with sluggish economic growth causing a downturn in department store sales. But in Australia, the company enjoyed brisk activity, buoyed by an increase in the number of in-store customers and higher spending per customer. In the end, Jurlique posted a year-on-year improvement in sales. At H2O PLUS, efforts were directed toward renewal of the H2O PLUS brand, which entailed measures to streamline sales channels in North America and close unprofitable stores in China. This led to a year-on-year decrease in sales. Given the various obstacles, sales from overseas brands faltered, sliding below the level booked in fiscal 2014.

Brands under development continued to enjoy favorable demand, with THREE and decencia delivering particularly good results and underpinning year-on-year improvement in sales.

All told, Beauty Care posted segment sales—sales to external customers—of ¥200,570 million in fiscal 2015, up 8.7% over fiscal 2014, and operating income of ¥21,290 million, up 28.8%.

Real Estate
In the Real Estate business, the primary objectives are to at least maintain but ideally raise rent levels 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 targeting families with young children. In fiscal 2015, higher rents—matched to market conditions—and high occupancy made for good results at existing buildings, but a drop in rental income due to the transfer of POLA GOTANDA BUILDING No. 3, a rental office building, in December 2014 to a third party eroded overall sales from rental buildings.

As a result, segment sales—sales to external customers—fell 7.2%, to ¥2,951 million, but operating income rose 3.1%, to ¥1,265 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-pharmaceuticals to develop and sell new drugs. In fiscal 2015, a sustained approach that channeled resources into dermatology, a field of focus, as well as the start of a sales alliance with GlaxoSmithKline K.K. for Duac® Gel, a combination agent for the treatment of acne vulgaris, helped boost sales year on year. However, operating income came in lower, owing to additional expenses incurred in the initial stage of Duac® Gel promotion.

In January 2016, POLA Pharma Inc. signed an exclusive licensing agreement to handle business activities related to Duac® Gel in Japan, on the expectation that manufacturing and marketing of the pimple treatment will be approved for transfer in due course.

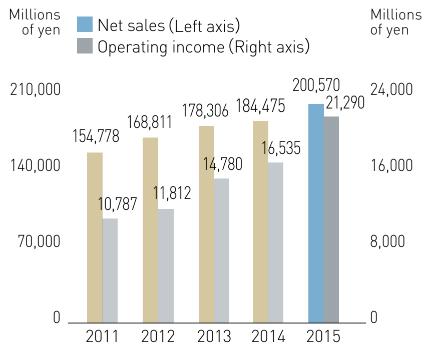
The building maintenance business caters primarily to the needs of Group companies. In fiscal 2015, the business endeavored to capture more orders from outside the Group, and attracted a steady number of orders through marketing activities to sign up new customers for its services. These efforts were successful, with sales exceeding the level posted in fiscal 2014.

Overall, sales—sales to external customers—by businesses in the Others segment reached ¥11,266 million, up 7.9% year on year, but operating income retreated 37.8%, to ¥293 million.

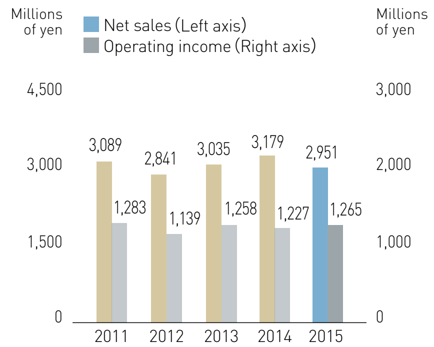
Key Financial Indicators

	2013	2014	2015
Cost of sales ratio	20.2%	19.9%	19.5%
Gross margin ratio	79.8%	80.1%	80.5%
SG&A ratio	71.4%	71.2%	70.1%
Personnel expenses	15.1%	15.2%	14.3%
Sales commissions	24.1%	23.2%	22.7%
Sales-related expenses	18.5%	19.1%	20.1%
Administrative and other expenses	13.7%	13.7%	13.0%
Operating margin	8.4%	8.9%	10.5%
Net income margin	3.8%	5.2%	6.6%

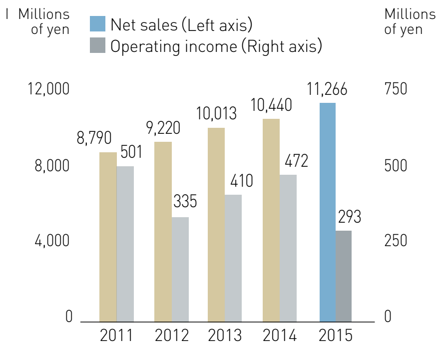
Beauty Care



Real Estate



Others



Analysis of Financial Position

Assets, Liabilities, and Net Assets

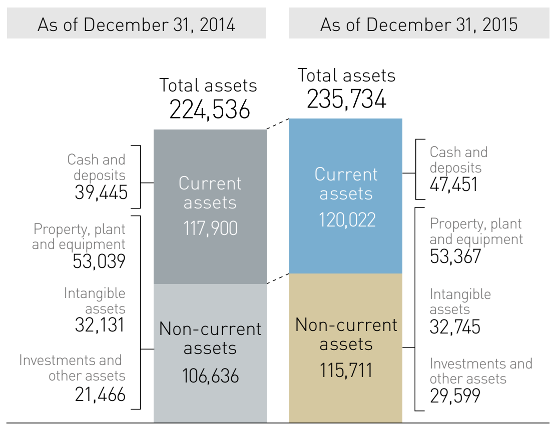
Assets
As of December 31, 2015, total assets stood at ¥235,734 million, up 5.0% from a year earlier. This change reflects increases of ¥8,005 million in cash and deposits, ¥3,709 million in notes and accounts receivable – trade, ¥3,841 million in intangible assets (Other), and ¥6,295 million in investments in securities through application of surplus funds, and decreases of ¥5,912 million in short-term investments in securities, ¥2,198 million in goodwill and ¥1,029 million in right of trademark mainly due to exchange rate fluctuations.

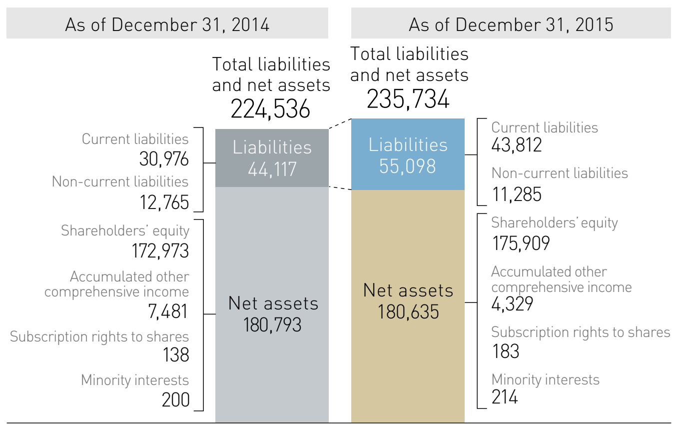
Liabilities
Total liabilities jumped 26.0% from December 31, 2014, to ¥55,098 million, as of December 31, 2015. This change reflects increases of ¥958 million in notes and accounts payable–trade, ¥8,555 million in accounts payable–other largely due to an increase in sales commission payable, and ¥4,093 million in income taxes payable, and decreases of ¥1,372 million in short-term loans payable following repayment of bank borrowings of an overseas subsidiary and ¥1,802 million in net defined benefit liability due to a revision of the Accounting Standard for Retirement Benefits.

Net assets
Total net assets edged down 0.1%, to ¥180,635 million, as of December 31, 2015. The primary factors contributing to this change were net income of ¥14,095 million and an increase of ¥828 million in retained earnings following a revision of the Accounting Standard for Retirement Benefits, which nearly offset a decrease of ¥3,269 million in foreign currency translation adjustments due to exchange rate fluctuations and ¥11,996 million in dividends from retained earnings.

Overview of Consolidated Balance Sheets

(Millions of yen)





Cash Flows

The balance of cash and cash equivalents as of December 31, 2015, was ¥45,843 million, up ¥6,732 million from the end of the previous fiscal year.

Cash flows from operating activities
Net cash provided by operating activities in fiscal 2015 amounted to ¥28,379 million, soaring 70.5% from the previous fiscal year. Primary components contributing to inflow were ¥22,685 million in income before income taxes and minority interests, ¥6,528 million in depreciation and amortization, ¥765 million in amortization of goodwill, and a ¥4,073 million increase in other liabilities due to an increase in sales commission payable. Major components causing a decrease in net cash were a ¥3,998 million increase in notes and accounts receivable–trade due to an increase in accounts receivable–trade and ¥2,191 million in income taxes paid.

Cash flows from investing activities
Net cash used in investing activities in fiscal 2015 came to ¥7,331 million, down 12.6% from fiscal 2014. Major components of outflow were ¥3,601 million to purchase short-term investments in securities through application of surplus funds in line with investment plans and ¥21,399 million to purchase investments in securities, ¥4,575 million to purchase property, plant and equipment, and ¥1,623 million to purchase intangible assets, which overshadowed an inflow of ¥23,600 million in proceeds from the sale and redemption of short-term investments in securities and ¥1,091 million in proceeds from the sale of property, plant and equipment.

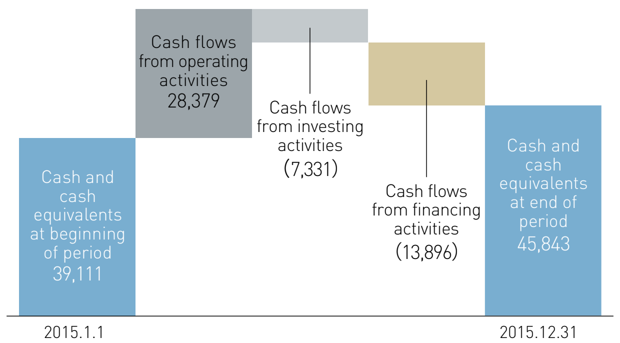
Cash flows from financing activities
Net cash used in financing activities reached ¥13,896 million, soaring 279.5% from a year ago. The primary application of cash was ¥12,012 million in cash dividends paid.

Sources of funds and policy on fund liquidity
Working capital and investment capital for Group operations are sourced from internal funds and bank loans. Of funds raised from external sources, interest-bearing debt dropped ¥1,158 million from the amount at December 31, 2014, to ¥3,125 million at December 31, 2015. This reflects a decrease of ¥1,372 million in short-term loans payable associated with repayment of bank borrowings of an overseas subsidiary. 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 ¥47,451 million as of December 31, 2015, up ¥8,005 million from a year earlier. The change is mainly due to increased cash flow from operating activities.

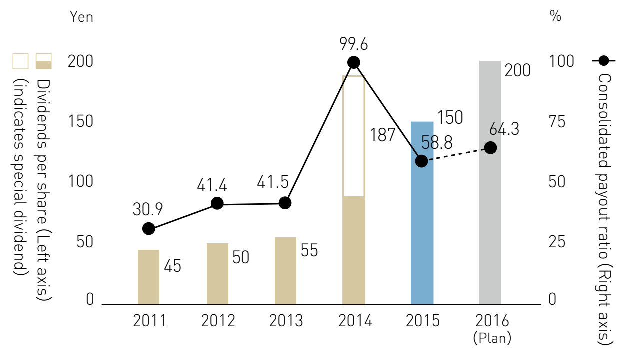
Overview of Consolidated Statement of Cash Flows

(Millions of yen)



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 Payout Ratio



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 50%.

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 ¥150.00 per share for fiscal 2015, comprising an interim dividend of ¥70.00, and a year-end dividend of ¥80.00. 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, 2015.

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 precluding 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 by growing the door-to-door business based on consignment sales agreements. Securing sales partners under consignment sales agreements is an important activity for business expansion and is something POLA constantly works on. However, if regulations under the Act on Specified Commercial Transactions are tightened or the labor environment changes, it may become difficult to implement measures to secure human resources, leading to a decrease in the number of Beauty Director applicants and thus a shortage of sales partners to maintain and grow the door-to-door business. Should this occur, the operating results and financial position of the Group could be adversely affected.

* From January 2016, new terms are applied to the following positions:
Sales managers → Shop owners/managers
POLA LADIES → Beauty Directors

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. Activities are undertaken in accordance with an annual plan to ensure efficient and effective application of resources, but if the development of a new product is a long-term effort, the results may not be seen until subsequent years. In some cases, when anticipated results cannot be achieved, the development period may need to be extended or an increase in investment may be required, and in the end a product still might not reach the commercialization stage. Furthermore, even after commercialization, a product may not necessarily find favor with customers because of uncertainties precipitated by a number of possible 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 consistently secure at appropriate prices the necessary 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 arises due to circumstances not of the Group's doing, the procurement of the necessary raw materials could be disrupted.

The Group's cosmetics are manufactured at two locations: in Japan, at POLA CHEMICAL INDUSTRIES INC.'s Fukuroi Factory, in Shizuoka Prefecture, and in Australia, at Jurlique's Mount Barker Factory, in South Australia. Pharmaceutical products are made at two locations: in Japan, at KAYAKU CO., LTD.'s Saitama Factory and Tokorozawa Factory, both in Saitama Prefecture. Steps are taken to verify quality control practices and maintain quality. However, should any problems arise in product quality, 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 2015, 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 primary 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.

Similarly, pharmaceutical products are produced at the Saitama Factory and Tokorozawa Factory of KAYAKU. Since both factories are close to each other, product supply could be interrupted for a long period in the event of a large-scale earthquake in the Kanto region.

Furthermore, unprecedented large-scale earthquakes as well as other natural disasters or accidents could occur in areas other than these two locations 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.

⑮ Risks in the pharmaceuticals business

In the pharmaceuticals business, an enormous investment in R&D is needed before a new pharmaceutical product can be brought to market. Therefore, efforts have been made to enhance efficiency in the investment process itself, mainly through joint development efforts with other companies on the new pharmaceutical frontier. Going forward, the Company will continue to seek higher profits. However, a variety of potentially problematic risks could arise, such as a sudden change in the business environment, a delay in new pharmaceutical product development, and a shift in management direction of partner companies involved in joint development activities. Such situations could return the business to an operating loss position, and if the loss worsened or persisted long term, it could adversely affect the operating results and financial position of the Group.

Fiscal 2016 Forecast

The medium-term management plan running from fiscal 2014 through fiscal 2016 is the second stage of a corporate journey, guided by a long-term vision for 2020 that the POLA ORBIS Group will follow to further strengthen the domestic earnings structure and accelerate overseas expansion while enhancing corporate value through more efficient use of capital.

For the fiscal year ending December 31, 2016, POLA ORBIS HOLDINGS anticipates consolidated net sales of ¥219,000 million, up 2.0% year on year; operating income of ¥25,000 million, up 11.1%; ordinary income of ¥25,000 million, up 12.3%; and net income attributable to owners of parent of ¥17,200 million, up 22.0%.

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 2016 Forecast

(Millions of yen)	FY2016 Full Year	YoY Change Amount	YoY Change Percentage
Net sales	219,000	4,211	2.0
Beauty Care	202,000	1,429	0.7
Real Estate	2,900	(51)	(1.8)
Others	14,100	2,833	25.2
Operating income	25,000	2,488	11.1
Beauty Care	23,800	2,509	11.8
Real Estate	1,300	34	2.7
Others	600	306	104.2
Reconciliations	(700)	(360)	—
Net income attributable to owners of parent	17,200	3,104	22.0

Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2015	2014	2015
Assets			
Current assets			
Cash and deposits (Notes 4 and 18)	¥ 47,451	¥ 39,445	$ 393,425
Notes and accounts receivable – trade (Note 18)	27,646	23,936	229,219
Short-term investments in securities (Notes 4, 18 and 19)	16,700	22,612	138,463
Merchandise and finished goods	13,463	13,419	111,626
Work in process	1,294	1,468	10,733
Raw materials and supplies	4,693	5,172	38,917
Deferred tax assets (Note 15)	4,825	4,457	40,012
Other	4,102	7,550	34,018
Allowance for doubtful accounts	(154)	(163)	(1,283)
Total current assets	120,022	117,900	995,130
Property, plant and equipment (Note 13)			
Buildings and structures	54,974	54,026	455,806
Machinery, equipment and vehicles	10,538	10,238	87,375
Land	19,135	19,248	158,655
Leased assets	5,831	5,239	48,350
Construction in progress	779	213	6,459
Other	20,416	20,133	169,278
Total property, plant and equipment	111,675	109,099	925,923
Accumulated depreciation	(58,308)	(56,060)	(483,445)
Net property, plant and equipment	53,367	53,039	442,478
Intangible assets			
Goodwill, net (Notes 20)	11,894	14,092	98,622
Right of trademark	8,983	10,013	74,486
Other intangible assets, net	11,866	8,024	98,388
Net intangible assets	32,745	32,131	271,496
Investments and other assets			
Investments in securities (Notes 5, 18 and 19)	21,447	15,152	177,827
Long-term loans receivable	72	91	601
Deferred tax assets (Note 15)	2,316	2,561	19,208
Other	5,829	3,713	48,337
Allowance for doubtful accounts	(67)	(52)	(560)
Total investments and other assets	29,599	21,466	245,413
Total non-current assets	115,711	106,636	959,388
Total assets	¥235,734	¥224,536	$1,954,518

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)
	2015	2014	2015
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 18)	¥ 5,386	¥ 4,427	$ 44,660
Short-term loans payable (Notes 6 and 18)	600	1,972	4,975
Lease obligations (Note 6)	514	509	4,266
Accounts payable – other (Note 18)	20,765	12,209	172,173
Income taxes payable	5,523	1,429	45,796
Provision for bonuses	1,734	1,612	14,382
Provision for directors' bonuses	47	39	391
Provision for sales returns	103	105	859
Provision for point program	3,450	2,846	28,612
Provision for loss on business liquidation	128	32	1,065
Provision for business structure improvement	110	368	919
Other	5,447	5,422	45,164
Total current liabilities	43,812	30,976	363,261
Non-current liabilities			
Long-term loans payable (Notes 6 and 18)	1,000	1,000	8,291
Lease obligations (Note 6)	1,011	801	8,385
Net defined benefit liability (Note 8)	4,026	5,829	33,383
Provision for environmental measures	56	65	469
Deferred tax liabilities (Note 15)	808	784	6,705
Other	4,382	4,285	36,338
Total non-current liabilities	11,285	12,765	93,571
Total liabilities	55,098	43,742	456,832
Net assets (Note 9)			
Shareholders' equity			
Common stock			
Authorized: 200,000,000 shares			
Issued: 57,284,039 shares at December 31, 2015 and 57,284,039 shares at December 31, 2014	10,000	10,000	82,912
Capital surplus	90,722	90,718	752,200
Retained earnings	77,381	74,454	641,582
Treasury stock, at cost (1,996,110 shares at December 31, 2015 and 2,000,000 shares at December 31, 2014)	(2,194)	(2,199)	(18,198)
Total shareholders' equity	175,909	172,973	1,458,496
Accumulated other comprehensive income (Note 14)			
Unrealized gain (loss) on available-for-sale securities	512	448	4,247
Foreign currency translation adjustments	4,359	7,628	36,145
Remeasurements of defined benefit plans	(542)	(595)	(4,494)
Total accumulated other comprehensive income	4,329	7,481	35,898
Subscription rights to shares (Notes 9 and 23)	183	138	1,517
Minority interests	214	200	1,775
Total net assets	180,635	180,793	1,497,686
Total liabilities and net assets	¥235,734	¥224,536	$1,954,518

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)
	2015	2014	2015
Net sales (Note 20)	¥214,788	¥198,094	$1,780,852
Cost of sales (Notes 10, 11 and 20)	41,800	39,326	346,572
Gross profit	172,988	158,767	1,434,279
Selling, general and administrative expenses (Notes 10, 12 and 20)	150,477	141,083	1,247,633
Operating income	22,511	17,683	186,646
Other income (expenses) (Note 13)			
Interest and dividend income	293	357	2,430
Interest expense	(139)	(177)	(1,157)
Foreign exchange gain (loss)	(336)	990	(2,791)
Gain on sales of non-current assets	738	2,176	6,122
Reversal of foreign currency translation adjustments	538	—	4,465
Loss on disposal of non-current assets	(272)	(186)	(2,256)
Impairment loss	(107)	(6,150)	(892)
Loss on business liquidation	(539)	(206)	(4,474)
Business structure improvement expenses	(121)	(1,654)	(1,008)
Other, net	121	146	1,005
	174	(4,705)	1,444
Income before income taxes and minority interests	22,685	12,978	188,091
Income taxes (Note 15)			
Current	9,036	2,678	74,927
Deferred	(469)	281	(3,894)
	8,567	2,960	71,033
Income before minority interests	14,118	10,018	117,058
Minority interests in net gain (loss) of consolidated subsidiaries	23	(364)	193
Net income	¥ 14,095	¥10,382	$ 116,865

Per share information (Note 21)	Yen		U.S. dollars (Note 3)
Basic net income per common share	¥ 254.95	¥ 187.81	$2.11
Diluted net income per common share	¥ 254.64	¥ 187.61	$2.11
Weighted average common shares outstanding (thousands of shares)	55,286	55,284	55,286
Cash dividends declared per common share	¥ 150.00	¥ 187.00	$1.24

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)
	2015	2014	2015
Income before minority interests	¥14,118	¥10,018	$117,058
Other comprehensive income (Note 14)			
Unrealized gain (loss) on available-for-sale securities	63	(5)	526
Foreign currency translation adjustments	(3,278)	1,309	(27,181)
Remeasurements of defined benefit plans	53	—	447
Share of other comprehensive income of associates accounted for using the equity method	0	2	0
Total other comprehensive income (Note 14)	(3,160)	1,306	(26,208)
Comprehensive income	¥10,957	¥11,324	$ 90,850
Comprehensive income attributable to:			
Owners of parent	¥10,943	¥11,670	$ 90,734
Minority interests	¥ 13	¥ (346)	$ 116

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

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

	Common shares (Thousands) (Note 9)	Millions of yen							
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 14)	Subscription rights to shares (Notes 9 and 23)	Minority interests	Total net assets
Balance at January 1, 2014	57,284	¥10,000	¥90,718	¥67,941	¥(2,199)	¥6,789	¥ 90	¥546	¥173,887
Cumulative effect of changes in accounting policies				—					—
Restated balance	57,284	¥10,000	¥90,718	¥67,941	¥(2,199)	¥6,789	¥ 90	¥546	¥173,887
Dividends from retained earnings				(3,869)					(3,869)
Net income				10,382					10,382
Disposal of treasury stock									—
Change in unrealized gain (loss) on available-for-sale securities						(5)			(5)
Foreign currency translation adjustments						1,293			1,293
Remeasurements of defined benefit plans						(595)			(595)
Subscription rights to shares							47		47
Minority interests								(346)	(346)
Balance at January 1, 2015	57,284	¥10,000	¥90,718	¥74,454	¥(2,199)	¥7,481	¥138	¥ 200	¥180,793
Cumulative effect of changes in accounting policies				828					828
Restated balance	57,284	¥10,000	¥90,718	¥75,283	¥(2,199)	¥7,481	¥138	¥ 200	¥181,622
Dividends from retained earnings				(11,996)					(11,996)
Net income				14,095					14,095
Disposal of treasury stock			4		4				8
Change in unrealized gain (loss) on available-for-sale securities						63			63
Foreign currency translation adjustments						(3,269)			(3,269)
Remeasurements of defined benefit plans						53			53
Subscription rights to shares							44		44
Minority interests								13	13
Balance at December 31, 2015	57,284	¥10,000	¥90,722	¥77,381	¥(2,194)	¥4,329	¥183	¥ 214	¥180,635

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 14)	Subscription rights to shares (Notes 9 and 23)	Minority interests	Total net assets
Balance at January 1, 2015	$82,912	$752,162	$617,313	$(18,234)	$62,029	$1,150	$1,659	$1,498,991
Cumulative effect of changes in accounting policies			6,872					6,872
Restated balance	$82,912	$752,162	$624,186	$(18,234)	$62,029	$1,150	$1,659	$1,505,863
Dividends from retained earnings			(99,469)					(99,469)
Net income			116,865					116,865
Disposal of treasury stock		39		35				74
Change in unrealized gain (loss) on available-for-sale securities					526			526
Foreign currency translation adjustments					(27,105)			(27,105)
Remeasurements of defined benefit plans					447			447
Subscription rights to shares						367		367
Minority interests							116	116
Balance at December 31, 2015	$82,912	$752,200	$641,582	$(18,198)	$35,898	$1,517	$1, 775	$1,497,686

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)
	2015	2014	2015
Cash flows from operating activities			
Income before income taxes and minority interests	¥22,685	¥12,978	$188,091
Adjustments to reconcile income before income taxes and minority interests to net cash flows from operating activities:			
Depreciation and amortization	6,528	6,948	54,125
Impairment loss	107	6,150	892
Amortization of goodwill	765	898	6,351
Increase (decrease) in allowance for doubtful accounts	11	(66)	93
Increase (decrease) in provision for point program	605	1,060	5,023
Increase (decrease) in other provisions	140	(116)	1,166
Increase (decrease) in net defined benefit liability	(439)	(910)	(3,644)
Interest and dividend income	(293)	(357)	(2,430)
Interest expense	139	177	1,157
Foreign exchange loss (gain)	594	(935)	4,931
Reversal of foreign currency translation adjustments	(538)	—	(4,465)
Gain on sales of non-current assets	(735)	(2,158)	(6,095)
Loss on disposal of non-current assets	272	186	2,256
Loss on business liquidation	539	206	4,474
Business structure improvement expenses	121	1,654	1,008
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	(3,998)	343	(33,155)
Decrease (increase) in inventories	300	(1,189)	2,492
Increase (decrease) in notes and accounts payable – trade	1,057	389	8,767
Increase (decrease) in consumption taxes payable	(56)	1,301	(472)
Decrease (increase) in other assets	(1,453)	(1,152)	(12,051)
Increase (decrease) in other liabilities	4,073	(1,390)	33,770
Other	11	84	93
Subtotal	30,439	24,102	252,378
Interest and dividends received	306	414	2,538
Interest paid	(145)	(164)	(1,207)
Payments for business structure improvement expenses	—	(907)	—
Income taxes paid	(2,191)	(6,699)	(18,173)
Other	(28)	(101)	(239)
Net cash provided by operating activities	¥28,379	¥16,643	$235,296

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)
	2015	2014	2015
Cash flows from investing activities			
Payments into time deposits	¥(1,241)	¥ (854)	$(10,294)
Proceeds from withdrawal of time deposits	892	998	7,398
Purchase of short-term investments in securities	(3,601)	(9,103)	(29,860)
Proceeds from sales and redemption of short-term investments in securities	23,600	24,700	195,672
Purchase of property, plant and equipment	(4,575)	(6,297)	(37,940)
Proceeds from sales of property, plant and equipment	1,091	6,184	9,047
Purchase of intangible assets	(1,623)	(1,834)	(13,463)
Payments for disposal of non-current assets	(410)	(272)	(3,407)
Purchase of investments in securities	(21,399)	(21,702)	(177,424)
Purchase of long-term prepaid expenses	(185)	(140)	(1,540)
Payments for lease and guarantee deposits	(233)	(335)	(1,932)
Proceeds from collection of lease and guarantee deposits	271	295	2,250
Other	85	(30)	710
Net cash used in investing activities	(7,331)	(8,391)	(60,783)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	(1,274)	890	(10,570)
Repayments of lease obligations	(609)	(690)	(5,054)
Cash dividends paid	(12,012)	(3,861)	(99,594)
Other	0	—	0
Net cash used in financing activities	(13,896)	(3,661)	(115,217)
Effect of exchange rate changes on cash and cash equivalents	(419)	384	(3,474)
Net increase (decrease) in cash and cash equivalents	6,732	4,973	55,821
Cash and cash equivalents at beginning of year (Note 4)	39,111	34,137	324,279
Cash and cash equivalents at end of year (Note 4)	¥45,843	¥39,111	$380,100

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 prior years have been reclassified to conform to the current year's presentation for comparative purposes. For the convenience of readers outside Japan, certain presentations in the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau in Japan have been reclassified and rearranged.

1.2. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries. All companies included in the scope of consolidation have a fiscal year ending December 31.

Under the control or influence concept, those companies in which the Company, directly or indirectly, can 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 43 subsidiaries included in the scope of consolidation at December 31, 2015 (47 at December 31, 2014). One affiliated company was accounted for using the equity method at December 31, 2015 and 2014.

Changes in significant subsidiaries in fiscal 2015 compared with fiscal 2014 are as follows:
(Excluded: 4)

In fiscal 2015, ORBIS KOREA Inc., Jurlique Spa Pty Ltd., and Jurlique Distribution Pty Ltd. were excluded from the scope of consolidation due to the completion of liquidation procedures.

ORBIS CHINA HONG KONG LIMITED is in the process of liquidation. Due to the decrease in materiality, it was excluded from the scope of consolidation and also not accounted for by using the equity method.

1.3. Unification of accounting policies applied to foreign subsidiaries

In accordance with Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" (Issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006) , the Company and its consolidated subsidiaries use uniform accounting policies and procedures for like transactions and other events in similar circumstances in preparing consolidated financial statements. Financial statements of foreign consolidated subsidiaries prepared in accordance with either IFRS or accounting principles generally accepted in the United States ("U.S. GAAP") are accepted except for certain items, which are adjusted to comply with Japanese GAAP. The adjustments include the following:

1. Amortization of goodwill
2. Scheduled amortization of unrecognized actuarial gains or losses of pensions directly recorded in shareholders' equity
3. Expensing capitalized development cost of R&D
4. Cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting
5. Exclusion of minority interests from net income, if contained

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 which can be withdrawn at any time, and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risks 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. 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 building fixtures) acquired after April 1, 1998, 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 3 years.

1.9. Intangible assets, excluding leased assets

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over its estimated useful life of 5 years.

1.10. Leases

Finance leases that do not transfer ownership are capitalized and depreciated using the straight-line method over the lease term with zero residual value. However, finance leases entered into on or prior to December 31, 2008 are not capitalized but accounted for using a method similar to that 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.

1.11. Impairment on non-current assets

The Group reviews non-current assets for impairment whenever events or changes in circumstances based on external or internal sources of information indicate that the carrying amount may not be recoverable. When such events or changes in circumstances occur, a recoverability test is required to be performed. An individual asset or asset group is impaired if its carrying amount exceeds the amount to be recovered through use or sale of such asset or asset group.

1.12. Retirement benefits

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 2015 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.

1.13. 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.

1.14. 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 business structure improvement expenses
Provisions are set up to cover estimated future expenses and losses accompanying the plant integration.
Provision for environmental measures
Provisions are set up to cover the estimated charges for disposal of waste (polychlorinated biphenyl [PCB]).

1.15. Research and development costs

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

1.16. Income taxes

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

1.17. Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average common shares outstanding during the period. The number of shares used in the computations was 55,286 thousand shares for fiscal 2015 (55,284 thousand shares for fiscal 2014) . Diluted net income per share is computed for fiscal 2015 and fiscal 2014 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.

1.18. Foreign currency translation

Receivables and payables of the 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 minority interests in net assets of the accompanying consolidated balance sheets.

1.19. Amortization method and period of goodwill

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

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

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

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

Note 2 Changes in Accounting Policies

2.1. Changes in accounting policies

Adoption of Accounting Standard for Retirement Benefits

With respect to the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, issued on May 17, 2012; the "Retirement Benefits Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, issued on March 26, 2015; the "Guidance on Retirement Benefits"), the Group has applied the provisions stated in Article 35 of the Retirement Benefits Accounting Standard and Article 67 of the Guidance on Retirement Benefits from fiscal 2015, whereby the methods of calculating retirement benefit obligations and service costs have been reviewed. Accordingly, the method of attributing expected retirement benefits to periods has been changed from the straight-line basis to the benefit formula basis, while the method of determining the discount rate has been changed from the method using a discount rate based on the approximate average remaining service years of employees to the method using multiple discount rates determined according to the expected timing of the retirement benefit payments.

With the adoption of the Retirement Benefits Accounting Standard, the impact arising from the change in the methods of calculating retirement benefit obligations and service costs was recognized as an adjustment to retained earnings at the beginning of fiscal 2015, in accordance with the transitional treatment stated in Article 37 of the Retirement Benefits Accounting Standard.

As a result of the change, net defined benefit liability decreased by ¥1,242 million (U.S. $10,299 thousand) and deferred tax assets decreased by ¥413 million (U.S. $3,426 thousand), while retained earnings increased by ¥828 million (U.S. $6,872 thousand) at the beginning of fiscal 2015. The impact on operating income, ordinary income and income before income taxes and minority interests for fiscal 2015 was minimal.

Also, net assets per share at December 31, 2015 decreased by ¥14.27 (U.S. $0.12), while the impact on net income per share was minimal.

2.2. Accounting standards and guidance issued but not yet adopted

- Revised Accounting Standard for Business Combinations (ASBJ Statement No.21, issued on September 13, 2013)
- Revised Accounting Standard for Consolidated Financial Statements (ASBJ Statement No.22, issued on September 13, 2013)
- Revised Accounting Standard for Business Divestitures (ASBJ Statement No.7, issued on September 13, 2013)
- Revised Accounting Standard for Earnings Per Share (ASBJ Statement No.2, issued on September 13, 2013)
- Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, issued on September 13, 2013)
- Revised Guidance on Accounting Standard for Earnings Per Share (ASBJ Guidance No.4, issued on September 13, 2013)

1. Outline of the accounting standards and guidance
These accounting standards and guidance were revised mainly focusing on (a) the treatment of changes in a parent company's equity interests in its subsidiaries, in cases where the parent company keeps control over the subsidiaries after the acquisition of additional shares, (b) the treatment of acquisition-related expenses, (c) the presentation of net income and the change from minority interests to non-controlling interests and (d) the treatment of provisional accounting.
2. Application date
The accounting standards and the guidance are to be adopted by the Group from the beginning of fiscal 2016.
The treatment of provisional accounting is to be applied to business combinations occurring from the beginning of fiscal 2016.
3. Impact of adoption of these accounting standards and guidance
The impact of adoption of these accounting standards and guidance on the consolidated financial statements is currently under consideration.

- Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No.26, issued on December 28, 2015)

1. Outline of the implementation guidance
The implementation guidance basically continues to apply the framework used in the "Audit Treatment Regarding Judgements on Recoverability of Deferred Tax Assets" (JICPA Audit Committee Report No.66) where recoverability of deferred tax assets is assessed based on an entity's specific category, but certain accounting treatments were changed. The changes include certain criteria for the categories used for recoverability of deferred tax assets and recoverability of deferred tax assets for unscheduled deductible temporary differences when certain criteria are met.
2. Application date
The implementation guidance is to be applied from the beginning of fiscal 2017.
3. Impact of adoption of this implementation guidance
The impact of adoption of this implementation guidance on the consolidated financial statements is currently under consideration.

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= ¥120.61, the approximate rate of exchange prevailing at December 31, 2015. 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	2015	2014	2015
Cash and deposits	¥47,451	¥39,445	$393,425
Short-term investments in securities	16,700	22,612	138,463
Less:			
Time deposits with maturities exceeding three months	(1,607)	(1,334)	(13,325)
Stocks and bonds with maturities exceeding three months	(16,700)	(21,612)	(138,463)
Cash and cash equivalents	¥45,843	¥39,111	$380,100

4.2. Significant non-cash transactions

Assets and liabilities related to finance lease transactions newly recorded were ¥825 million (U.S. $6,847 thousand) in fiscal 2015 (¥553 million in fiscal 2014).

Asset retirement obligations newly recorded were ¥86 million (U.S. $719 thousand) in fiscal 2015 (¥67 million in fiscal 2014).

Note 5 Items Related to Affiliated Companies

Items related to affiliated companies are as follows, except for those stated separately:

	Millions of yen		Thousands of U.S. dollars
December 31	2015	2014	2015
Investments in securities (stock)	¥0	¥0	$0
(Of which, investments in joint ventures)	¥0	¥0	$0

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	2015	2014	2015
Short-term loans payable	¥600	¥1,972	$4,975
Lease obligations–current portion	514	509	4,266
Long-term loans payable	1,000	1,000	8,291
Lease obligations–long term	1,011	801	8,385

There was no applicable information to be disclosed for bonds in fiscal 2015 and 2014.

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 2015 are less than 1% of the total liabilities and net assets at the beginning and at the end of fiscal 2015, respectively.

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

December 31	2015	2014
Short-term loans payable	0.47%	2.48%
Lease obligations–current portion	2.51%	2.45%
Long-term loans payable	0.69%	0.69%
Lease obligations–long term	3.01%	2.95%

At December 31, 2015, the annual maturities of loans payable and lease obligations 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
2016	¥600	$4,975	¥514	$4,266
2017	—	—	400	3,323
2018	1,000	8,291	299	2,481
2019	—	—	173	1,441
2020	—	—	95	792

Note 7 Contingent Liabilities

Contingent liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2015	2014	2015
Guarantees of loans			
Employees' mortgages	¥97	¥132	$805
Total	¥97	¥132	$805

Note 8 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.

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

a. Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
Years ending December 31	2015	2014	2015
Balance at the beginning of the year	¥11,945	¥11,984	$99,046
Cumulative effect of changes in accounting policies	(1,242)	—	(10,299)
Restated balance	10,703	11,984	88,747
Service cost	700	693	5,811
Interest cost	51	160	424
Actuarial loss (gain)	(35)	1,028	(295)
Benefits paid	(1,053)	(837)	(8,734)
Payments due to mass retirement	—	(1,112)	—
Other	(1)	28	(10)
Balance at the end of the year	¥10,365	¥11,945	$85,943

b. Movement in pension assets

	Millions of yen		Thousands of U.S. dollars
Years ending December 31	2015	2014	2015
Balance at the beginning of the year	¥6,116	¥6,384	$50,715
Expected return on pension assets	91	92	761
Actuarial gain (loss)	(3)	(36)	(26)
Contribution paid by the employer	747	795	6,196
Benefits paid	(613)	(463)	(5,085)
Payments due to mass retirement	—	(656)	—
Balance at the end of the year	¥6,339	¥6,116	$52,560

c. 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	2015	2014	2015
Funded retirement benefit obligations	¥9,362	¥10,995	$77,629
Pension assets	(6,339)	(6,116)	(52,560)
	3,023	4,878	25,069
Unfunded retirement benefit obligations	1,002	950	8,315
Total net liability for retirement benefits in the consolidated balance sheets	4,026	5,829	33,383
Net defined benefit liability	4,026	5,829	33,383
Total net liability for retirement benefits in the consolidated balance sheets	¥4,026	¥ 5,829	$33,383

d. Retirement benefit costs

Year ended December 31	Millions of yen 2015	2014	Thousands of U.S. dollars 2015
Service cost	¥700	¥693	$5,811
Interest cost	51	160	424
Expected return on pension assets	(91)	(92)	(761)
Amortization of net actuarial loss (gain)	102	(8)	848
Amortization of past service cost	(14)	(38)	(122)
Other	48	149	399
Total retirement benefit costs	¥796	¥864	$6,600

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

¥52 million (U.S. $434 thousand) in fiscal 2015 and ¥139 million in fiscal 2014, which exceeded the provisions for additional lump sum retirement payment and lump sum retirement payment, were recorded under "Other".

e. Remeasurements of defined benefit plans:

The details of remeasurements of defined benefit plans (before tax effect) in other comprehensive income for the years ended December 31, 2015 and 2014 are as below.

Year ended December 31	Millions of yen 2015	2014	Thousands of U.S. dollars 2015
Actuarial losses	¥134	—	$1,117
Past service cost	(14)	—	(122)
Total	¥119	—	$ 995

f. Remeasurements of defined benefit plans:

The details of remeasurements of defined benefit plans (before tax effect) in accumulated other comprehensive income as of December 31, 2015 and 2014 are as below.

December 31	Millions of yen 2015	2014	Thousands of U.S. dollars 2015
Unrecognized actuarial losses	¥853	¥987	$7,074
Unrecognized past service cost	(91)	(106)	(758)
Total	¥761	¥881	$6,316

g. Items related to pension assets:

(1) Pension assets comprise:

December 31	2015	2014
Life insurance general accounts	100%	100%

(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.

h. Items related to actuarial assumptions

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

Year ended December 31	2015	2014
Discount rate	1.0%	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, 2015.

8.2. Defined contribution pension plans

Foreign consolidated subsidiaries' required contributions to defined contribution pension plans were ¥60 million (U.S. $504 thousand) in fiscal 2015 (¥67 million in fiscal 2014).

Note 9 Net Assets

Information regarding changes in net assets is summarized as follows:

9.1. Shares issued and outstanding/Treasury stock

Thousands of shares	Common stock: Shares issued	Common stock: Treasury stock
Balance at January 1, 2014	57,284	2,000
Increase	—	—
Decrease	—	—
Balance at January 1, 2015	57,284	2,000
Increase	—	—
Decrease (Note)	—	3
Balance at December 31, 2015	57,284	1,996

Note: Treasury stock decreased due to the exercise of stock option rights.

9.2. Subscription rights to shares

Year ended December 31, 2015

Name of company	Details of subscription rights to shares	Type of shares issued	Number of shares issued: At beginning of fiscal 2015	Increase	Decrease	At end of fiscal 2015	Balance at December 31, 2015: Millions of yen	Thousands of U.S. dollars
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥183	$1,517
	Total		—	—	—	—	¥183	$1,517

Year ended December 31, 2014

Name of company	Details of subscription rights to shares	Type of shares issued	Number of shares issued: At beginning of fiscal 2014	Increase	Decrease	At end of fiscal 2014	Balance at December 31, 2014 (Millions of yen)
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥138
	Total		—	—	—	—	¥138

9.3. Dividends

a. Dividends paid in fiscal 2015

Year ended December 31, 2015

		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 26, 2015	Common stock	¥8,126	$67,380	¥147.00	$1.22	December 31, 2014	March 27, 2015
Board of Directors' Meeting on July 30, 2015	Common stock	¥3,870	$32,088	¥70.00	$0.58	June 30, 2015	September 11, 2015

b. Dividends paid in fiscal 2014

Year ended December 31, 2014

		Millions of yen	Yen		
Resolution	Type of shares	Total dividends	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 27, 2014	Common stock	¥1,658	¥30.00	December 31, 2013	March 28, 2014
Board of Directors' Meeting on July 30, 2014	Common stock	¥2,211	¥40.00	June 30, 2014	September 12, 2014

c. Dividends with the record date in fiscal 2015 and the effective date in fiscal 2016

Year ended December 31, 2015

			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 30, 2016	Common stock	Retained earnings	¥4,423	$36,672	¥80.00	$0.66	December 31, 2015	March 31, 2016

d. Dividends with the record date in fiscal 2014 and the effective date in fiscal 2015

Year ended December 31, 2014

			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 26, 2015	Common stock	Retained earnings	¥8,126	¥147.00	December 31, 2014	March 27, 2015

Note 10 Research and Development Costs

Research and development costs of ¥3,506 million (U.S. $29,073 thousand) and ¥3,476 million were expensed for fiscal 2015 and 2014, respectively, as incurred, and included in selling, general and administrative expenses and cost of sales.

Note 11 Cost of Sales

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2015	2014	2015
Reversal of provision for sales returns	¥111	¥109	$926
Provision for sales returns	¥110	¥128	$915

Note 12 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2015	2014	2015
Sales commission	¥ 48,822	¥ 45,932	$ 404,794
Promotion expenses	23,616	20,079	195,812
Advertising expenses	8,117	7,186	67,306
Packing and transportation expenses	5,083	5,135	42,144
Salaries, allowances and bonuses	23,373	22,884	193,798
Welfare expenses	3,977	3,997	32,976
Retirement benefit expenses	771	782	6,397
Provision for bonuses	1,625	1,597	13,476
Provision for point program	3,732	2,831	30,949
Depreciation and amortization	4,655	4,927	38,602
Amortization of goodwill	765	898	6,351
Other	25,934	24,830	215,030
Total	¥150,477	¥141,083	$1,247,633

Note 13 Other Income (Expenses)

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2015	2014	2015
Buildings and structures	—	¥ 658	—
Land	¥737	1,496	$6,116
Others	0	22	6
Total	¥738	¥2,176	$6,122

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2015	2014	2015
Buildings and structures	¥ 83	¥121	$ 695
Machinery, equipment and vehicles	8	14	71
Removal and demolition	28	21	237
Others	151	28	1,254
Total	¥272	¥186	$2,256

13.3. Impairment loss consists of the following:

Fiscal Year Ended December 31, 2015 (January 1, 2015–December 31, 2015)

		Millions of yen	Thousands of U.S. dollars
Location and Function	Type	2015	2015
Domestic			
Stores	Buildings and structures Property, plant and equipment (Other)	¥ 21	$178
Mobile stores	Leased assets	50	415
Overseas			
Stores	Buildings and structures Property, plant and equipment (Other)	36	299
Total		¥107	$892

(1) Background of recognizing impairment loss

Among stores and mobile stores, when any asset groups have been continuously recording operating losses and the total amount of estimated future cash flows falls short of their book value, impairment losses are recognized under "Other expenses" by reducing their book value to the amount that is recoverable.

(2) Grouping method of assets

Stores and mobile stores are grouped separately, mainly on a business department basis, whereby income and expenditures are continually being examined.

(3) Calculation methods of recoverable value

Recoverable value is measured by value-in-use based on future cash flows.

The value-in-use of stores and mobile stores is assessed at zero because future cash flows cannot be expected.

Fiscal Year Ended December 31, 2014 (January 1, 2014–December 31, 2014)

		Millions of yen
Location and Function	Type	2014
Domestic		
Stores	Buildings and structures Property, plant and equipment (Other)	¥ 15
Offices	Buildings and structures Leased assets Property, plant and equipment (Other)	63
Overseas		
Stores	Buildings and structures	62
Offices	Buildings and structures Machinery, equipment and vehicles Property, plant and equipment (Other)	165
Business assets	Goodwill Right of trademark Intangible assets (Other)	5,842
Total		¥6,150

(1) Background of recognizing impairment loss

Among stores, offices and factories, when any asset groups have been continuously recording operating losses and the total amount of estimated future cash flows falls short of their book value, impairment losses are recognized under "Other expenses" by reducing their book value to the amount that is recoverable.

In the situation where the operating results of H2O PLUS deviated from the original plan, an impairment test was conducted based on U.S. GAAP. As a result, impairment losses on goodwill, right of trademark and intangible assets (other) were accounted for under "Other expenses" by reducing their book value to the amount that is recoverable, after excluding the cumulative amount of amortization already recognized under Japanese GAAP.

(2) Grouping method of assets

Stores, offices and factories are grouped separately, mainly on a business department basis, whereby income and expenditures are continually being examined.

Goodwill, right of trademark and intangible assets (other) are grouped based on entity level.

(3) Calculation methods of recoverable value

Recoverable value is measured by value-in-use based on future cash flows.

The value-in-use of goodwill, right of trademark and intangible assets (other) is calculated by using a discount rate of 22%.

The value-in-use of stores, offices and factories is assessed at zero because the future cash flows cannot be expected.

13.4. Loss on business liquidation:

The losses arising from the closure of the Hong Kong office and the withdrawing from the Russia operations of the POLA brand, resolved by the Board of Directors' Meetings on December 12, 2014 and November 27, 2015, respectively, were accounted for as "Loss on business liquidation" in fiscal 2015.

The losses arising from the withdrawing from the Korea operations of the ORBIS brand and the closure of the Hong Kong office, resolved by the Board of Directors' Meetings on August 21, 2014 and December 12, 2014, respectively, were accounted for as "Loss on business liquidation" in fiscal 2014.

13.5. Business structure improvement expenses:

In fiscal 2014, in accordance with the resolution by the Board of Directors' Meeting on August 21, 2014, the expenses related to the closure and dismantling of the Shizuoka Plant owned by POLA CHEMICAL INDUSTRIES INC., a consolidated subsidiary of the Company, were accounted for as "Business structure improvement expenses." The details are as below.

	Millions of yen
Year ended December 31	2014
Dismantling costs and equipment relocation costs	¥ 581
Loss on disposal of non-current assets	807
Loss on valuation or abandonment of inventory	265
Total	¥1,654

Note 14 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	2015	2014	2015
Unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	¥ 116	¥ 33	$ 963
Reclassification adjustment	(57)	(42)	(475)
Amount before tax effect	58	(8)	489
Tax effect	4	3	38
Unrealized gain (loss) on available-for-sale securities, net of tax	¥ 63	¥ (5)	$526
Foreign currency translation adjustments			
Amount arising during the year	¥ (3,151)	¥1,381	$ (26,127)
Reclassification adjustment	(152)	—	(1,266)
Amount before tax effect	(3,303)	1,381	(27,393)
Tax effect	25	(71)	212
Foreign currency translation adjustments	¥ (3,278)	¥1,309	$ (27,181)
Remeasurements of defined benefit plans			
Amount arising during the year	¥ 32	—	$ 269
Reclassification adjustment	87	—	726
Amount before tax effect	119	—	995
Tax effect	(66)	—	(547)
Remeasurements of defined benefit plans	¥ 53	—	$447
Share of other comprehensive income of associates accounted for using the equity method			
Amount arising during the year	¥ 0	¥ 2	$ 0
Total other comprehensive income	¥(3,160)	¥1,306	$(26,208)

Note 15 Income Taxes

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

	Millions of yen		Thousands of U.S. dollars
December 31	2015	2014	2015
Deferred tax assets:			
Provision for bonuses	¥ 552	¥ 527	$ 4,583
Net defined benefit liabilities	1,270	2,052	10,532
Loss on valuation of inventories	623	514	5,166
Impairment loss	8,695	9,188	72,097
Provision for point program	1,233	996	10,229
Unrealized inter-company profit	1,314	535	10,901
Tax loss carry-forwards	8,864	8,581	73,499
Tax loss carry-forwards on liquidation of subsidiary	863	1,176	7,156
Enterprise tax payable	431	271	3,580
Asset retirement obligations	765	678	6,349
Other	1,391	1,365	11,537
Less valuation allowance	(17,843)	(18,142)	(147,947)
Total deferred tax assets	¥ 8,163	¥ 7,744	$ 67,682
Deferred tax liabilities:			
Unrealized gain (loss) on available-for-sale securities	¥ (243)	¥ (248)	$ (2,023)
Restoration cost for asset retirement obligations	(269)	(160)	(2,231)
Goodwill, right of trademark and other intangible assets	(859)	(960)	(7,123)
Other	(457)	(139)	(3,790)
Total deferred tax liabilities	¥(1,829)	¥(1,509)	$(15,167)
Deferred tax assets, net	¥ 6,333	¥ 6,234	$ 52,515

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

Years ended December 31	2015	2014
Statutory income tax rate	35.6%	38.0%
Expenditure not allowable for income tax purposes (Entertainment expense, etc.)	0.5	1.7
Per capita inhabitants' tax	0.2	0.3
Increase (decrease) in valuation allowance	0.3	(38.5)
Amortization of goodwill	1.2	2.6
Impairment loss	—	17.1
Tax credits for research and development costs	(2.0)	—
Reduction in deferred tax assets at reporting date due to revision of tax law	2.0	1.5
Other	0.0	0.0
Effective income tax rate	37.8%	22.8%

15.3. Changes in deferred tax assets and liabilities arising from the change in corporate tax rate:

Following the promulgation of the "Act for Partial Revision of the Income Tax Act, etc." (Act No.9 of 2015), the "Act for Partial Revision of the Local Tax Act, etc." (Act No.2 of 2015) issued on March 31, 2015, the corporate tax rate was to be lowered for fiscal years beginning on or after April 1, 2015. In line with these changes, the statutory income tax rates used to measure deferred tax assets and liabilities were changed from 35.6% to 33.1% and 32.3% for those temporary differences expected to be eliminated in fiscal 2016 and those expected to be eliminated in the fiscal year beginning onJanuary 1, 2017 and thereafter, respectively.

As a result, deferred tax assets (net of deferred tax liabilities) decreased by ¥444 million (U.S. $3,684 thousand) as of December 31, 2015, while income taxes-deferred for fiscal 2015 increased by ¥455 million (U.S. $3,777 thousand), unrealized gain (loss) on available-for-sale securities increased by ¥25 million (U.S. $212 thousand), foreign currency translation adjustments increased by ¥4 million (U.S. $40 thousand), and remeasurements of defined benefit plans decreased by ¥19 million (U.S. $159 thousand).

Note 16 Leases

(As a lessee)

16.1. Finance leases that do not transfer ownership

16.1.1. Accounting treatment for the finance leases entered into on or after January 1, 2009

The finance leases entered into on or after January 1, 2009 are capitalized. They primarily consist of interior 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.

16.1.2. Accounting treatment for the finance leases entered into on or prior to December 31, 2008

The finance leases entered into on or prior to December 31, 2008 are not capitalized but accounted for using a method similar to that applicable to operating lease transactions.

If such leases were capitalized, their depreciation or amortization would be determined on the straight-line method over the lease term with zero residual value and interest expense would be 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.

Acquisition cost, accumulated depreciation or amortization and net book value of such leases would be as follows:

There was no applicable information for fiscal 2015 to be disclosed.

Information for fiscal 2014 is as follows:

	Millions of yen		
	2014		
December 31	Acquisition cost	Accumulated depreciation/ amortization	Net book value
Other property, plant and equipment, including tools, furniture and fixtures	¥153	¥149	¥4
Total	¥153	¥149	¥4

Future lease payments are as follows:

	Millions of yen		Thousands of U.S. dollars
December 31	2015	2014	2015
Due within 1 year	—	¥6	—
Due after 1 year	—	—	—
Total	—	¥6	—

Lease payments, reversal of impairment loss on leased assets, depreciation and amortization, interest expense and impairment loss are as follows:

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2015	2014	2015
Lease payments	¥6	¥24	$52
Reversal of impairment loss on leased assets	—	—	—
Depreciation and amortization	4	17	35
Interest expense	0	1	1
Impairment loss	—	—	—

16.2. 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	2015	2014	2015
Due within 1 year	¥ 7	¥ 8	$ 66
Due after 1 year	4	13	38
Total	¥12	¥22	$104

Note 17 Investment and Rental Property

17.1. Overview

The Group owns office buildings and residential properties for lease in Tokyo and other areas. Net rental income was ¥1,316 million (U.S. $10,912 thousand) in fiscal 2015, (¥1,599 million in fiscal 2014) (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).

17.2. 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:

December 31, 2015	Millions of yen		
	Carrying amount		Fair value
Balance at January 1, 2015	Net change	Balance at December 31, 2015	At December 31, 2015
¥ 25,193	¥ (761)	¥24,431	¥52,361

December 31, 2014	Millions of yen		
	Carrying amount		Fair value
Balance at January 1, 2014	Net change	Balance at December 31, 2014	At December 31, 2014
¥ 26,364	¥ (1,171)	¥25,193	¥47,624

December 31, 2015	Thousands of U.S. dollars		
	Carrying amount		Fair value
Balance at January 1, 2015	Net change	Balance at December 31, 2015	At December 31, 2015
$208,881	$ (6,312)	$202,570	$434,138

1. The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.
2. Components of change
Increase:
In fiscal 2015: Refurbishment of office buildings for lease: ¥155 million (U.S. $1,292 thousand)
In fiscal 2014: Acquisition of residential properties for lease: ¥1,079 million
Refurbishment of office buildings for lease: ¥216 million
Transfer from properties for business use to idle assets: ¥1,073 million
Decrease:
In fiscal 2015: Depreciation on office buildings, residential properties and other properties for lease:
¥567 million (U.S. $4,704 thousand)
Sale of idle property: ¥342 million (U.S. $2,843 thousand)
In fiscal 2014: Depreciation on office buildings, residential properties and other properties for lease:
¥644 million
Sale of office buildings for lease: ¥3,037 million

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

Note 18 Financial Instruments

18.1. Overview of financial instruments

18.1.1. Policies on financial instruments

The Group only utilizes low risk, short-term financial instruments for cash management, and it raises funds through borrowings from banks and by issuing corporate bonds in the capital market.

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

Trade receivables such as notes and accounts are exposed to customers' credit risk. In order to manage such risk, the Group manages payment dates and outstanding balances by individual customer and 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. Loans payable with floating interest rates are exposed to the risk of interest rate fluctuations, while long-term loans payable are borrowed by fixed interest rates to restrain such risks.

Furthermore, trade payables and interest-bearing liabilities are exposed to liquidity risk, but the Group manages such risk by, for example, preparing the cash management schedule on a monthly basis.

18.1.3. Supplementary information on fair value of financial instruments

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

18.2. 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		
	2015		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 47,451	¥ 47,451	—
(ii) Notes and accounts receivable – trade (*1)	27,491	27,491	—
(iii) Investments in securities:			
Held-to-maturity securities	36,199	35,997	¥ (202)
Available-for-sale securities	1,866	1,866	—
Total assets	¥113,008	¥112,806	¥ (202)
Liabilities			
(i) Notes and accounts payable – trade	¥ 5,386	¥ 5,386	—
(ii) Short-term loans payable	600	600	—
(iii) Accounts payable – other	20,765	20,765	—
(iv) Long-term loans payable	1,000	1,007	¥ 7
Total liabilities	¥ 27,752	¥ 27,760	¥ 7

	Millions of yen		
	2014		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 39,445	¥ 39,445	—
(ii) Notes and accounts receivable – trade (*1)	23,773	23,773	—
(iii) Investments in securities:			
Held-to-maturity securities	35,812	35,827	¥14
Available-for-sale securities	1,811	1,811	—
Total assets	¥100,842	¥100,857	¥14
Liabilities			
(i) Notes and accounts payable – trade	¥ 4,427	¥ 4,427	—
(ii) Short-term loans payable	1,972	1,972	—
(iii) Accounts payable – other	12,209	12,209	—
(iv) Long-term loans payable	1,000	1,009	¥9
Total liabilities	¥19,610	¥19,620	¥9

	Thousands of U.S. dollars		
	2015		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	$393,425	$393,425	—
(ii) Notes and accounts receivable – trade (*1)	227,936	227,936	—
(iii) Investments in securities:			
Held-to-maturity securities	300,134	298,458	$ (1,676)
Available-for-sale securities	15,477	15,477	—
Total assets	$936,973	$935,297	$ (1,676)
Liabilities			
(i) Notes and accounts payable – trade	$ 44,660	$ 44,660	—
(ii) Short-term loans payable	4,975	4,975	—
(iii) Accounts payable – other	172,173	172,173	—
(iv) Long-term loans payable	8,291	8,356	$ 65
Total liabilities	$230,099	$230,164	$ 65

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

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

Assets

(i) Cash and deposits and (ii) Notes and accounts receivable – trade

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

(iii) Investments in securities

The fair value of stock is determined based on the quoted price on stock exchanges and the fair value of debt securities is determined on the quoted prices provided by financial institutions. For the short-term investments in securities, their fair values approximate carrying value.

For the notes related to securities for holding purpose, please refer to Note 19 "Investments in Securities."

Liabilities

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

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

(iv) Long-term loans payable

The fair value of long-term loans payable is calculated by discounting the total amount of principal and interest, using the interest rate assumed in the case of an equivalent new loan.

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
December 31	Carrying amount		Carrying amount
Unlisted stock	¥ 2	¥ 2	$ 21
Capital contribution to investment in a limited partnership	79	138	658
Total	¥81	¥141	$679

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 schedule of monetary receivables and investments in securities with maturities at December 31, 2015 and 2014 are as follows:

	Millions of yen			
	2015			
December 31	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥47,451	—	—	—
Notes and accounts receivable – trade	27,491	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	15,700	¥20,499	—	—
Available-for-sale securities with maturities (other)	1,000	79	—	—
Total	¥91,642	¥20,578	—	—

	Millions of yen			
	2014			
December 31	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥39,445	—	—	—
Notes and accounts receivable – trade	23,773	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	21,612	¥14,200	—	—
Available-for-sale securities with maturities (other)	1,000	138	—	—
Total	¥85,831	¥14,338	—	—

	Thousands of U.S. dollars			
	2015			
December 31	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	$393,425	—	—	—
Notes and accounts receivable – trade	227,936	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	130,172	$169,963	—	—
Available-for-sale securities with maturities (other)	8,291	658	—	—
Total	$759,824	$170,620	—	—

4. Repayment schedule of short-term loans payable and long-term loans payable at December 31, 2015 and 2014 are as follows:

	Millions of yen					
	2015					
December 31	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	¥600	—	—	—	—	—
Long-term loans payable	—	—	¥1,000	—	—	—
Total	¥600	—	¥1,000	—	—	—

	Millions of yen					
	2014					
December 31	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	¥1,972	—	—	—	—	—
Long-term loans payable	—	—	—	¥1,000	—	—
Total	¥1,972	—	—	¥1,000	—	—

	Thousands of U.S. dollars					
	2015					
December 31	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	$4,975	—	—	—	—	—
Long-term loans payable	—	—	$8,291	—	—	—
Total	$4,975	—	$8,291	—	—	—

Note 19 Investments in Securities

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

	Millions of yen					
	2015			2014		
December 31	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount						
Corporate bonds	—	—	—	—	—	—
Other	¥ 9,100	¥ 9,111	¥ 11	¥19,612	¥19,686	¥73
Subtotal	9,100	9,111	11	19,612	19,686	73
Securities with carrying amount exceeding fair value						
Corporate bonds	—	—	—	—	—	—
Other	27,099	26,885	(213)	16,200	16,140	(59)
Subtotal	27,099	26,885	(213)	16,200	16,140	(59)
Total	¥36,199	¥35,997	¥(202)	¥35,812	¥35,827	¥14

	Thousands of U.S. dollars		
	2015		
December 31	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount			
Corporate bonds	—	—	—
Other	$ 75,450	$ 75,547	$ 97
Subtotal	75,450	75,547	97
Securities with carrying amount exceeding fair value			
Corporate bonds	—	—	—
Other	224,684	222,911	(1,773)
Subtotal	224,684	222,911	(1,773)
Total	$300,134	$298,458	$(1,676)

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

	Millions of yen					
	2015			2014		
December 31	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost						
Stock	¥ 866	¥ 134	¥732	¥ 811	¥ 134	¥676
Other	—	—	—	—	—	—
Subtotal	866	134	732	811	134	676
Securities with acquisition cost exceeding carrying amount						
Stock	—	—	—	—	—	—
Other	1,000	1,000	—	1,000	1,000	—
Subtotal	1,000	1,000	—	1,000	1,000	—
Total	¥1,866	¥1,134	¥732	¥1,811	¥1,134	¥676

	Thousands of U.S. dollars		
	2015		
December 31	Carrying amount	Acquisition cost	Difference
Securities with carrying amount exceeding acquisition cost			
Stock	$ 7,186	$1,112	$6,073
Other	—	—	—
Subtotal	7,186	1,112	6,073
Securities with acquisition cost exceeding carrying amount			
Stock	—	—	—
Other	8,291	8,291	—
Subtotal	8,291	8,291	—
Total	$15,477	$9,404	$6,073

Unlisted stock of ¥2 million (U.S. $21 thousand) at December 31, 2015 (¥2 million at December 31, 2014) and capital contribution to investment in a limited partnership of ¥79 million (U.S. $658 thousand) at December 31, 2015 (¥138 million at December 31, 2014) were carried in the accompanying consolidated balance sheets. They are not included in "available-for-sale securities" in the above table as a quoted price is unavailable and their fair value is not readily determinable. Refer to "2. Financial instruments for which fair values are not readily available" in Note 18 "Financial Instruments."

19.3. Available-for-sale securities sold during fiscal 2015 and 2014 consist of the following:

No available-for-sale securities were sold in fiscal 2015 and 2014.

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, a variety of businesses is conducted to contribute to the Group's profits.

Therefore, reportable segments consist of the Beauty Care business, the Group's core business, and the Real Estate business, which indirectly supports the Group's core business. The Beauty Care business manufactures and markets cosmetics and health foods and sells fashion items (women's underwear, women's apparel and jewelry) under the following brand names: **POLA**, **ORBIS**, **pdc**, **FUTURE LABO**, **ORLANE**, **decencia**, **THREE**, **H2O PLUS and Jurlique**. 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.

Items Related to Changes in Reportable Segments

As described in "Changes in Accounting Policies," pursuant to changes in the calculation method of retirement benefit obligations and service costs from fiscal 2015, the calculation method used for business segments has been changed accordingly.

The impact on segment income for fiscal 2015 arising from the above changes was minimal.

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

	Millions of yen						
	2015						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	¥200,570	¥2,951	¥203,522	¥11,266	¥214,788	—	¥214,788
Inter-segment sales or transfers	81	509	591	2,502	3,093	¥(3,093)	—
Total	200,652	3,461	204,113	13,768	217,882	(3,093)	214,788
Segment income	21,290	1,265	22,556	293	22,850	(339)	22,511
Segment assets	190,902	27,749	218,652	23,341	241,993	(6,259)	235,734
Other items							
Depreciation and amortization	5,573	599	6,173	320	6,494	33	6,528
Amortization of goodwill	765	—	765	—	765	—	765
Increase in property, plant and equipment and intangible assets	¥ 6,445	¥ 231	¥ 6,676	¥ 5,080	¥ 11,757	¥ 316	¥ 12,074

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 ¥(339) million (U.S. $(2,812) thousand) includes intersegment transaction eliminations of ¥1,953 million (U.S. $16,200 thousand) and corporate expenses of ¥(2,292) million (U.S. $(19,011) 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 ¥(6,259) million (U.S. $(51,898) thousand) includes corporate assets of ¥79,564 million (U.S. $659,687 thousand), not allocated to each segment, and intersegment eliminations of ¥(85,824) million (U.S. $(711,585) 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						
	2014						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	¥184,475	¥3,179	¥187,654	¥10,440	¥198,094	—	¥198,094
Inter-segment sales or transfers	70	589	660	3,278	3,938	¥ (3,938)	—
Total	184,545	3,768	188,314	13,719	202,033	(3,938)	198,094
Segment income	16,535	1,227	17,763	472	18,235	(551)	17,683
Segment assets	176,221	33,081	209,303	11,217	220,521	4,015	224,536
Other items							
Depreciation and amortization	5,916	707	6,623	300	6,923	24	6,948
Amortization of goodwill	898	—	898	—	898	—	898
Increase in property, plant and equipment and intangible assets	¥ 6,489	¥1,830	¥ 8,319	¥ 247	¥ 8,566	¥ (309)	¥ 8,257

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 ¥(551) million includes intersegment transaction eliminations of ¥1,740 million and corporate expenses of ¥(2,291) 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 ¥4,015 million includes corporate assets of ¥74,417 million, not allocated to each segment, and intersegment eliminations of ¥(70,402) 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						
	2015						
	Reportable Segments						
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	$1,662,968	$24,473	$1,687,442	$93,410	$1,780,852	—	$1,780,852
Inter-segment sales or transfers	678	4,227	4,905	20,745	25,650	$ (25,650)	—
Total	1,663,646	28,701	1,692,347	114,155	1,806,502	(25,650)	1,780,852
Segment income	176,526	10,496	187,022	2,436	189,458	(2,812)	186,646
Segment assets	1,582,811	230,073	1,812,885	193,531	2,006,415	(51,898)	1,954,518
Other items							
Depreciation and amortization	46,214	4,974	51,188	2,658	53,846	279	54,125
Amortization of goodwill	6,351	—	6,351	—	6,351	—	6,351
Increase in property, plant and equipment and intangible assets	$ 53,441	$ 1,917	$ 55,359	$42,124	$ 97,482	$ 2,628	$ 100,110

20.4. Related information

20.4.1. Sales information by product and service

	Millions of yen			
	2015			
Year ended December 31	Cosmetics	Fashion	Others	Total
Sales to external customers	¥187,144	¥ 13,426	¥ 14,217	¥214,788

	Millions of yen			
	2014			
Year ended December 31	Cosmetics	Fashion	Others	Total
Sales to external customers	¥171,899	¥ 12,575	¥ 13,619	¥ 198,094

	Thousands of U.S. dollars			
	2015			
Year ended December 31	Cosmetics	Fashion	Others	Total
Sales to external customers	$1,551,648	$ 111,320	$ 117,883	$1,780,852

20.4.2. Information by geographical area

a. Sales

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2015	2014	2015
Japan	¥189,215	¥172,807	$1,568,819
Overseas	25,573	25,287	212,032
Total	¥214,788	¥198,094	$1,780,852

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

b. Property, plant and equipment

Information by geographical area is omitted, as property, plant and equipment of the domestic segment account for more than 90% of the total property, plant and equipment of all segments for fiscal 2015 and 2014.

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 2015 and 2014.

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

	Millions of yen					
	2015					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥107	—	¥107	—	—	¥107

	Millions of yen					
	2014					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥6,150	—	¥6,150	—	—	¥6,150

The amount in "Beauty Care" mainly arises from the impairment losses on goodwill, right of trademark and intangible assets (Other) at a subsidiary in the United States.

	Thousands of U.S. dollars					
	2015					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	$892	—	$892	—	—	$892

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

	Millions of yen					
	2015					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥ 765	—	¥ 765	—	—	¥ 765
Goodwill	¥11,894	—	¥11,894	—	—	¥11,894

	Millions of yen					
	2014					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥ 898	—	¥ 898	—	—	¥ 898
Goodwill	¥14,092	—	¥14,092	—	—	¥14,092

	Thousands of U.S. dollars					
	2015					
	Reportable Segments					
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	$ 6,351	—	$ 6,351	—	—	$ 6,351
Goodwill	$98,622	—	$98,622	—	—	$98,622

No gains arising from negative goodwill were recognized in fiscal 2015 and 2014.

Note 21 Per Share Information

For fiscal 2015 and 2014, 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 2015 and 2014 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 minority interests, and common shares outstanding at year-end.

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	2015	2014	2015
Numerator:			
Net income attributable to common stock	¥14,095	¥10,382	$116,865
Denominator:			
Weighted average number of common stock outstanding (thousands of shares)	55,286	55,284	55,286
	Yen		U.S. dollars
Basic net income per share	¥254.95	¥187.81	$ 2.11
	Millions of yen		Thousands of U.S. dollars
Adjustment for Numerator:			
Adjustment of net income	—	—	—
Adjustment for Denominator:			
Increase in the number of common stock (thousands of shares)	66	57	66
[Of which, subscription rights to shares]	(66)	(57)	(66)
	Yen		U.S. dollars
Diluted net income per share	¥254.64	¥187.61	$ 2.11

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	2015	2014	2015
Numerator:			
Total net assets	¥ 180,635	¥ 180,793	$1,497,686
Amount deducted from total net assets	397	338	3,292
[Of which, subscription rights to shares]	(183)	(138)	(1,517)
[Of which, minority interests]	(214)	(200)	(1,775)
Net assets attributable to common stock	¥ 180,238	¥ 180,454	$1,494,394
Denominator:			
Common shares issued (thousands of shares)	57,284	57,284	57,284
Treasury stock (thousands of shares)	1,996	2,000	1,996
Common shares outstanding used in the calculation of net assets per share (thousands of shares)	55,287	55,284	55,287
	Yen		U.S. dollars
Net assets per share	¥3,260.00	¥3,264.13	$ 27.03

Note 22 Related Party Transactions

There was no applicable information on related party transactions involving the Company or significant affiliates in fiscal 2015 and 2014 to be disclosed.

Note 23 Stock Options

23.1. Stock option-related expenses

Share-based compensation expenses of ¥53 million (U.S. $441 thousand) arising from stock options were included in selling, general and administrative expenses in fiscal 2015 (¥47 million in fiscal 2014).

23.2. Details of the stock options

23.2.1 Information on the stock options

	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: 9,640 shares	Common stock: 15,670 shares	Common stock: 19,700 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: 29,700 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

23.2.2 Information on and changes to the stock options

The number of existing stock options, translated into shares at the end of fiscal 2015 (December 31, 2015), is presented below

a. Number of stock options

	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
Non-vested	(shares)	(shares)	(shares)	(shares)
Outstanding as of December 31, 2014	—	14,720	18,400	24,400
Granted	9,640	—	—	—
Forfeited	130	—	—	—
Vested	400	2,160	2,860	4,110
Outstanding as of December 31, 2015	9,110	12,560	15,540	20,290
Vested	(shares)	(shares)	(shares)	(shares)
Outstanding as of December 31, 2014	—	720	1,300	4,450
Vested	400	2,160	2,860	4,410
Exercised	—	720	1,300	1,870
Forfeited	—	—	—	—
Outstanding as of December 31, 2015	400	2,160	2,860	6,690

b. Price information

	Subscription rights to shares issued in fiscal 2015		Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013
Date of approval	March 27, 2015		March 28, 2014	March 29, 2013
	Yen	U.S. dollars	Yen	Yen
Exercise price	¥ 1	$ 0.01	¥ 1	¥ 1
Average stock price at the time of exercise	—	—	6,340	6,340
Fair value of stock options on the grant date	¥5,845	$48.46	¥2,999	¥2,564

	Subscription rights to shares issued in fiscal 2012
Date of approval	March 30, 2012
	Yen
Exercise price	¥ 1
Average stock price at the time of exercise	6,340
Fair value of stock options on the grant date	¥1,832

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 2015
Volatility (*1)	27.437%
Estimated remaining period (*2)	15 years
Estimated dividend (*3)	¥87.00 per share
Risk-free rate (*4)	0.739%

(*1) Volatility is calculated using weekly stock prices during the period (4.34 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 2014.
(*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

Transfer of a fixed asset

The Company resolved at its Board of Directors' meeting held on February 15, 2016, on the transfer of a fixed asset owned by POLA CHEMICAL INDUSTRIES INC., a consolidated subsidiary of the Company, as outlined below.

24.1. Reasons for the transfer of the fixed asset

In August 2014, the Company closed down the Shizuoka Factory owned by POLA CHEMICAL INDUSTRIES INC. with the aim of achieving a fundamental enhancement of production efficiency under the optimum production system, and has been considering the use of the disused site. Consequently, the Company decided to transfer the aforementioned asset for the purpose of effective utilization of its corporate resources as well as improvement of its financial structure.

24.2. Details of the asset to be transferred

Description and location of the asset	Transfer value	Current status
Type of the asset: Land Location: 648 Yayoi-cho, Suruga-ku, Sizuoka-shi, Shizuoka, Japan (Including its 18 adjoined parcels of land registered under parcel consolidation) Site area: 43,200 square meters	undisclosed	idle

Note: Transfer value shall not be disclosed in accordance with the transferee's intention.

24.3. Transferee

TOKOHA Gakuen (Educational Institution)

24.4. Schedule of the transfer

Date of resolution at the Board of Directors' meeting: February 15, 2016
Date of the transfer agreement: February 18, 2016
Date of the transfer of the property: March 31, 2016 (tentative)

24.5. Impact on business performance

In association with this transfer of the fixed asset, approximately ¥3,000 million (U.S. $24,874 thousand) is scheduled to be recorded as "Other income" for the fiscal year ending December 31, 2016.

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, 2015, 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, 2015, 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 23, 2016
Tokyo, Japan

A member firm of Ernst & Young Global Limited

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. (currently pdc 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 pharmaceutical company POLA PHARMA INC. is established. ORLANE JAPON INC. is established through a joint venture with Orlane S.A. of France. decencia INC. is established.
2008	ACRO INC. is established. POLA CHEMICAL wins the highest award (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	ORBIS drafts new corporate message "Change is beautiful." POLA ORBIS HOLDINGS welcomes outside director. POLA CHEMICAL wins the highest award (best oral presentation category) at the 23rd IIFSCC Conference.

Corporate Information (As of December 31, 2015)

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	3,888 (for the Group); 78 (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 (As of March 31, 2016)

Beauty Care business

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

Real Estate business

P.O. REAL ESTATE INC.

Other businesses

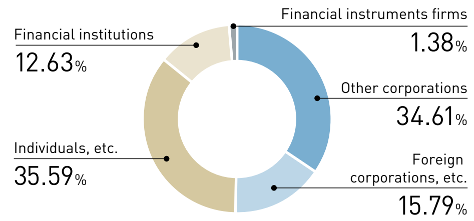
POLA PHARMA INC.
KAYAKU CO., LTD.
P.O. TECHNO SERVICE INC.

Stock Information (As of December 31, 2015)

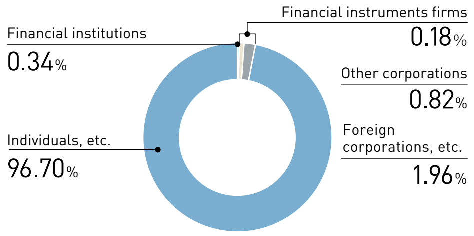
Total number of authorized shares	200,000,000 shares
Total number of issued shares	57,284,039 shares
Number of shareholders	14,556

Composition of Shareholders

By number of shares



By number of shareholders



Principal Shareholders

Shareholders	Number of shares held (Thousands)	Percentage of shareholding (%)
The POLA Art Foundation	19,654	35.5
Satoshi Suzuki	12,708	23.0
Japan Trustee Services Bank, Ltd. (Trust Account)	2,072	3.7
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,786	3.2
Naoko Nakamura	1,192	2.2
Hiromi Suzuki	778	1.4
POLA ORBIS HOLDINGS Employees' Stockholding	706	1.3
The Nomura Trust and Banking Co., Ltd. (Investment Trust Account)	577	1.0
CBLDN STANDARD LIFE ASSURANCE LIMITED –PENSION FUNDS	440	0.8
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	417	0.8

Notes: 1. The number of shares is rounded down to the nearest thousand shares.
2. In addition to the above, the Company holds 1,996 thousand shares of treasury stock.
3. The percentage of shareholding is calculated by deducting shares of treasury stock.

POLA ORBIS HOLDINGS

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