

February 28, 2019

Company Name: POLA ORBIS HOLDINGS INC.  
Representative: Satoshi Suzuki,  
Representative Director and President  
TSE Code: 4927 (TSE 1st Section)  
Contact: Naotaka Hashi, General Manager,  
Corporate Communications Div.  
TEL: +81-3-3563-5517

## **Notice on the Introduction of a New Share-based Compensation Plan for Directors, etc. of POLA ORBIS HOLDINGS INC. and its Subsidiaries**

At the Board of Directors meeting held on February 28, 2019, POLA ORBIS HOLDINGS INC. (the “Company”) decided to submit a proposal regarding the introduction of a new share-based compensation plan (the “Plan”), to the 13th Annual Shareholders’ Meeting scheduled to be held on March 26, 2019 (the “Shareholders’ Meeting”). The Plan, as a replacement for the current stock option plan, shall be applicable to directors and corporate officers of the Company (excluding non-resident persons, for Japanese tax purposes; collectively, the “directors, etc. of the Company”), as well as directors of its subsidiaries (excluding outside directors and non-resident persons for Japanese tax purposes, the “directors of subsidiaries”; together with the directors, etc. of the Company, collectively the “applicable directors, etc.”). The details are outlined below.

### 1. Purpose of the Plan

- (1) POLA ORBIS Group (the “Group”) has formulated the medium-term management plan for the four-year period from 2017 to 2020, with a view toward materializing its vision to “maximize the unique character of each brand, and become a global corporate group that enriches the lives of people around the world,” under its mission to “sensitize the world to beauty,” thereby tackling its objectives to “improve profitability in Japan,” “promote a solid shift toward overall profitability from overseas operations,” and “build a brand structure for next-generation growth.”

The Plan shall, with a view toward materializing the aforementioned, be introduced in order to further clarify the linkage between the compensation for the applicable directors, etc. and the business performance of the Group, as well as its stock value, while enhancing motivation for boosting of its corporate value over medium to long term, and further promoting the common interest shared with shareholders.

- (2) The Plan is structured based on the adoption of a scheme referred to as a Board Incentive Plan Trust (the “BIP Trust”). BIP Trust offers the applicable directors, etc. delivery and grant (the “delivery, etc.”) of shares in the Company, 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, in a manner similar to that in a Performance Share plan or Restricted Stock plan in the United States.

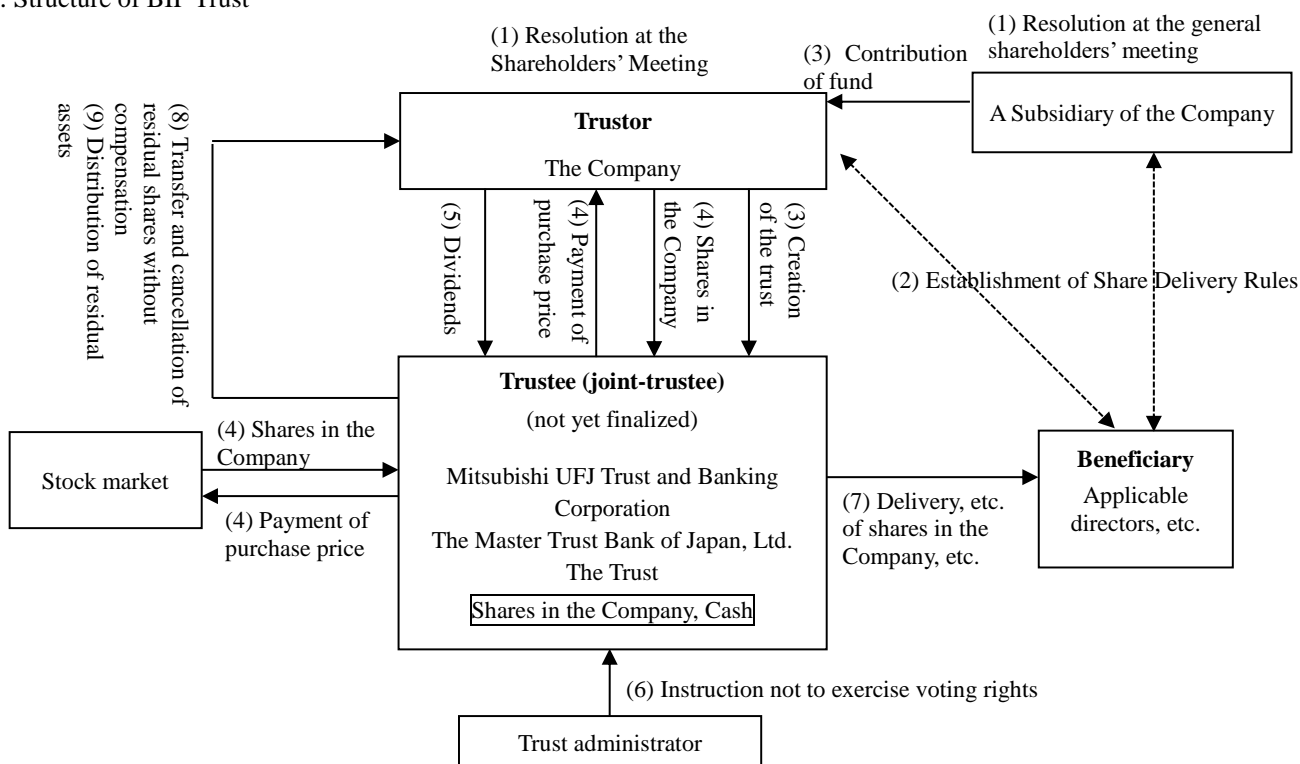
(3) Of the applicable directors, etc., those other than outside directors of the Company shall be provided performance share-based compensation that is linked to the level of achievement against the corporate performance targets under the Group’s medium-term management plan, etc., while outside directors of the Company shall be provided fixed share-based compensation commensurate with executive ranking.

(4) Regarding main revision from current stock option plan to the Plan

	Current stock option plan	The Plan
Type of Compensation	Stock Acquisition Rights	Shares of the Company
Method of Calculation	Based on executive ranking (fixed base amount)	Based on executive grade, vary in the range from 0% to 200%, depending on the level of achievement of performance targets (base amount to be variable)
Timing of Acquisition	After retirement, exercise of stock acquisition rights and acquire shares of the Company	During terms of office, acquire shares of the Company

Note) Outside directors of the Company shall be provided fixed share-based compensation commensurate with executive ranking under the Plan.

## 2. Structure of BIP Trust



- (1) The Company and its subsidiaries shall obtain approval of resolutions on the introduction of the Plan at the Shareholders’ Meeting, as well as at the general shareholders’ meeting at each subsidiary.
- (2) The Company and the subsidiaries shall, at the respective Board of Directors, establish the Share Delivery Rules as part of the Plan.
- (3) The Company shall entrust to the Trustee a fund to finance the share-based compensation of the

Company, along with a fund contributed by the subsidiaries that finances their own share-based compensation, thereby creating the Trust (the “Trust”) for the benefit of the applicable directors, etc. who meet the beneficiary requirements. The amount of funds that the Company and the subsidiaries are allowed to contribute shall not exceed the limits approved by the general shareholders’ meetings, as mentioned in (1) above.

- (4) The Trust shall, under the instruction of the trust administrator, acquire shares in the Company using the fund contributed in (3), either from the Company (through the disposal of treasury shares) or from the stock market. The number of shares to be acquired by the Trust shall not exceed the limit approved by the general shareholders’ meetings, as mentioned in (1) above.
- (5) Dividends shall be paid to the shares in the Company held in the Trust, in the same manner as for other shares in the Company.
- (6) Voting rights for the shares in the Company held in the Trust shall not be exercised, throughout the trust period.
- (7) During the trust period, the beneficiaries shall be assigned a certain number of points pursuant to the Share Delivery Rules at each company, and further receive delivery of the number of shares in the Company equivalent to 50% of the points assigned (disregarding fractional shares), while the number of shares in the Company equivalent to the remainder of the points shall be converted into cash within the Trust, pursuant to the provisions of the trust agreement, which shall be paid to the beneficiaries.
- (8) If residual shares remain at the expiry of the trust period, due to reasons such as failure to achieve the corporate performance targets, the Company shall, by altering the trust agreement or entrusting additional funds, continue to use the Trust as part of the Plan or as part of a similar but new share-based compensation plan, or alternatively, shall direct the Trust to transfer the residual shares to the Company without compensation, to achieve cancellation thereof, based on a resolution by the Board of Directors.
- (9) At the termination of the Trust, any residual assets remaining after the distribution to the beneficiaries shall belong to the Company, to the extent of the trust expense reserve, which is equal to the trust fund minus the funds used to acquire the shares. Meanwhile, the portion in excess of the trust expense reserve shall be donated to organizations in which neither the Company, nor the subsidiaries, nor the applicable directors, etc. has interest.

Note) If shares in the Company are exhausted within the Trust, as a result of the delivery, etc. of shares in the Company, etc. to the applicable directors, etc. that meet the beneficiary requirements, the Trust shall be terminated before the expiry of the trust period. The Company may, to the extent approved by the Shareholders’ Meeting, as well as the general shareholders’ meeting at each subsidiary, additionally entrust funds to the Trust to finance the acquisition of shares in the Company available for delivery, etc. to the applicable directors, etc., thereby facilitating the additional acquisition of shares in the Company by the Trust.

### 3. Description of the Plan

#### (1) Outline of the Plan

The Plan is a share-based compensation plan that offers the delivery, etc. of shares in the Company, etc. to the applicable directors, etc. through the Trust, for the fiscal years covered by the Group’s medium-term management plan (the “Applicable Period”). Of the applicable directors, etc., those other than outside directors

of the Company shall be provided performance share-based compensation linked to the level of achievement against the corporate performance targets under the Group's medium-term management plan, etc., while outside directors of the Company shall be provided fixed share-based compensation commensurate with executive ranking.

The initial Applicable Period shall comprise two fiscal years, namely the fiscal year ending December 31, 2019 and the fiscal year ending December 31, 2020, which are the remaining period of the Group's four-year medium-term management plan, as enforced from 2017. If the Trust is continued as described in (4) (ii) below, the fiscal years covered by the Group's medium-term management plan, to be announced thereafter shall constitute the Applicable Period.

(2) Resolution of the general shareholders' meeting for the introduction of the Plan

Matters essential for the introduction of the Plan, such as the upper limit of the contribution to the Trust and the maximum number of the shares in the Company, etc. available for the delivery, etc. to the applicable directors, etc. shall be determined by resolutions at the Shareholders' Meeting, as well as at the general shareholders' meeting at each subsidiary.

In the event of continuation of the Trust, as described in (4) (ii) below, the Company shall, at the expiry of the trust period, decide on the alteration to the trust agreement and the additional funding by a resolution of the Board of Directors, to the extent approved by the general shareholders' meeting at the respective companies.

(3) Applicable persons covered under the Plan (beneficiary requirements)

The applicable directors, etc. shall, subject to the following beneficiary requirements, receive delivery, etc. of the number of the shares in the Company, etc. equivalent to the number of points assigned (as prescribed in (5) below; hereinafter, the same) from the Trust, after completing the beneficiary-determination procedure set out separately.

- i) To have served as an applicable director, etc. during the Applicable Period (including those who became applicable directors, etc. after the inception date of the Plan)
- ii) To be a resident in Japan for Japanese tax purposes
- iii) To have neither departed from their position by either resignation or dismissal, due to a serious breach of contract or agreement, etc. with the Company or its subsidiary, with respect to their duties as the applicable director, etc., nor retired voluntarily from their position for personal reasons (excluding circumstances that are unavoidable, such as health issues, etc.), against the intention of the Company or its subsidiary
- iv) To otherwise meet the requirements deemed essential for the Plan to achieve its purpose as a share-based compensation plan

(4) Trust period

i) Initial trust period

Approximately two years, from May 2019 (not yet finalized) to the end of May 2021 (not yet finalized)

ii) Continuation of the Trust

The Company may, at the expiry of the trust period, continue the Trust as part of the Plan, or as part of a similar share-based compensation plan, by altering the trust agreement, or by additionally funding the Trust. In such case, the number of years covered under the medium-term management plan in place at the Group

at such point in time shall be established as the new Applicable Period, and the trust period of the Trust shall be extended for the same length of time as the new Applicable Period. The Company and its subsidiaries shall make additional contributions to the Trust, within the upper limit of the contribution to the Trust in the new Applicable Period, as approved by the general shareholders' meeting at each respective company, and continue to assign points to the applicable directors, etc. However, in the event of such additional funding to the Trust, if, as of the final day of the trust period before the extension, there remains shares in the Company held in the Trust (excluding those for which delivery, etc. has not been completed corresponding to the number of points assigned to the applicable directors, etc.), as well as cash (collectively the "residual shares, etc."), the sum of the amount equivalent to the residual shares, etc. and the amount of the additionally contributed trust funds shall not exceed the upper limit of the fund to be contributed to the Trust during the new Applicable Period, as approved by the resolution at the general shareholders' meeting of respective company. Such extension of the trust period shall not be limited to only once; thus, the trust period may again be extended in a similar manner, at a later date.

(5) The number of shares in the Company, etc. available for delivery, etc. to the applicable directors, etc.

The number of shares in the Company (including shares in the Company available for conversion) available for delivery, etc. to the applicable directors, etc. shall be determined based on the number of points assigned. Specifically, one share in the Company shall be delivered for each point, where a fraction less than one point shall be rounded up. In the event of an increase or decrease in the number of shares in the Company held in the Trust, due to a share split, gratis allocation of shares, or share consolidation, the Company and its subsidiaries shall adjust the number of shares in the Company available for delivery, etc. for each point, as well as the maximum number of shares in the Company, etc. as defined in (7) (ii) below, depending on the rate of such increase or decrease.

The number of points to be assigned to applicable directors, etc. shall be calculated as follows. For those who ceased to be applicable under the Plan at a certain point in the Applicable Period, due to retirement or other reasons, the number of points to be assigned shall be adjusted based on the period of service, etc.

i) For the applicable directors, etc. excluding outside directors of the Company

The number of points assigned based on executive grade for each fiscal year during the Applicable Period shall be accumulated, which shall then be multiplied by a performance-based coefficient, after the end of the Applicable Period.

\* The performance-based coefficient shall vary in the range from 0% to 200%, depending on the level of achievement of performance targets under the Group's medium-term management plan, etc. The targets used in the initial Applicable Period shall be criteria selected from among net sales, operating income, ROE, etc. at each company.

ii) For outside directors of the Company

The number of points assigned based on executive ranking for each fiscal year during the Applicable Period shall be accumulated for the purpose of calculation.

(6) Method and timing of the delivery, etc. of shares in the Company, etc. to the applicable directors, etc.

The applicable directors, etc. who meet the beneficiary requirements shall receive from the Trust delivery of

the number of shares in the Company equivalent to 50% of the accumulated points (disregarding fractional shares), after the end of the Applicable Period, in principle (or after their retirement, if they retire on expiry of their terms of office during the Applicable Period), while the number of shares in the Company equivalent to the remainder of the points shall be converted into cash within the Trust, which shall then be paid from the Trust to the applicable directors, etc.

In the event of the death of an applicable director, etc. within the trust period, the number of shares in the Company equivalent to the points accumulated at that point in time shall be converted into cash within the Trust, which shall then be paid from the Trust to the heir of the applicable director, etc. In the event that applicable directors, etc. change their status to non-resident persons for Japanese tax purposes within the trust period, the number of shares in the Company equivalent to the points accumulated at that point in time shall be converted into cash within the Trust, which shall then be paid from the Trust to the concerned directors, etc.

(7) Upper limit of the trust fund contributed to the Trust and the maximum number of the shares in the Company, etc. available for delivery, etc. from the Trust

The upper limit of the trust fund to be contributed to the Trust from the Company and its subsidiaries, and the maximum number of the shares to be delivered to the applicable directors, etc. during the Applicable Period shall be as follows, subject to approval by resolution of the general shareholders' meetings of the Company and the subsidiaries.

i) Upper limit of the trust fund to be contributed to the Trust for the purpose of share-based compensation for the applicable directors, etc. for the initial Applicable Period:

¥716 million (comprising ¥370 million for directors, etc. of the Company (including ¥14 million for outside directors) and ¥346 million for directors of subsidiaries)

However, if the Trust has been continued as described in (4) (ii) above, the upper limit of the trust fund to be contributed to the Trust for the purpose of share-based compensation for the applicable directors, etc. for the new Applicable Period shall be the amount calculated by multiplying the number of years of the new Applicable Period by ¥358 million per year (comprising ¥185 million for directors, etc. of the Company (including ¥7 million for outside directors) and ¥173 million for directors of subsidiaries).

\* The aforementioned upper limit of the trust fund has been calculated, in consideration of the level of compensation for the applicable directors, etc., in case of the maximum achievement against the corporate performance targets, under the medium-term management plan, etc., trust fees and expenses to the fund for acquiring shares.

ii) Maximum number of shares in the Company, etc. available for the delivery, etc. from the Trust for the purpose of share-based compensation for the applicable directors, etc. for the initial Applicable Period:

243,800 shares (comprising 125,800 shares for directors, etc. of the Company (including 4,800 shares for outside directors) and 118,000 shares for directors of subsidiaries)

However, if the Trust has been continued as described in (4) (ii) above, the maximum number of shares in the Company, etc. available for the delivery, etc. from the Trust for the purpose of share-based compensation for the applicable directors, etc. for the new Applicable Period shall be the number of shares calculated by multiplying the number of years of the new Applicable Period by 121,900 shares per year (comprising 62,900 shares for directors, etc. of the Company (including 2,400 shares for outside directors))

and 59,000 shares for directors of subsidiaries).

\* The maximum number of shares in the Company, etc. available for the delivery, etc. from the Trust has been determined in consideration of the aforementioned upper limit of the trust fund and in view of the past share price trend, etc.

(8) Method adopted by the Trust for acquiring shares in the Company

The Trust is to achieve the acquisition of shares in the Company either from the Company (through the disposal of treasury shares) or from the stock market. Details regarding the method for the acquisition of shares shall be decided and disclosed based on the resolution of the Board of Directors, after the resolution at the Shareholders' Meeting.

(9) Exercise of voting rights for shares in the Company held in the Trust

Voting rights for shares in the Company held in the Trust shall not be exercised during the trust period, in order to ensure the neutral position of the Trust, with no influence on the management of the Company.

(10) Treatment of Dividends on shares in the Company held in the Trust

Dividends on shares in the Company held in the Trust shall be determined based on the number of points calculated by multiplying the accumulated number of points for applicable directors, etc. by the performance-based coefficient, as well as in view of the amount of dividends paid for each record date during the Applicable Period. On such a basis, the amount equivalent to the dividend per share shall then be reserved for each point, and granted to the applicable directors, etc. along with the delivery, etc. of shares in the Company, etc. as described in (6) above. Dividends, excluding the portion reserved for the aforementioned payment to the applicable directors, etc., shall be used to pay for trust fees and trust expenses of the Trust.

(11) Treatment of residual shares/cash at the termination of the Trust

Residual shares arising at the expiry of the trust period shall be available for delivery to the applicable directors, etc. if the Trust is continuously used as part of the Plan or as part of a similar share-based compensation plan. Alternatively, if the Trust is terminated at the expiry of the trust period, such residual shares shall be transferred from the Trust to the Company without compensation, which shall be cancelled by the Company based on the resolution of the Board of Directors.

Meanwhile, the residual cash after the payment of dividends to the applicable directors, etc. as described in (10) above, as well as appropriation of a trust expense reserve, shall be utilized as funds for acquiring shares, if the Trust is continuously used after the expiry of the trust period, or shall alternatively be donated to organizations, in which neither the Company, nor its subsidiaries, nor the applicable directors, etc. has interest, if the Trust is terminated at the expiry of the trust period.

(Reference) Outline of the trust agreement

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

**【Parties in charge of trust/share administration】**

(1) Trust related administration	Mitsubishi UFJ Trust and Banking Corporation and the Master Trust Bank of Japan, Ltd. are to serve as the Trustee of the Trust in charge of trust administration.
(2) Share related administration	Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. is to be in charge of the delivery of shares in the Company to the beneficiaries, pursuant to the administrative service agreement.



## (Reference) Executive compensation of the Group

### (1) Basic philosophy

The Group regards executive compensation as one of the critical means for materializing the sustainable growth of the Group, as well as the medium- to long-term enhancement of its corporate value.

The Company, as a holding company, clearly defines the respective roles and responsibilities of directors, etc. of the Company, who are primarily tasked with making decisions regarding the overall management of the Group while supervising its business execution, as well as the directors of subsidiaries, who are delegated authority to execute business from the Company. As such, executive compensation of the Group shall be based on the actual performance results in the domain of such business execution, which provides intense motivation for the executives to achieve performance targets, not only over the short term, but also over the medium to long term.

In addition, the Company intends to further motivate executives to share the common interest with shareholders, by establishing a more focused linkage between their compensation and the stock value.

### (2) Compensation standard

The compensation standard is set at a level that is comparable with industry peers or companies of a similar size at home and abroad, and is commensurate with the role and level of responsibility of each individual, in consideration of the business environment of the Group, as well as its need to stay competitive vis-à-vis the external market.

### (3) Compensation structure

Executive compensation of the Group (excluding outside directors) consists of “basic compensation,” “annual bonus,” and “medium- to long-term incentive (performance share-based compensation),” while compensation for outside directors consists of “basic compensation” and “medium- to long-term incentive (non-performance share-based compensation).”

The medium- to long-term incentive is scheduled to be introduced as a new share-based compensation, subject to a resolution to approve the proposal for the introduction of such new compensation for executives, at the Shareholders’ Meeting scheduled to be held on March 26, 2019, as well as at the general shareholders’ meeting at each subsidiary.

Compensation structure for the applicable directors, etc. after introduction of the Plan

		Fixed compensation	Variable compensation		
		Basic compensation	Annual bonus	Medium- to long-term incentive (the Plan)	
				Performance-based	Non performance-based
Applicable directors, etc.	Directors, etc. of the Company				
	Directors (excluding outside directors)	●	●	●	
	Outside directors	●			●
	Corporate officers	●	●	●	
	Directors of subsidiaries				
	Directors (excluding outside directors)	●	●	●	

Note) Subject to a resolution to approve the proposal for introduction of the Plan, at the Shareholders' Meeting as well as at the general shareholders' meeting at each subsidiary, the Company will, in 2019 and thereafter, no longer newly grant compensation in the form of stock option plan for directors of the Company and directors of subsidiaries of the Company.

Note) The ratio of variable compensation with respect to the overall executive compensation shall be set at a level between 30% and 40%, depending on individual executive grade. Regarding the variable compensation, the "annual bonus" and "medium- to long-term incentive" vary respectively in the range from 0% to 200%, with the former depending on the Group's level of achievement of performance targets in each fiscal year, and the latter depending on the Group's level of achievement of performance targets under the medium-term management plan, etc.

(4) Process for determining executive compensation

In order to ensure objectivity and transparency in the process for determining the executive compensation, the Company has established the Compensation Advisory Committee, the majority of which is comprised by outside directors, as a voluntary advisory body to the Board of Directors. Based on deliberations at, and the report from the Compensation Advisory Committee, the executive compensation of the Group is determined by the Board of Directors. Thus, the introduction of the Plan shall first be deliberated by the Compensation Advisory Committee, and then submitted to the Shareholders' Meeting.