Corporate Report 2019

Vision

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

Contents

Editorial Policy

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

Time Frame

This report focuses on activities and results achieved in fiscal 2019—the 12 months from January 1, 2019 to December 31, 2019—but some fiscal 2020 content is also included.

Scope

POLA ORBIS HOLDINGS INC. and consolidated subsidiaries

Disclaimer

Forecasts and other forward-looking statements in this report are predictions related to future results or events, except where the information is historical fact, and are based on assumptions made by the Company using information available at the time. The risks and uncertainties inherent in such assumptions may cause actual results to differ from stated expectations. Information related to the financial results for fiscal 2019 have been prepared on the basis of data available as of February 14, 2020.

WE SUPPORT UN GLOBAL COMPACT

SUSTAINABLE DEVELOPMENT GOALS
17 GOALS TO TRANSFORM OUR WORLD

CDP
DISCLOSURE INSIGHT ACTION

2020
健康経営優良法人
Health and productivity

MSCI Japan Empowering Women Index (WIN)

POLA ORBIS Group Philosophy

Mission

Sensitize the world to beauty.

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

Vision

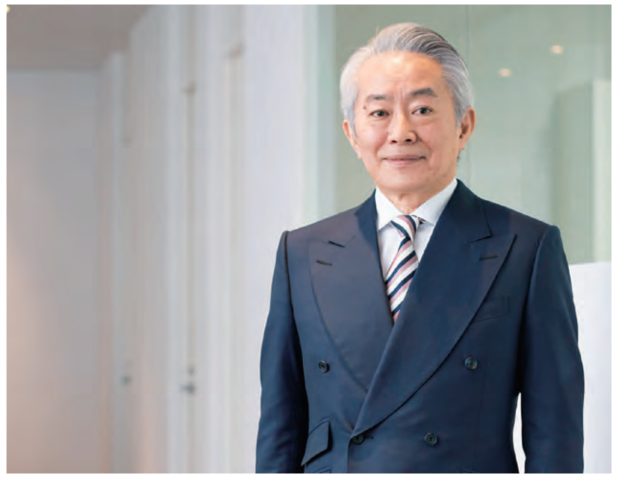
To maximize the unique character of each brand, and
become a global corporate group that enriches
the lives of people around the world.

Way

- Be gracious to others, and express your individuality with flair.
- Cultivate your aesthetic sense and personal tastes.
- Respond to challenges and changing circumstances with flexibility.
- Show care for the environment in all that you do.
- Think independently and work cooperatively to grow as individuals and as a group.

Our Priorities

Sensitizing the world to beauty
A hundred years of Group stories
passed down through
the generations by people



鈴木郷史
Satoshi Suzuki
Representative Director and President

Individual changes fuel timely trends

The POLA ORBIS Group's portfolio of products and services comprises nine richly distinct brands, hinging on flagship brands POLA and ORBIS. The range of products and services is diverse, and customers in Japan, the rest of Asia and indeed all over the world have access to these brands across various sales channels. The Group's history started in Shizuoka in 1929. Reflecting on this starting point, we will celebrate our 100th anniversary in 2029. In 2006, POLA ORBIS HOLDINGS was established as a holding company for the Group and, since being listed on the First Section of the Tokyo Stock Exchange in 2010, the Company has seen its operating environment change at a dizzying pace. The business activities of Group companies, particularly cosmetics-related businesses, have also changed significantly.

Advances in information technology have given rise to new lifestyles and modes of communication, and perceptions of value and approaches to life are becoming more diverse. I feel this is a watershed moment—a turning point. The role society expects the Group to play in the future and our raison d'etre in society will not be simple extensions of the past. To ensure corporate longevity and sustainability over the next 100 years and beyond, we must constantly demonstrate a flexible approach to change and adapt to new situations. I liken this to natural selection but from a corporate perspective rather than a living creature perspective. Required are the existence of a strong organizational culture to be passed on and the desire to initiate transformation on our own.

With this in mind, we embraced a new Group philosophy—"Sensitize the world to beauty"—in 2017. This simple phrase expresses our pledge to be a corporation and an organization that are constantly polishing sensitivity and personality, keeping them bright while inspiring sensitivity to beauty among customers as well. A look back reveals that key individuals with liberated sensitivity and ideas liberated from past theories promoted every big change in the Group's history. Perfect examples are the opening of POLA THE BEAUTY locations, which signaled a new direction in POLA's marketing strategy from traditional door-to-door sales to retail stores, and the debut of *Wrinkle Shot Serum*, which sent awareness of the POLA brand soaring. An ability to anticipate defining moments, a sense of responsibility, innovative leadership from just one person—qualities such as these have the potential to transform business models and products in ways not otherwise thought possible and create new markets. Inevitably, this process sparks timely trends. I have seen such moments of transformation several times. Sensitivity, that is, an innate understanding of people and their environment, is the fuel that powers the POLA ORBIS Group. It is, I firmly believe, the source of continued growth.

> "Constantly cultivate aesthetic sense and personal tastes and keep them bright while inspiring sensitivity to beauty among customers."

“Capacity to appreciate one’s own sensitivity to beauty and draw on this awareness to exert a positive influence.”

New perspectives and new encounters inspire a sensitivity to beauty

Since drafting the new philosophy, the POLA ORBIS Group has worked to instill the concept among employees, while promoting a human resources strategy aimed at applying the personality and sensitivity cultivated by employees to management practices. For example, the Company tweaked the competency criteria introduced in 2006 to develop more human resources with the kinds of people skills that motivate others and to deliver fine-tuned responses to changes in the business environment. A distinguishing feature of our approach to competency is the requirement for *bi-i-shiki* (esthetic sense). We were the first company to apply to competency content this criterion, which is the capacity to appreciate one’s own sensitivity to beauty, without relying on others to form awareness, and to utilize the knowledge to exert a positive influence. In addition, we run skills-development programs such as the Future Study Program, the Business Innovation Academy and Coaching for Organizational Changes. Art-based workshops have also been launched to enhance creative and intuitive capabilities and develop the knack for conveying concepts to others. The art-based workshops program has attracted considerable attention even from other companies.

It is a huge job for management to create an environment that draws on an aesthetic sense and personality to complement such human resources development. I studied thermodynamics in my school days. This science provided me with many hints on running an organization like a company. An organization could often be compared to a space with no opening. If the space is left vacant, entropy, that is, the degree of disorder or randomness in the system, increases, and the space loses its dynamic energy. There are two ways to prevent this: one is to develop the skills of people within the space through such approaches as the aforementioned training programs to boost human efficiency, and the other is to open up the closed space.

Along this line of thought, we need to be more open and need to create a structure that is more accessible to the outside. Toward these ends, we are rebuilding our R&D structure and engaging in joint activities with partners in different industries and different sectors. The Multiple Intelligence Research Center (MIRC), established in 2018, in one year sent researchers to 16 countries and 27 regions on a global quest for leading-edge technologies. We have another facility, the Frontier Research Center (FRC), which began joint work with the Skin Research Institute of Singapore, one of the world’s top research institutes, in 2019. In addition, we are expanding business with OEM operations for cosmetics products in conjunction with the integration of our own production sites. We are also pursuing joint activities with players in fields beyond the scope of cosmetics, achieving one success after another in plans and projects through collaboration. Our efforts have included joint research with the Massachusetts Institute of Technology, cooperative initiatives with the Japan Aerospace Exploration Agency, projects utilizing traditional Japanese techniques and regional development ventures with local governments. In these kinds of cooperative initiatives outside the Group, we communicate with others not as part of an organization or as employees of a company but simply as people with our own feelings. We oversee business, and we seek out shared points of contact and reciprocal opportunities. By drawing on these experiences, employees promote open innovation and reveal the corporate culture beyond corporate walls. Recently, efforts with external partners have been moving naturally to completion. For example, *APEX*, which has been on the market for 30 years, underwent renewal last year. With involvement from many external organizations, product developers created a new *APEX* system using the Internet to skip physical sampling of the stratum corneum, the outermost layer of skin, and complete immediate skin analysis. This is a great example that confirms how we are sensitizing the world to beauty. In addition, our corporate venture capital program—investment of corporate funds directly into external venture companies that began in 2018—delivered double-digit results last year. We expect synergy within the Group in the future.

The contribution that these activities will have on the Group’s fiscal performance is yet to come. But buds of change are already appearing here and there within the Group, while steadily evolving as part of the corporate culture.

Toward management that maximizes personal potential

The domestic economy is entering a new phase, characterized by issues that face all developed nations today, namely, the graying of society, fewer children, an accelerated decrease in the population—more specifically the working population—and a shrinking domestic market. Society is likely to become dependent on artificial intelligence (AI) for the majority of jobs in the near future, due to a persistent labor shortage. Naturally, it is imperative that we too respond to society’s embrace of digital technology and make the most of this transformation. However, from a logical standpoint, business is at first glance an activity to maximize profit through enhanced efficiency. That said, the building blocks of a foundation, whether they be economic or social, are the skills and mindsets of people. No matter how extensive deep learning with Big Data becomes, there are limits to how far AI can go. AI is bound by inductive reasoning, where the single exception to a rule causes logic to collapse, and deductive reasoning at a level that goes back again and again to past successes. Mood dictates how people shop. They think and act intuitively. The only way to utilize AI, once its limitations are known, is to draw out an ability for abductive reasoning, that is, an innate capacity to form hypotheses from personal observations, experience or knowledge in various settings.

In today’s world, there is no single right approach in business. When I look at best-selling business books, I see no Ariadne’s clew, no guide out of the labyrinth. What is left for us to do is think of possible courses of action on our own, implement plans quickly and, drawing on successes and failures, carve out a path that we believe is right.

The Group is a corporate group that has historically drawn on value created by people. As we go forward, our biggest strength will be sensitivity—the capacity to inspire. This human quality will make us a more attractive corporate group in the eyes of society, worthy of a long corporate life.

Every person builds a unique history of life events—experiences, encounters, hardships and approaches to surmount difficult times, and steps to maximize coincidence and good luck. All these things mold a person’s character. The differences differentiating one person from another create personality. If there are 4,000 employees, there will be 4,000 personalities, and also 4,000 opportunities. This potential is by far the best fuel to spur corporate evolution.

All the Group’s stories are transmitted from one person to another. For precisely this reason, we inspire people’s sensitivities not only through cosmetics but also through original value in different experiences, information, culture and the arts. We have a presence that can change people’s lives. I truly believe this.

The long-term management plan announced in 2011 ends in 2020. It has been a roller-coaster ride of strategies—some successful, some not so much. We are working on the next long-term management plan, which will run from 2021 through 2029, the year we celebrate our 100th anniversary. The new plan will have unique content that reflects the ideas and perspectives outlined so far. In spring 2021, we will announce the plan, which will appropriately meet the expectations of shareholders, who have supported us to date. I ask for the continued backing and encouragement of shareholders as we travel the road to sustained growth together.

“All stories are transmitted from one person to another.”

Progress to Date

With refined sensitivity, we transform with the times.

Through employees' ability to express evolving perceptions of beauty, the POLA ORBIS Group has been quick to identify changing market and customer needs and constantly transform to meet new requirements. We will refine our ability to adapt with the times while maximizing strengths in R&D and direct marketing to underpin corporate growth.

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

1937
Started with a visit from a woman who asked, "Would you consider hiring a woman?"

1951
Launched first product in Japan that used the term "skin-brightening"

Active participation of women in society
As Japan welcomes more active participation of women in society, POLA embarks on what is now a 90-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

1982
New cosmetics product containing hyaluronic acid

1987
Debuted oil-free skincare, unprecedented at the time (ORBIS)

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

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

ORBIS

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

ORBIS' first generation 100% oil-free series

2000 — 2004 More sales channel variety

2000
Shifted to business model bringing customers into stores for aesthetic treatments and consulting services

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

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

2000 ORBIS THE SHOP is launched.

2001 ORBIS commences international sales.

2005 — 2010 Multi-brand strategy

2005
Storewide strategy to raise POLA brand profile

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

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

POLA ORBIS HOLDINGS

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

2005 POLA THE BEAUTY stores are launched.

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

Brands under Development

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

2011 — 2013 Accelerated growth through stock listing

2011
POLA B.A
Start of 100 best cosmetics awards

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

2011–2013 Medium-Term Management Plan

Management Indicators (Results)

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

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

Overseas Brands

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

2014 — 2016 Second stage of medium-term management plan

2014
Highest award at IFSCC Congress in Paris

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

2014–2016 Medium-Term Management Plan

Management Indicators (Results)

Consolidated net sales	CAGR 4.5% ¥218.4 billion in FY2016
Overseas sales ratio	8.7% in FY2016
Operating income	CAGR 18.9%
Operating margin	12.3% in FY2016
Capital efficiency	ROE 9.5% in FY2016

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

2014 THREE commences international sales.

2017 — 2020 Seeking to be a highly profitable global company

2017
Launched Japan's first wrinkle-improving serum

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

2017–2020 Medium-Term Management Plan

Management Indicators (Plan)

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

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

2017 POLA launches *Wrinkle Shot Serum*

2018 Group's R&D structure realigned and research oversight function consolidated at Multiple Intelligence Research Center
2018 ACRO launches three new brands.
Amplitude ITRIM FIVEISM × THREE
2019 ORBIS begins sales of *DEFENCERA*, a food for specified health uses with verified functions for skin.

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

Environment/Society/Governance Efforts

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

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

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

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

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

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

2017 Formulates new Group philosophy.
2017 Becomes signatory to UN Global Compact.
2017 Formulates Group Code of Conduct.
2017 Captures Best IR Award for second time.
2018 Introduces senior corporate officer system.
2018 Establishes Group human rights policy. Initiates human rights due diligence.
2018 Begins CSR procurement activities.
2019 Establishes voluntary advisory committees to focus on nomination and appointment of executives and associated compensation.

Spotlight 1 Articulating the Mission

If you want to preserve something of value into the future, you have to keep changing your own approach.

—Words that flipped on the sensitivity switch—

Miki Oikawa is the woman who hammered out a new brand strategy and drove transformation forward at POLA. Behind this achievement was the power of like-minded individuals who looked objectively at POLA, shared core ideas and traveled toward the same destination.

Ms. Oikawa, appointed to the position of representative director and president at POLA—the company's first female president—in 2020, talked with Kotaro Sugiyama, president of Light Publicity Co., Ltd., about an inspiring encounter, structural reforms at POLA and how the Group mission influences her perspective.

Miki Oikawa
Representative Director and President
POLA INC.
Joined POLA Cosmetics, Inc. (now POLA INC.) in 1991.
For many years, engaged in daily marketing support on the sales front line and later was responsible for business activities, including product planning, promotions and door-to-door sales (now, total beauty operations).
Assumed post of representative director and president of POLA INC. in January 2020.

Kotaro Sugiyama
Representative Director and President
Light Publicity Co., Ltd.
Born in Tokyo in 1948.
Creative director. Entered 7th Creators Hall of Fame. Multiple major works, including *Pikkapika no Ichinensei* (Shining First Graders), published by Shogakukan. Has participated in POLA's advertising campaigns.

The encounter—"I don't want POLA to end up as just another cosmetics company."

Sugiyama: I think it was around the end of 2011. My image of POLA was that of a company built on history, tradition and high technology. But it was a turbulent time, and against that backdrop, I happened to meet an amazingly enthusiastic individual—you, Ms. Oikawa—and we talked about POLA's future and whether being a long-standing cosmetics maker was enough to ensure growth.

Oikawa: I remember that conversation very well. The ad for *B.A Grandluxe II*—my first time working with you—had the theme "the POLA renaissance begins." The ad was, of course, to promote a product, but it also carried the idea that POLA was a company evolving to do more interesting things.

From that point on, a theme in-house was "destroy to create," and later, in 2012, POLA embarked on a different style of branding. Mr. Sugiyama, to me, you were a tremendous support—a comrade in arms, so to speak.

Sugiyama: The word "disruption" has radical connotations, perhaps, but it actually describes a vital process for creating something new. Today, it's a business buzzword.

Branding—"Keep changing your own approach if you want to preserve something of value."

Oikawa: You said to me, "Keep changing your own approach if you want to preserve something of value. If you don't help POLA update the brand, you won't be able to protect the jobs of Beauty Directors, who are vital to corporate growth." I will never forget these words.

Sugiyama: "Take a different approach if you want to preserve something of value." That is a very important concept. A person who is adamantly opposed to change may alter that stance when those around him—or her—make changes, ultimately, abandoning the original stance.

Oikawa: That's why I reimagined everything, starting with POLA's corporate philosophy.

Sugiyama:: "Science" and "Art" are words that reflect POLA's starting point. Engaging with society is essential as well, and "Love" embodies the idea of building warmer and deeper connections with customers and society as a whole.

Oikawa: Love represents the relationships POLA has cultivated with customers and business partners. I am convinced that we can move on to the next step with Science (an earnest spirit for research), Art (POLA culture) and Love (heartfelt warmth toward customers) at our core.

But POLA's transformation will not unfold without a different kind of commitment from employees and business partners. They are key players in this process. We have gathered input from several questionnaires. The pile of completed questionnaires collected over the past four years would probably reach the ceiling.

Sugiyama: I am incredibly impressed at how quickly you and young POLA employees have jumped into action and the pace of change that has characterized POLA's transformation.

Group mission—"Now it's my turn to flip on the sensitivity switch for others. As you did for me."

Oikawa: In 2017, the POLA ORBIS Group embraced a new corporate philosophy and, guided by a mission to sensitize the world to beauty, we will contribute to the realization of a common vision to maximize the unique character of each brand and become a global corporate group that enriches the lives of people around the world. That vision paints a picture of what the Group should be by 2029, when POLA celebrates its 100th anniversary.

A gap may appear between what a person has pictured as the ideal to aspire to and reality. Being able to pinpoint this gap with a new level of awareness is sensitivity. The same applies to an organization. The Group mission presumes employees will hone sharper sensitivity to factors that influence perceptions of beauty. I realized the mission is saying that everyone possesses sensitivity, in varying degrees perhaps, and that they can't react or respond to input if they aren't scanning for blips on the screen, like a radar antenna.

In 2019, I had the opportunity to participate in free discussions with people from different industries, in different positions and of different age groups. This provided excellent inspiration. Talking with people of different age groups who have different perceptions of issues is useful for developing sensitivity, and going forward, I will ask employees the right questions, critical questions to ensure growth. It's my duty, I think, to create an environment in which employees can acquire new insights.

Sugiyama: It's extremely important from a management perspective for employees to feel that their company is a place that enables them to develop their people skills.

Oikawa: Just as you once helped me gain a different perspective, now I am called upon to flip on the sensitivity switch for others. This is very important in terms of making POLA more appealing. I want to sensitize customers to beauty so that they say, "This aspect of the company makes POLA interesting." That will translate into growth for another 100 years.

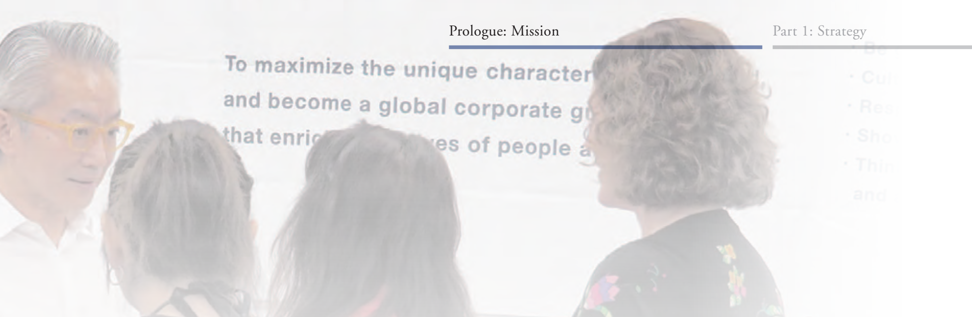
Company's social significance—"POLA has been a rule innovator and will continue to shape new rules for a new world."

Oikawa: Since 2016, we have been engaged in efforts to significantly reshape sales and thereby deliver "superlative hospitality" so that customers love POLA even more. We have been successful, with customers' preference for POLA products and interest in using POLA products hitting record highs. As a brand, POLA has developed in a single direction, and I'd like the people on the front lines to do what they want and do more things that make the most of their individuality through such approaches as events matched to regional characteristics and the local customer base.

POLA, which started off with the sale of cream by weight, made women feel that pursuing beauty was perfectly acceptable. In an era when it was difficult for women to find work, POLA offered work opportunities to women to be POLA LADIES. Aesthetic treatments for all to enjoy and *APEX* personalized skincare provided new opportunities in business and personal development. For 90-plus years, POLA has been a game changer that has created a number of rules to present new possibilities. The time is coming for another change. Many small eddies have already appeared, such as regional renaissance, new work styles for women and new possibilities in cosmetics, and if we can adeptly unite these, we'll create a huge vortex that pulls in the whole world. My job is to connect ideas and people, and devise rules—that is, game plans—that facilitate major changes.

Sugiyama: I think POLA is a company with latent energy, a company that is flexible. Not just resilient but able to ride out situations with agility even when facing an uphill battle or some adversity. I've seen this time and again. Going forward, I'd be happy to help you craft new rules. That would put my skills to good use.

Oikawa: Thank you so much.



Spotlight 2 Group philosophy and measures to instill concepts

Each and every employee under the globally expanding Group umbrella plays a part in "sensitizing the world to beauty"

Guided by the Group philosophy, we encourage all employees to embrace new modes of behavior and emphasize human resources development designed to hone sensitivity and heighten *bi-i-shiki* (esthetic sense)

The Group philosophy, revised in 2017, defines the image we want the POLA ORBIS Group to portray—a corporate group that maximizes the unique character of each brand and enriches the lives of people around the world. Efforts to enhance the features that highlight each brand start with the people creating that particular brand, specifically, their ability to see things, to sense and feel, and to demonstrate their own character, that is, personality. We want the philosophy to be embraced Groupwide, and we will offer more opportunities for employees to hone sensitivity, gain greater respect for *bi-i-shiki* and promote systems and evaluation criteria that support these efforts.

Instilling the Philosophy

Initiatives	Content
Restructure Group employee competencies	Introduce evaluation system Groupwide, including overseas subsidiaries
Draw up Group Code of Conduct	For behavior and business activities that put the philosophy into practice, establish standards of conduct to ensure legal compliance, of course, as well as high level of strict self-discipline toward social ethics
Implement Group free-agent transfer system	Employees who meet certain competency criteria will have the chance to apply for their dream job
Implement internal open-offer recruitment system	Allow divisions needing individuals to recruit from employees in the Group
Restart in-house venture program	Contest for new business ideas
Participate in external business ideation opportunities	Encourage submissions to external programs, such as business plan contests
Enable young midcareer employees to attend discussions on management issues	Young midcareer employees participate in Board of Directors' evaluation
Pursue corporate venture capital investment in start-ups outside the Group as well as joint opportunities	Execute strategic venture investment

Reshaping Group executive competency model

Against a backdrop of changes in the Group's business environment and the social landscape, POLA ORBIS HOLDINGS restructured the executive competency criteria established in 2006 to strike a better balance between continuously upgrading the skills of current executives and nurturing candidates for the next generation of executives. The new POLA ORBIS Group Executive Competency Model, introduced in 2015, comprises 13 performance characteristics, such as business context awareness, impact and influence, and *bi-i-shiki*, and outlines the behavioral qualities required of personnel with management responsibilities. The most noteworthy feature of this model is that it applauds directors and Group executives who possess independent perspectives and demonstrate leadership that draws from individual personality and aesthetic sense. To sharpen competencies, executives must adopt new modes of behavior. POLA ORBIS HOLDINGS has therefore enriched its assessment of behavior development and training for current executives and the next generation of senior management, encouraging them to embrace new modes of behavior on their own.

In competency assessment by an external specialist organization, all executives are interviewed. Comments are evaluated and analyzed with reference to the 13 performance characteristics, with every executive receiving feedback, which forms the basis of new behavior. Executives then adopt different practices to better maximize individual strengths and personality and demonstrate leadership capabilities more successfully. These assessments are continuously implemented for executive appointments.

*Executive competency model described on page 62

Using competencies to promote Groupwide behavioral development

POLA ORBIS HOLDINGS established the Way to clarify the new philosophy and concretely describe the sense of values and required conduct that all employees under the Group umbrella must share and follow. The first item under the Way is to be gracious to others and express individuality with flair. An underlying quality of this flair is a high aesthetic sense, which is seen within the Group as the capacity to realize the value in personal perspective and sensitivity, rather than relying on the views and feelings of others, and then exert a unique positive influence. The most important thing for the Group is for every employee to have the ability to inspire others through a unique presence built on personality and aesthetic sense. A core measure for encouraging this kind of behavioral development is the introduction of competency assessment at all companies under the Group umbrella. Through this approach, it is possible to promote personnel exchanges and human resources development laterally across the Group.

President involved in presentations and dialogue with Group employees in Japan and abroad

Seeking to convey his thoughts on the Group's philosophy directly and in his own words, Satoshi Suzuki, president of POLA ORBIS HOLDINGS, visits Group companies in Japan and abroad to create opportunities for presentations and dialogue.

In July 2017, Mr. Suzuki started with presentations in Japan. He provided background on the redefined philosophy and talked about the kind of transformation the Group would be making. An animated question-and-answer session followed the presentation.

In November 2017, Mr. Suzuki traveled to the Jurlique head office in Sydney, Australia, and spoke directly to about 60 employees. The contact opportunity started with Mr. Suzuki offering his thoughts on the new philosophy, his take on a person-centered management style and examples of sensitizing the world to beauty. Jurlique's employees are a multinational group, coming from more than 10 countries. Many points of agreement unfolded in this interactive exchange between the president and the Jurlique employees, all of whom have a different set of values and their own individuality.

Q&A following presentation by the president

Deepening awareness through in-house intranet

In 2018, POLA ORBIS HOLDINGS introduced a program on the theme "Sensitivity x Switch Interviews" through the in-house intranet to convey how key members within the Group perceive sensitivity and how they themselves embody that quality. This program helps employees know and appreciate executives and key members of the Group with whom few opportunities for direct contact exist and may encourage employees to adopt new modes of behavior. Some plans allow employees to offer feedback, which serves to encourage mutual understanding.

Philosophy awareness opportunity for employees through in-house intranet

TOPICS

Initiatives at all Group companies to instill the philosophy

Each Group company implements steps to integrate the Group philosophy into its own corporate philosophy and ensure that employees truly understand the concepts. A common point for all the companies is the pursuit of activities that enable employees to exhibit feelings, sensitivity and independence. In 2019, ORBIS formulated action guidelines—ORBIS Manager Style—and implemented Manager Style Week as ways to raise awareness and designate employees who embody the action guidelines. ORBIS seeks to reinvent itself as an open-minded, future-oriented company.

Poster for ORBIS' Manager Style Week, implemented in 2019

A Message from the President

Looking back at fiscal 2019

The domestic cosmetics market moved in a generally favorable direction in fiscal 2019, but inbound demand continued to chart a downward path due to the introduction of China's E-commerce Law and the impact of exchange rates against the yen. For domestic demand, excluding inbound purchases, a rush of buying activity ahead of the consumption tax increase exceeded the reactionary drop that followed, but this reactionary drop is likely to continue through the first quarter of fiscal 2020.

Against this backdrop, the POLA ORBIS Group posted lower net sales and operating income for fiscal 2019 on a consolidated basis. Net sales were down 11.5% year on year, to ¥219.9 billion, and operating income fell 21.2% year on year, to ¥31.1 billion. These results reflect the transfer of the Company's pharmaceuticals business outside the Group. Furthermore, both sales and income for flagship brand POLA were down year on year.

Progress on medium-term management plan

The Group unrolled its business strategies to support efforts to become a highly profitable global company by 2020 in three stages. The medium-term management plan running from 2017 through 2020 is the last stage of this three-part journey. We had been working to achieve targets for 2020, the final year of the medium-term management plan, but the transfer of our pharmaceuticals business and the impact of COVID-19 have made reaching any of our 2020 performance targets rather difficult. In addition, two key medium-term strategies—sustaining the stable growth of flagship brands to drive Group earnings higher and bringing overseas operations solidly into the black—came under harsh scrutiny. We remain committed to efforts to address these urgent issues in 2020.

Issues and initiatives in 2020

The impact that COVID-19 has had on the global economy is beyond anything anyone could have imagined, and the situation will exert major downward pressure on the business results of the POLA ORBIS Group. Management will hammer out timely measures to minimize damage to businesses and also strive to generate new value by responding flexibly to consumer sentiment and changes the pandemic will likely have on lifestyles.

We recognize the need to rebuild POLA's domestic operations. This is a priority. Inbound demand and social buyer demand shrank considerably in 2019, far more than we had imagined, and the company's response was delayed. In 2020, even though assumptions previously formed have strayed hugely due to COVID-19, POLA will focus on reestablishing a stable growth platform and returning to its position as a high-revenue brand as quickly as possible. Meanwhile, in operations abroad, sales in China and at overseas duty-free shops continue to increase. Efforts to expand the network of directly operated stores will be maintained in 2020, along with the development of the POLA THE BEAUTY-style stores. Another priority is to make overseas brands profitable. In addition, COVID-19 has caused major changes in work styles. The work-from-home concept rapidly took hold, spurring a reconsideration about which tasks to undertake and a shift toward online meetings and online training programs. We will not let these changes be passing trends. They represent a great opportunity that we will seize to streamline fixed costs throughout the year and realize an operating margin of 10% in 2020.

Group direction

Management is engaged in discussions based on results achieved to date and issues still requiring attention in a bid to clarify the vision that will guide the Group from 2021. Our goal is to turn the Group into a sustainable enterprise with a strong worldwide presence and, toward this end, we will implement our long-term business expansion strategy in three steps. The first step covers initiatives to address current issues, namely, overseas expansion and the development of new ingredients. The next step focuses on a wider menu of products for existing businesses. The final step is to realize new value creation beyond the realm of cosmetics.

In addition, social factors, customers and the market environments surrounding the Group are always changing. To survive as a company amid these changes requires a self-driven transformation and an organizational structure that is open to the outside. Human resources with broad sensitivity are essential to keep the transformation process moving. We will vigorously expand investment and human resources development toward this end.

Demonstrate sensitivity amid waves of change

More and more distribution services and retail stores are refraining from using plastic shopping bags, plastic straws are increasingly harder to find, organic products are placed on shelves or in displays more likely to attract customer attention and initiatives like fair trade and TABLE FOR TWO have captured well-deserved recognition. These trends are proof that issues of global scale, such as the environment and poverty, are catching the public's eye and that these issues are impacting lifestyles and consumption practices in various markets. Articles on sustainable development goals (SDGs)*[1] appear in fashion magazines, an obvious symbol of changing times. Another consumer shift highlights ethical*[2] brands, as more people opt for an environment- or human rights-friendly product over the competition, particularly if product details are

the same. Millennials and younger, especially, are increasingly keen to select companies and brands that benefit society, as they feel that through their selections, they too are contributing to a better world. Subtle differences color consumer trends, often based on income level, with high income earners more inclined to give back to society. Products made with naturally derived ingredients are considered environmentally or socially acceptable or good for one's health, and ethical consumers will buy these products even if the prices are higher. Ethical consumption is spreading in many sectors, including food, daily necessities, cosmetics and fashion.

The business activities undertaken by the Group impact the world in various ways. CO_2 emissions affect climate change, plastic is a primary cause of ocean pollution, and palm oils are linked to the depletion of forests and violation of human rights. It is imperative that we, as a corporate group, address such social issues.

We are sensitive to many social issues and changing consumer trends and seek to respond quickly. A deeper commitment to the Group mission—sensitize the world to beauty—becomes all the more essential to our task. We will do what we must and provide what makes our customers truly happy. Through our business activities, we will help protect the environment and contribute to the achievement of SDGs. This is my image of what the POLA ORBIS Group should be and what the POLA ORBIS Group will constantly strive to be.

*1 Common international goals adopted at the General Assembly of the United Nations in 2015 for achievement by 2030
*2 Consumers' conscious selection of products considered ethically correct and fair irrespective of any law or rule requiring such characteristics

Sustainability activities in five categories

Direct marketing, R&D capabilities and a multi-brand strategy are strengths of the value chain for the Group. We draw on this composite capability to provide wide-ranging value, making our contribution to society completely different from anything other companies offer.

To give sustainability activities more substance, we drafted three themes in 2017—"QOL Improvement through Innovative Technology Services," "Regional Revitalization," and "Culture, Arts, and Design"—to accompany the revised Group philosophy. Setting these themes underlines a reimagined presence for the Group based on the formation of a sustainable society and lays the cornerstone for business continuity. To these themes, we added "human resources development," which supports the corporate foundation, and "environment," which are social responsibilities, and in 2018, we set KPIs for activities in five categories as well as quantitative targets to reach by 2029. The Group, as a whole, is involved in activities aimed at raising corporate value in these five categories.

On the topic of social contributions, the tendency is to think "just doing something good is enough," but that approach is inadequate from a corporate standpoint. We cannot truly fulfill our corporate responsibility to society with simple initiatives, regardless of whether those initiatives actually deliver results. Circumstances require us to set quantitative, long-term targets with a timeline for achievement and desired results. Progress must be monitored constantly, and measures have to be assessed for effectiveness. The ability to maintain such activities depends on corporate performance and a stable investment platform. Assuming that the success of sustainability activities will have a positive impact on corporate performance, we set KPIs based on the effects that sustainability activities are likely to have on financial indicators.

The KPI for "QOL Improvement through Innovative Technology Services" assumes that the number of researchers will double and that research papers will win awards, since leading-edge research forms the basis of improved quality of life, and also assumes that no employees will quit for health reasons. Measures to support the KPI are being implemented.

For "Regional Revitalization," the Group aims to utilize sales points nationwide to make customers smile. POLA has approximately 4,000 sales points, and one corporate strength is the platform that links sales points and communities. Moreover, the company has approximately 41,000 Beauty Directors (as of December 31, 2019) who maintain a local presence and connect with customers in each community. Beauty Directors often engage with the communities where they work. POLA sees a need for shops as well as Beauty Directors, which will translate into new opportunities to contribute to community revitalization. From 2020, POLA will take a more robust approach to activities that fuel corporate growth as well as community growth. The close customer relationships that the company has built through its original door-to-door marketing approach have always been a vital strength that ensures the Group can overcome any challenge, even unavoidable situations considered beyond management's control.

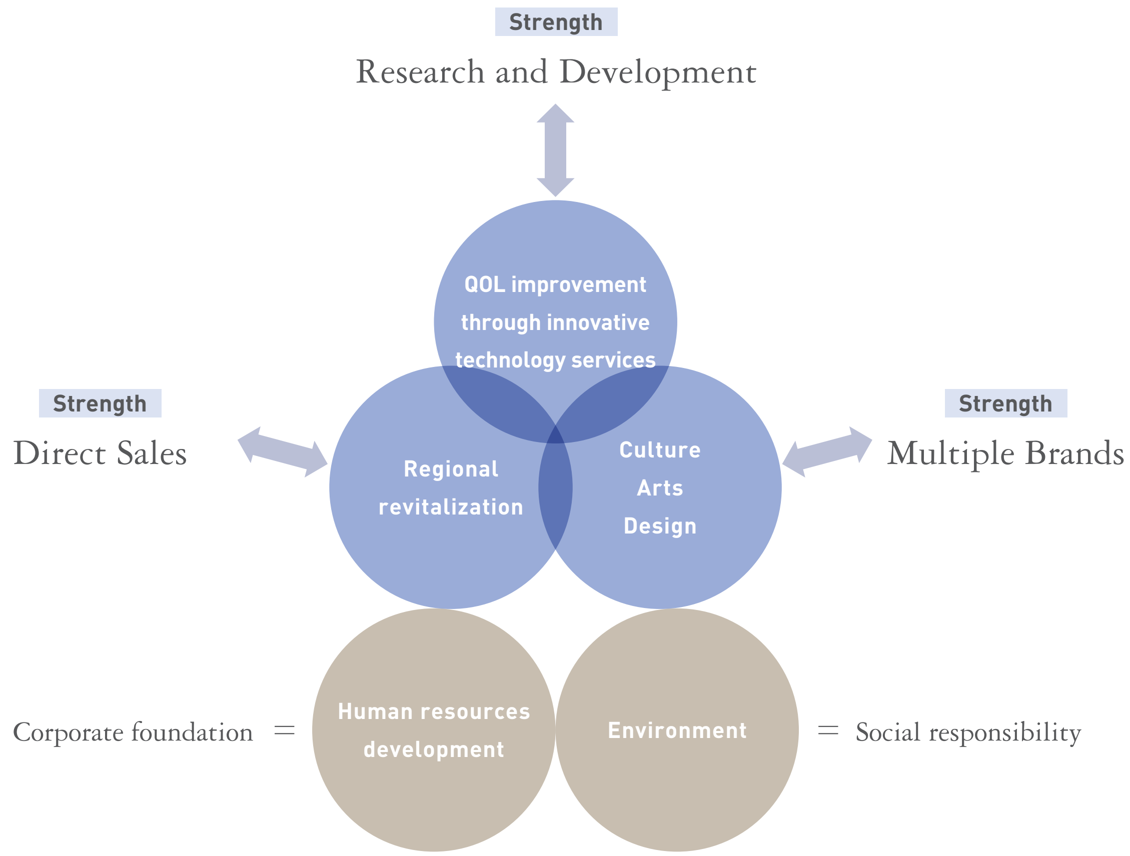
For "Culture, Arts, and Design," the emphasis is on activities to enrich people's lives under the Group philosophy "Sensitize the world to beauty." The Group was quick to embrace the idea of art workshops as an approach to sharpen the skills of human resources. The Group has teamed up with outside artists, generating a steady stream of creative work that inspires new perspectives on beauty. The resulting products and services have a contemporary touch and people find them very attractive.

In "human resources development," we recognize that people are our most valuable management resource, and we promote specific activities to enhance skills. Amid the rapid changes that characterize the times, we must constantly question the status quo, awaken curiosity and accept changes that herald new approaches. To instill this awareness in employees, we subscribe to various processes, including the introduction of evaluations based on Group competency criteria and skills development programs. In addition, the Nomination Advisory Committee has started drafting a succession plan. A point of pride in our history is that back in the 1930s, the Group was already offering women the work opportunity even before the women's suffrage movement occurred in Japan. Today, too, the percentage of women in management positions within the Group is high. As we go forward, our goal is to raise the ratio of women in management positions and executive positions to strengthen our status as a model for other companies to follow in maximizing the potential of women in corporate pursuits.

Activities under the "environmental response" banner put climate change in the spotlight. Our efforts earned us an A-rating from CDP*3 in 2019. Looking ahead, we will unveil structures that link the success of environmental policies to director compensation and also tweak long-term targets, including Scope 3 categories, to realize our 1.5°C scenario*4.

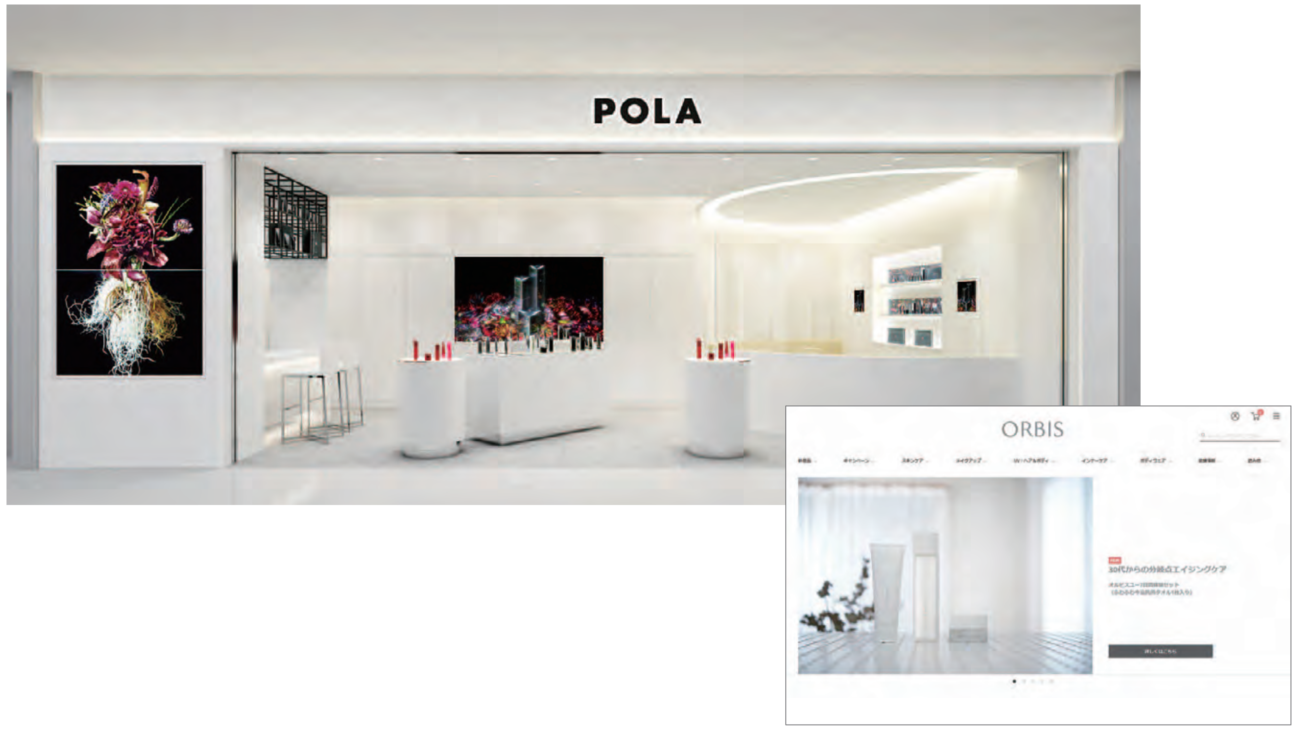
Through these sustainability activities, the POLA ORBIS Group will explore key issues and maintain sustainability as only the Group can and, in so doing, strengthen our unique presence on the world stage. On many different fronts transcending the realm of cosmetics, we will work as a cohesive team of companies to expand the potential of value provided to customers and realize our long-term vision to be a corporate group that enriches the lives of people all over the world.

*3 International non-profit organization that studies, evaluates and discloses strategies taken by companies to address climate change and measures related to greenhouse gas emissions
*4 The Paris Agreement is a treaty adopted at the 2015 United Nations Climate Change Conference—also known as COP 21, for the 21st Conference of Parties—that aims to hold the increase in average global temperature to below 2°C above preindustrial levels and ensure that further efforts are pursued to limit the temperature increase to 1.5°C.



Strengths of the POLA ORBIS Group

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



Strength Direct Sales

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

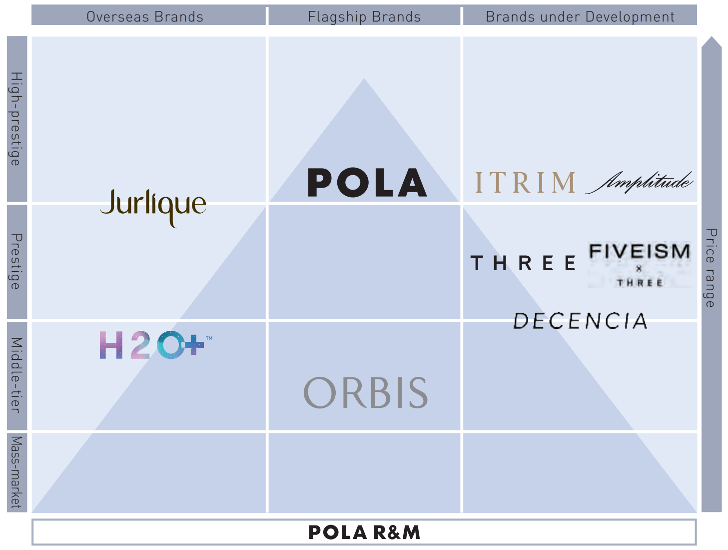
POLA draws on its cross-country network of about 41,000 Beauty Directors to deepen relationships with customers through face-to-face meetings and consultation opportunities. Beauty Directors provide more than just products. They strive to create experiences that elicit a positive feeling and build relationships that bring out the best in themselves and their customers.

ORBIS, while focused on mail-order sales, reinforces its connection to customers through one-to-one communication over the Internet. As a result, the company can gather customers' responses in real time. This allows ORBIS to anticipate and provide information and products matched to the different purchasing cycle of each customer, an approach that consistently earns high marks on the Japanese Customer Satisfaction Index, compiled by Service Productivity & Innovation for Growth (No. 1 in own brand of mail order in 2019 for fifth straight year).

These direct-selling channels enable each company to manage information on nearly all respective customers in-house. With this information, the companies have built a database of more than 18 million entries on the condition of Japanese women's skin and collected other useful information, such as customers' purchasing history and profiles. This diverse information is analyzed, and pertinent results are used in R&D, product planning and marketing, allowing POLA and ORBIS to build strong, trusting relationships with customers and secure extremely high repeat purchase rates not only from an in-house perspective but also from an industry perspective as well as enviable brand loyalty—achievements that are impossible for other companies to attain.

Strength Multiple Brands

Today, with customer perceptions and lifestyles becoming increasingly diversified, a single-brand approach targeting as many customers as possible dilutes the brand concept and weakens image cohesiveness. To constantly address lifestyles and values that change with the times, the POLA ORBIS Group has built a portfolio—shown on the right—of nine brands, each with its own concept, price range and sales channels. Each brand has its own unique characteristics and drives brand loyalty higher by polishing brand identity through independent management. The goal is to enhance sustainability, whether the brand is small scale or flagship. The multi-brand approach underpins efforts to expand market share on a Groupwide basis.



Strength Research and Development

The Group's biggest strength from an R&D perspective is the concentration of corporate resources into products that fight the two biggest skincare concerns of women—dark spots and wrinkles. Particular attention is directed toward basic research into the areas of anti-aging and skin-brightening and the development of new materials, and efforts have generated original ingredients, patents and other materials available only to the Group. For example, the Group pioneered the world's first application of hyaluronic acid in cosmetics in the 1980s and brought these products to market. More recently, in 2017, the Group debuted the industry's first quasi-drug to improve wrinkles, and in 2019, launched a quasi-drug product featuring a new active ingredient for skin-brightening, the first on the market in some 10 years. The Group is solidifying its customer base by cultivating new markets with revolutionary products like these and ensuring a high repeat ratio through the advantages of direct-selling channels.

Also, the research-controlling organization in the Group, the Multiple Intelligence Research Center (MIRC), comprises two teams: an R&D strategy team, which formulates research-related strategies from a Groupwide perspective and ensures optimal allocation of research results, and a curation team of dedicated staff known informally as "wandering researchers," who collect information even beyond the realm of cosmetics from all over the world and seek out collaboration on cutting-edge technologies and investment proposals. The two teams vigorously collaborate with outside specialist organizations, delve into science, cultivate new areas of research to explore and pursue open innovation.

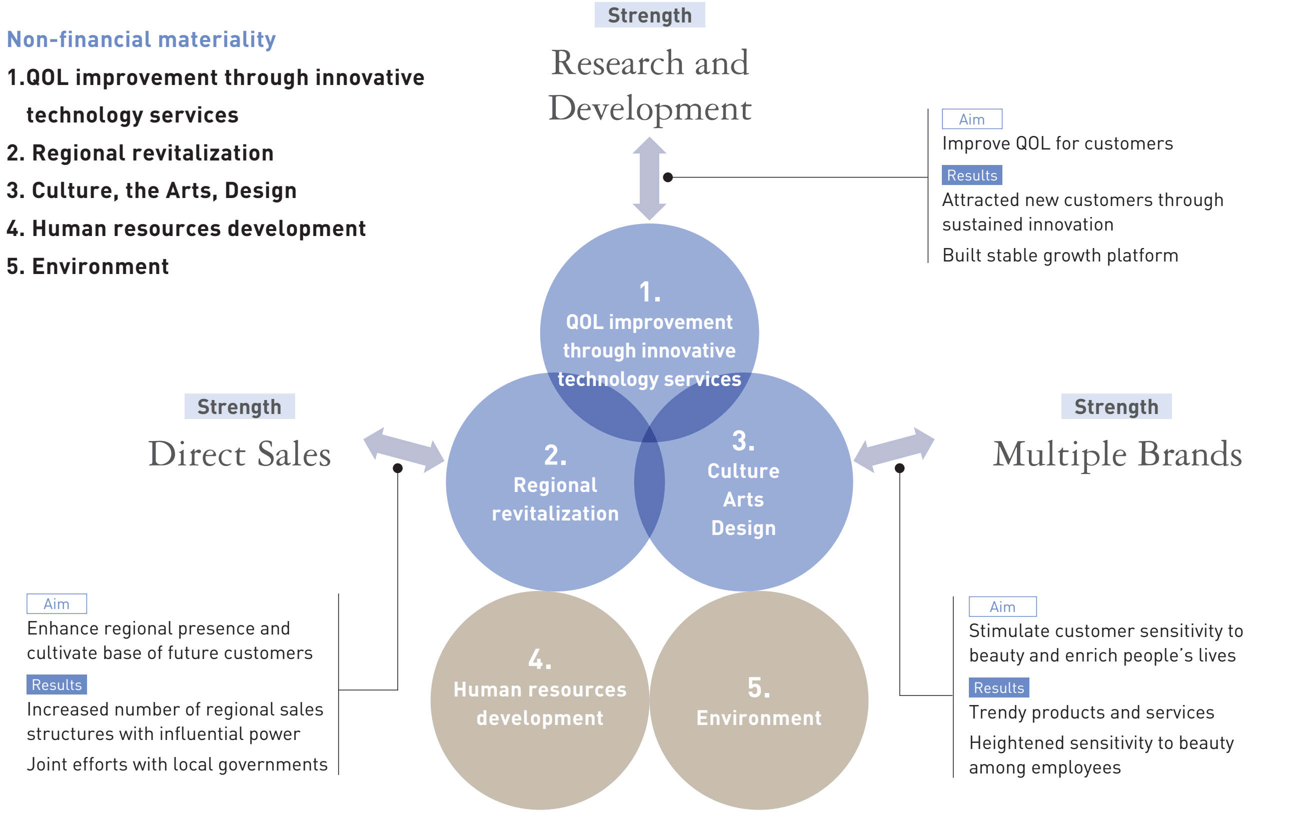
Global workshop to gather ideas on beauty, run jointly by MIRC and Bespoke, a Danish company.
Explores beauty now and in the future using information collected from a global perspective.

Non-Financial Strategies

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

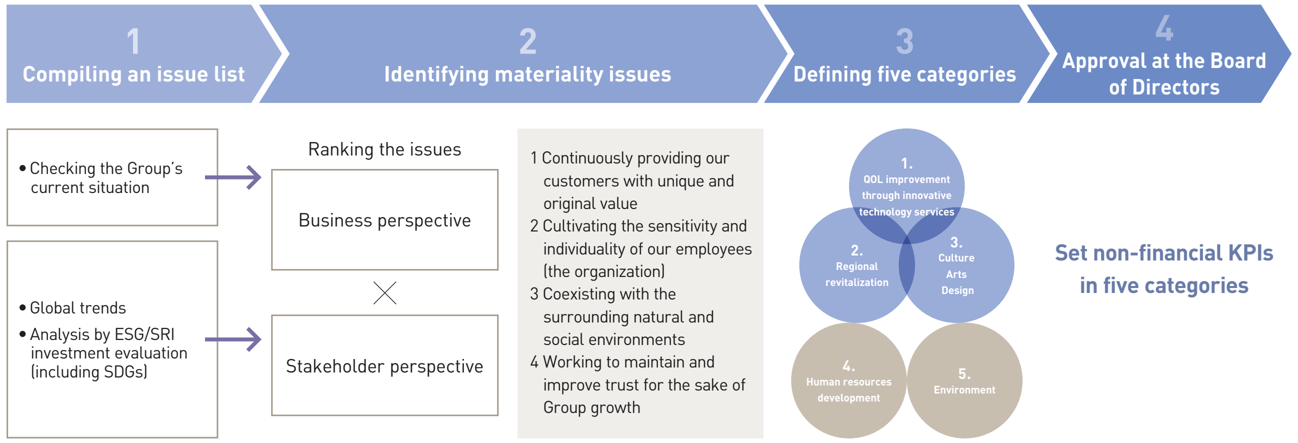
We aim to balance efforts to realize a sustainable society with business growth by drawing on our strengths and defining and addressing non-financial materiality issues.

Linking Group strengths and non-financial materiality



Policy formulation process for our sustainability activities

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



Five non-financial materiality categories and results/KPIs

Item		Explanation	2019 Actual Numbers	Action plan for 2020	Target for 2029
1. QOL improvement through innovative technology services	Number of research awards won at home and abroad	Win more than one award at academic conferences (with view toward applying research results to high-value-added products)	2 (cumulative from 2018)	Actively participate in domestic and international conference presentations and encourage publication of articles in academic journals	10 (cumulative from 2018)
	Number of researchers in cutting-edge dermatology research	Extend range of research beyond skin-related issues to whole-body care and add staff to improve QOL	61 (as of 2019 year-end)	Schedule hiring of specialists in such areas as dermatology, formulation and AI	120
	Number of people leaving the company for health reasons	Improve QOL of employees by creating environment in which they can continue to work while undergoing medical treatment	Note 1	Take measures to deepen awareness among employees to encourage whole-body health, prevent onset of health issues and promote recovery/better health	0
	Brand recognition/ loyalty	Provide services drawing on unique characteristics of each brand to enhance QOL	43 (2019 only)	• Give tangible shape to brand concepts through workshops, makeup classes and other events at concept shops and other locations • Maintain connections with doctors who deal directly with people with skin concerns	Confirm brand reputation
2. Regional revitalization	Number of regional entrepreneur owners	Develop and expand network of shop owners across Japan who play an influential role in supporting local economic activity (more than ¥5 million in monthly sales)	912 (as of 2019 year-end)	• At POLA, implement recruiting forums throughout Japan and present lifestyle options for women who work as entrepreneurs • Implement training for POLA shop owners	1,200
	Number of joint projects with local governments as well as NPOs and NGOs	• Raise brand loyalty in regional markets and expand local performance synergy • Promote activities matched to brand concept (to boost brand profile) • Promote activities with local public organizations (to increase sense of corporate reliability)	27 (2019 only)	Implement activities (including joint events with local governments, NGOs, companies and schools, and workshops fine-tuned to communities) that help energize local communities, boost regional brand loyalty and expand local performance synergy	28
3. Culture Arts Design	Number of joint projects with artists	Develop trendy products and services	9 (2019 only)	• Explore potential of concept shop openings, store creation and events with artists to cultivate brand-inspired worldview • Develop packaging in collaboration with artists	15
	Number of participants in art-based workshops	Have employees participate in Groupwide programs to develop sensitivity	34 (cumulative from 2018)	Follow up on human resources development of essential staff who participated in training programs (including in-house reporting session by people who completed Future Study Program)	800 (cumulative from 2018)
		Art workshops for employees and stakeholders	1,729 (cumulative from 2018)	• For employees Have employees participate in art workshops/training for people promoted to new positions to develop skills and energize organization • For stakeholders Run art workshops for residents of P.O. REAL ESTATE-managed condominiums Have stakeholders participate in training program for Beauty Directors	
4. Human resources development	Rate of candidates for management executives	Establish/reinforce pipeline for people with management potential (candidates/ number of positions that must be filled)	45.5% (as of 2019 year-end)	Talent Development Committee will explore strategic personnel measures	200%
	Percentage of women in management positions	Approaching target for number of full-time female employees. Utilizing a woman's perspective in management decisions	45.5%	Promote new work styles and create environment that enables women to build careers	50% or more
5. Environment	CO_2 emissions	Scope 1 and 2 per unit of sales	Down 26% (from 2015) Note 2	• At POLA CHEMICAL INDUSTRIES' Fukuroi Factory, emphasize energy-saving options, including air-conditioning system, and switch to LED lighting. Promote full employee participation in environmental management programs • At Jurlique's Adelaide Factory, implement Milestone 2020 to cut Scope 1 and 2 emissions (2015 base line) by 20% on a production unit basis ◆ At offices, continue to reduce number of vehicles for sales activities, switch to hybrid vehicles for company use and consider refillability right from product planning stage	Down 26% (from 2015)
	Water consumption	Scope 1 and 2 per unit of sales	Down 41% (from 2015) Note 2	• At POLA CHEMICAL INDUSTRIES' Fukuroi Factory, cut water consumption by controlling air-cooling and by conserving water. Also, from medium- to long-term perspective, consider upgrade to air-conditioning refrigerant device directly linked to reduced water consumption • At Jurlique's Adelaide Factory, implement Milestone 2020 to cut Scope 1 and 2 emissions (2015 base line) by 20% on a production unit basis	Down 26% (from 2015)
	Waste	Scope 1 and 2 per unit of sales	Down 7% (from 2015)	Go paperless companywide. At factories, set inventory ratio for relevant departments to reduce industrial waste	Down 26% (from 2015)

Notes: 1. In 2019, targets were set for 2029.
2. In 2019, significant reductions were achieved through the sale of the Group's pharmaceuticals company.

Financial Strategies

Seeking sustainable corporate activities and sustainable business growth

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

Message from director in charge of finance

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

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

Growth investment aimed at higher net income, and improved profitability

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

The purpose of growth investment is twofold: to create sustainable, stable growth as well as new growth. POLA will continue to invest from a perspective of global growth, particularly in China, where demand is favorable, and in the travel retail business, and also expand its store network. ORBIS will maintain its marketing investment perspective, which includes opening an concept shop, to get back on a growth track. The three new brands launched in 2018 are still at a stage where efforts must be directed toward higher brand recognition, so the emphasis will be on pinpointing growth potential and improving investment efficiency to attract greater market attention.

Meanwhile, on the R&D front, we withdrew from the pharmaceuticals business to refocus resources on the core Beauty Care business. In M&A activities, a priority has been to return the two overseas brands in the product portfolio to a growth trajectory. M&As are indispensable to ensure continuous growth of the Group, and we will continue to search for M&A opportunities guided by this strategy. The direction, however, has transitioned from an approach emphasizing "brand portfolio reinforcement" to an approach of "creating multi-value chains," where upstream value chains (research, product development and brands) and downstream value chains (customer relationship management and branding) draw on management resources and the business models of acquired companies to strengthen Group capabilities overall.

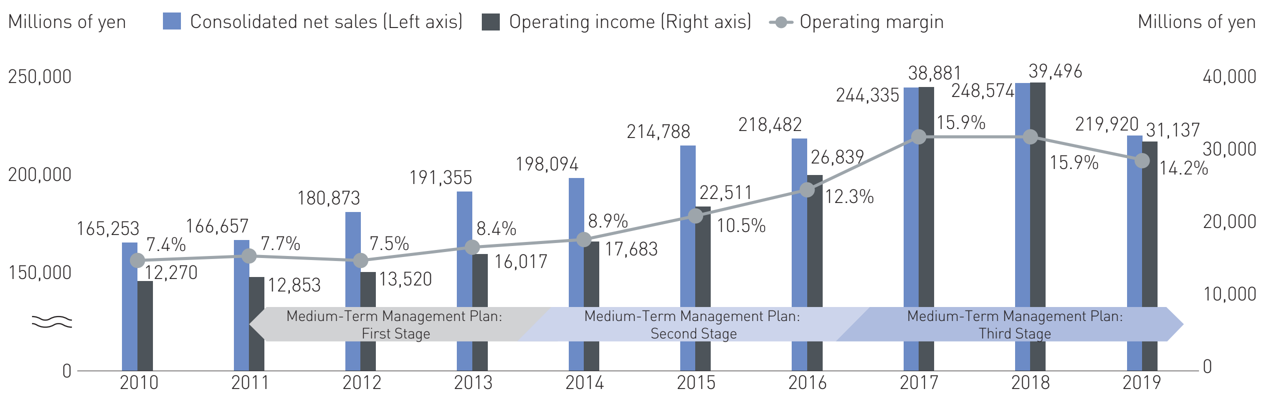
From a profitability perspective, the priority is to get overseas brands into the black. These brands are in a loss position but we aim to reduce losses by building a more efficient business structure. By improving the cost of sales ratio and keeping selling, general and administrative expenses below sales growth ratio, we hope to reach annual operating income growth of 10% or higher. Also, we will achieve net income growth exceeding operating income growth, as improving profitability from overseas operations pushes the effective tax rate down.

Enhanced return to shareholders

To increase the efficiency of net assets, we will prioritize return to shareholders in line with our dividend policy, which hinges on a consolidated payout ratio of 60% or higher, and efforts to enrich return to shareholders through stable profit growth. The annual dividend for fiscal 2019 was ¥116 per share, which included a ¥36 per share special dividend to mark our 90th anniversary, as we trace back to the establishment of POLA. This translated into a 130.3% payout ratio. With regard to treasury stock, our policy is to consider buybacks based on such factors as investment strategies, market prices and the liquidity of Company shares. Going forward, we will strive to maximize management resources and raise corporate value over the long term.

Akira Fujii
Director, POLA ORBIS HOLDINGS INC.

Changes in consolidated net sales and operating income



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

Improve capital efficiency

Set ROE target of 12% in 2020 in medium-term management plan.

ROE temporarily declined in 2018 due to the impact of extraordinary losses. But going forward, we will continue to work toward higher capital efficiency through profit growth, growth investments and enhanced return to shareholders.

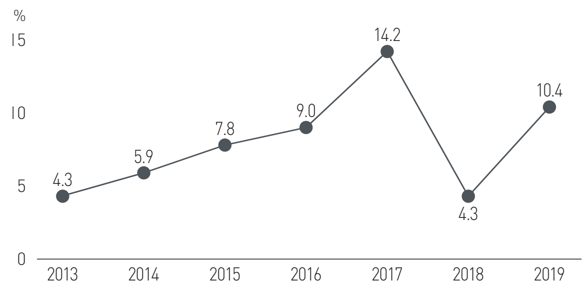
EPS Earnings per share

- Operating income: CAGR 10% or higher
- Realize net income growth higher than operating income growth → Lower effective tax rate by reducing loss in overseas business

BPS Book value per share

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

Return on equity



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

Enrich shareholder returns

We decided to maintain an annual dividend of ¥80 per share, in line with two basic policies—a payout ratio of at least 60% and a fuller return through profit growth—on the ordinary dividend basis. This will yield a payout ratio of 210.7%.

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

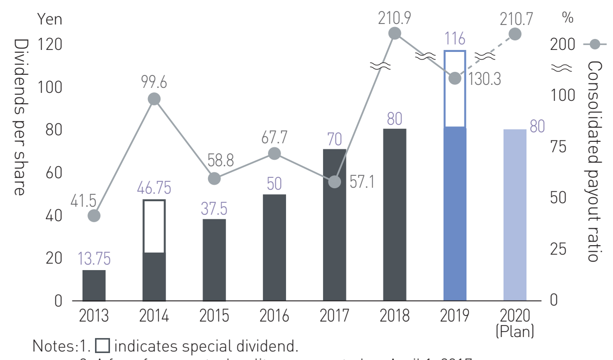
Basic policies

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

Shareholder return policy for fiscal 2020

Dividends per share (Forecast)	Annual dividend: ¥80 Comprising ¥35 interim and ¥45 year-end dividends Consolidated payout ratio: 210.7%
Treasury stock buyback	Decisions based on business environment

Annual dividend and consolidated payout ratio



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

Technology Strategy

R&D designed to create new value beyond the realm of cosmetics

Creating new value beyond the realm of cosmetics will be the growth engine that drives long-term development of the Group. Toward this end, R&D teams will delve into science and cultivate new areas of research to explore.

Desired status by 2029 and short-, medium- and long-term directions in research

The POLA ORBIS Group welcomed the establishment of the Multiple Intelligence Research Center (MIRC) and the Frontier Research Center (FRC) in 2018 under a revamped R&D structure. MIRC oversees research within the Group and gathers technology-related information, while FRC handles basic research, which is a source of R&D strength within the Group. Both centers are working toward the image they want to portray by 2029—POLA's 100th anniversary. By posing questions not asked before and providing solutions through the power of science, they will continue to create unique value brimming with a deep sense of beauty. Toward this end, directions for research have been plotted over a 10-year period, with views of activities in the short, medium and long terms.

In line with these directions, each center will promote R&D and share approaches from early stages, which will include workshops or conferences related to research set up with each Group company, to accelerate innovation as a group. In addition, the POLA ORBIS Group will budget at least 2% of net sales for R&D expenses and plan to add 10 researchers annually.

Desired status for research centers

Desired status for research centers by 2029	**Research centers that continue to create unique value brimming with a deep sense of beauty by posing questions not asked before and providing solutions through the power of science**
Research strategy	**R&D teams will delve into science and cultivate new areas of research to explore in the pursuit of new value beyond the realm of cosmetics, which will be the growth engine that drives long-term development of the Group.**

Research directions to guide creation of new value beyond realm of cosmetics

	Short term	Medium term	Long term
Research directions	**Acquire broader perspective** Find methods not based on cosmetics to alleviate skin concerns	**Create new beauty technology** Realize "utilization of skin" as a tool	**Create new markets** Generate totally new value beyond borders of cosmetics and skin
New value beyond realm of cosmetics	**Provide new solutions to address skin concerns** Offer possibilities beyond cosmetics to address skin concerns with methods matched to lifestyle and sense of values	**Contribute to more beautiful skin** Offer possibilities that go beyond conventional skin concepts that emphasize the barrier function—a layer protecting the skin from external factors—and turn skin into a sensor to improve function of whole body and mind (better emotional state, less fatigue, etc.)	**Create new markets that enrich people's lives** Provide value beyond conventional products and services Realize Group mission to sensitize the world to beauty with added-value products and services

Three research categories that facilitate multi-faceted approaches

Research will lead to new value transcending the realm of cosmetics. To expand the scope of research targets from the skin to the whole human body and to implement multi-faceted approaches in research, efforts are taken under three category headings—Science, Life and Communication.

In the Science category, researchers delve deeper into dermatology-related subjects, a core area of current technology pursuits. They take a scientific approach, looking beyond the skin to the relationship between the skin and whole-body health as well as lifestyle habits, and deliver the ultimate in personalized skincare solutions. In the Life category, the goal is to visualize various elements such as trends in human emotions and time-based changes in the body that occur during daily activities, using sensing technology, and then develop technology to enrich people's lives. In the Communication category, researchers are looking into the correlation between people and the environment or surroundings to create innovation with sustainability in mind. This includes the development of unprecedented, highly functional formulations.

Anticipated new value transcending realm of cosmetics

Research category	Outline	Key words	Anticipated achievements
Science	• Drawing on identification of new mechanisms within the skin, create various solutions, including lifestyle support, that go beyond conventional quasi-drug products and supplements. • Realize the ultimate in personalized skincare by creating a combination of products matched to the unique requirements of each customer.	• New ingredients (wider pipeline) • Skin regeneration • Personalization	Skin mechanism → Cosmetics/ quasi-drug products → New services Offerings other than cosmetics Highly effective products and services based on cutting-edge dermatology research Facilitate choice of lifestyle best suited to the individual and achievement of healthy, beautiful skin
Life	• Visualize indefinite factors such as emotion and fatigue, and create solutions to address them. • Augment physical and sensory capabilities with digital technology and transcend differences such as nationality and disability to realize a world where people understand each other and share common sentiments.	• Feelings • Sensing • Digital • Empathy and understanding of others • Diversity	Visualize conditions (fatigue, emotion, etc.) → Solutions → Share situation with others Utilize for mutual understanding Using digital solutions, bring latent concerns and negative emotions to light, and lead toward improvement Promote individual growth, psychologically and physically, and support diverse, forward-looking approaches to life
Communication	• Newly incorporate devices and production methods from other sectors that differ from conventional chemical emulsification techniques, apply low-energy production methods more extensively, use natural ingredients more often and establish original formulation technology.	• Sustainability • Contribute to a better environment	New approaches to skincare (new formulations, new devices) → Contribute to a better environment Products/services that contribute to a better environment the more they are used and products/services that beautify the skin as well as the environment

Accelerating new value creation through open innovation

At MIRC, which drafts long-term research strategies, dedicated staff known informally as "wandering researchers" are tasked with introducing cutting-edge technologies from around the world into the Group's R&D structure. These wandering researchers promote alliances worldwide to fuel innovation and new technology, focusing on culture and the environment, which provide the backdrop for generating technology to underpin innovative value creation. In 2018, researchers visited 27 regions in 16 countries, including the United States and Europe, to investigate trends in different areas and explore overseas bases. Joint efforts with external organizations, as described in the chart below, are steadily yielding results. In 2019, MIRC teamed up with Bespoke, a Danish company, launching a new program that draws on case studies collected from around the world and involves employees from throughout the POLA ORBIS Group. This program led to guidelines on a new perception of beauty that the Group will strive to embrace.

MIRC also coordinates innovation through external collaboration for implementation within the Group. For example, in 2018, researchers looked at space, which at first glance is far removed from the realm of cosmetics, as a concept to explore, considering ideas that draw on inherent strengths across the Group, with its composite expertise related to skin and surface chemistry. In 2019, the POLA ORBIS Group's entry in a contest held by the Cabinet Office of Japan for space-based business ideas won an award. Also, the Japan Aerospace Exploration Agency (JAXA) invited companies to submit research themes, and a theme submitted by a team from POLA ORBIS HOLDINGS and POLA CHEMICAL INDUSTRIES was selected.

Examples of open innovation (joint research/joint participation)

Category	Theme/partner	Starting year	Summary
Science	**Pinpoint mechanism for regenerating skin and subcutaneous tissue** Riken Center for Developmental Biology	March 2017	Use latest DNA analysis and imaging technologies, seek to identify structure for regenerating skin and regulating skin functions. Through research on skin regeneration, confirm new technology for alleviating skin concerns, such as wrinkles and sagging.
	Create innovative products through fusion of dermatology and peptide science PeptiDream Inc.	March 2019	Use peptides to pursue R&D on ingredients for quasi-pharmaceuticals and cosmetics. Fuse expertise chiefly of dermatology-related insights from the POLA ORBIS Group and new functional peptide technology from PeptiDream Inc.
Life	**Participate in Massachusetts Institute of Technology Media Lab as Consortium Lab Member**	January 2018	Explore the relationship between skin conditions and emotions, combining measuring technologies. Encourage exchange and discussion with researchers in different fields and strive to shape new ideas.
Communication	**Join next-generation synchrotron radiation project in Tohoku area** Photon Science Innovation Center, Miyagi Prefecture, the city of Sendai, the Tohoku Economic Federation and Tohoku University	March 2019	Participate in building state-of-the-art, next-generation synchrotron radiation facility, scheduled to go online in 2023 in Tohoku area. Also, serve as member of committee on its use and promotion. Use of facility and technology exchange with other companies will accelerate open innovation.

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

Responding with fine-tuned sensitivity to changing times

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

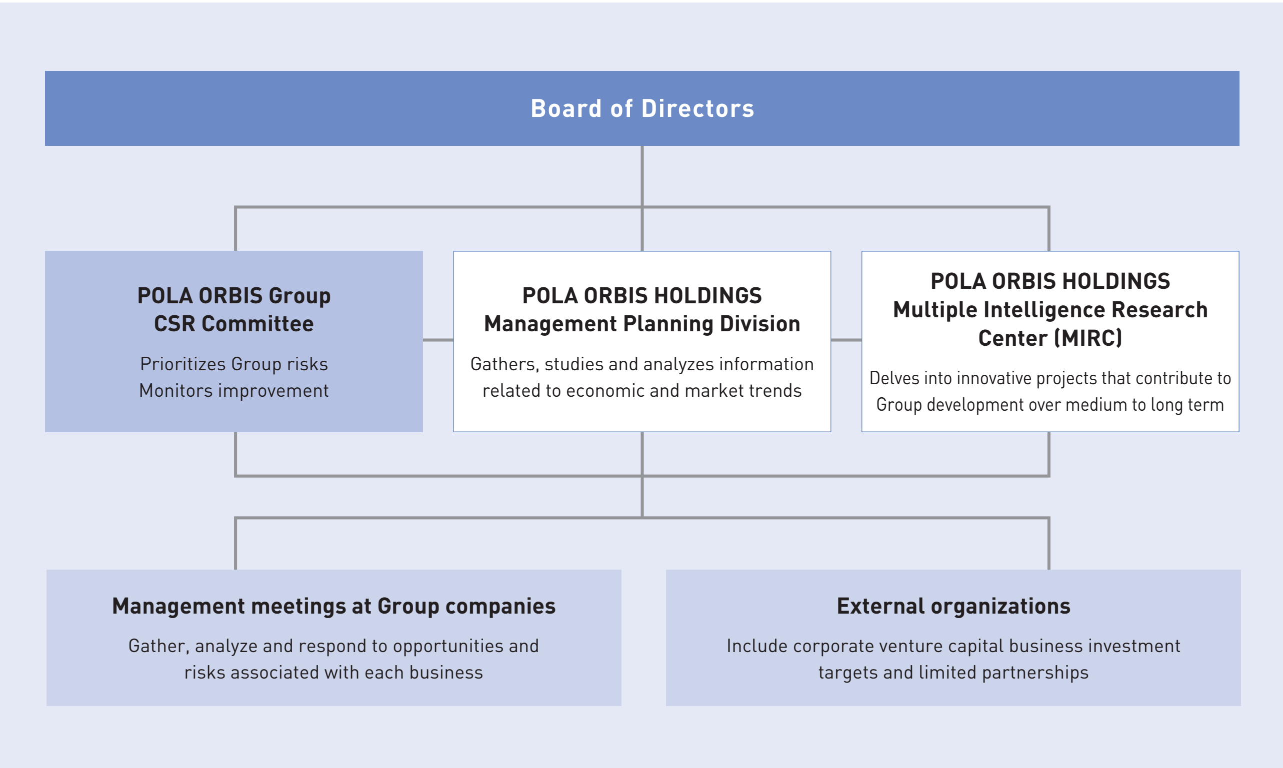
For risks, the Group CSR Committee, which is directly below the Board of Directors, meets regularly and is tasked with drawing up an exhaustive list of risks, given prevailing social circumstances, prioritizing these risks according to the level of the impact exerted on business activities and the frequency of occurrence, and tracking their status. In addition, the committee deals with risks that extend Groupwide, using the results of employee awareness surveys. The organizations responsible for theme-specified risks are assigned to the operating or holding company division, committee or subcommittee responsible for that kind of risk, and improvement plans are drafted and implemented accordingly. The content of such plans is discussed by the Group CSR Committee, which includes participation by directors and division managers responsible for corporate planning at each Group company, then officially approved by the Board of Directors. Reports on the status of improvement plans are provided to the Board of Directors quarterly.

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

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

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

Opportunity and risk management system



Defining opportunities and risks, and efforts to minimize risks

Megatrends/Social Issues		Changing External Environment	Strategic Direction	Moves/Themes
Overseas	Global economic instability	Increasing exposure with Chinese consumers, market share increasing. Demand for Japanese cosmetics brands in China continues to grow. Opportunity	Acquire larger share of Chinese market	• Pursue strategic investments to establish global brand status (POLA, ORBIS, ACRO) • Monitoring and work with customs agencies
		Circulation of counterfeit products Risk		
Worldwide	Digital marketing	Rise of marketing techniques utilizing social media Opportunity	New marketing techniques	• Reinforce digital consulting through smartphone apps and other access points (ORBIS) • Reinforce domestic and cross-border e-commerce operations (POLA, ORBIS, ACRO and DECENCIA)
	Cyberattacks	Increased occurrence of cyberattacks Risk	Toughen measures to prevent information leaks	• Enhance systems, provide training to educate employees about cyberattacks
	Technology	Greater application of technology to products and services to better customize offerings that respond to personal preferences Opportunity	New value creation	• Enhance ability to tailor skincare to customer requirements by applying AI to new *APEX* line (POLA) • Foundation matched to skin (ORBIS)
	Changing ideas about consumption	Sustainability consciousness of millennials Opportunity		• Consider sustainable products • Add sustainability features to merchandise other than cosmetics • Promote personalization (POLA, ORBIS)
		Diversifying perceptions of beauty Opportunity		
		Sudden changes in consumer behavior Risk		• Promote omnichannel access (ORBIS) • Strengthen e-commerce access (POLA)
	Destruction of natural ecosystems	Growing concerns over threats to supply chains Risk	Strengthen environmental responses	• Do disaster risk mapping for suppliers • Emphasize CSR procurement • Purchase certified palm oil
	Prevalence of epidemics	Situations where face-to-face sales are not possible Risk	BCP	• Enhance e-commerce access • Offer merchandise for hygiene
Domestic	Declining birthrate and aging population	Depopulation in rural areas Opportunity Risk Increase in senior segment Opportunity Risk	Expand number of customers in target area/segment	• Acquire wider recognition among target customer segment • Boost area influence of Beauty Directors (POLA)
	Changing work styles	More working women Opportunity	Strengthen value chain	• Offer product and service suggestions (such as high-performance cosmetics) matched to lifestyle • Promote new work styles
	Possibility of major earthquakes, floods	Increasing risk that suppliers will be negatively affected by abnormal weather, which could hamper stable procurement of materials Risk	Reinforce supply chain management	• Create a double-track supply chain
Corporate platform	In-house environment	Trend toward greater cost effectiveness	Stronger corporate platform	• Optimize cost structure
		Shortage of managerial talent		• Establish/extend pipeline for managerial talent • Create Group structure for human resources development • Succession plan under consideration by Nomination Advisory Committee
	External environment	Increasingly competitive labor market		
		Requirements for more rigorous governance		• Expand link between financial and non-financial results and director compensation

Value Creation Process

Mission
(Raison d'etre/Perceptions of value)

Sensitize the world to beauty.

Strength
Direct Sales

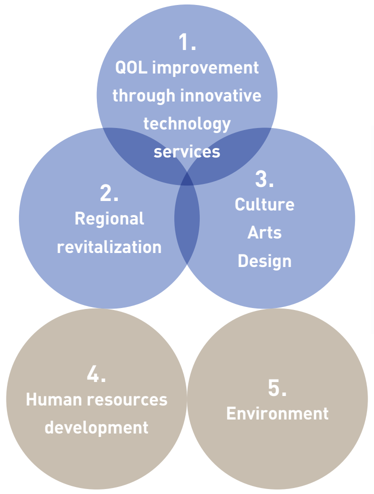
Strength
Multiple Brands

Strength
Research and Development

Strategies

KPI

Non-Financial Strategies (Materiality)



1	Number of research awards won at home and abroad	10 (cumulative from 2018)
	Number of researchers in cutting-edge dermatology research	120
	Number of people leaving the company for health reasons	0
	Brand recognition/loyalty	Confirm brand reputation
2	Number of regional entrepreneur owners	1,200
	Number of joint projects with local governments	28
3	Number of joint projects with artists	15
	Number of participants in art-based workshops	800 (cumulative from 2018)
4	Rate of candidates for management executives	200%
	Percentage of women in management positions	At least 50%
5	CO_2 emissions	Down 26% (from 2015)
	Water consumption	Down 26% (from 2015)
	Waste	Down 26% (from 2015)

(By 2029)

Financial Strategies (Medium-Term Management Plan)

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

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

(By 2020)

Technology Strategy

- **Science**
- **Life**
- **Communication**

Delving deeper into cutting-edge science and cultivating new domains with the aim of seeking to "create new value beyond the limits of cosmetics"—the growth engine for the Group's long-term development

R&D expenditures	2% of net sales or above
Researchers	Increase at a rate of 10 per year

(through 2029)

Governance

Realizing Our Vision

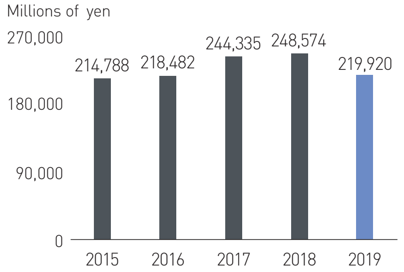
We will maximize the unique character of each brand, and become a global corporate group that enriches the lives of people around the world.

Financial and Non-Financial Highlights

Financial Capital

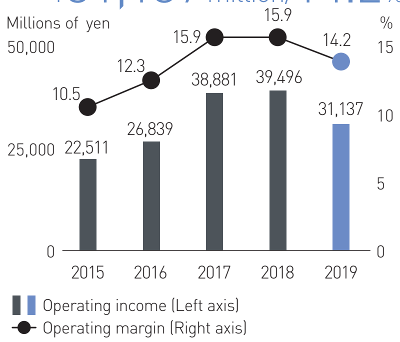
■ Net sales

¥219,920 million



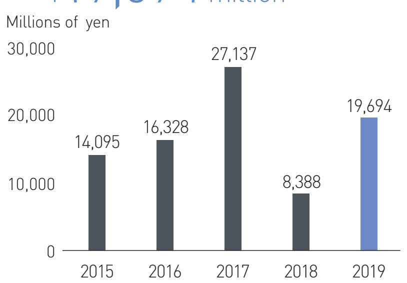
■ Operating income/ Operating margin

¥31,137 million/14.2%



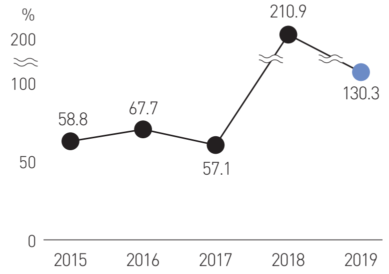
■ Profit attributable to owners of parent

¥19,694 million



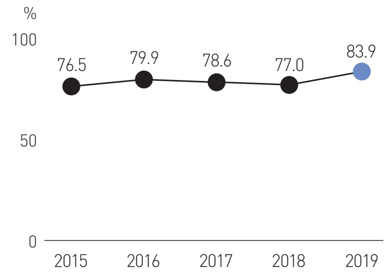
■ Payout ratio

130.3%



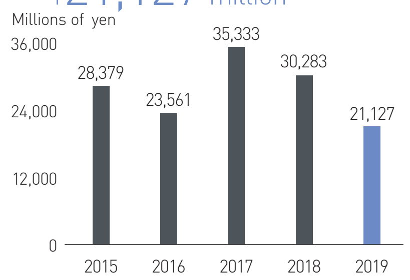
■ Equity ratio

83.9%



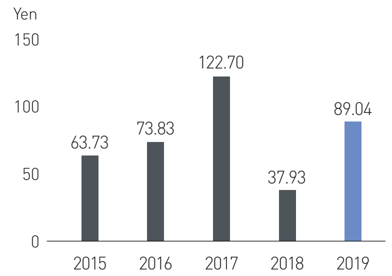
■ Cash flows from operating activities

¥21,127 million



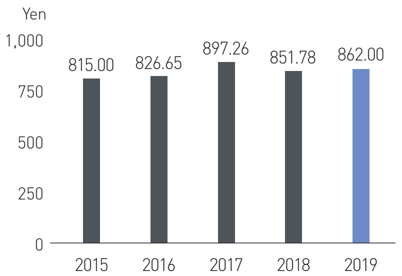
■ Net income per share

¥89.04



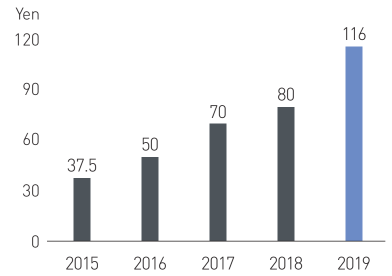
■ Net assets per share

¥862.00



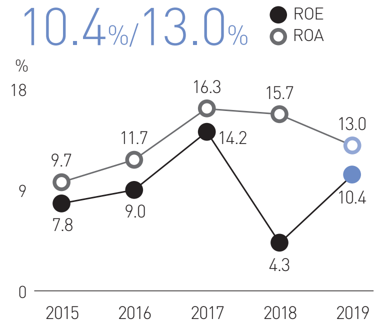
■ Cash dividends per share

¥116



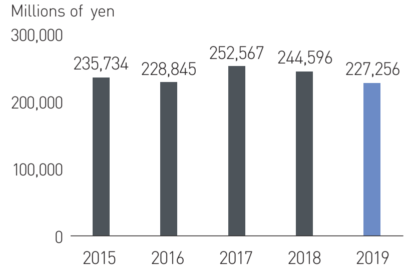
■ Return on equity/ Return on assets

10.4%/13.0%



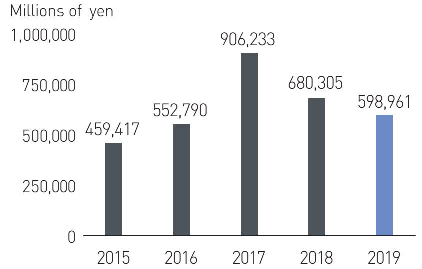
■ Total assets

¥227,256 million



■ Total market value

¥598,961 million

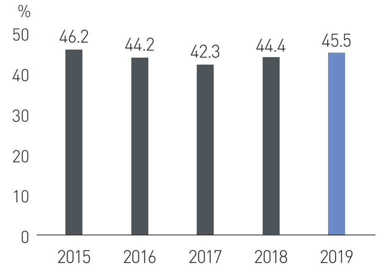


Notes: 1. Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment following revisions to accounting standards in Australia.
2. A four-for-one stock split was executed on April 1, 2017. Per-share information is calculated on the assumption this stock split took place at the beginning of fiscal 2015.

Non-Financial Capital

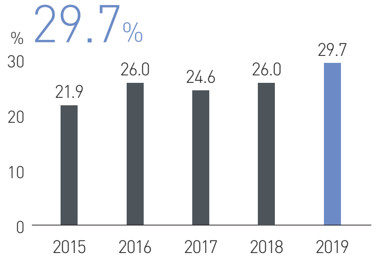
■ Ratio of women in management positions

45.5%



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

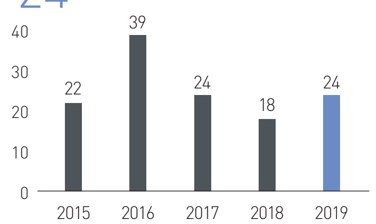
29.7%



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

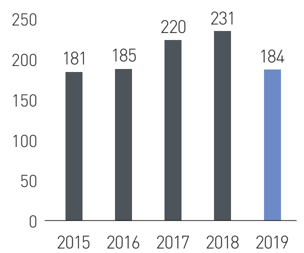
■ Number of papers presented at scientific conferences by POLA CHEMICAL INDUSTRIES

24



■ Number of POLA Grand Owners*

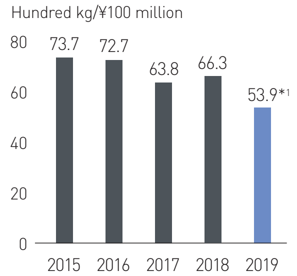
184



*Group leaders with monthly sales of over ¥10 million
Recognized from actual results achieved from July through December 2019

■ CO_2 emissions

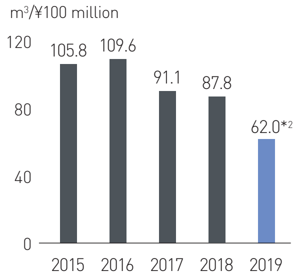
53.9*1 hundred kg/¥100 million



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

■ Water consumption

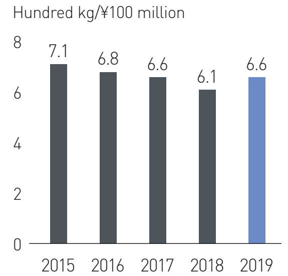
62.0*2 m³/¥100 million



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

■ Waste

6.6 hundred kg/¥100 million



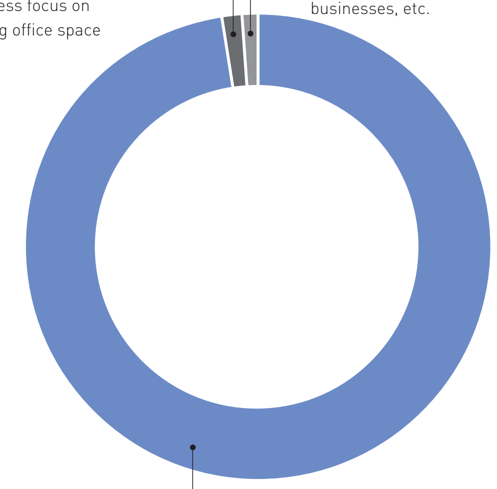
*On a per unit of sales basis

Business Structure and Brand Portfolio

Net sales by business segment

Real Estate
¥2,619 million
Business focus on leasing office space

Others
¥2,415 million
Building maintenance businesses, etc.

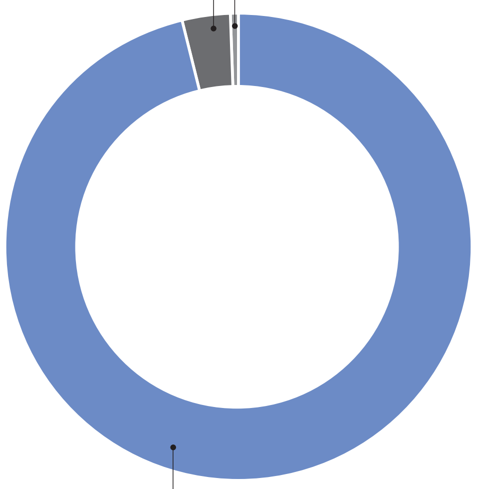


Beauty Care
¥214,886 million
Core business built on nine cosmetics brands, with emphasis on POLA and ORBIS

Operating income by business segment

Real Estate
¥1,021 million

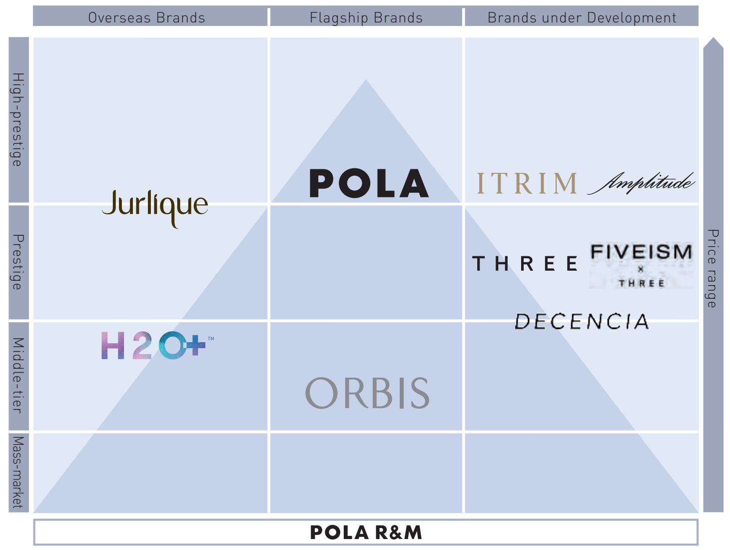
Others
¥130 million



Beauty Care
¥30,193 million

Brand portfolio

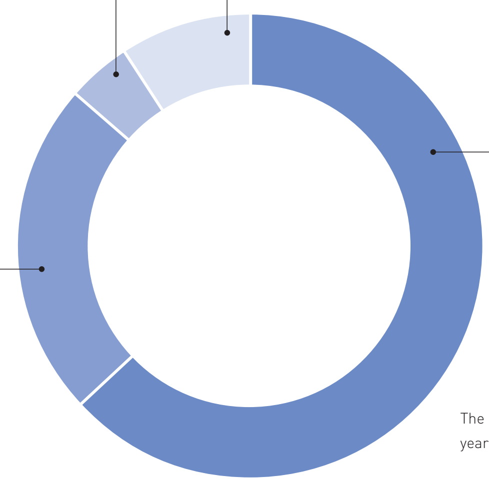
The POLA ORBIS Group pursues businesses related to beauty and health, centering on cosmetics, a segment that dates back to 1929 and the establishment of POLA INC. Currently, the Group's cosmetics portfolio centers on POLA and ORBIS but comprises nine brands in total, each with its own concept, sales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



Beauty Care business sales by brand

Overseas Brands
¥9,235 million (-25.7%)

Brands under Development
¥19,421 million (+10.7%)



POLA
¥135,502 million (-9.8%)

ORBIS
¥50,726 million (-0.6%)

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

Flagship Brands

POLA

ORBIS

Overseas Brands

Jurlique

H2O+

Brands under Development

THREE

DECENCIA

Amplitude

ITRIM

FIVEISM × THREE

Changes in Beauty Care business sales by brand over the past five years (2015–2019)

Millions of yen

	2015	2016	2017	2018	2019
POLA	109,352	116,126	144,012	150,183	135,502
ORBIS	56,354	55,857	53,066	51,051	50,726
Overseas Brands	22,334	15,665	15,075	12,428	9,235
Brands under Development	12,529	14,796	14,978	17,544	19,421

Growth Strategies by Brand
(Flagship Brands)

POLA

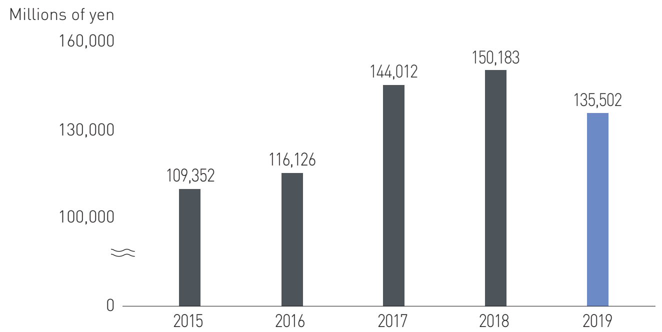
High-prestige skincare brand specializing in anti-aging and skin-brightening fields

Sales channels	Consignment sales (POLA THE BEAUTY, Esthe Inn, conventional door-to-door business), department stores, duty-free shops, Internet
Market presence	Japan, China, South Korea, Hong Kong, Macao, Taiwan, Thailand, Singapore

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

Net sales

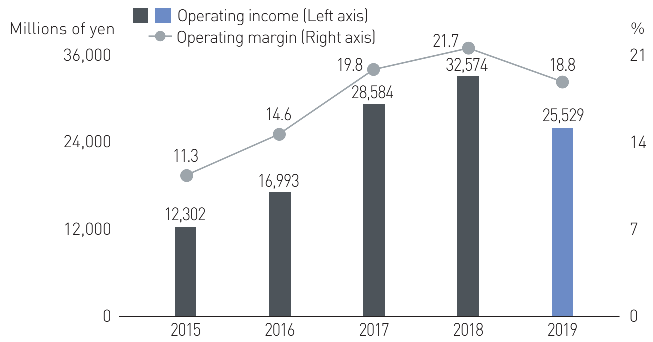
¥ 135,502 million (down 9.8%)



Note: Consolidated basis

Operating income and operating margin

¥ 25,529 million (down 21.6%)



Note: Consolidated basis

President's message

Miki Oikawa
Representative Director and President
POLA INC.

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

Inbound demand since 2015 and the launch of *Wrinkle Shot* in 2017 have been the energy driving POLA's brand profile higher and pushing sales in a favorable direction. In 2019, we recorded lower sales and lower operating income, largely reflecting decreased inbound demand and decreased inbound buyer demand. Issues of pressing importance are reinforcing the domestic business platform and expanding overseas operations.

In domestic operations, going back to basics, we will deepen our connection to customers through consulting and aesthetic services, which are POLA strengths, and build a rock-solid customer base. We will also emphasize training for Beauty Directors. We reviewed the training structure that had been applied by type of business, be it consignment sales, department stores or overseas, and we set up POLA University as a structure cutting laterally across the company to support human resources development and beauty-related learning. We are working to enhance training for Beauty Directors so that they are better able to provide professional expertise and thus convey to customers our true value, which underpins improved marketability, fine-tuned customer service and higher demand for aesthetic treatments. My strength is a wealth of front-line experience in the total beauty business. Amid the dizzying pace of change in the business environment, I will obtain front-line information and quickly apply it to new approaches for success.

In overseas operations, notable for outstanding growth, our emphasis remained on efforts to accelerate opening stores in Asia, particularly China. I want to see POLA enhance its global brand presence and deliver sustainable growth.

Fiscal 2019 results

At POLA, the focus was on the launch of highly functional products, particularly anti-aging and skin-brightening products, to boost brand value and reinforce the business platform, as well as efforts to enhance training for the professionals who give brand value tangible form. On the products front, in May 2019, POLA debuted *White Shot LX* and *White Shot MX*, featuring a new skin-brightening active ingredient approved as a quasi-drug after about 10 years. In July, the company launched a renewed *APEX*, a personalized skincare series. Applying proprietary skin analysis technology, we can present 8.62 million skincare recommendations to *APEX* users, incorporating customer-specific details, such as weather information for the area in which the customer lives, and adjusting product texture to match customer preferences.

Overseas, POLA reinforced investment in Asia and endeavored to strengthen its presence in the high-prestige market by becoming more involved in the travel retail business and opening more stores, especially in department stores and high-end shopping malls. Overseas sales were up 47% over those of 2018. In Japan, however, inbound demand and inbound buyer demand, particularly for beauty-supporting health food, shrank with the introduction of China's E-commerce Law and the effect of exchange rates. As a result, sales over consignment channels dropped significantly. All told, net sales fell 9.8% year on year and operating income dropped 21.6%.

Key issues pinpointed

- Rebuild stable growth platform for domestic operations
- Establish global brand presence, especially in China, and expand customer contact points

Future measures

Reinforcing domestic platform

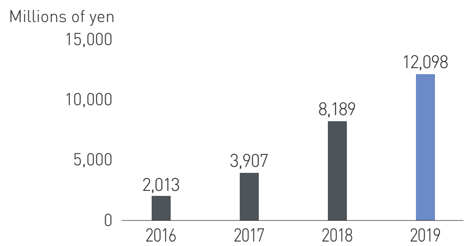
In 2019, decreased inbound demand and decreased inbound buyer demand had a considerable impact on POLA's results. Repeat purchases by existing customers fell below expectations, and the company had difficulty attracting new customers with new products. Such factors led to an overall decrease in customers, an essential issue requiring attention. POLA will integrate its current strengths—offline consulting and value provided through aesthetic treatments—with online communication, and strive to reshape the business structure for sustainable growth in Japan.

Store at iapm shopping mall in Shanghai

Expanding points of contact, especially in China

POLA's overseas business has enjoyed high growth in Asia, particularly China, thanks to an expanding brand presence kindled by demand from inbound visitors to Japan. The company has taken a more robust approach to the travel retail business, which cuts across the POLA ORBIS Group, and begun opening POLA THE BEAUTY-style stores in China. POLA sees China as a driver of growth and, with high product appeal and fine-tuned face-to-face consulting and communication, will continue efforts to capture the interest of customers with the potential to become repeat purchasers.

Overseas net sales



ORBIS

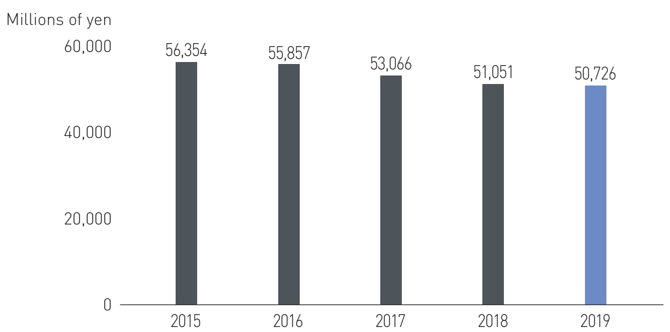
Skincare brand that brings out the beauty inherent in each person

Sales channels	Mail-order business (Internet and catalog), directly operated retail stores and duty-free shops
Market presence	Japan, China, Taiwan and Singapore

ORBIS U series　　*DEFENCERA*

Net sales

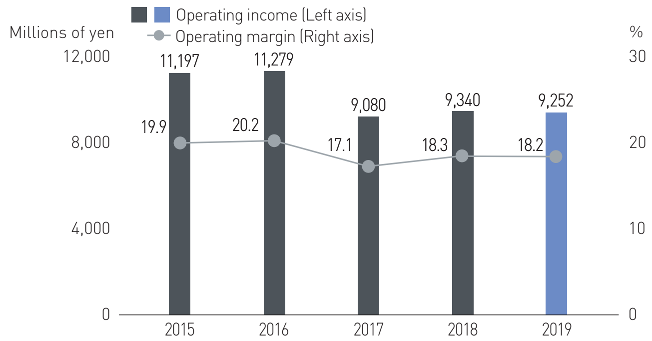
¥ 50,726 million (down 0.6%)



Note: Consolidated basis

Operating income and operating margin

¥ 9,252 million (down 0.9%)



Note: Consolidated basis

President's message

Takuma Kobayashi
Representative Director and President
ORBIS Inc.

ORBIS defines its business as offering a "beauty brand focusing on skincare" and has set the idea of "smart aging" as its brand concept, which is not about resisting getting older but rather encouraging customers to be themselves and be beautiful at any age. Unlike mainstream anti-aging skincare, which makes improvement, so to speak, by lightening dark spots and reducing the appearance of wrinkles, our approach is instead to draw out the maximum strength and beauty within each person. In January 2019, in addition to *ORBIS U*, the symbol of our smart aging approach, we debuted *DEFENCERA* as "skincare from the inside out"—the first Food for Specified Health Uses (FOSHU) in Japan with ingredients recognized for having a positive effect on the skin. Together, *ORBIS U* and *DEFENCERA* have energized the brand as signature products. In the autumn, we debuted *Wrinkle White Essence*, which both addresses skin-brightening and wrinkle-improving market requirements. The product received a best cosmetics award from a major beauty magazine, substantiating its success. On the marketing front, we strengthened our cross-media strategy with a mix of consumer access channels that included television commercials, online ads and off-line events. Our brand profile rose steadily among minimalist women* that are target customers of ORBIS. This helped us attract new customers.

In summer 2020, we will open a long-awaited concept shop. This will be a venue for customers to experience the ORBIS brand message, "Simply you. Simply beautiful." Great things are, quite literally, in store for you.

*A trend-conscious woman who is not considered a trend leader but is focused on bringing out essential beauty, who has the ability to select what she really needs and find new things for herself.

Fiscal 2019 results

To shift business into high-earning mode and return to a growth trajectory, ORBIS is working to enhance market presence by making the brand more distinctive. The anti-aging skincare series *ORBIS U* and *DEFENCERA* are signature products that concretely reflect the worldview of our brand message, "Simply you. Simply beautiful." These products are elevating ORBIS' profile. Sales of the *ORBIS U* series and *DEFENCERA* represent 30% of overall sales and contribute to higher spending per customer. We are steadily capturing the interest of new customers with high lifetime value, whose purchases compose a growing share of skincare sales. We are also seeing an increase in the ratio of online sales to total sales. Nevertheless, strategically squeezing our target customer segment from those attracted by price to those attracted by value shrank our existing customer base. Consequently, ORBIS' net sales dipped 0.6 percentage point year on year. Operating income slipped 0.9 percentage point year on year, as we took a long-term perspective on investment to shore up marketing processes.

Key issues pinpointed

- Boost retention rate of target customers
- Expand overseas business (boost brand recognition)

Future measures

Boost retention rate of target customers
We are attracting new customers according to plan, thanks to the appeal of new signature products *ORBIS U* and *DEFENCERA*, and our customer structure is benefiting from an improvement in the ratio of spending per customer. However, communication with existing customers is an area of concern. We aim to boost the retention rate of existing customers through one-to-one contact in conjunction with efforts to raise the repeat ratio of new customers. Such moves will reinforce our customer base.

Improve brand recognition in Asia
Our own e-commerce site and the use of Tmall, in China, have been keys in overseas expansion to date. But going forward, we aim to improve brand recognition throughout Asia by opening duty-free shops as we work to strengthen operations in China, a market that drives the growth of overseas business. In addition, we will increase contact with customers through such approaches as developing cosmetics specialty stores.

Reinforce power of brand message
We will provide brand experience and reinforce the power of our brand message with the latest personalized service, such as the "foundation color check" and AI future simulation, which can be easily run on the ORBIS app, and also through a newly opened concept shop.

Image of concept shop (planned to open summer 2020)

Growth Strategy by Brand
(Overseas Brands)

Jurlique

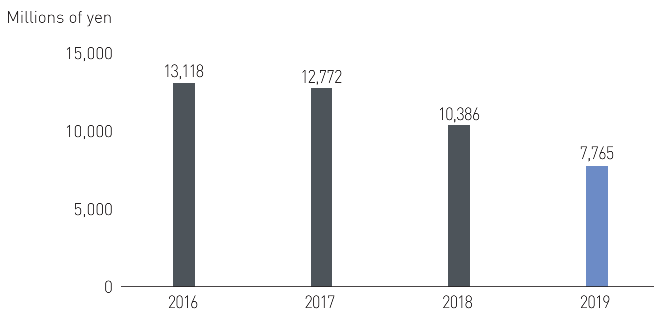
A natural skincare brand utilizing the power of plant ingredients cultivated at a company-owned farm in southern Australia

Sales channels	Department stores, directly operated retail stores, duty-free shops and the Internet
Market presence	Sold in 15 countries and regions, mainly Australia, China and Hong Kong


Nutri-Define series

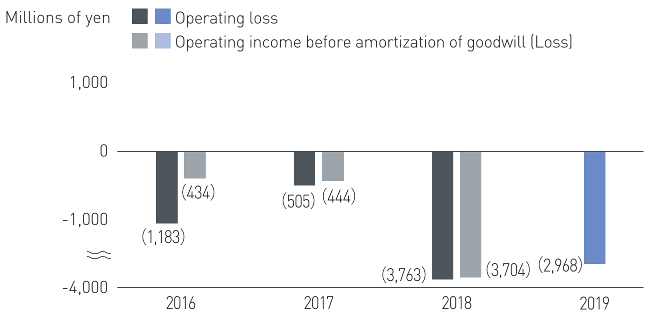
Net sales

¥ 7,765 million (down 25.2%)



Operating loss

¥ 2,968 million (—)



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

Fiscal 2019 results and future measures

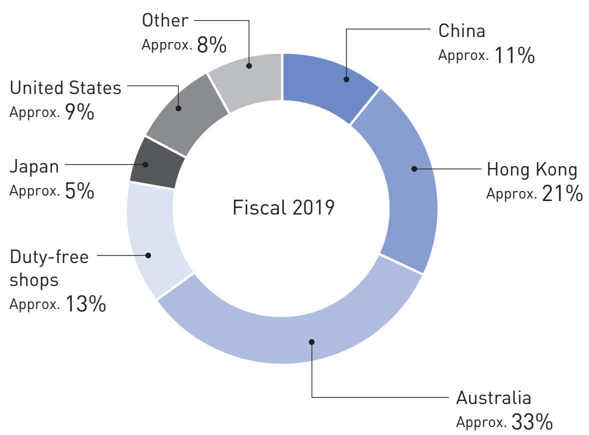
Seeking to restore brand presence and shrink losses, Jurlique pursued restructuring with an emphasis on lowering fixed costs. The company also executed a strategy targeting unprofitable stores in China, which culminated in large-scale closures. These steps were part of a business focus-and-deepen process. On the products front, Jurlique launched a new series—the Rose Collection—in August 2019. This series, which features proprietary rose-derived ingredients, helped attract new customers to the brand. Although efforts to cut fixed costs are on track, net sales tumbled 25.2% year on year because the closure of stores limited the scale of revenue-generating operations. The company posted an operating loss, but the loss lessened thanks to cost restructuring through streamlined head office functions and no one-time expenses, compared with those of 2018.

In 2020, Jurlique will modify its business model for China, shifting from an agency format to direct operation. The company will adjust sales and marketing systems to facilitate brand management on its own and work to rebuild operations. Going forward, Jurlique will continue to emphasize efforts to trim fixed costs and boost profitability from business activities.

Key issues pinpointed

- Improving loss position is a priority
- Restore brand presence

Net sales breakdown by region



H2O+

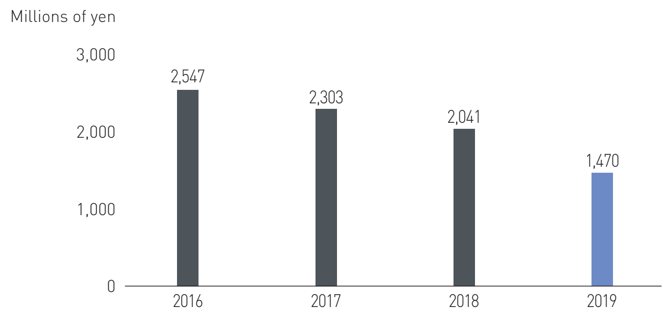
Skincare brand with a concept of innovation and the power of pure water

Sales channels	The Internet and hotel amenities
Market presence	Sold in four countries and regions, mainly North America


OASIS series

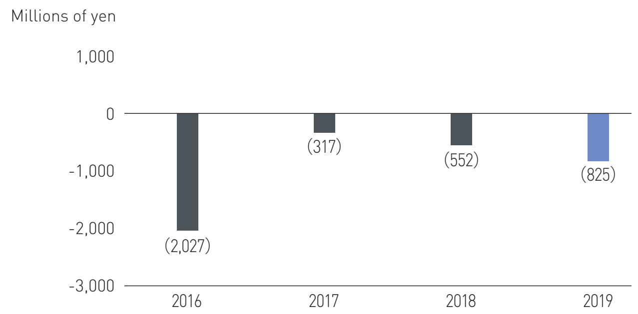
Net sales

¥ 1,470 million (down 28.0%)



Operating loss

¥ 825 million (—)



Fiscal 2019 results and future measures

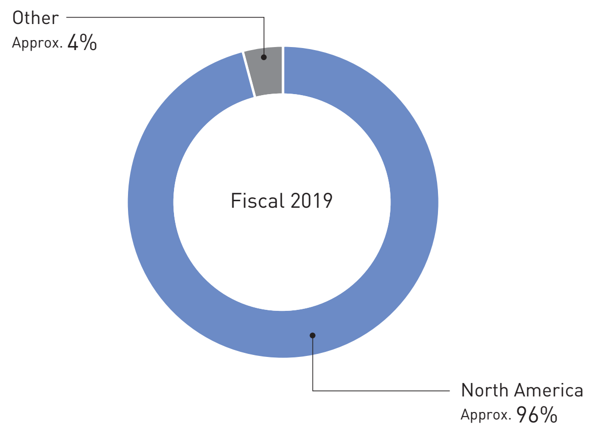
H2O PLUS is reshaping its marketing channels and shifting from wholesale operations to e-commerce in a bid to put business back in the black. The company enhanced the content of its website, making the pages easier for users to navigate. In addition, the company introduced a new product series under the Japan-designed Clean Skincare concept. However, withdrawal from some retail locations and a drop in shipments of hotel amenities caused net sales to sink 28% year on year, and the operating loss deepened.

In 2020, H2O PLUS will welcome staff from ORBIS, which has a solid track record in e-commerce, and aims to leverage access to the expertise of other Group companies as well. By renewing the brand site and providing samples to target customers, the company will refine its image as a "Clean" skincare brand.

Key issues pinpointed

- Improving loss position is a priority
- Restore brand presence

Net sales breakdown by region



Growth Strategy by Brand
(Brands under Development)

THREE


Balancing series


Daringly Demure Lipstick

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

Sales channels	Directly operated retail stores, department stores, duty-free shops, semi-self-select cosmetics stores and the Internet
Market presence	Japan, South Korea, Thailand, Taiwan, Indonesia, Malaysia, Hong Kong, Singapore and China

Amplitude


Base makeup series

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

Sales channels	Department stores and the Internet
Market presence	Japan

ITRIM


Skincare series

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

Sales channels	Department stores and the Internet
Market presence	Japan

FIVEISM × THREE


Men's makeup

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

Sales channels	Directly operated retail stores, department stores and the Internet
Market presence	Japan

DECENCIA

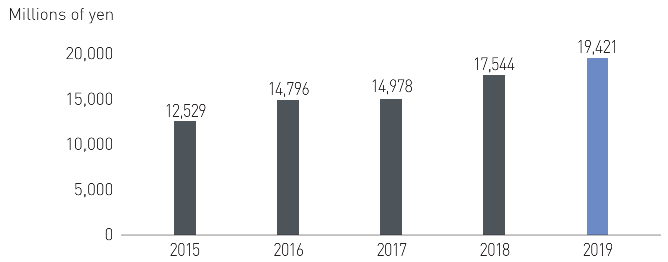

ayanasu series

Skincare products for dry, sensitive skin

Sales channels	The Internet and a department store
Market presence	Japan

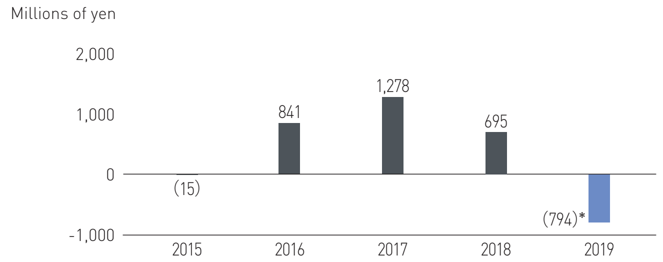
Net sales

¥ 19,421 million (up 10.7%)



Operating loss

¥ 794 million (decrease ¥1,489 million)



*Includes about ¥2.8 billion in new brand investment costs

Fiscal 2019 results

ACRO

ACRO's brand portfolio comprises THREE, Amplitude, ITRIM and FIVEISM x THREE. In line with its corporate philosophy "to create the beauty of the era through a well-honed sense of style," the company emphasized lifestyle solutions based on THREE and the development of three new brands to promote new market value and cosmetics culture. THREE revamped mainstay skincare and base makeup products as well as those for haircare. Efforts were also directed toward building a higher brand profile abroad, including a foray into the travel retail business in China. These efforts were rewarded with an overseas sales ratio of about 28%. Meanwhile, the three new brands captured a number of best cosmetics awards from beauty and fashion magazines. These factors underpinned a 16.5% year-on-year increase in net sales. However, the prior investment for the three new brands led to lower operating income.

DECENCIA

DECENCIA, a line of anti-aging cosmetics and skin-brightening products for people with sensitive skin, is marketed under the concept "sensitive skin can be beautiful limitlessly."

On the products front, the company debuted Wrinkle O/L Concentrate, a wrinkle-care lotion for sensitive skin, in the core series *ayanasu*, and extended the range of its luxury series, *decency*. In September 2019, DECENCIA opened a directly operated store—its only one in Japan—at the Isetan Shinjuku department store. The company is drawing on wider contact opportunities with customers in the store and reinforcing off-line promotional activities, such as sampling events where customers can try out products in person, to cultivate a new segment of users. DECENCIA struggled to capture new customers with online sales and booked year-on-year decreases in both net sales and operating income.

Future measures

ACRO

ACRO will highlight the appeal of THREE as a holistic beauty brand but also develop THREE into a global brand by maximizing favorable demand opportunities overseas to establish a wider presence in the travel retail business and cross-border e-commerce. In addition, the company will fortify its business structure by cutting product costs. A priority for the three new brands will be to improve brand recognition. The company will draw on the fine reputation of its products and the resulting brand power to attract new customers. Management's approach to growth investment will be maintained, but efforts will also be directed toward enhancing investment efficiency and raising profitability.

DECENCIA

DECENCIA is keen to capture new customers with a high retention rate that will generate high lifetime value. In e-commerce, the company seeks to raise the efficiency of advertising investment and will review investment domains while shifting toward a structure that generates designated buying. DECENCIA will strengthen its promotional activities through directly operated stores to provide thorough consultations with a highly regarded proprietary skin evaluation tool and also present opportunities to try out products. At the same time, the company will make efforts to engage customers by implementing promotional strategies that seamlessly link store and website access and enhance the purchasing experience.

1

Quality of Life Improvement through Innovative Technology Services

Innovative technology services enrich customers' lives

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

Improving corporate value by putting materiality measures into practice

Background to materiality measures

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

Contributions to the Group's growth

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

Working to Achieve KPIs—Results in 2019

Measures	2019 Results	2019 Activities
Number of research awards won at home and abroad	2 (cumulative from 2018)	**POLA CHEMICAL INDUSTRIES** • Vigorously utilized opportunities at scientific conferences at home and abroad to reveal study results and present papers, with 24 announcements made • Won "Excellent Paper Award" from Society of Cosmetic Chemists of Japan TOPICS • Won "Technology Award" from Japan Research Institute of Material Technology • For the first time in the market in about 10 years, obtained approval for PCE-DP, a skin-brightening active ingredient
Number of researchers in cutting-edge dermatology research	61	**POLA CHEMICAL INDUSTRIES** • Hired new graduates and midcareer specialists in such areas as dermatology, types of dosage and data analysis
Brand recognition/resonance	43	**ORBIS** Participated in Inclusion Festival in Yurakucho Marui **DECENCIA** Ran opinion exchange program with physicians and established ties with physicians who treat patients with skin problems **ACRO** Held workshop and events at flagship store **POLA ORBIS HOLDINGS** Multiple Intelligence Research Center (MIRC): Ran workshop, spearheaded by Multiple Intelligence Research Center, to consider guidelines on beauty that would vitalize brand creation within the Group

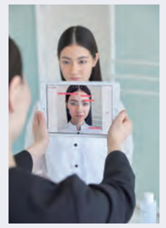
TOPICS

Enormous Big Data on women's skin facilitates tailored responses to market needs

APEX, a personalized skincare brand launched by POLA in 1989, has been on the market for some 30 years. Over this time, POLA built a database of 18.7 million entries, as of January 2020, covering the condition of women's skin. An advice sheet, which provides each customer with the results of personalized skin analysis, is not just a snapshot of current status but also a look into the future. This is a service that no other company provides and one that delights customers.

The sentiments behind a woman's choice of cosmetics now focus more on a need to know about the skincare that is right for the individual user and a desire to see results. To meet these requirements, POLA CHEMICAL INDUSTRIES and POLA pooled their expertise and, after five years of joint study, launched a new *APEX* series in July 2019.

Improve provided value through analytical methods recognized with awards



New research and technology were integral to the renewal of the *APEX* series. Conditions within the structure of the skin are connected to aging, that is, wrinkles and sagging skin, but expensive equipment is required to assess such conditions. Consequently, assessment and analysis at shops on the customer front line are not possible. The Frontier Research Center (FRC), a POLA CHEMICAL INDUSTRIES' research facility, successfully worked with a partner company to advance the process of skin analysis with artificial intelligence (AI). The team confirmed the validity of AI-driven technology to assess conditions within the structure of the skin with a video that captures the movement of facial muscles. The results are instantly sent to a tablet or other information terminal to facilitate personalized recommendations, shortening the wait from analysis to product delivery from the previous two to three weeks to as little as four days. Analytical research, already applied to *APEX* in the past, won an "Excellent Paper Award" from the Society of Cosmetic Chemists of Japan.

In addition, efforts are being made to strengthen key components of product "enjoyment" for customers, such as preferred texture. Since support from a human advisor is all the more important, POLA has restructured its training program for Beauty Directors. Only Beauty Directors who are licensed through in-house examinations are permitted to offer *APEX* to their customers. Customers' first-time purchases were about ¥2,000 higher than those made before the *APEX* renewal.

Innovative research technology expertise and the interpersonal skills of Beauty Directors combine to form a level of service unique to POLA, supporting customers in their efforts to achieve a beautiful future.

TOPICS

Explore potential to produce beautiful skin by transcending cosmetics

The Frontier Research Center presented a technical paper on the theme "beauty and muscle—the secret effect of muscle on the skin" at the 30th International Federation of Societies of Cosmetic Chemists (IFSCC) Congress in Munich, Germany. Ultraviolet light has been considered the primary cause of dark spots. But researchers discovered that people with abundant muscle tend to have fewer dark spots, and the muscle correlation extends to wrinkles, pores, mottled skin and inflammation. They also do research on the potential for muscle to make skin beautiful. This cutting-edge research may encourage people to exercise and build muscle, thereby contributing to improved health as well.

Going forward, researchers will take a broader perspective, looking for correlations between beauty and organs besides the skin and expanding the possibilities of beautiful skincare beyond the realm of cosmetics.

2 Regional Revitalization

Enriching the lives of local people

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

Improving corporate value by putting materiality measures into practice

Background to materiality measures

- The Group has a history of fostering female entrepreneurs in local communities. Indeed, we have provided work opportunities to women since 1937, when few women were in the workforce.
- At POLA, around 41,000 Beauty Directors, as of December 31, 2019, provide consulting to deepen communication with customers and offer various experiences to stimulate sensitivity.

Contributions to the Group's growth

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

Working to Achieve KPIs—Results in 2019

Measures	2019 Results	2019 Activities
Number of regional entrepreneur owners	912	**POLA** Japan: Fostered organizations (those with ¥5 million in monthly sales) that can influence the region China: Opened POLA THE BEAUTY-style store in Shenyang
Number of joint projects with local governments as well as NPOs and NGOs	27	**POLA** TOPICS • Embarked on a new project to establish *Hanahana* community salons on street corners under comprehensive partnership agreement with Akita Prefecture aimed at realizing the *Bi-no-Kuni Akita* vision • Considered measures in cooperation with local governments in other regions (the city of Fuji in Shizuoka Prefecture, the city of Tajimi in Gifu Prefecture, etc.) **ORBIS** • Promoted widespread face-washing literacy among pre-targets (for university students) • Supported Tohoku Food Marathon & Festival (sponsorship and product experience booth) • Developed Koshu City ORBIS Forest in Yamanashi Prefecture (embodiment of ORBIS brand concept of "healing by science") • Managed "ORBIS Kumamoto Future Fund" for third year (for disaster-stricken areas and female business start-up support) **ACRO** • Procured natural ingredients under "local production for local consumption" concept (nationwide) **P.O. TECHNO SERVICE** • Engaged in environmental activities with local governments (the city of Nagoya in Aichi Prefecture, the city of Fukuroi in Shizuoka Prefecture, etc.) where the company has offices • Promoted acceptance of internships at educational institutions (Shizuoka Sangyo University, etc.)

TOPICS

Confronting real problems in communities and playing active roles in energizing regions from the consumer's perspective

Grand Owner Yamashita gives a speech at an activities briefing in the city of Tajimi

POLA Beauty Directors engage in store operations and sales activities at around 4,000 stores in Japan (including POLA THE BEAUTY stores, as of December 31, 2019). In 2017, we reset their role as one "enabling women to achieve their ideals and desired way of life," and initiated an educational program aimed at empowering people. The work of our Beauty Directors starts with building one-on-one relationships with customers. Then they serve as shop owners to expand, foster their sales partners and perform their duties in teams.

After that, they evolve into leaders of organizations that bundle multiple shops. In the process, they engage with many people to increase the value of POLA in local communities, aiming to contribute to society. Across Japan, we have 184 Grand Owners, group leaders with annual sales of more than ¥120 million (recognized from actual results achieved during the second half of fiscal 2019). Moreover, many are women who live in their local regions. By identifying commercial opportunities from the consumer's perspective, they confront real problems in their communities, including population decline, and play an active role in energizing their regions.

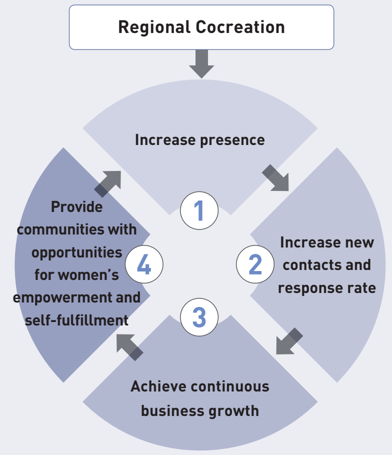
In 2017, POLA and Akita Prefecture signed a comprehensive partnership agreement aimed at realizing the *Bi-no-Kuni Akita* vision. In 2019, two years after the agreement was concluded, POLA's popularity rating* in Akita Prefecture had increased to 50.0, from 22.0 in 2017.

Mamiko Yamashita, a Grand Owner in the city of Tajimi, Gifu Prefecture, holds events and other forums for women in her region. Seeking to stimulate local activity, she works with business operators who have the same ideals. Ms. Yamashita also serves as a panelist at regional revitalization activities briefings hosted by the city of Tajimi, as well as a judge in business plan contests. Her organization has expanded its customer base, and in the second half of 2019, increased its sales 17.8% more than the national average growth for POLA.

We believe that increasing the number of owners who are close to their communities and have a strong presence will lead to sustainable future growth for POLA.

* Indicator of people who know the POLA brand and intend to use it

POLA's model for "Regional Cocreation"



VOICE

Mamiko Yamashita
Grand Owner
Sara Grand Group
Chukyo area
POLA

In Tajimi, Gifu Prefecture, where I work, a drop in the working population is a major problem. Hoping to convey the appeal of living and working in Tajimi, I created a platform that connects business owners in the city and promotes new activities. Specifically, I got together with some local stakeholders and initiated some ideas, including an experience-based fair that connects consumers, business owners and the Tajibijin Project, which conveys a message of transformation through makeup and fashion using female role models who are active in Tajimi.

Against the backdrop of the shrinking labor force in Tajimi, the mosaic tile industry—a signature industry—is in decline. I have teamed up with local tile makers to hold activities. For example, I got Nanayosha Co., Ltd., which creates accessories with tile components, involved in the Tajibijin Project. A shop owner lets female role models wear accessories and, in this way, the women promote the tile business when they are out and about.

By continuing activities like this that are win-win personally and for those around me, I extend "the ring of trust" between local stakeholders and the local government. I will continue activities that showcase the abundant charm of Tajimi.

3 Culture, the Arts, Design

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

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

Improving corporate value by putting materiality measures into practice

Background to materiality measures

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

Contributions to the Group's growth

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

Working to Achieve KPIs—Results in 2019

Measures	2019 Results	2019 Activities
Collaborations with artists	9	**POLA** *B.A* brand advertisement featuring a flower artist, Makoto Azuma **ORBIS** • Disseminated makeup culture to men via *Mr.* brand video featuring world-class dancers • Opened concept shop in summer 2020 under supervision of artists TOPICS **POLA ORBIS HOLDINGS** • Operated art gallery • Conducted awareness survey on cosmetics skincare TOPICS
Number of participants in art-based workshops For more details, see page 19.	34 (cumulative from 2018)	**Group companies** Provided Groupwide programs and human resources training
	1,729 (cumulative from 2018)	**Group companies** Provided training for new employees **P.O. REAL ESTATE** • Conducted crafts and art workshops for residents of rental apartments • Held workshops centered on culture and the arts at Aoyama Studio for general public

TOPICS

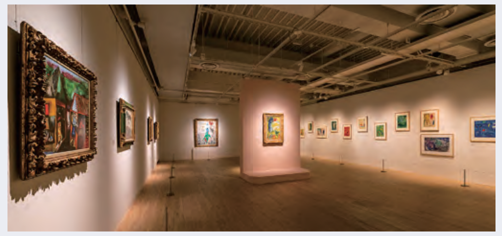
Brand evolution experiential concept shop ORBIS and Takram and Momoko Kudo

In summer 2020, ORBIS will open a concept shop in Omotesando, Tokyo (see page 35 for shop image).

ORBIS is handling the core idea and brand experience elements of the concept shop with Takram, an international design innovation firm, with Momoko Kudo of MMA Inc. providing architectural design services. The aim is to express the evolution of the ORBIS brand with creators active on the front lines and to use all contact points—from business domain to brand concept, creative input and experience—to convey the ORBIS philosophy.

TOPICS

Adding color to people's lives


Marc Chagall—Weaving Dreams

The POLA Museum Annex features a wide variety of displays from the POLA collection of contemporary art. With these displays, which are free of charge, we aim to convey the POLA ORBIS Group's corporate value to stakeholders in Japan and overseas. A Marc Chagall exhibition, held in October and November 2019, attracted more than 15,000 visitors, 96% of whom expressed a high level of satisfaction. In addition to regular events for the general public, we held events for people with babies and also for elderly people, including those with dementia. In these ways, we enabled people who cannot normally visit museums to interact with art, thus adding color to their lives.

Cosmetics skincare awareness surveys help our business


Presentation based on research findings

The POLA Research Institute of Beauty & Culture conducts research into modern makeup trends and lifestyles. The results of this work are reflected in the creative activities of POLA ORBIS Group companies. Using its research findings, the institute also makes presentations to outside parties, reinforcing people's impressions of the Group, which has been committed to "beauty" for many years. The institute's database, unveiled in November 2018, received a Contribution Prize in the "Digital Archive Industry Awards" for providing open access to rare assets. The knowledge, materials and collections of the institute are utilized not only within the Group but are also revealed to the public, thus contributing to the development of beauty culture in general.

Support for culture and the arts

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

Support for the POLA Foundation for the Promotion of Traditional Japanese Culture

The POLA Foundation for the Promotion of Traditional Japanese Culture, which has been in operation for 40 years, focuses on activities to preserve, pass on and promote traditional crafts techniques, traditional performing arts, folk entertainment and other expressions of traditional Japanese intangible culture. Encouraged by increased international attention in recent years, the foundation held a symposium in France that was well received for helping people deepen their knowledge of traditional Japanese culture, aesthetics and spirituality.


Symposium in France

Support for the POLA Art Foundation

The POLA Museum of Art, which is run by the POLA Art Foundation, held two major exhibitions in 2019. One exhibition, "Syncopation: Contemporary Encounters with the Modern Masters," which ran from summer through winter of that year, was a collaboration between the POLA Museum of Art's collection and contemporary artists—the first such collaboration since the museum's opening in 2002. The event was covered by numerous media outlets and was highly popular on social media, thus providing a significant boost to the museum's communication profile.



Collaboration between the POLA Museum of Art's collection and contemporary artists
Left: Claude Monet, *Water Lilies*, 1907, POLA Museum of Art
Right: Céleste Boursier-Mougenot, *clinamen* v.7, 2019
©Céleste Boursier-Mougenot Photo: Keizo Kioku

Human Resources

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

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

Improving corporate value by putting materiality measures into practice

Background to materiality measures

- Current status of personnel composition suggests possible shortage of human resources to take on management responsibility for the Group in the medium to long term.
- Women make up significant percentages of the Group's customer base and human resources. Must create environment that enables female employees to maximize sensitivity and thrive in their work-related duties, to facilitate career development.

Contributions to the Group's growth

- Sustainable growth hinges on efforts to develop as big a pool as possible of human resources who are open-minded, aware of current social issues and ready to embrace change.

Working to Achieve KPIs—Results in 2019

We seek to build a cadre of core human resources who will underpin efforts to keep the Group growing. We are always working on human resources development programs, and in 2019, we implemented new measures.

Measures	2019 Results	2019 Activities
Fill rate of candidates for management positions	45.5%	Continuous expansion of next-generation leader skills development programs Set up Talent Development Committee TOPICS
Percentage of women in management positions	45.5%	Reinforced system for dealing with and training on illnesses specific to women TOPICS

TOPICS

New start for Talent Development Committee in selecting candidates for management positions and promoting individual skills development plans

As a structure to effectively develop candidates for management positions throughout the Group, POLA ORBIS HOLDINGS set up the Talent Development Committee and from 2019 has taken the lead in selecting and developing candidates across the Group to improve the process. The committee comprises directors from POLA ORBIS HOLDINGS and executives responsible for human resources at Group companies. For key positions of particular importance within the Group, the committee selects candidates for each position from among employees in middle-management assignments. Individual skills development plans are drawn up, implemented and monitored. The committee's goal is to deepen the pool of personnel on whose shoulders the future of the Group rests by every year forming a well-populated reserve of candidates matched to the business environment.

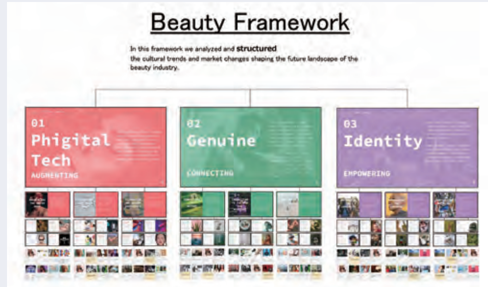
Furthermore, a succession plan is now being formulated by the Nomination Advisory Committee.

TOPICS

Energizing human resources through external exchanges

In 2019, POLA ORBIS HOLDINGS teamed up with Bespoke, a Danish company, to twice run bridge programs exploring the beauty of the future. The two-day workshop brought together 33 employees from across the POLA ORBIS Group. The first day saw the sharing of the POLA ORBIS BEAUTY FRAMEWORK, which collected and systematically organized various indicators of beauty from around the world. Participants were asked to think about these indicators and their significance to the POLA ORBIS Group. On the second day, the emphasis was on group work to learn techniques to create the beauty of the future. Initially, participants found it difficult to see beyond what they thought was possible. But gradually, everyone began to realize that they can change the direction of their own future and that all sorts of futures are possible precisely because the people gathered all have different points of view. The joint effort with Bespoke raised the potential inherent in the participants, helping them explore new perceptions and new ideas more deeply than ever before.

At CancerX Summit 2019, hosted by CancerX on February 3, 2019, POLA director Seiichi Takaya made a presentation on the measures that POLA takes to support employees and business partners fighting cancer in their desire to balance work and cancer treatment. On the topic of cancer, he and about 600 participants with an awareness of issues and experience in various areas, including government, treatments, corporations and patients, shared issues under the themes of cancer and society, cancer and information, cancer and work, cancer and young people, and cancer and lifestyle, and discussed and exchanged views to solve the issues. The event was picked up by many media outlets and demonstrated a level of influence on society that could not be achieved by the Company alone.



POLA ORBIS BEAUTY FRAMEWORK

TOPICS

Seeking to create an environment where women shine

In 2017, POLA ORBIS HOLDINGS formulated the POLA ORBIS Group Health Management Declaration. We have made the physical and mental health of employees a management priority and are working to ensure the well-being of employees and their families. Through an enhanced occupational health and safety structure that encompasses occupational physicians, health nurses, clinical nurses and occupational health-and-safety mental health coordinators, we centralize and consolidate information on health checks at all Group companies and support efforts to strengthen preventive care, such as follow-up—guidance and consultations, and health management for high-risk individuals—after a health check. In addition, we introduced PepUp, a health management support portal, and hold many health-oriented events to stress the importance of employees' efforts to maintain their health, avoid illness and improve physical and mental well-being.

Since women account for about 70% of employees Groupwide, POLA ORBIS HOLDINGS increased the number of gynecologists on staff in 2018 to better address women-specific health concerns. In 2019, we set up a consultation system that enables female employees at stores and in rural areas to receive advice from gynecologists by email. We also hold health seminars on women-specific concerns for women, and for men as well, allowing everyone to gain a better understanding of women's health.

POLA ORBIS HOLDINGS introduced shorter working hours and a remote work system to give employees with young children the option of a flexible workstyle that enables them to minimize disruption to their career plans. We also provide opportunities for all employees regardless of gender to grow and develop if they want to reach new career heights. Women account for 45.5% of management positions. Since 2017, POLA ORBIS HOLDINGS has been included in the MSCI Japan Empowering Women Index.


Health seminar

POLA ORBIS Group's framework for human resources development

To cultivate human resources who see the Group as a whole from a big-picture perspective, we will promote approaches that enable employees to clear organizational barriers and provide experience-building opportunities that allow them to achieve their dreams. In addition to programs designed to develop the skills of the next-generation corporate leaders, we offer a free-agent system that gives employees who satisfy certain requirements the chance to transfer to a company or division of choice within the Group. We also have a venture program that welcomes ideas for new businesses from employees. We seek to create an environment that promotes having goals and being motivated.

Junior — Middle — Management — Director

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

Career Development

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

Talent Development Committee I
Selection from middle members, and individual talent development towards managers

Talent Development Committee II
Selection from managers and GM, and Individual talent development towards Officers

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

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

Talent Development

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

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

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

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

Common Standard

Group's Common Competency Evaluation

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

Next-generation leader skills development programs constantly run Groupwide

In a broad sense, our next-generation leader skills development programs highlight the Future Study Program for young employees, the Business Innovation Academy for middle management and coaching for organizational changes for newly appointed corporate officers. Efforts began with the Future Study Program in 2005, and over the ensuing 15 years or so, the structure has expanded, now comprising three programs. Curriculums are always changing. These programs have graduated more than 300 people, many of whom went on to executive appointments.

1. Future Study Program

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

Through a varied curriculum that includes competition with young employees of other companies and art workshops at the POLA Museum of Art, training under this program provides the building blocks for participants to acquire insights into business pursuits with potential and sharpens the ability to detect issues requiring attention. The program has had 15 graduating classes since 2005. Ideas presented by participants have been linked to activities that have fueled corporate growth, including the introduction of a brand of men's cosmetics, and prompted new human resources strategies, such as the free-agent system and open-offer system to accommodate transfers from an employee perspective rather than a management perspective.

2. Business Innovation Academy

This program for middle management in their 30s and 40s is limited to a few elite individuals, typically five people annually. Each year, employees with an awareness of issues facing the Group apply on their own or are recommended to participate in this program, which is intended to create leaders with the talent to drive changes forward at their respective companies. Each participant identifies issues that have not been addressed for a long time within the organization and issues needing a particularly dramatic solution due to the changing business landscape. Over nine months, participants raise their concerns and propose to management a concrete plan aimed at mitigating the issues. During the past 13 years, 78 people have completed the program, which was launched in 2007. Of these, 19 people have been appointed to the position of executive at companies under the Group umbrella.

3. Coaching for organizational changes

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

VOICE

The Groupwide programs provided a venue for discussing management issues with a diverse range of people who speak different languages and have different thoughts and ideas. For me, it was a valuable opportunity to see differences between myself and others and to reflect deeply about the kind of person I am. I realized that different perspectives can be the source of new ideas, and the training program greatly influenced how I will develop my own leadership capabilities. Value perceptions and the ways people live are diversifying and will continue to do so. To help POLA deliver amazing and inspiring new value to customers, the company needs me to understand myself and understand others, too. The power of imagination and a sense of empathy are essential in sensitizing the world to beauty and appreciating what makes people unique. Intragroup training put me at a major crossroads and guided me toward this realization. To understand someone is impossible if the basis for understanding is limited to knowledge and skills accumulated in a business field, which has been common in training until now. True understanding requires a broader foundation of knowledge that includes history, philosophy, religion and psychology as well as a deep emotional or spiritual connection that elicits enjoyment in culture and traditional arts. Cultivating human resources may emphasize improvement in practical capabilities, but the process must also evolve with a view toward further refining these capabilities. As a corporate officer responsible for human resources, I will go beyond approaches applied to date and strive to realize diverse and productive human resources.

Yuko Shoji
Corporate Officer
Responsible for Human Resources,
General Manager, Human Resources Strategy Division
POLA INC.

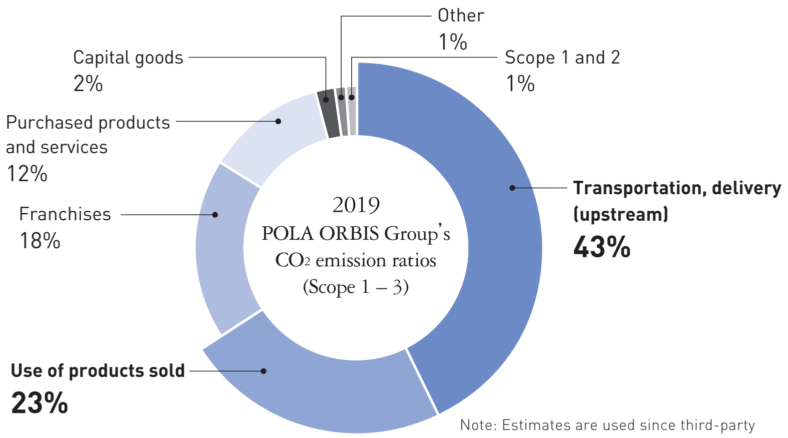
5 The Environment and Human Rights

The POLA ORBIS Group set reduction targets for CO_2 emissions, water consumption and waste output and is striving to realize these levels by 2029. As for CO_2 emissions in particular, we tracked them down to Scope 3 in 2019 (complete third-party verification), and we plan to revise the target in line with the -1.5˚C scenario outlined in a new long-term management plan scheduled for announcement in 2021. In addition, we recognize that the pollution of oceans from plastic is a serious issue and are working on appropriate responses.

Climate change and CO_2 emissions

In 2019, we completed third-party verification of the statistics of the 2018 results, including Scope 3 reporting of our CO_2 emissions. The CSR Committee, chaired by a director, conveyed the verification results to the Board of Directors.

These results, reported to the Carbon Disclosure Project for fiscal 2019, brought our efforts a score of A-. From 2020, director compensation will be linked to progress made toward achieving environmental targets.



Note: Estimates are used since third-party confirmation was in process in 2019.

The POLA ORBIS Group's CO_2 emissions

We recognize that CO_2 emissions generated when customers use the Group's products and CO_2 emissions generated during the transportation and delivery of these products represent a significant percentage of our carbon footprint. The primary factor in this equation is the use of warm water to rinse off facial cleansers or rinse out shampoo or other hair products. Added to this are the CO_2 emissions generated by the electricity to run a hair dryer. Reducing the amount of water needed to rinse something off or out and shortening dryer time would make the products more convenient for customers. As a group, we are keen to develop products from a CO_2-reduction perspective right from the planning stage. Currently, we are implementing plans for an expanded range of refillable products and items in lighter-weight containers. Going forward, we will focus on Scope 1 and 2 direct emissions as well as CO_2 reduction in both categories.

TOPICS

ORBIS provided a "delivery locker" free to customers as a test

Shortages of labor have impacted many sectors of society, and home delivery is no exception. In particular, redelivery is a problem. When redelivery is unnecessary, businesses see their operating efficiency rise and their CO_2 emissions fall. Customers also benefit because they need not wait at home to receive a delivery. ORBIS created an original delivery locker that can be used for ORBIS products or any other delivered items and installed lockers for 5,000 customers who acted as monitors to see if using the locker was a feasible idea.

After a monitoring period, ORBIS asked participants to fill out a questionnaire. More than 60% of the respondents said the locker reduced the need for redelivery. The company estimates that widespread implementation of this program could cut 2.4 tons of CO_2 emissions per year. Going forward, ORBIS will study the correlation between the delivery locker and the repeat purchase rate for ORBIS brand products.

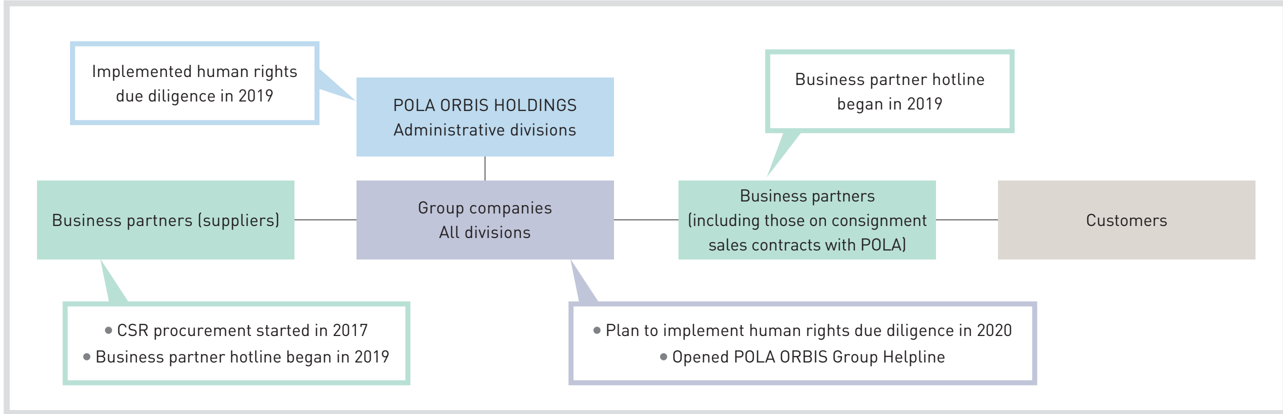
Reduction of plastic consumption

POLA, established in 1929, started off selling products by weight. In 1985, the company introduced an aluminum refill pod for *B.A Cream*, under the high-prestige *B.A* series. Today, the company continues to offer refills for mainstay skincare products and strives to limit the amount of plastic used in product containers. Pollution of the oceans from plastic has recently garnered heightened interest and, as a good corporate citizen, the Group acknowledges the great need to address this issue. The Group began with steps to reduce plastic consumption and considered recycled plastic as a source of material for containers and packaging. In 2019, the company expanded its approach, launching efforts to cut the amount of plastic used for purposes other than containers. The *APEX* series, a personalized skincare brand in the POLA portfolio, had utilized a skin checker made of plastic, but when the series underwent renewal, the company shifted to digital skin analysis, which trimmed the use of plastic. CO_2 emissions also dropped, since nothing had to be sent to the data analysis center.

The Group had been using microplastic beads in products such as facial cleansers but switched to a more environment-friendly alternative in 2018.

In 2017, the POLA ORBIS Group signed the UN Global Compact, and in 2018, the POLA ORBIS Group Human Rights Policy was drafted. We believe that respecting human rights is not only about protecting the rights of individuals but also about making the most of the sensibilities of each individual. We make sure there are no human rights violations in the supply chain.

■ Scope of response to human rights risks in the supply chain



Human rights due diligence

The Group conducts a yearly employee awareness survey that provides insights into human rights-related risks in the workplace, such as discrimination and harassment. In 2019, interviews were conducted at all POLA ORBIS HOLDINGS' divisions, and the Company was able to confirm that protocols and rules to maintain human rights were not too lax and that employees were properly informed. In 2020, the human rights risk survey will be extended to Group companies as well, and measures will be taken, starting with high-priority issues.

The POLA ORBIS Group Helpline, an internal reporting system for employees throughout the Group, received 13 reports in 2019. The results of investigations into these reports and issues deemed harassment are submitted to the Commendation and Disciplinary Committee, which decides on appropriate action. Responses are posted on the corporate intranet, and measures, such as training on management's refusal to tolerate power harassment, are taken to improve situations and prevent reoccurrences.

Establishment of a business partner hotline

In 2019, we began a hotline for business partners to report concerns if they suspect that an employee of a Group company has committed a violation of human rights or of compliance practices. We received no calls, but we believe the hotline, which enables us to identify and correct problems, is a valuable resource.

Responsible procurement (CSR procurement)

To build good relationships with our business partners and fulfill our social responsibility as a corporate group, we ask business partners to fill out a specially prepared CSR procurement questionnaire and conduct on-site inspections, based on CSR procurement guidelines drafted in April 2017. Over the past two years, our questionnaires have drawn responses from 251 factories operated by our business partners. As of 2019, we had conducted on-site inspections at six of those factories.

Palm oil initiatives

Palm oil and palm kernel oil, which are ingredients of cosmetics, are sourced from oil palm, and palm plantations are said to have negative impacts on society, including deforestation and labor abuse. In October 2019, the Group joined the Roundtable on Sustainable Palm Oil, and going forward, the Group is keen to switch to sustainable palm oil.

Toward this end, in December 2019, the Group purchased credits for 1,100 tons of palm oil certified under the Book & Claim (B&C) model. This is equivalent to the total annual procurement of palm kernel oil Groupwide in 2017.

Looking toward 2029, we will continue this shift, seeking to boost the Group's palm oil procurement from certified providers to 100%. We will gradually switch from the purchase of B&C credits to buying certified palm oil, thus raising the percentage of certified palm oil used in production activities.

Dialogue with Stakeholders

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

Stakeholders	Key Dialogue Opportunities	Specific Actions
Customers	• Comments from customers by phone and website • Customer satisfaction surveys • Sales data analysis	Provide products and services whose use makes everything customers do in their lives more beautiful. Establish framework for quickly sharing customer comments all the way up the corporate ladder to realize improvements.
Business partners (Suppliers)	• Procurement policy information meetings • Quality audits • CSR procurement questionnaire/audit	Work with suppliers to build a strong supply chain. Hold direct meetings with key suppliers, strive for stable procurement and build good relationships.
Business partners (POLA Beauty Directors)	• Level-specific training (philosophy, products, techniques) • Leaders' business meetings • Interviews with Grand Owners	Aim to offer a bright approach to life through POLA-related work. Toward this end, vigorously promote opinion exchange with Beauty Directors. Also put effort into explaining philosophy in addition to training related to products and service/sales techniques.
Employees	• Employee satisfaction survey • Groupwide programs • Employee forums and training at each company • In-house intranet	The ability of each and every employee to demonstrate personality and be an active participant in the company is a building block of sustainable corporate growth. Seek to create that kind of environment and enhance the support structure.
Shareholders/investors	• General shareholders' meetings • Conference presentation • Institutional investors' meetings • Briefings for individual investors	Top management actively communicates with investors at home and abroad and makes use of requests in corporate management. For individual investors, IR seminars are organized specifically for women.
Local communities/ non-governmental organizations	• Joint activities/cooperation with local governments • NGO/NPO dialogues • Cultural and artistic activities	Demands from society, NGOs and NPOs are met sincerely, starting with high-priority issues from a business impact perspective.

TOPICS

Stakeholder Dialogue

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

On August 21, 2019, an environment-themed dialogue was held to explore environmental issues that require corporate responses.

From the experts

- At the POLA ORBIS Group, social contribution is more than just opening the corporate wallet. The Group strives to create value with local communities and NGOs and has been steadily involved in such activities for many years.
- Components not listed on the balance sheet—that is, activities or efforts that drive corporate value—are the essence of ESG investment. One example is the environment. Companies that procure various things from nature to use in their products are highly appreciated for their ability to visualize the extent to which nature is decreasing and for their ability to respond to the future in advance.
- The three major environment-related topics are climate change, plastics waste and water resources. Companies address these topics from a total-volume, medium-to-long-term, value-chain perspective. For POLA ORBIS HOLDINGS, issues of high priority from an overall value-chain perspective are the use of products, and transport and delivery. For climate change, the release of Scope 3 data makes the status clear.

From POLA ORBIS HOLDINGS

- POLA ORBIS HOLDINGS will draw on strengths and undertake ESG in ways that other companies cannot. It is important to start small and then swiftly create a model for success.
- We cannot limit ourselves to existing business models but should look beyond them to capture possibilities for creating new business by adopting venture ideas and embracing IoT opportunities. We will explore a more open structure.
- Our product portfolio has a number of brands, and we ponder ESG and CSR activities that utilize the unique characteristics of each brand. To start, we will emphasize efforts to instill concepts and directions taken as a corporate group into the overall Group view. In 2020, progress toward Group environmental targets will be linked to director compensation. Also, 2020 will be the year we formulate our long-term business plan, and targets will be included in corporate strategy as well.

External Participants

Mizue Tanaka
Organization for Industrial, Spiritual and Cultural Advancement-International
Director of Environment Projects, Domestic Operations Division

Kazunori Ogisu
Bright Innovation Co., Ltd.
Director and Doctor of Global Environmental Studies

Participants from POLA ORBIS HOLDINGS

Satoshi Suzuki
Representative Director and President

Naoki Kume
Director and Vice President

Akira Fujii
Director

Facilitator

Hiroko Ozawa
Japan Shareholder Services Ltd.

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

Basic Stance on Corporate Governance

Board of Directors

Number of meetings held in 2019 **20**

The Board of Directors discusses important matters related to business management, including the formulation of medium- to long-term strategies for the Group, possible risks and optimum allocation of resources, and makes decisions on these matters. The Board is composed of eight directors (three of whom are independent outside directors) and meets at least once a month. In 2019, it met 20 times, with an average attendance rate of 99.2% for directors.

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

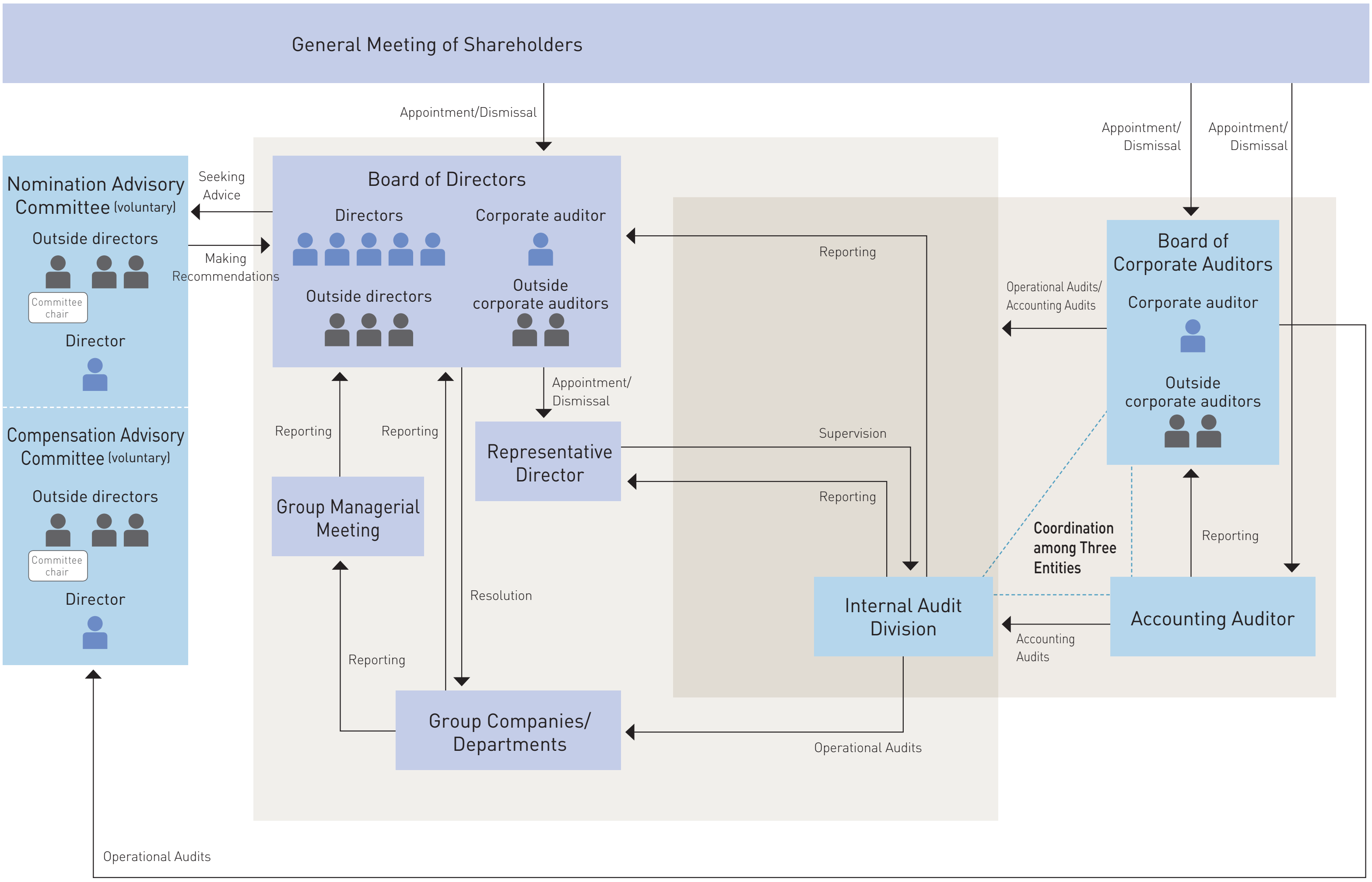
Nomination Advisory Committee (voluntary)

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

Compensation Advisory Committee (voluntary)

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

Corporate governance structure (as of March 24, 2020)



Board of Corporate Auditors

Number of meetings held in 2019 **16**

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

Internal Audit Division

Number of audits in 2019 **11**

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

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

Group Managerial Meeting

Number of meetings held in 2019 **19**

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

Structural overview (as of March 24, 2020)

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

Steps in governance

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

Policy on strategic shareholding

POLA ORBIS HOLDINGS holds listed shares under the following conditions:

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

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

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

Matters Related to the Board of Directors

Evaluation results of Board of Directors' effectiveness

Through an evaluation of the Board of Directors' effectiveness implemented in 2018, five issues were brought to management's attention and recognized as requiring action. Steps taken in 2019 to address these issues are described below.

Item	Steps taken in 2019
❶ Enhance long-term management discussions	Provided opportunities for long-term management discussions six times a year to formulate the next long-term plan toward our 100th anniversary in 2029, including establishing a review committee with a long-term vision separate from that of the regular Board of Directors
❷ Strengthen the role of the holding company	Mainly strengthened involvement in overseas subsidiaries and implemented measures to improve business performance and resolve issues
❸ Initiatives for ensuring transparency in the decision-making process for director nominations and compensation	Ensured transparency in the decision-making process for director nominations and compensation by establishing and starting operations of a voluntary advisory committee whose majority consists of outside directors as an advisory body to the Board of Directors, regarding nominations of directors and appointments, dismissals and compensation of corporate officers
❹ Establish cybersecurity and other risk countermeasures	Increased opportunities to discuss the current situation and issues related to cybersecurity and BCP risks at the Board of Directors' meetings
❺ Strengthen training for directors	• Training for internal executives ・Strengthened investor perspectives through participation in IR meetings • Training for outside executives ・Tried out subsidiaries' new products and services ・Deepened understanding of business by participating in subsidiaries' executive meetings • Regular training for internal and outside executives ・Held study sessions by external lecturers on corporate governance

1. Basic policy on evaluation

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

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

2. Evaluation method and process

Facilitated by outside expert

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

POLA ORBIS HOLDINGS' original approach

To complement third-party evaluation, we took the original approach of utilizing evaluations by employees who have completed in-house programs, such as the Top Management Development Program. These employees are selected to attend executive meetings as observers and interview members of the Board of Directors. This approach not only lends an employee perspective to evaluations but also provides a valuable opportunity to develop people with management potential.

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

3. Summary of analysis and evaluation results

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

Points rated highly

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

❶ High level of awareness and robust efforts among executives to improve governance
❷ Active outside director involvement in the Board of Directors
❸ (Board of) corporate auditors' contribution to improving the effectiveness of the Board of Directors
❹ Active communication with shareholders and appropriate engagement with the capital market through IR activities and the external disclosure of business strategies, management plans and financial statuses

Points brought to attention and recognized as requiring action

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

❶ Strengthening of involvement with our subsidiaries
❷ Strengthening of deliberation frameworks for important matters and post-deliberation management

Key activity status of outside directors

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

Name	Key Activity Status	Attendance at meetings of the Board of Directors
Kazuyoshi Komiya	Mr. Komiya draws on outstanding and extensive knowledge of overall corporate management to view the overall management of the Group from a position independent of that of the Board of Directors and management. Moreover, he proactively offers advice and recommendations that contribute to the enhancement of the Group's corporate value after grasping essential issues and risks. In addition, in the decision-making process for director and top management nominations, he serves as the chairperson of the voluntary Nomination Advisory Committee and demonstrates his extensive and outstanding knowledge of our human resources strategy, which we set as a key theme, through appropriate personnel evaluations and allocations.	95.0% 19 of 20 meetings
Naomi Ushio	Ms. Ushio draws on specialized knowledge to view the overall management of the Group from a position independent of that of the Board of Directors and management. Moreover, she proactively offers advice and recommendations that contribute to the enhancement of the Group's corporate value after grasping essential issues and risks. In addition, in the decision-making process for compensation for directors and top management, she serves as the chairperson of the voluntary Compensation Advisory Committee and supervises directors and top management through appropriate evaluations of business execution.	100% 20 of 20 meetings

Independent outside executives' meeting

POLA ORBIS HOLDINGS regularly holds meetings exclusively for independent outside executives. Issues facing the Company were discussed at the meeting that reviewed fiscal 2019.

Agenda for the independent outside executives' meeting held on Tuesday, February 4, 2020

1. Evaluation of voluntary Nomination and Compensation Advisory Committees, established in 2019
2. Opinions regarding long-term management plan
   Opinions regarding the Company's efforts to address social issues (recycling-based society, climate change, SDGs, etc.)
3. Effectiveness of the Board of Directors, management aspects of the Board of Directors and others

Outline of Discussions

Item 1

• The voluntary Nomination and Compensation Advisory Committees have substantial discussions. They function by being chaired by outside directors.

Item 2

• Market needs for cosmetics are expected to change in light of climate change. From the viewpoint of the future of the global environment, methods to prevent waste production must be investigated. Although such discussions have begun, more specific studies should be conducted in the future.

Item 3

• The Board of Directors should keep discussions on the execution of business short and hold thorough discussions on long-term management.
• It may be effective to have an initiative in which young employees who will remain in the Company for 20 years gather from across the Group to discuss its future.

Executive compensation

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

1. Basic policy

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

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

2. Compensation standard

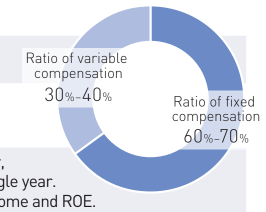
The compensation standard is set at a level comparable with those of industry peers or companies of a similar size at home and abroad and is commensurate with the role and level of responsibility held by each individual, with the business environment of the Group and the need to stay competitive in the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

3. Compensation structure

Directors/Corporate officers

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

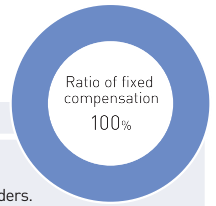
Fixed compensation	Basic compensation	• Basic compensation reflects rank set according to role in management and duties of position for each individual.
Variable compensation	**Payment between 0% and 200% of base amount for each rank, according to level of success in reaching performance targets.**	
	Annual bonus	• Compensation paid as an incentive to achieve performance targets each fiscal year, according to level of success in reaching Group's performance targets within a single year. • Performance indicators determined from such financial bench marks as sales, income and ROE.
	Medium- to long-term incentive (performance-linked, share-based compensation)	• Compensation paid as incentive to achieve performance targets and boost corporate value over medium to long term, according to level of success in reaching performance targets stated in Group's medium-term management plan. Company shares granted with aim of fostering greater sense of common interest between directors and shareholders. • Performance indicators determined from such financial bench marks as sales, income and ROE, in each medium-term management plan



Outside directors

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

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



4. Process for determining executive compensation

To ensure objectivity and transparency in the process for determining executive compensation, POLA ORBIS HOLDINGS established the Compensation Advisory Committee, with the majority of members being outside directors, as a voluntary structure to advise the Board of Directors. Executive compensation is set by the Board of Directors within a range of the compensation allotment decided at the general meeting of shareholders, following discussions and recommendations by the Compensation Advisory Committee.

Total, including compensation by executive classification; total, by type of compensation; and number of applicable executives (Fiscal 2019)

Executive classification	Total, including compensation (Millions of yen)	Total, by type of compensation (Millions of yen)			Number of applicable executives (persons)
		Fixed compensation	Short-term performance-linked compensation (bonus)	Medium- to long-term performance-linked compensation (share-based compensation)	
Directors (excluding outside directors)	125	106	12	6	4
Outside directors	20	20	–	–	2
Corporate auditors (excluding outside corporate auditors)	23	22	1	–	2
Outside corporate auditors	16	16	–	–	2

Fundamental Activities That Fulfill Our Corporate Responsibilities

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

Instilling thorough awareness of Code of Conduct

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

Compliance training

To preclude possible violations of compliance, POLA ORBIS HOLDINGS regularly conducts training and education programs. In 2019, the Company provided correspondence courses on "compliance" for people in management positions, a CSR e-learning program for all employees and a video lecture for domestic employees on "work-style reform" by an external lecturer.

Risk management policy

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

Risk management structure

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

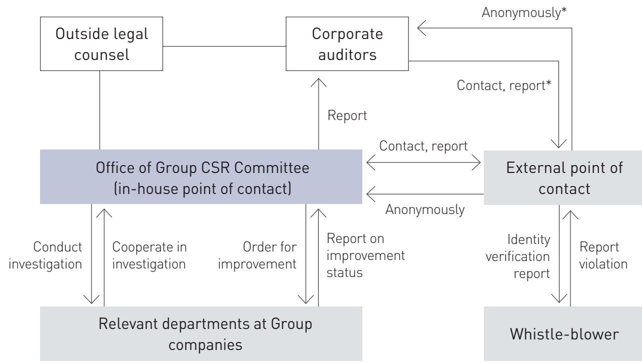
In 2019, as issues to be addressed, the Board of Directors confirmed every quarter the progress of the action plan that was created according to priority themes such as responses to natural disaster risks (especially flood risk) and the risk of overwork that is associated with work-style reforms.

Internal reporting system

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

In 2019, the Company set up the "Corporate Auditor Hotline," which facilitates reports on possible compliance violations related to Company directors. In addition, we established the "Business Partner Hotline," which accepts reports from our business partners. The status of the use of the helplines is reported monthly to the corporate auditors and regularly to the Board of Directors.

Structure of internal reporting system (helpline)



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

2019 Group priority risks

Theme	Points	Annual plan
1. Natural disaster risk (mainly for flood damage BCP)	(1) Understand suppliers' flood risk	Establish a database of basic supplier information for quick and accurate confirmation of damages in the event of floods
	(2) Production base (Fukuroi plant, operated by POLA CHEMICAL INDUSTRIES) Update BCP including flood damage	Verify flood hazard maps, create disaster response rules
	(3) Business offices/distribution centers/stores Hazard map confirmation	Create hazard maps for important bases such as business offices and distribution centers, create response rules in case of disaster
2. Business partner risk	(1) Review the quality control system	Review the Group's outsourced quality control systems
	(2) Thorough implementation of operational rules	Thorough implementation of quality control and monitoring of the status of each company
	(3) Timely Group sharing of difficulties in procuring raw materials	Establish the new Procurement Subcommittee to share purchasing risks within the Group
3. Risk of overwork	(1) Respond to management's work environment issues	Grasp and respond to the actual situation of overtime by management, and review the work of each company (improve efficiency)
	(2) Measures against forced work instructions outside business hours	Thorough implementation of labor management in accordance with work-style diversification
4. Strengthen governance of overseas subsidiaries	(1) Thorough implementation of internal control	Review the decision-making process for important matters and prevent inappropriate spending

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

Management Structure (As of March 24, 2020)

Satoshi Suzuki

Representative Director and President

According to his director competency evaluation, Mr. Suzuki's greatest strengths lie in his ability to think about the direction of the entire Group along a long-term time line. In addition, he makes the most of his characteristics by always looking for new perspectives and boldly changing direction while leaving no stone unturned.

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

Naoki Kume

Director and Vice President

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

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

Akira Fujii

Director

According to his director competency evaluation, Mr. Fujii's strengths lie in his ability to anticipate the present and future from a broad-ranging perspective and a medium- to long-term standpoint, then outline directions. In addition, he makes the most of his characteristics by producing results through the flexible learning of new things even in unknown territories or during environmental changes.

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

Yoshikazu Yokote

Director

According to his director competency evaluation, Mr. Yokote's strengths lie in conceptual thinking that allows him to envision goals to aim for upon constructing hypotheses based on intuition gained from his experiences and the circumstances that he is facing. In addition, he makes the most of his characteristics by resolving deadlocks through creative thinking and decision making even in difficult situations.

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

Takuma Kobayashi

Director

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

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

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

Kazuyoshi Komiya

Outside Director

Outside | Independent

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

Naomi Ushio

Outside Director

Outside | Independent

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

Hikaru Yamamoto

Outside Director

Outside | Independent

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

Hideki Komoto

Corporate Auditor

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

Akio Sato

Outside Corporate Auditor

Outside | Independent

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

Motohiko Nakamura

Outside Corporate Auditor

Outside | Independent

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

Miki Oikawa
Senior Corporate Officer (Part-time)

Kazuya Kugimaru
Senior Corporate Officer (Part-time)

Noriko Suenobu
Corporate Officer

Koji Ogawa
Corporate Officer

Ken Horikawa
Corporate Officer

Directors and Corporate Auditors of Group Companies

POLA INC.

Miki Oikawa
Representative Director and President

Seiichi Takaya
Director and Corporate Officer

Kazuhiro Nishikata
Director and Corporate Officer

Yoshifumi Abe
Corporate Auditor

Hiroe Yamaguchi
Corporate Officer

Tomoko Kamiya
Corporate Officer

Yasuro Katamine
Corporate Officer

Tamotsu Sato
Corporate Officer

Yuko Shoji
Corporate Officer

Akira Miyasugi
Corporate Officer

Makoto Yuizono
Corporate Officer

ORBIS Inc.

Takuma Kobayashi
Representative Director and President

Motoyuki Fukushima
Director and Corporate Officer

Koji Ogawa
Director (Part-time)

Nobuhisa Komiya
Corporate Auditor

Masaki Motoki
Corporate Officer

Emi Nishino
Corporate Officer

Reference: POLA ORBIS Group Executive Competency Model

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

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

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

POLA CHEMICAL INDUSTRIES, INC.

Kazuya Kugimaru
Representative Director and President

Noriko Suenobu
Director and Corporate Officer

Takayuki Katagiri
Director and Corporate Officer

Tadahito Seto
Director and Corporate Officer

Mamoru Eda
Corporate Auditor

Hiroki Tsuruoka
Corporate Officer

Yasuhiro Fukuda
Corporate Officer

Shinya Chiba
Corporate Officer

Jurlique International Pty. Ltd.

Toru Yamamoto
Chairman & CEO

H2O PLUS HOLDINGS, INC.

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

ACRO INC.

Akira Gogo
Representative Director and President

DECENCIA INC.

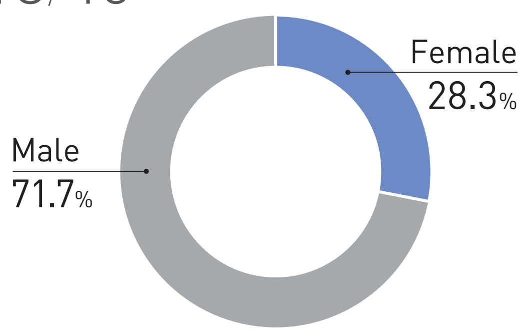
Yoshiko Yamashita
Representative Director and President

P.O. REAL ESTATE INC.

Takako Konishi
Representative Director and President

Female ratio of POLA ORBIS Group executives

13/46*



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

Actual practice of executive training

We delegate assessments to competent third-party organizations, relying on the "director competency" required for executives and personnel with management responsibilities, and we work to formulate and execute action plans. In addition, we provide coaching for approximately three executives annually. Each executive participant is assigned a coach, who follows his/her target in work situations, such as during meetings and in the office. The coach then provides the participant with opportunities for taking an objective perspective by observing behavioral traits, thus enhancing the participant's ability to energize the organization. In 2019, four people completed the program: one director at ORBIS, one director at DECENCIA, one corporate officer at POLA and one corporate officer at POLA CHEMICAL INDUSTRIES.

In addition, we provide opinion-sharing opportunities in IR meetings and explain management policies and business strategies to shareholders and investors. We develop human resources who can appropriately reflect in our management the opinions gained during such dialogues and contribute to the sustainable growth and enhancement of the corporate value of the Group.

Five-Year Summary of Selected Financial Data

Years ended December 31	Millions of yen (Except per share data) 2015	2016*4	2017	2018	2019	Thousands of U.S. dollars*1 (Except per share data) 2019
Operating Results						
Net sales*2	¥214,788	¥218,482	¥244,335	¥248,574	¥219,920	$2,007,308
Beauty Care	200,570	202,446	227,133	231,207	214,886	1,961,356
POLA	109,352	116,126	144,012	150,183	135,502	1,236,788
ORBIS	56,354	55,857	53,066	51,051	50,726	463,003
Overseas Brands	22,334	15,665	15,075	12,428	9,235	84,297
Brands under Development	12,529	14,796	14,978	17,544	19,421	177,268
Real Estate	2,951	3,043	2,694	2,707	2,619	23,907
Others	11,266	12,992	14,507	14,659	2,415	22,044
Operating income	22,511	26,839	38,881	39,496	31,137	284,206
Beauty Care	21,290	25,904	38,121	38,294	30,193	275,591
POLA	12,302	16,993	28,584	32,574	25,529	233,017
ORBIS	11,197	11,279	9,080	9,340	9,252	84,453
Overseas Brands	(2,194)	(3,210)	(823)	(4,316)	(3,794)	(34,631)
Brands under Development	(15)	841	1,278	695	(794)	(7,248)
Real Estate	1,265	1,395	1,082	1,001	1,021	9,321
Others	293	(133)	(314)	796	130	1,192
Operating margin (%)	10.5	12.3	15.9	15.9	14.2	
Profit attributable to owners of parent	14,095	16,328	27,137	8,388	19,694	179,764
Financial Position						
Net assets	180,635	183,282	198,845	188,797	191,069	1,743,975
Total assets	235,734	228,845	252,567	244,596	227,256	2,074,266
Cash Flows						
Cash flows from operating activities	28,379	23,561	35,333	30,283	21,127	192,840
Cash flows from investing activities	(7,331)	16,379	(22,065)	(9,125)	(12,514)	(114,221)
Cash flows from financing activities	(13,896)	(10,030)	(12,945)	(20,127)	(19,336)	(176,492)
Cash and cash equivalents at end of year	45,843	75,458	75,944	76,462	65,789	600,485
Depreciation and amortization	6,528	6,787	6,551	7,075	7,377	67,335
Capital expenditure	12,074	8,127	8,885	10,514	10,091	92,111
Financial Indicators						
Equity ratio (%)	76.5	79.9	78.6	77.0	83.9	
Return on equity (%)	7.8	9.0	14.2	4.3	10.4	
Return on assets (%)	9.7	11.7	16.3	15.7	13.0	
Price-earnings ratio (times)	31.5	32.7	32.2	78.3	29.4	
Per Share Data*3						
Net income per share (¥/$)	63.73	73.83	122.70	37.93	89.04	0.81
Net assets per share (¥/$)	815.00	826.65	897.26	851.78	862.00	7.87
Cash dividends per share (¥/$)	37.5	50	70	80	116	1.06

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1 = ¥109.56 as of December 31, 2019.
*2 Net sales do not include consumption taxes.
*3 On April 1, 2017, the Company executed a four-for-one stock split.
Net income per share and net assets per share have been calculated as if this stock split had occurred at the beginning of fiscal 2015.
*4 The Group's consolidated subsidiary has changed its accounting policy, recognizing deferred tax liabilities on intangible assets with an indefinite useful life that have been acquired as part of a business combination. Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment.

Management's Discussion and Analysis

Summary of business results

In fiscal 2019, the domestic cosmetics market saw a slowdown in growth, partly reflecting the impact of China's E-commerce Law coming into effect. Except for inbound consumption, the market temporarily increased in scale due to a rush in demand ahead of the consumption tax hike, which was followed by an ongoing downward retreat. Overseas cosmetics markets continued enjoying moderate expansion, buoyed by steady growth in Asia, especially China.

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

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

Analysis of operating results: Comparison of fiscal 2019 and fiscal 2018

Net sales

Net sales dipped 11.5% from the fiscal 2018 level, to ¥219,920 million. This was due to a decrease in domestic inbound sales of the POLA brand, as well as our withdrawal from the pharmaceuticals business in January 2019.

Cost of sales, and selling, general and administrative expenses

Cost of sales dipped 13.5% year on year, to ¥35,925 million. The cost of sales ratio—the cost of sales as a percentage of net sales—improved 0.4 percentage point, to 16.3%.

Selling, general and administrative expenses declined 8.8% from those of the previous year, to ¥152,857 million. This was due to a decrease in personnel expenses associated with the withdrawal from the pharmaceuticals business and a decline in sales commissions for the POLA brand (reported as variable costs). There was also a year-on-year decrease in costs incurred by Jurlique (following a one-time cost incurred the previous year). By contrast, we made upfront investments in new brands. As a result, the ratio of selling, general and administrative expenses to net sales increased from that of the previous year.

Operating income

Operating income dropped 21.2% year on year, to ¥31,137 million, owing to lower gross profit that paralleled the decrease in net sales. The operating margin declined 1.7 percentage points, to 14.2%.

Income before income taxes

Income before income taxes increased 85.6%, to ¥29,813 million. This resulted from extraordinary losses reported in the previous year—an impairment loss on non-current assets related to Jurlique and a loss on liquidation of business stemming from the decision to withdraw from the pharmaceuticals business.

Profit attributable to owners of parent

Given the above reasons, profit attributable to owners of parent increased 134.8% year on year, to ¥19,694 million. Net income per share increased to ¥89.04, from ¥37.93, in fiscal 2018.

Return on equity increased to 10.4%, from 4.3% a year earlier.

Key financial indicators

	2017	2018	2019
Cost of sales ratio	17.0%	16.7%	16.3%
Gross margin ratio	83.0%	83.3%	83.7%
SG&A ratio	67.0%	67.4%	69.5%
Personnel expenses	12.2%	12.4%	13.0%
Sales commissions	22.0%	22.4%	22.0%
Sales-related expenses	20.7%	19.3%	19.8%
Administrative and other expenses	12.2%	13.3%	14.7%
Operating margin	15.9%	15.9%	14.2%
Net income margin	11.1%	3.4%	9.0%

Business segment performance

Beauty Care

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

At POLA, we seek to further improve brand value and strengthen our business foundation. To this end, we launch highly functional products—centered on anti-aging and skin-brightening—while stepping up development of professional human resources who embody the value of the POLA brand. In fiscal 2019, POLA proactively engaged in product development. In May, for example, we launched *White Shot LX* and *White Shot MX*, which contain a new active brightening ingredient. In July, we refreshed our *APEX* line of personalized skincare products. In October, we revamped our aesthetic services, which incorporate state-of-the-art aesthetic theory, a personalized menu, new equipment and professional treatments. And in November, we launched *B.A GRANDLUXE III*, featuring the highest grade of facial serums in the POLA lineup. We also started selling *Wrinkle Shot Serum* at duty-free shops in Japan and abroad, as well as through domestic and cross-border online channels. We will continue our sequential overseas rollout and accelerate growth in overseas operations. Despite ongoing growth in Asia, POLA reported year-on-year declines in sales and operating income, due to a slowdown in inbound demand in the domestic market, impacted by the enactment of China's E-commerce Law.

At ORBIS, we are focusing on brand differentiation to enhance the brand's presence, with the aim of achieving renewed growth to become a highly profitable business. In fiscal 2019, we stepped up communication activities centered on products embodying the worldview of the ORBIS brand message—"Simply you. Simply beautiful"—while emphasizing a consistent message to the market. Highlights of the year included the *ORBIS U* anti-aging skincare series, which was completely revamped in October 2018, and *ORBIS DEFENCERA*, the first "food for specified health uses" with recognized skincare functions launched in Japan. Both lines helped attract new customers to the ORBIS brand. However, sales and operating income at ORBIS remained unchanged year on year. This was due to strategic efforts to narrow down our target customer base, which led to a decline in existing customers.

In our overseas brand portfolio, our primary goal is business growth, with Jurlique focusing on Australia and Asia, and H2O PLUS on its home market, the United States. In August 2019, Jurlique launched a new series of products containing rose extracts developed in-house, which helped attract new customers. However, sales of the Jurlique brand declined year on year. This was due to our focus on retail sales in Australia aimed at restoring brand presence, which led to a reduction in wholesale activities. We also held back product shipments in line with our shift from an agency format to a directly operated model in China. For the year, we posted a year-on-year decline in operating loss due to cost structure reforms—including the downsizing of head office functions—as well as active efforts in China to close unprofitable stores and reduce fixed costs. H2O PLUS reported a year-on-year decline in sales and an increase in operating loss, due to the discontinuation of business with some retailers and a decrease in shipments of hotel amenities. These results occurred despite our introduction of new products and efforts to enhance the content and accessibility of our website, aimed at expanding online sales channels.

In fiscal 2019, we recorded an increase in sales of brands under development. This was thanks to growth in overseas sales of THREE, which celebrated its 10th anniversary, as well as the contribution of three brands launched in 2018—Amplitude, ITRIM and FIVEISM x THREE. However, stepped-up investments aimed at the growth of the new brands led to a decline in operating income.

As a result, sales in the Beauty Care segment—sales to external customers—declined 7.1% year on year, to ¥214,886 million, and operating income fell 21.2%, to ¥30,193 million.

Real Estate

In the Real Estate segment, we are working to maintain and increase rents and reduce vacancy rates by providing attractive office environments with a focus on office buildings in urban areas. This operating segment also promotes rental residential properties under a business model suitable for families raising young children. In fiscal 2019, the segment reported a year-on-year decrease in sales as a result of some tenants moving out. However, we enjoyed an improvement in profitability thanks to measures to enhance the value of our buildings, as well as a revision of occupancy conditions to reflect market and competitive circumstances. As a result, operating income increased over that of the previous year.

Accordingly, sales in the Real Estate segment—sales to external customers—declined 3.2%, to ¥2,619 million, and operating income rose 2.0%, to ¥1,021 million.

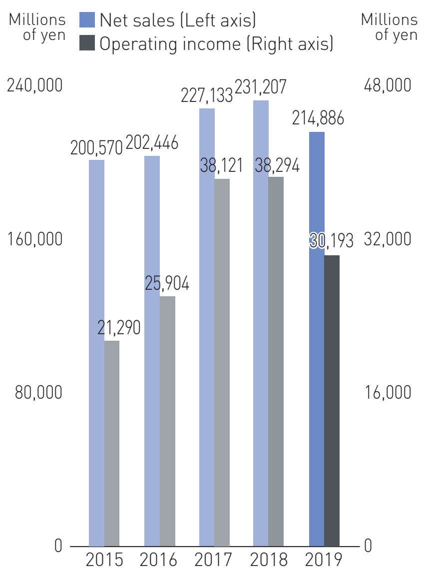
Others

The Others segment covers the building maintenance business.

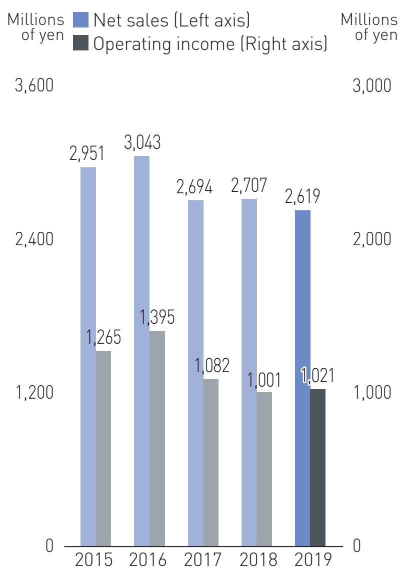
The building maintenance business involves the management and operation of buildings. In fiscal 2019, sales and operating income fell below previous-year levels due to a decline in orders from construction projects.

In addition, the POLA ORBIS Group withdrew from the pharmaceuticals business in January 2019. Accordingly, sales in the Others segment—sales to external customers—declined 83.5%, to ¥2,415 million, and operating income fell 83.6%, to ¥130 million.

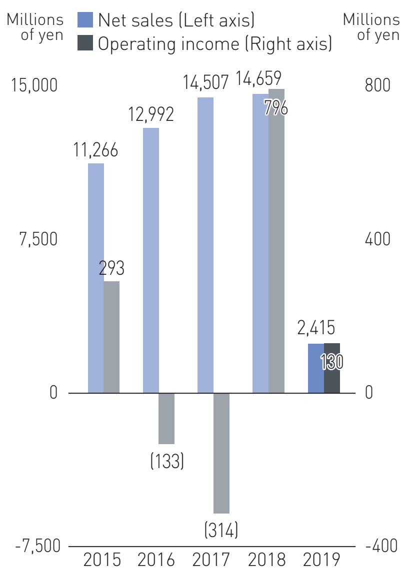
Beauty Care



Real Estate



Others



Analysis of financial position

Assets, liabilities and net assets

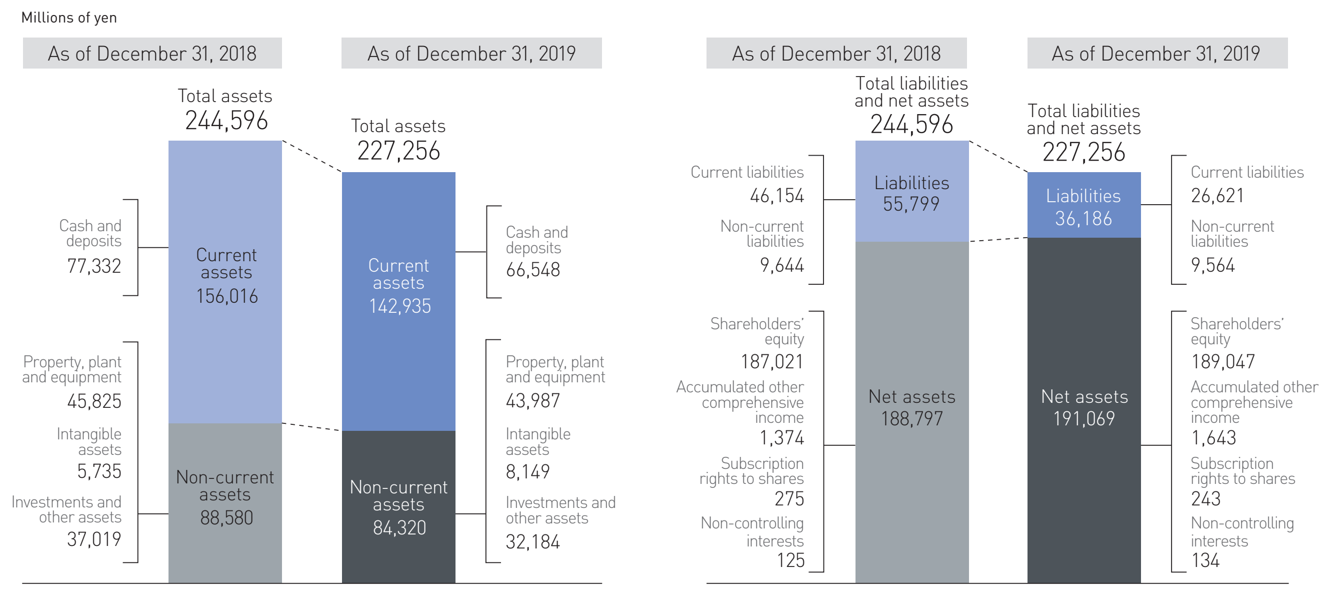
Assets

As of December 31, 2019, total assets amounted to ¥227,256 million, down 7.1% from those of a year earlier. Main factors boosting assets were a ¥1,921 million increase in short-term investments in securities and a ¥2,419 million increase in software. By contrast, there was a ¥10,784 million decrease in cash and deposits, a ¥5,661 million decrease in notes and accounts receivable - trade, and a ¥3,349 million decrease in merchandise and finished goods.

Liabilities

Total liabilities at fiscal year-end stood at ¥36,186 million, down 35.1% from those of a year earlier. The main factor boosting liabilities was a ¥669 million increase in lease obligations. By contrast, there was a ¥2,390 million decrease in notes and accounts payable - trade, a ¥2,435 million decrease in accounts payable - other, a ¥4,057 million decrease in income taxes payable and a ¥9,906 million decrease in provision for loss on business liquidation.

Overview of consolidated balance sheets



Net assets
Net assets at fiscal year-end totaled ¥191,069 million, up 1.2% from those of a year earlier. This was mainly due to a ¥19,694 million increase in profit attributable to owners of parent, which contrasted with a ¥17,700 million decrease in dividends from surplus.

Cash flows

The balance of cash and cash equivalents as of December 31, 2019, was ¥65,789 million, down ¥10,673 million from the end of the previous fiscal year.

Cash flows from operating activities
Net cash provided by operating activities amounted to ¥21,127 million, down 30.2% from that of the previous year. Main inflows included ¥29,813 million in income before income taxes, ¥7,377 million in depreciation and amortization, a ¥689 million impairment loss, a ¥607 million decrease in notes and accounts receivable - trade, and a ¥1,066 million decrease in inventories. Main outflows included a ¥675 million increase in provision for point program, a ¥917 million decrease in notes and accounts payable - trade, and ¥16,319 million in income taxes paid.

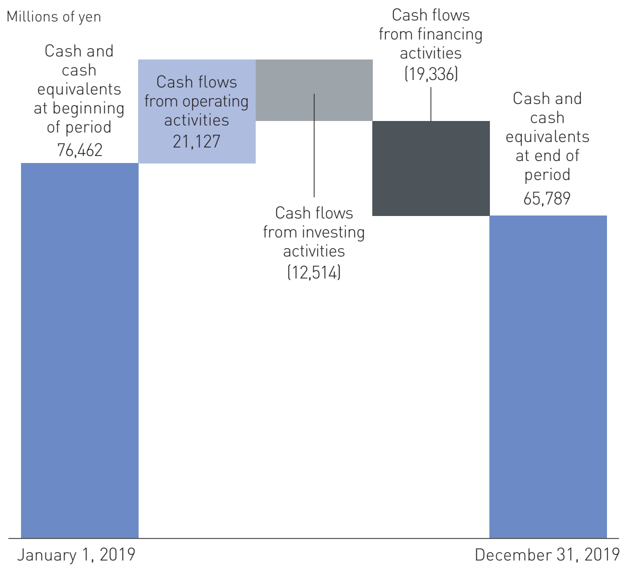
Cash flows from investing activities
Net cash used in investing activities totaled ¥12,514 million, up 37.1% from that of the previous year. The main inflow was ¥25,510 million in proceeds from sales and redemption of short-term investments in securities. Main outflows were ¥11,900 million in purchase of short-term investments in securities associated with management of surplus funds in accordance with our fund management plan, ¥14,390 million in purchase of investments in securities, ¥4,589 million in purchase of property, plant and equipment, and ¥4,730 million in purchase of intangible assets.

Cash flows from financing activities
Net cash used in financing activities was ¥19,336 million, down 3.9% from that of the previous year. This was mainly due to ¥1,638 million in repayments of lease obligations of ¥17,697 million in dividends paid.

Sources of funds and policy on fund liquidity
POLA ORBIS HOLDINGS ensures the availability of the funds deemed necessary to maintain business activities. As for future applications of funds, POLA ORBIS HOLDINGS will emphasize investment in R&D to create new value, capital investment to open or renovate shops and boost productivity, and efforts to create and develop new brands, including M&A opportunities. The goal is to generate future cash flow from these activities. Note that 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 ¥66,548 million as of December 31, 2019, down 10,784 million from a year earlier.

Overview of consolidated statement of cash flows



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

Fiscal 2020 forecast

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

Our consolidated performance forecasts for fiscal 2020 take into account a decrease in inbound demand due to the spread of COVID-19, the effect of some store closures and other factors on our domestic business. Our specific consolidated forecasts are net sales of ¥190,000 million (down 13.6% year on year), operating income of ¥19,000 million (down 39.0%), ordinary income of ¥16,500 million (down 46.1%) and profit attributable to owners of parent of ¥8,400 million (down 57.3%).

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 2020 forecast

		YoY change	
Millions of yen	FY2020 Full Year	Amount	Percentage
Net sales	190,000	(29,920)	(13.6)
Beauty Care	185,400	(29,486)	(13.7)
Real Estate	2,300	(319)	(12.2)
Others	2,300	(115)	(4.8)
Operating income	19,000	(12,137)	(39.0)
Beauty Care	18,550	(11,643)	(38.6)
Real Estate	800	(221)	(21.7)
Others	150	19	14.9
Reconciliations	(500)	(292)	—
Profit attributable to owners of parent	8,400	(11,294)	(57.3)

Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Assets			
Current assets			
Cash and deposits (Notes 4 and 17)	¥ 66,548	¥ 77,332	$ 607,412
Notes and accounts receivable – trade (Note 17)	21,624	27,285	197,374
Short-term investments in securities (Notes 4, 17 and 18)	24,518	22,597	223,794
Merchandise and finished goods	13,684	17,034	124,907
Work in process	853	923	7,790
Raw materials and supplies	5,163	6,008	47,126
Other	11,617	6,230	106,040
Allowance for doubtful accounts (Note 17)	(1,074)	(1,396)	(9,809)
Total current assets	142,935	156,016	1,304,633
Property, plant and equipment (Note 12)			
Buildings and structures	53,331	56,324	486,780
Machinery, equipment and vehicles	9,387	11,814	85,683
Land	14,094	14,675	128,642
Leased assets	8,082	7,579	73,770
Construction in progress	253	379	2,317
Other	19,443	17,555	177,466
Total property, plant and equipment	104,592	108,327	954,658
Accumulated depreciation	(60,605)	(62,502)	(553,170)
Net property, plant and equipment	43,987	45,825	401,488
Intangible assets			
Right of trademark	31	29	288
Software	8,019	5,600	73,198
Other intangible assets, net	98	105	900
Net intangible assets	8,149	5,735	74,386
Investments and other assets			
Investments in securities (Notes 17 and 18)	20,301	22,737	185,304
Long-term loans receivable	67	71	612
Deferred tax assets (Note 14)	7,386	9,859	67,423
Other	4,602	4,610	42,006
Allowance for doubtful accounts (Note 17)	(173)	(260)	(1,587)
Total investments and other assets	32,184	37,019	293,759
Total non-current assets	84,320	88,580	769,633
Total assets	¥227,256	¥244,596	$2,074,266

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)
	2019	2018	2019
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 17)	¥ 3,129	¥ 5,519	$ 28,561
Lease obligations (Note 6)	1,401	731	12,790
Accounts payable – other (Note 17)	12,813	15,249	116,957
Income taxes payable	1,374	5,431	12,545
Provision for bonuses	1,490	1,585	13,604
Provision for directors' bonuses	36	40	336
Provision for sales returns	61	26	561
Provision for point program	2,872	3,547	26,215
Provision for loss on business liquidation	—	9,906	—
Other	3,442	4,115	31,422
Total current liabilities	26,621	46,154	242,990
Non-current liabilities			
Provision for share benefits for directors	36	—	334
Lease obligations (Note 6)	1,590	1,132	14,520
Net defined benefit liability (Note 7)	3,872	4,236	35,349
Provision for environmental measures	52	52	475
Other	4,012	4,223	36,622
Total non-current liabilities	9,564	9,644	87,301
Total liabilities	36,186	55,799	330,291
Net assets (Note 8)			
Shareholders' equity			
Common stock			
Authorized: 800,000,000 shares			
Issued: 229,136,156 shares at December 31, 2019 and 229,136,156 shares at December 31, 2018	10,000	10,000	91,274
Capital surplus	80,785	90,240	737,360
Retained earnings	100,915	88,968	921,097
Treasury stock, at cost (7,916,253 shares at December 31, 2019 and 7,956,853 shares at December 31, 2018)	(2,652)	(2,188)	(24,215)
Total shareholders' equity	189,047	187,021	1,725,516
Accumulated other comprehensive income (Note 13)			
Unrealized gain on available-for-sale securities	(62)	2	(567)
Foreign currency translation adjustments	2,047	2,063	18,688
Remeasurements of defined benefit plans	(341)	(691)	(3,121)
Total accumulated other comprehensive income	1,643	1,374	15,000
Subscription rights to shares (Notes 8 and 23)	243	275	2,227
Non-controlling interests	134	125	1,232
Total net assets	191,069	188,797	1,743,975
Total liabilities and net assets	¥227,256	¥244,596	$2,074,266

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)
	2019	2018	2019
Net sales (Note 20)	¥219,920	¥248,574	$2,007,308
Cost of sales (Notes 9, 10 and 20)	35,925	41,521	327,907
Gross profit	183,995	207,052	1,679,401
Selling, general and administrative expenses (Notes 9, 11 and 20)	152,857	167,556	1,395,195
Operating income	31,137	39,496	284,206
Other income (expenses) (Notes 12 and 20)			
Interest and dividend income	191	209	1,752
Loss on valuation of investment securities	(180)	—	(1,643)
Compensation expenses	(332)	—	(3,036)
Interest expenses	(84)	(59)	(768)
Foreign exchange loss	(227)	(834)	(2,080)
Settlement received	286	—	2,617
Gain on sales of non-current assets	0	2	2
Gain on reversal of subscription rights to shares	—	26	—
Loss on disposal of non-current assets	(345)	(440)	(3,153)
Impairment loss (Note 20)	(689)	(11,426)	(6,289)
Loss on business liquidation	—	(10,327)	—
Other, net	55	(581)	508
	(1,324)	(23,432)	(12,089)
Income before income taxes	29,813	16,064	272,117
Income taxes (Note 14)			
Current	7,835	12,885	71,518
Deferred	2,276	(5,210)	20,775
	10,111	7,675	92,294
Net income	19,701	8,389	179,823
Net income attributable to non-controlling interests	6	0	60
Net income attributable to owners of parent	¥ 19,694	¥ 8,388	$ 179,764

Per share information (Note 21)	Yen		U.S. dollars (Note 3)
Basic net income per common share	¥ 89.04	¥ 37.93	$ 0.81
Diluted net income per common share	¥ 88.93	¥ 37.88	$ 0.81
Weighted average common shares outstanding (thousands of shares)	221,201	221,178	221,201
Cash dividends declared per common share	¥ 116.00	¥ 80.00	$ 1.05

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)
	2019	2018	2019
Net income	¥19,701	¥8,389	$179,823
Other comprehensive income (Note 13)			
Unrealized loss on available-for-sale securities	(64)	(6)	(592)
Foreign currency translation adjustments	(13)	(871)	(125)
Remeasurements of defined benefit plans	349	119	3,193
Total other comprehensive income (Note 13)	271	(758)	2,476
Comprehensive income	¥19,972	7,630	182,299
Comprehensive income attributable to:			
Owners of parent	19,963	7,635	182,217
Non-controlling interests	¥ 9	¥ (5)	$ 83

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

		Millions of yen							
	Common shares (Thousands) (Note 8)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 13)	Subscription rights to shares (Notes 8 and 23)	Non-controlling interests	Total net assets
Balance at January 1, 2018	229,136	¥10,000	¥90,240	¥ 98,273	¥(2,188)	¥2,127	¥260	¥ 131	¥198,845
Dividends from retained earnings				(17,694)					(17,694)
Net income attributable to owners of parent				8,388					8,388
Purchase of treasury stock					(0)				(0)
Disposal of treasury stock			0		0				0
Change in unrealized gain (loss) on available-for-sale securities						(6)			(6)
Foreign currency translation adjustments						(865)			(865)
Remeasurements of defined benefit plans						119			119
Subscription rights to shares							15		15
Non-controlling interests								(5)	(5)
Balance at January 1, 2019	229,136	10,000	90,240	88,968	(2,188)	1,374	275	125	188,797
Dividends from retained earnings			(9,953)	(7,747)					(17,700)
Net income attributable to owners of parent				19,694					19,694
Purchase of treasury stock					(517)				(517)
Disposal of treasury stock			497		52				549
Change in unrealized gain (loss) on available-for-sale securities						(64)			(64)
Foreign currency translation adjustments						(16)			(16)
Remeasurements of defined benefit plans						349			349
Subscription rights to shares							(31)		(31)
Non-controlling interests								9	9
Balance at December 31, 2019	229,136	¥10,000	¥80,785	¥100,915	¥(2,652)	¥1,643	¥243	¥134	¥ 191,069

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 13)	Subscription rights to shares (Notes 8 and 23)	Non-controlling interests	Total net assets
Balance at January 1, 2019	$91,274	$823,667	$ 812,050	$(19,971)	$12,547	$2,515	$1,149	$1,723,231
Dividends from retained earnings		(90,846)	(70,716)					(161,562)
Net income attributable to owners of parent			179,764					179,764
Purchase of treasury stock				(4,720)				(4,720)
Disposal of treasury stock		4,539		477				5,015
Change in unrealized gain (loss) on available-for-sale securities					(592)			(592)
Foreign currency translation adjustments					(148)			(148)
Remeasurements of defined benefit plans					3,193			3,193
Subscription rights to shares						(289)		(289)
Non-controlling interests							83	83
Balance at December 31, 2019	$91,274	$737,360	$921,097	$(24,215)	$15,000	$2,227	$1,232	$1,743,975

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)
	2019	2018	2019
Cash flows from operating activities			
Income before income taxes	¥ 29,813	¥ 16,064	$ 272,117
Adjustments to reconcile income before income taxes to net cash flows from operating activities:			
Depreciation and amortization	7,377	7,075	67,335
Impairment loss	689	11,426	6,289
Amortization of goodwill	—	58	—
Increase (decrease) in allowance for doubtful accounts	(145)	1,623	(1,331)
Increase (decrease) in provision for point program	(675)	(129)	(6,168)
Increase (decrease) in other provisions	118	5	1,080
Increase (decrease) in net defined benefit liability	213	25	1,947
Interest and dividend income	(191)	(209)	(1,752)
Interest expenses	84	59	768
Loss (gain) on valuation of investment securities	180	—	1,643
Foreign exchange loss (gain)	152	1,084	1,387
Loss (gain) on sales of non-current assets	1	4	16
Loss on disposal of non-current assets	345	440	3,153
Loss on business liquidation	—	10,327	—
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	607	1,639	5,544
Decrease (increase) in inventories	1,066	(4,915)	9,736
Increase (decrease) in notes and accounts payable – trade	(917)	(921)	(8,373)
Increase (decrease) in consumption taxes payable	(218)	23	(1,997)
Decrease (increase) in other assets	64	891	585
Increase (decrease) in other liabilities	(1,425)	(2,559)	(13,007)
Other	173	(127)	1,583
Subtotal	37,311	41,889	340,555
Interest and dividends received	219	257	2,006
Interest paid	(84)	(59)	(768)
Income taxes paid	(16,319)	(11,583)	(148,953)
Other	—	(220)	—
Net cash provided by operating activities	¥ 21,127	¥ 30,283	$ 192,840

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2019	2018	2019
Cash flows from investing activities			
Payments into time deposits	¥ (280)	¥ (245)	$ (2,562)
Proceeds from withdrawal of time deposits	385	352	3,516
Purchase of short-term investments in securities	(11,900)	(1,000)	(108,616)
Proceeds from sales and redemption of short-term investments in securities	25,510	20,884	232,847
Purchase of property, plant and equipment	(4,589)	(6,363)	(41,889)
Proceeds from sales of property, plant and equipment	64	203	591
Purchase of intangible assets	(4,730)	(2,783)	(43,179)
Payments for disposal of non-current assets	(41)	(193)	(381)
Purchase of investments in securities	(14,390)	(19,456)	(131,351)
Purchase of long-term prepaid expenses	(166)	(384)	(1,515)
Payments for lease and guarantee deposits	(347)	(342)	(3,171)
Proceeds from collection of lease and guarantee deposits	175	281	1,605
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(2,203)	—	(20,115)
Other	(0)	(77)	0
Net cash used in investing activities	(12,514)	(9,125)	(114,221)
Cash flows from financing activities			
Decrease in short-term loans payable	—	(1,600)	—
Repayments of lease obligations	(1,638)	(833)	(14,955)
Cash dividends paid	(17,697)	(17,694)	(161,537)
Purchase of treasury shares	(517)	(0)	(4,720)
Proceeds from sales of treasury shares	517	—	4,720
Other	0	0	0
Net cash used in financing activities	(19,336)	(20,127)	(176,492)
Effect of exchange rate changes on cash and cash equivalents	49	(511)	449
Net increase (decrease) in cash and cash equivalents	(10,673)	518	(97,424)
Cash and cash equivalents at beginning of year (Note 4)	76,462	75,944	697,909
Cash and cash equivalents at end of year (Note 4)	¥ 65,789	¥ 76,462	$ 600,485

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Note 1 Summary of Significant Accounting Policies

1.1. Basis of presentation

The accompanying consolidated financial statements of POLA ORBIS HOLDINGS INC. (the "Company") and its consolidated subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

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

1.2. Principles of consolidation

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

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

There were 31 subsidiaries included in the scope of consolidation at December 31, 2019 (35 at December 31, 2018). During fiscal 2019, POLA BEAUTY E-COMMERCE (Guangzhou) Co., Ltd. was newly established and included in the scope of consolidation. During fiscal 2019, all shares of POLA PHARMA INC. were transferred. POLA PHARMA INC. and its subsidiary, KAYAKU CO., LTD., were excluded from the scope of consolidation. The liquidation procedures for Jurlique USA, INC. were completed. XYZ 2019 LIMITED and H2O PLUS CANADA CORP. are in the process of liquidation and their importance has decreased. As a result, they were also excluded from the scope of consolidation.

XYZ 2019 LIMITED and H2O PLUS CANADA CORP. were excluded from the scope of affiliated companies accounted for using the equity method.

1.3. Unification of accounting policies applied to foreign subsidiaries

In accordance with Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" (issued and amended by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006, February 19, 2010, March 26, 2015, and March 29, 2017, respectively), the Company and its consolidated subsidiaries use uniformed accounting policies and procedures for like transactions and other events in similar circumstances in preparing consolidated financial statements. Financial statements of foreign consolidated subsidiaries prepared in accordance with either IFRS or accounting principles generally accepted in the United States ("U.S. GAAP") are accepted except for certain items, which are adjusted to comply with Japanese GAAP. The adjustments include the following:

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

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 risk of changes in value.

1.6. Inventories

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

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

1.7. Investments in securities

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

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

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

1.8. Derivatives

Derivatives are recorded at fair value.

1.9. Property, plant and equipment, excluding leased assets

Property, plant and equipment are stated at cost.

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

The primary useful lives are as follows:

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

Property, plant and equipment with acquisition cost greater than ¥100,000 and less than ¥200,000 are depreciated by the straight-line method over 3 years.

1.10. Intangible assets, excluding leased assets

Intangible assets are amortized using the straight-line method.

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

1.11. Leases

Finance leases that do not transfer ownership are capitalized and depreciated using the straight-line method over the lease term with zero residual value. Lease transactions other than finance lease transactions are accounted for as operating leases and the related payments are charged to income as incurred.

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

1.12. Impairment on non-current assets

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

1.13. Retirement benefits

a. Periodic allocation method for the estimated retirement benefit
   The retirement benefit obligation is calculated by allocating the estimated retirement benefit amount to periods up until the end of fiscal 2019 based on the benefit formula basis.

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

1.14. Allowance for doubtful accounts

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

1.15. Provisions

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

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

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

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

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

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

1.16. Research and development costs

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

1.17. Income taxes

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

1.18. Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average common shares outstanding during the period. The number of shares used in the computations was 221,201 thousand shares for fiscal 2019 (221,178 thousand shares for fiscal 2018). Diluted net income per share is computed for fiscal 2019 and fiscal 2018 due to the dilutive effect of subscription rights to shares arising from stock options.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years, including dividends to be paid after year-end.

The Company's shares held by the officer compensation BIP trust are included in shares of treasury stock that are deducted from the number of shares issued and outstanding at December 31, 2019 in the calculation of net assets per share and are included in shares of treasury stock that are deducted in the calculation of the average number of shares of treasury stock during the period for calculating net income per share and diluted net income per share. The number of shares of deducted treasury stock at December 31, 2019 is 148,600 and the average number of shares is 91,446 during the period.

1.19. Foreign currency translation

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

All assets and liabilities of foreign consolidated subsidiaries are translated into Japanese yen at year-end exchange rates, while revenue and expenses are translated at the average exchange rate for the year. Adjustments to translate those accounts into Japanese yen are presented as foreign currency translation adjustments and non-controlling interests in net assets of the accompanying consolidated balance sheets.

1.20. Amortization method and period of goodwill

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

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

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

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

Note 2 Changes in Accounting Policies

2.1. Changes in accounting policies

Group subsidiaries preparing their financial statements in accordance with IFRS adopted IFRS 16 "Leases" (issued in January 2016; hereafter, "IFRS 16") from the beginning of the current fiscal year. As a transitional measure upon the adoption of IFRS 16, the subsidiaries have recognized the cumulative effect of initially applying this standard on the initial date of application.

For leases that the Group, as lessee, previously classified as operating leases in applying IAS 17, right-of-use assets and lease liabilities are recognized at the date of initial application.

With the application of this standard, "Other" under "Property, plant and equipment" increased ¥1,270 million, "Other" under "Current liabilities" increased ¥713 million, and "Other" under "Non-current liabilities" increased ¥603 million in the consolidated balance sheets.

In addition, the impact of this change on profit or loss for the current fiscal year was immaterial.

2.2. Accounting standards and guidance issued but not yet adopted

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

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

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

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

2.3. Changes in presentation method

Application of Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company has applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, issued February 16, 2018, hereafter "the amendments") from the beginning of the first quarter of the current fiscal year. Accordingly, deferred tax assets and deferred tax liabilities are reclassified and included in the investments and other assets section and the non-current liabilities section, respectively.

As a result, ¥7,230 million of "Deferred tax assets" previously included under "Current assets" on the consolidated balance sheets as of December 31, 2018 has been reclassified and included as a part of ¥9,859 million of "Deferred tax assets" under "Investments and other assets."

Also, information on amounts by expiry date for tax loss carry-forwards and the deferred tax assets less the total valuation allowances has been added to Note 14 Income Taxes in accordance with explanatory notes 8 and 9 for the accounting standard for tax effect accounting determined by paragraphs 3 through 5 on the amendments. Comparative information for the previous fiscal year is not disclosed on Note 14 in accordance with transitional treatment determined by paragraph 7 on the amendments.

Consolidated Balance Sheets

"Software" has been presented independently as of December 31, 2019 due to its materiality. This item had been included in "Other" under "Intangible assets" for the previous fiscal year ended December 31, 2018. The consolidated balance sheets for the previous fiscal year have been restated in order to reflect this change.

As a result, ¥5,600 million of "Software" and ¥105 million of "Other" previously included as a part of ¥5,705 million of "Other" under "Intangible assets" on the consolidated balance sheets for the previous fiscal year have been reclassified.

Consolidated Statements of Cash Flows

"Purchase of treasury shares" has been presented independently for the fiscal year ended December 31, 2019 due to its materiality. This item had been included in "Other" under "Financing activities" for the previous fiscal year ended December 31, 2018. The consolidated statement of cash flows for the previous fiscal year has been restated in order to reflect this change.

As a result, ¥(0) million of "Purchase of treasury shares" and ¥0 million of "Other" previously included as a part of ¥(0) million of "Other" on the consolidated statements of cash flows for the previous fiscal year have been reclassified.

2.4. Additional Information

Performance-based Share-based Compensation Plan

At the 13th Annual Shareholders' Meeting, held on March 26, 2019, the Company decided to introduce a performance-based share-based compensation plan (the "Plan"), with a view toward materializing the Group's long-term vision and medium-term management plan, in order to further clarify the linkage between compensation for the applicable directors and corporate officers of the Company (excluding non-resident persons for Japanese tax purposes), as well as directors of its subsidiaries (excluding outside directors and non-residents for Japanese tax purposes) and the business performance of the Group, as well as its stock value, while enhancing motivation for boosting its corporate value over the medium to long term, and further promoting the common interest shared with shareholders.

1. Summary of the Plan
   The structure of the plan is based on the adoption of an arrangement referred to as the Board Incentive Plan Trust (the "BIP Trust"). The BIP Trust delivers and grants shares of the Company to the applicable directors, etc., along with the cash proceeds from the conversion thereof (collectively, the "shares in the Company, etc."), commensurate with their individual executive ranking and level of achievement against the corporate performance targets.
2. The Company's shares remaining in the trust
   The Company's shares remaining in the trust are booked in nets assets as treasury stock at their book value (excluding the amount of ancillary expenses) in the trust. The book value and corresponding number of shares of treasury stock at December 31, 2019 were ¥517 million and 148,600 shares, respectively.

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 = ¥109.56, the approximate rate of exchange prevailing at December 31, 2019. 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	2019	2018	2019
Cash and deposits	¥ 66,548	¥ 77,332	$ 607,412
Short-term investments in securities	24,518	22,597	223,794
Less:			
Time deposits with maturities exceeding three months	(758)	(869)	(6,927)
Stocks and bonds with maturities exceeding three months	(24,518)	(22,597)	(223,794)
Cash and cash equivalents	¥ 65,789	¥ 76,462	$ 600,485

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

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

	Millions of yen		Thousands of U.S. dollars
December 31	2019	2018	2019
Current assets	¥ 9,016	¥ —	$ 82,302
Non-current assets	2,879	—	26,282
Current liabilities	(3,195)	—	(29,171)
Non-current liabilities	(128)	—	(1,176)
Loss on sales of shares	(10,056)	—	(91,792)
Sales amounts of shares	(1,485)	—	(13,555)
Cash and cash equivalents	(718)	—	(6,560)
Net: Payment for sales of shares	¥ (2,203)	¥ —	$(20,115)

Note: Loss on sales of shares was booked in FY2018 as loss on business liquidation under extraordinary loss.

4.3. Significant non-cash transactions

	Millions of yen		Thousands of U.S. dollars
December 31	2019	2018	2019
Assets and liabilities related to finance leases	¥1,248	¥553	$11,395
Asset retirement obligations	¥ 87	¥134	$ 796

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

Note 5 Contingent Liabilities

Contingent liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2019	2018	2019
Guarantees of loans			
Employees' mortgages	¥8	¥15	$77
Total	¥8	¥15	$77

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	2019	2018	2019
Short-term loans payable	¥ —	¥ —	$ —
Long-term loans payable - current portion	—	—	—
Lease obligations - current portion	1,401	731	12,790
Long-term loans payable	—	—	—
Lease obligations - long term	1,590	1,132	14,520
Total debt	¥2,992	¥1,863	$27,310

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

December 31	2019	Maturity
Lease obligations - current portion	2.31%	—
Long-term loans payable	—	—
Lease obligations - long term	2.51%	2021 to 2029

At December 31, 2019, the annual maturities of loans payable and lease obligations excluding those within one year for the subsequent five years are as follows:

	Loans payable		Lease obligations	
Years ending December 31	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2021	—	—	¥789	$7,210
2022	—	—	378	3,456
2023	—	—	184	1,688
2024	—	—	¥ 84	$ 773

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 2019 are less than 1% of the total liabilities and net assets at the beginning and at the end of fiscal 2019, respectively.

Note 7 Retirement Benefits

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

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

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

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

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

7.1.1. Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
Years ended and at December 31	2019	2018	2019
Balance at the beginning of the year	¥10,456	¥10,726	$95,437
Service cost	677	733	6,179
Interest cost	28	33	260
Actuarial loss (gain)	39	(54)	364
Benefits paid	(626)	(976)	(5,714)
Decrease due to change of the scope of consolidation	(867)	—	(7,914)
Other	6	(6)	59
Balance at the end of the year	¥ 9,714	¥10,456	$88,672

7.1.2. Movement in pension assets

	Millions of yen		Thousands of U.S. dollars
Years ended and at December 31	2019	2018	2019
Balance at the beginning of the year	¥6,219	¥6,348	$56,767
Expected return on pension assets	85	95	777
Actuarial gain (loss)	135	(16)	1,236
Contribution paid by the employer	285	320	2,604
Benefits paid	(340)	(528)	(3,106)
Decrease due to change of the scope of consolidation	(542)	—	(4,956)
Balance at the end of the year	¥5,842	¥6,219	$53,323

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

	Millions of yen		Thousands of U.S. dollars
December 31	2019	2018	2019
Funded retirement benefit obligations	¥ 8,840	¥ 9,559	$ 80,693
Pension assets	(5,842)	(6,219)	(53,323)
	2,998	3,340	27,370
Unfunded retirement benefit obligations	874	896	7,979
Total net liability for retirement benefits in the consolidated balance sheets	3,872	4,236	35,349
Net defined benefit liability	3,872	4,236	35,349
Total net liability for retirement benefits in the consolidated balance sheets	¥ 3,872	¥ 4,236	$ 35,349

7.1.4. Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2019	2018	2019
Service cost	¥677	¥733	$6,179
Interest cost	28	33	260
Expected return on pension assets	(85)	(95)	(777)
Amortization of net actuarial loss (gain)	85	180	780
Amortization of past service cost	(9)	(51)	(85)
Other	108	176	987
Total retirement benefit costs	¥804	¥977	$7,345

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

(2) ¥120 million (U.S. $1,102 thousand) in fiscal 2019 and ¥194 million in fiscal 2018, which exceeded the provisions for additional lump sum retirement payment and lump sum retirement payment, were recorded under "Other."

7.1.5. Remeasurements of defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2019	2018	2019
Actuarial loss (gain)	¥479	¥218	$4,379
Past service cost	(10)	(51)	(95)
Total	¥469	¥166	$4,284

7.1.6. Accumulated remeasurements of defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
December 31	2019	2018	2019
Unrecognized actuarial loss	¥483	¥963	$4,416
Unrecognized past service cost	—	(10)	—
Total	¥483	¥953	$4,416

7.1.7. Items related to pension assets

7.1.7.1. Pension assets comprise

Years ended December 31	2019	2018
Life insurance general accounts	100%	100%

7.1.7.2. Long-term expected rate of return

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

7.1.8. Items related to actuarial assumptions

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

Years ended December 31	2019	2018
Discount rate	0.5%	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, 2019.

7.2. Defined contribution pension plans

Consolidated subsidiaries' required contributions to defined contribution pension plans were ¥10 million (U.S. $97 thousand) in fiscal 2019 (¥26 million in fiscal 2018).

Note 8 Net Assets

Information regarding changes in net assets is summarized as follows:

8.1. Shares issued and outstanding / Treasury stock

	Common stock	
Shares	Shares issued	Treasury stock
Balance at January 1, 2018	229,136,156	7,957,837
Increase	—	16
Decrease	—	1,000
Balance at January 1, 2019	229,136,156	7,956,853
Increase (note)	—	148,600
Decrease (note)	—	189,200
Balance at December 31, 2019	229,136,156	7,916,253

Note: The number of shares of treasury stock at December 31, 2019 includes the Company's shares held by the officer compensation Board Incentive Plan (BIP) trust (148,600 shares).

Treasury stock

Increase due to purchase based on the trust contract of BIP:	148,600
Decrease due to disposal by allocation to third party (BIP):	148,600
Decrease due to the exercise of stock option rights:	40,600

8.2. Subscription rights to shares

Year ended December 31, 2019

			Number of shares issued				Millions of yen	Thousands of U.S. dollars
Name of company	Details of subscription rights to shares	Type of shares issued	At beginning of year	Increase	Decrease	At end of year	Balance at December 31, 2019	
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥243	$2,227
	Total		—	—	—	—	¥243	$2,227

Year ended December 31, 2018

			Number of shares issued				Millions of yen
Name of company	Details of subscription rights to shares	Type of shares issued	At beginning of year	Increase	Decrease	At end of year	Balance at December 31, 2018
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥275
	Total		—	—	—	—	¥275

8.3. Dividends

8.3.1. Dividends paid in fiscal 2019

Year ended December 31, 2019

		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, 2019	Common stock	¥9,953	$90,846	¥45.00	$0.41	December 31, 2018	March 27, 2019
Board of Directors' Meeting on July 30, 2019	Common stock	¥7,747	$70,716	¥35.00	$0.32	June 30, 2019	September 9, 2019

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

8.3.2. Dividends paid in fiscal 2018

Year ended December 31, 2018

		Millions of yen	Yen		
Resolution	Type of shares	Total dividends	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 27, 2018	Common stock	¥9,953	¥45.00	December 31, 2017	March 28, 2018
Board of Directors' Meeting on July 30, 2018	Common stock	¥7,741	¥35.00	June 30, 2018	September 7, 2018

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

Year ended December 31, 2019

			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 24, 2020	Common stock	Retained earnings	¥17,930	$163,662	¥81.00	$0.74	December 31, 2019	March 25, 2020

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

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

Year ended December 31, 2018

			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, 2019	Common stock	Capital surplus	¥9,953	¥45.00	December 31, 2018	March 27, 2019

Note 9 Research and Development Costs

Research and development costs of ¥4,725 million (U.S. $43,132 thousand) and ¥5,009 million were expensed for fiscal 2019 and 2018, respectively, as incurred, and included in selling, general and administrative expenses and cost of sales.

Note 10 Cost of Sales

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2019	2018	2019
Reversal of provision for sales returns	¥26	¥27	$241
Provision for sales returns	¥61	¥26	$561

Note 11 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2019	2018	2019
Sales commission	¥ 48,376	¥ 55,664	$ 441,553
Promotion expenses	22,698	24,518	207,182
Packing and transportation expenses	5,034	5,217	45,948
Advertising expenses	11,486	12,584	104,846
Provision of allowance for doubtful accounts	98	1,621	897
Provision for point program	2,657	3,379	24,256
Salaries, allowances and bonuses	21,343	22,752	194,807
Welfare expenses	3,966	4,271	36,208
Retirement benefit expenses	758	894	6,919
Provision for bonuses	1,358	1,532	12,404
Depreciation and amortization	5,279	4,945	48,190
Amortization of goodwill	—	58	—
Other	29,798	30,115	271,984
Total	¥152,857	¥167,556	$1,395,195

Note 12 Other Income (Expenses)

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2019	2018	2019
Others	¥0	¥2	$2
Total	¥0	¥2	$2

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2019	2018	2019
Buildings and structures	¥ 70	¥165	$ 644
Machinery, equipment and vehicles	18	7	171
Removal and demolition	38	216	354
Software	77	6	706
Others	140	44	1,279
Total	¥345	¥440	$3,153

12.3. Impairment loss consists of the following:

Year ended December 31, 2019			Millions of yen	Thousands of U.S. dollars
Location	Function	Type	2019	2019
Japan	Stores and Business assets	Buildings and structures, Property, plant and equipment (Other), Software, and Investments and other assets (Other)	¥635	$5,803
China, Thailand	Stores and Business assets	Buildings and structures, Property, plant and equipment (Other), and Software	53	486
Total			¥689	$6,289

(1) Background of recognizing impairment loss

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

(2) Grouping method of assets

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

(3) Calculation methods of recoverable amount

The recoverable amount is measured by value-in-use based on future cash flows.
The value-in-use is assessed at zero as future cash flows are not expected.

Year ended December 31, 2018			Millions of yen
Location	Function	Type	2018
Japan	Stores and offices	Buildings and structures, Leased assets, Property, plant and equipment (Other), Intangible assets (Other), and Investments and other assets(Other)	¥ 110
Australia, Singapore, Thailand, South Korea, etc.	Stores	Buildings and structures	375
Australia	Factories and Business assets	Buildings and structures, Machinery, equipment and vehicles, Leased assets, Property, plant and equipment(Other), Goodwill, Right of trademark and Intangible assets(Other)	10,880
Japan	Pharmaceuticals business office	Property, plant and equipment (Other) Intangible assets(Other)	60
Total			¥11,426

(1) Background of recognizing impairment loss

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

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

(2) Grouping method of assets

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

Factories and business assets are grouped by company unit.

(3) Calculation methods of recoverable amount

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

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

12.4. Loss on business liquidation

There was no loss on business liquidation incurred in fiscal 2019. Loss on business liquidation in fiscal 2018 was the estimated amount related to the share transfer of POLA PHARMA INC., which was resolved on November 26, 2018 by the Board of Directors.

Note 13 Information on Consolidated Statements of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2019	2018	2019
Unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	¥(76)	¥ 1	$ (702)
Reclassification adjustment	(5)	(10)	(51)
Amount before tax effect	(82)	(8)	(753)
Tax effect	17	2	161
Unrealized gain (loss) on available-for-sale securities, net of tax	(64)	(6)	(592)
Foreign currency translation adjustments			
Amount arising during the year	(11)	(871)	(108)
Reclassification adjustment	(1)	—	(17)
Amount before tax effect	(13)	(871)	(125)
Tax effect	—	—	—
Foreign currency translation adjustments	(13)	(871)	(125)
Remeasurements of defined benefit plans			
Amount arising during the year	95	37	872
Reclassification adjustment	373	129	3,412
Amount before tax effect	469	166	4,284
Tax effect	(119)	(47)	(1,091)
Remeasurements of defined benefit plans	349	119	3,193
Total other comprehensive income	¥271	¥(758)	$ 2,476

Note 14 Income Taxes

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

	Millions of yen		Thousands of U.S. dollars
December 31	2019	2018	2019
Deferred tax assets:			
Provision for bonuses	¥ 406	¥ 439	$ 3,707
Net defined benefit liabilities	1,191	1,283	10,875
Loss on valuation of inventories	949	546	8,671
Impairment loss	1,401	3,173	12,791
Loss on business liquidation	—	3,641	—
Provision for point program	885	1,091	8,080
Unrealized inter-company profit	1,605	1,687	14,658
Tax loss carry-forwards	9,305	8,234	84,935
Tax loss carry-forwards on liquidation of subsidiary	217	515	1,984
Enterprise tax payable	251	398	2,298
Asset retirement obligations	797	766	7,278
Other	1,813	1,271	16,555
Subtotal deferred tax assets	18,825	23,048	171,830
Valuation allowance for tax loss carry-forwards	(9,138)	—	(83,415)
Valuation allowance for total deductible temporary differences	(2,061)	—	(18,818)
Subtotal valuation allowance	(11,200)	(12,941)	(102,233)
Total deferred tax assets	7,625	10,106	69,597
Deferred tax liabilities:			
Unrealized gain (loss) on available-for-sale securities	(13)	(1)	(119)
Restoration cost for asset retirement obligations	(225)	(228)	(2,055)
Other	(0)	(17)	(7)
Total deferred tax liabilities	(238)	(247)	(2,181)
Deferred tax assets, net	¥ 7,386	¥ 9,859	$ 67,416

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

2019

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

	Thousands of U.S. dollars						
	2019						
December 31	1 year or less	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
Tax loss carry-forwards (a)	$ 1,893	$ 2,178	$ 1,700	$ 16,752	$ 1,193	$ 61,218	$ 84,935
Less valuation allowance	(1,723)	(1,633)	(1,515)	(16,345)	(1,193)	(61,007)	(83,415)
Deferred tax assets	$ 171	$ 545	$ 185	$ 407	$ —	$ 212	$ 1,520

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

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

Years ended December 31	2019	2018
Statutory income tax rate	30.6%	30.9%
Expenditure not allowable for income tax purposes (Entertainment expense, etc.)	0.3	0.7
Per capita inhabitants' tax	0.2	0.4
Increase (decrease) in valuation allowance	5.8	22.6
Amortization of goodwill	—	0.1
Impairment loss	—	1.4
Book value adjustment of investments	—	(6.8)
Tax credits for research and development costs	(1.4)	(2.3)
Other	(1.6)	0.8
Effective income tax rate	33.9%	47.8%

Note 15 Leases

(As a lessee)

15.1. Finance leases that do not transfer ownership

The finance leases primarily consist of interior furniture, fixtures and warehouse equipment for retail stores included in buildings and structures or other property, plant and equipment, and are depreciated using the straight-line method over the lease term with zero residual value.

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

15.2. Operating lease transactions

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

	Millions of yen		Thousands of U.S. dollars
December 31	2019	2018	2019
Due within 1 year	¥ 57	¥ 4	$ 523
Due after 1 year	156	8	1,431
Total	¥214	¥13	$1,954

Note 16 Investment and Rental Property

16.1. Overview

The Group owns office buildings and residential properties for lease in Tokyo and other areas. Net rental income was ¥852 million (U.S. $7,779 thousand) in fiscal 2019, (¥1,069 million in fiscal 2018) (rental income is recorded under sales and other income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and other expenses).

16.2. Fair value of investment properties

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

		Millions of yen		Thousands of U.S. dollars
		2019	2018	2019
Carrying amount				
	At beginning of year	¥18,388	¥16,915	$167,843
	Movement during the year	(311)	1,473	(2,843)
	At end of year	18,077	18,388	165,000
Fair value at end of year		¥56,684	¥54,985	$517,380

(1). The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.
(2). Components of change
Increase:
In fiscal 2019: Refurbishment of office buildings for lease: ¥289 million (U.S. $2,640 thousand)
In fiscal 2018: Acquisition of office buildings for lease and land: ¥1,789 million
Refurbishment of office buildings for lease: ¥210 million
Decrease:
In fiscal 2019: Depreciation on office buildings, residential properties and other properties for lease: ¥535 million (U.S. $4,887 thousand)
In fiscal 2018: Depreciation on office buildings, residential properties and other properties for lease: ¥653 million
(3). Method for calculating fair values
The fair values of major properties are determined by the amounts using appraisal certificates provided by independent real estate assessors. For other properties, however, the fair value of land is determined by the amount adjusted using the indices considered to properly reflect market price, and the fair values of depreciable assets such as buildings are determined by the carrying amounts on the consolidated balance sheets.

Note 17 Financial Instruments

17.1. Overview of financial instruments

17.1.1. Policies on financial instruments

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

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

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

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

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

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

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

17.1.3. Supplementary information on fair value of financial instruments

Fair value of financial instruments is based on the quoted price in an active market. A reasonable valuation technique is used if a quoted price is not available. The values may change under different assumptions as such calculation incorporates variable factors.

17.2. Fair value of financial instruments

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

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

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

	Thousands of U.S. dollars		
	2019		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	$ 607,412	$ 607,412	—
(ii) Notes and accounts receivable – trade (*1)	187,565	187,565	—
(iii) Investments in securities:			
Available-for-sale securities	402,466	402,466	—
Total assets	1,197,443	1,197,443	—
Liabilities			
(i) Notes and accounts payable – trade	28,561	28,561	—
(ii) Short-term loans payable	—	—	—
(iii) Accounts payable – other	116,957	116,957	—
Total liabilities	145,517	145,517	—

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

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

Assets

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

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

(iii) Investments in securities

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

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

Liabilities

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

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

Derivatives

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

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
December 31	Carrying amount		Carrying amount
Unlisted stock	¥397	¥134	$3,633
Capital contribution to investment in a limited partnership	328	4	3,000
Total	¥726	¥138	$6,633

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

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

	Millions of yen			
	2019			
December 31	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥ 66,548	—	—	—
Notes and accounts receivable – trade	20,549	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	4,307	5,630	—	—
Available-for-sale securities with maturities (other)	20,211	13,944	—	¥328
Total	¥111,616	¥19,575	—	¥328

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

	Thousands of U.S. dollars			
	2019			
December 31	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	$ 607,412	—	—	—
Notes and accounts receivable – trade	187,565	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	39,316	$ 51,391	—	—
Available-for-sale securities with maturities (other)	184,478	127,280	—	$3,000
Total	$1,018,771	$178,672	—	$3,000

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

There was no applicable information on the repayment schedule of loans payable in fiscal 2019 and 2018.

Note 18 Investments in Securities

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

	Millions of yen					
	2019			2018		
December 31	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	¥—	¥—	¥—	¥ 600	¥ 600	¥ 0
Other	—	—	—	1,707	1,708	0
Subtotal	—	—	—	2,307	2,309	1
Securities with carrying amount exceeding fair value						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	—	—	—	2,534	2,526	(8)
Other	—	—	—	40,353	39,650	(703)
Subtotal	—	—	—	42,888	42,176	(711)
Total	¥—	¥—	¥—	¥45,196	¥44,486	¥(709)

18.2. Non-marketable securities consist of the following:

	Millions of yen					
	2019			2018		
December 31	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount						
Government and municipal bonds	¥ —	¥ —	¥ —	¥—	¥—	¥—
Corporate bonds	3,110	3,104	6	—	—	—
Other	11,034	10,998	36	—	—	—
Subtotal	14,145	14,102	42	—	—	—
Securities with carrying amount exceeding fair value						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	6,827	6,845	(18)	—	—	—
Other	23,122	23,405	(283)	—	—	—
Subtotal	29,949	30,250	(301)	—	—	—
Total	¥44,094	¥44,352	¥(258)	¥—	¥—	¥—

December 31	Thousands of U.S. dollars 2019 Carrying amount	Fair value	Difference
Securities with fair value exceeding carrying amount			
Government and municipal bonds	$ —	$ —	$ —
Corporate bonds	28,393	28,335	58
Other	100,714	100,384	330
Subtotal	129,107	128,719	388
Securities with carrying amount exceeding fair value			
Government and municipal bonds	—	—	—
Corporate bonds	62,314	62,479	(165)
Other	211,044	213,628	(2,583)
Subtotal	273,358	276,106	(2,748)
Total	$402,466	$404,825	$(2,360)

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

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

	Millions of yen					
	2019			2018		
December 31	Cost of securities sold	Sales proceeds	Gain or loss on sales	Cost of securities sold	Sales proceeds	Gain or loss on sales
Other (foreign securities)	¥2,000	¥1,980	¥(19)	¥—	¥—	¥—

	Thousands of U.S. dollars		
	2019		
December 31	Cost of securities sold	Sales proceeds	Gain or loss on sales
Other (foreign securities)	$18,255	$18,075	$(180)

(The reason for sales)

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

18.4. Securities for which the holding purpose was changed

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

Note 19 Derivatives

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

In fiscal 2019, there were no applicable items.

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

Note: (1) Fair value was calculated based on the price provided by the counterparty financial institution.

Note 20 Segment Information

20.1. General information about reportable segments

A reportable segment is a component of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance.

The Group primarily develops, manufactures and markets cosmetics and related products. It promotes a multi-brand strategy of holding a range of brands and winning market share for each of its high-profile brands in order to satisfy the diversifying needs of its customers based on their values. Comprehensive strategies are planned and products are marketed by each brand name in Japan and overseas. In addition to its cosmetics business, various businesses are conducted to contribute to the Group's profits.

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

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

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

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

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

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

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the building maintenance business. The pharmaceuticals business, which was previously included in "Others," is excluded from the scope of the consolidation with the transfer of all shares of POLA PHARMA INC. at January 1, 2019.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥(207) million (U.S. $(1,897) thousand) includes inter-segment transaction eliminations of ¥3,731 million (U.S. $34,056 thousand) and corporate expenses of ¥(3,938) million (U.S. $(35,953) 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 ¥22,627 million (U.S. $206,534 thousand) includes inter-segment eliminations of ¥(88,602) million (U.S. $(808,713) thousand) and corporate assets of ¥111,230 million (U.S. $(1,015,246) thousand), not allocated to each segment. Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment and intangible assets are those related to corporate assets and inter-segment eliminations.
3. Segment income is adjusted for operating income reported in the consolidated statements of income.
4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment and intangible assets, respectively.

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

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and includes the pharmaceuticals and building maintenance businesses.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥(596) million includes inter-segment transaction eliminations of ¥3,090 million and corporate expenses of ¥(3,686) 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 ¥14,308 million includes inter-segment eliminations of ¥(104,730) million and corporate assets of ¥119,038 million, not allocated to each segment. Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment and intangible assets are those related to corporate assets and inter-segment eliminations.
3. Segment income is adjusted for operating income reported in the consolidated statements of income.
4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment and intangible assets, respectively.

	Thousands of U.S. dollars						
	2019						
	Reportable Segments			Others		Reconciliations	Consolidated total
Year ended or at December 31	Beauty Care	Real Estate	Subtotal	(Note 1)	Subtotal	(Note 2)	(Note 3)
Net sales							
Sales to external customers	$1,961,356	$ 23,907	$1,985,263	$22,044	$2,007,308	$ —	$2,007,308
Inter-segment sales or transfers	514	4,665	5,180	20,983	26,163	(26,163)	—
Total	1,961,871	28,572	1,990,443	43,028	2,033,470	(26,163)	2,007,308
Segment income	275,591	9,321	284,911	1,192	286,103	(1,897)	284,206
Segment assets	1,629,917	212,256	1,842,173	25,559	1,867,732	206,534	2,074,266
Other items							
Depreciation and amortization	61,004	5,262	66,266	19	66,285	1,050	67,335
Amortization of goodwill	—	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	$ 81,495	$ 3,633	$ 85,128	$ 496	$ 85,624	$ 6,487	$ 92,111

20.4. Related information

20.4.1. Sales information by product and service

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2019	2018	2019
Sales to external customers			
Cosmetics	¥207,741	¥221,776	$1,896,141
Fashion	7,144	9,431	65,215
Others	5,034	17,366	45,951
Total	219,920	¥248,574	$2,007,308

20.4.2. Information by geographical area

a. Sales

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2019	2018	2019
Japan	¥195,238	¥225,454	$1,782,021
Overseas	24,682	23,120	225,287
Total	¥219,920	¥248,574	$2,007,308

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

b. Property, plant and equipment

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2019	2018	2019
Japan	¥39,147	¥42,617	$357,318
Overseas	4,839	3,208	44,171
Total	¥43,987	¥45,825	$401,488

20.4.3. Information by customer

Information by customer is omitted, as there are no external customers for which sales account for more than 10% of net sales presented in the consolidated statements of income for fiscal 2019 and 2018.

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

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

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

	Thousands of U.S. dollars					
	2019					
	Reportable Segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	$6,289	—	$6,289	$—	$—	$6,289

Notes: The amount in "Others" was impairment loss associated with office for pharmaceuticals business for fiscal 2018.

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

There was no applicable information about amortization and balance of goodwill by reportable segment in fiscal 2019.

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

No gains arising from negative goodwill were recognized in fiscal 2019 and 2018.

Note 21 Per Share Information

The Company's shares held by the officer compensation BIP trust are included in shares of treasury stock that are deducted from the number of shares issued and outstanding at December 31, 2019 in the calculation of net assets per share and are included in shares of treasury stock that are deducted in the calculation of the average number of shares of treasury stock during the period for calculating net income per share and diluted net income per share. The number of shares of deducted treasury stock at December 31, 2019 is 148,600 and the average number of shares is 91,446 during the period.

For fiscal 2019 and 2018, 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 2019 and 2018 due to the dilutive effect of subscription rights to shares arising from stock options.

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

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	2019	2018	2019
Numerator:			
Net income attributable to owners of parent	¥19,694	¥8,388	$179,764
Amount not attributable to shareholders of common stock	—	—	—
Net income attributable to owners of parent associated with common stock	¥19,694	¥8,388	$179,764
Denominator:			
Weighted average number of common stock outstanding (shares)	221,201,512	221,178,693	221,201,512
	Yen		U.S. dollars
Basic net income per share	¥ 89.04	¥37.93	$ 0.81
	Millions of yen		Thousands of U.S. dollars
Adjustment for Numerator:			
Adjustment of net income attributable to owners of parent	—	—	—
Adjustment for Denominator:			
Increase in the number of common stock (shares)	253,813	281,602	253,813
(Of which, subscription rights to shares)	(253,813)	(281,602)	(253,813)
	Yen		U.S. dollars
Diluted net income per share	¥ 88.93	¥37.88	$ 0.81

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	2019	2018	2019
Numerator:			
Total net assets	¥191,069	¥188,797	$1,743,975
Amount deducted from total net assets	378	401	3,459
(Of which, subscription rights to shares)	(243)	(275)	(2,227)
(Of which, non-controlling interests)	(134)	(125)	(1,232)
Net assets attributable to common stock	¥190,690	¥188,395	$1,740,516
Denominator:			
Common shares outstanding used in the calculation of net assets per share (shares)	221,219,903	221,179,303	221,219,903
	Yen		U.S. dollars
Net assets per share	¥ 862.00	¥ 851.78	$ 7.87

Note 22 Related Party Transactions

There was no applicable information on related party transactions involving the Company or significant affiliates in fiscal 2019 and 2018 to be disclosed.

Note 23 Stock Options

23.1. Stock option-related expenses

There was no applicable information on share-based compensation expenses arising from stock options in fiscal 2019 (¥41 million in fiscal 2018).

23.2. Details of the stock options

23.2.1. Information on the stock options

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

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

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

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

23.2.2. Information on and changes to the stock options

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

a. Number of stock options

	Subscription rights to shares issued in fiscal 2018	Subscription rights to shares issued in fiscal 2017	Subscription rights to shares issued in fiscal 2016
Date of approval	March 28, 2018	April 3, 2017	March 31, 2016
Non-vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	10,960	20,200	20,320
Granted	—	—	—
Forfeited	2,560	—	—
Vested	—	—	—
Outstanding at end of year	8,400	20,200	20,320
Vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	—	1,520	1,920
Vested	—	—	—
Exercised	—	1,520	1,920
Forfeited	—	—	—
Outstanding at end of year	—	—	—

	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013
Date of approval	March 27, 2015	March 28, 2014	March 29, 2013
Non-vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	23,440	35,760	42,400
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Outstanding at end of year	23,440	35,760	42,400
Vested	(shares)	(shares)	(shares)
Outstanding at beginning of year	8,680	15,120	20,280
Vested	—	—	—
Exercised	4,240	8,640	11,440
Forfeited	—	—	—
Outstanding at end of year	4,440	6,480	8,840

	Subscription rights to shares issued in fiscal 2012
Date of approval	March 30, 2012
Non-vested	(shares)
Outstanding at beginning of year	52,760
Granted	—
Forfeited	—
Vested	—
Outstanding at end of year	52,760
Vested	(shares)
Outstanding at beginning of year	27,160
Vested	—
Exercised	12,840
Forfeited	—
Outstanding at end of year	14,320

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

b. Price information

	Subscription rights to shares issued in fiscal 2018	Subscription rights to shares issued in fiscal 2017	Subscription rights to shares issued in fiscal 2016
Date of approval	March 28, 2018	April 3, 2017	March 31, 2016
	Yen	Yen	Yen
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price at the time of exercise	—	2,640	2,640
Fair value of stock options on the grant date	¥3,838	¥1,909	¥1,831

	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2014	Subscription rights to shares issued in fiscal 2013
Date of approval	March 27, 2015	March 28, 2014	March 29, 2013
	Yen	Yen	Yen
Exercise price	¥ 1	¥ 1	¥ 1
Average stock price at the time of exercise	2,977	3,138	3,138
Fair value of stock options on the grant date	¥1,462	¥ 750	¥ 641

	Subscription rights to shares issued in fiscal 2012
Date of approval	March 30, 2012
	Yen
Exercise price	¥ 1
Average stock price at the time of exercise	3,016
Fair value of stock options on the grant date	¥ 458

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

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

There was no applicable information on the method used for estimating the fair value of stock options in fiscal 2019.

23.4. Method used for estimating the exercise of stock options

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

Note 24 Business Combination

Business Divestitures

At the Board of Directors' Meeting held on November 26, 2018, the Company resolved to transfer all shares of POLA PHARMA INC., which was a consolidated subsidiary of the Company, closed the share transfer agreement with Sun Pharma Global FZE INC. on the same date and completed the transfer of shares on January 1, 2019.

1. Summary of business divestiture

(1) Name of acquiring company
Sun Pharma Global FZE INC.
(2) Business description
Research, development, manufacture of ethical drugs, quasi-drugs, sales and import of ethical drugs, quasi-drugs and cosmetics
(3) Main reason for business divestiture
The Group is strengthening operations and improving corporate value by enhancing capital efficiency in order to improve domestic profitability, bring overseas operations solidly into the black overall and build a growth brand in the next generation in the Beauty Care segment. Moreover, the Group decided the stock transfer of POLA PHARMA INC. with the goals of improving investment efficiency by focusing management resources on the main beauty care business and ensuring the continued growth of POLA PHARMA INC.
(4) Date of business divestiture
January 1, 2019
(5) Overview of transaction, including legal form
Stock transfer with payment as compensation for future loss, etc.

2. Summary of accounting treatment

(1) Loss on sales of shares
¥10,056 million
(2) Appropriate book value and the main breakdown of assets and liabilities related to the transferred business and the main breakdown

Current assets	9,016 million
Non-current assets	2,879
Total assets	11,896
Current liabilities	3,195
Non-current liabilities	128
Total liabilities	3,324 million

(3) Accounting treatment

The amount of difference between the book value and disposition price in consolidation with POLA PHARMA INC. with the stock transfer and payment as compensation for future loss etc., paid to the acquiring company was included in loss on business liquidation under extraordinary loss in fiscal 2018.

3. Reportable segment in which divested business was included

The divested business is classified in "Other," not included in reportable segment.

4. Estimated amount of profit or loss related to divested business booked in consolidated statements of income in fiscal 2019.

The Company conducted this business divestiture at the beginning of fiscal 2019. As a result, profit or loss related to the divested business is not included in the consolidated statements of income for fiscal 2019.

Note 25 Significant Subsequent Events

There was no applicable information on significant subsequent events in fiscal 2019 to be disclosed.

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, 2019, 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, 2019, 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 24, 2020
Tokyo, Japan

A member firm of Ernst & Young Global Limited

Corporate Information (As of December 31, 2019)

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	4,048 (for the Group) 146 (for the Company) Full-time employees (Excluding those on loan to other companies, including those on loan from other companies)
Fiscal year-end	December 31
General meeting of shareholders	March
Business description	Business management of the entire Group
Head office	2-2-3 Nishigotanda, Shinagawa-ku, Tokyo 141-0031, Japan (Business activities conducted at 1-7-7 Ginza, Chuo-ku, Tokyo)
Stock listing	Tokyo Stock Exchange, First Section
TSE code	4927
Share register	1-4-5 Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation

Major Group Companies

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

Real Estate business
P.O. REAL ESTATE INC.

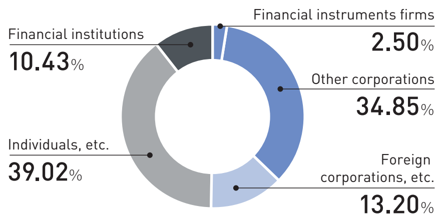
Other businesses
P.O. TECHNO SERVICE INC

Stock Information (As of December 31, 2019)

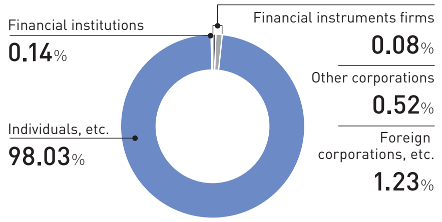
Total number of authorized shares	800,000,000
Total number of issued shares	229,136,156
Number of shareholders	50,080

Composition of Shareholders

By number of shares



By number of shareholders



Principal Shareholders

Shareholders	Number of shares held (Thousands)	Percentage of shareholding (%)
The POLA Art Foundation	78,616	35.5
Satoshi Suzuki	50,632	22.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,199	2.8
Japan Trustee Services Bank, Ltd. (Trust Account)	5,558	2.5
Naoko Nakamura	4,770	2.2
Hiromi Suzuki	3,113	1.4
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	2,441	1.1
JP MORGAN CHASE BANK 380634	1,755	0.8
Japan Trustee Service Bank, Ltd. (Trust Account 5)	1,730	0.8
POLA ORBIS Group Employees' Stockholding	1,551	0.7

Notes: 1. In addition to the above, the Company holds 7,767 thousand shares of treasury stock. Note that the Company introduced a Board Incentive Plan Trust for directors, though the Company's shares held in this trust are not included in treasury stock.
2. For number of shares held, figures are rounded down to the nearest thousand, and for shareholding ratios, figures are rounded to the first decimal place.
3. The percentage of shareholding is calculated by deducting shares of treasury stock.

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