POLA ORBIS HOLDINGS

Corporate Report 2021



Vision

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

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. Our sustainability report and a database related to ESG are available for viewing on our website.
https://www.po-holdings.co.jp/en/csr/index.html

Time Frame

This report focuses on activities and results achieved in fiscal 2021—the 12 months from January 1, 2021 to December 31, 2021—but some fiscal 2022 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 2021 has been prepared on the basis of data available as of February 14, 2022.

Editorial Structure

The Corporate Communications Division, especially the IR team and the sustainability supervisory team, functions as the production office and coordinates with the Management Planning Division, the Human Resources Division and Group companies to compile this report.

In preparing it, team members met numerous times with Satoshi Suzuki, Representative Director and President, to discuss the report's structure and content. Disclosure was made with the approval of the Group CSR Committee chair.

WE SUPPORT UN GLOBAL COMPACT

SUSTAINABLE DEVELOPMENT GOALS

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鈴木郷史

Satoshi Suzuki
Representative Director and President

Drafted VISION 2029, a long-term management plan defining the Group's expansion into new domains. Seeking to be a collection of unique businesses that respond to diversifying values of "beauty."

Looking back on 2021 performance

With the spread of COVID-19 from the beginning of the year, the domestic cosmetics market shrank in 2021, as it did in 2020, owing to extended measures including declarations of a state of emergency to restrict activities and a commitment by citizens to stay at or near home. At the end of September 2021, after the state of emergency at that time was lifted, consumer spending appeared to rally, but uncertainty returned in early 2022 as variants of the disease that caused concern began to spread across the globe.

Nevertheless, even in this business environment, the POLA ORBIS Group saw a gradual recovery in business results, driven mainly by growth in POLA's domestic e-commerce operations and overseas businesses. All brands except ORBIS showed a year-on-year improvement in net sales, and operating income rebounded, reflecting an increase in gross profit and larger contributions to sales from POLA's highly profitable domestic e-commerce operations and from overseas businesses. Consequently, the operating margin returned to a level close to 10%. All told, net sales for fiscal 2021 rose 1.3% year on year, to ¥178.6 billion, and operating income jumped 22.8% year on year, to ¥16.8 billion.

By brand, POLA faced difficulties in its store operations, including consignment sales, but its domestic e-commerce business maintained high growth and its overseas businesses improved. In mainland China, a key market for POLA, COVID-19 safety measures remained in place even after lockdowns were lifted, which adversely impacted store operations, but annual sales climbed 38% year on year. On the profit front, POLA achieved a huge increase by restructuring its sales channels.

ORBIS shifted from campaign-centered promotions to a marketing strategy emphasizing lifetime value, which led to a decrease in the number of customers and a subsequent drop in sales. However, the brand successfully leveraged a strategy hinging on skincare and special care items, particularly those that improve wrinkles and brighten the skin, and was rewarded with higher sales in the skincare category. ORBIS seeks to transition to a customer structure built on repeat purchasing and expects to stem the outflow of customers and recover sales in fiscal 2022.

Overseas brands are moving out of the red, with progress toward profitability on track as expected. Jurlique posted higher sales and is making progress in improving its losses. In the brand's home market of Australia, the government used intermittent lockdowns to halt rising COVID-19 cases. As a result, Jurlique saw sluggish customer activity at stores in Australia, but in mainland China, a focus on social media–driven promotions led to brisk online sales. H2O PLUS marked higher sales but lower income, reflecting one-time expenses incurred in an effort to improve the cost structure.

Of brands under development, THREE was affected by channel specialization centering on department stores, continued to struggle in the point makeup category and sales declined. However, the brand pushed forward on restructuring aimed at turning a profit and lessened losses. Meanwhile, the e-commerce brand DECENCIA posted brisk sales to existing customers and, with a successful strategy to enhance cost efficiency, achieved double-digit improvement in income. If FUJIMI, recently brought under the Group umbrella, is excluded from performance results, brands under development reduced losses overall.

Drafted long-term management plan VISION 2029

Summary of 2022–2029 Long-Term Management Plan

POLA ORBIS HOLDINGS drafted the long-term management plan VISION 2029 to take the Group through 2029, which will mark the Group's 100th anniversary. After listing on the Tokyo Stock Exchange in 2010, the Company began working through three stages of a long-term management plan culminating in 2020. In 2010, in a market still reeling from the collapse of Lehman Brothers, management outlined a growth strategy that concentrated management resources into the skincare sector, where the Group's R&D and technological capabilities shone, while highlighting direct selling, a corporate strength. Efforts were focused on the evolution of a brand portfolio underpinned by a multi-brand strategy and development of overseas operations, but from 2019, sales and operating income turned downward, reflecting huge changes in the business environment due to the pandemic, notably, a drop in inbound demand and restrictions on store operations.

Current conditions in the cosmetics market indicate that COVID-19 is having less of an impact, and signs of recovery are gradually emerging. Nevertheless, demand is unlikely to return to a pre-pandemic level before 2024, as there are still challenges to overcome. In addition, looking at new trends in the market, we can see that the market has evolved, reflecting greater importance assigned to digital marketing as well as changing perceptions about sustainability and social issues. In overseas businesses, mainland China, where the cosmetics market is expected to keep growing at a high level, will remain a top priority for the POLA ORBIS Group.

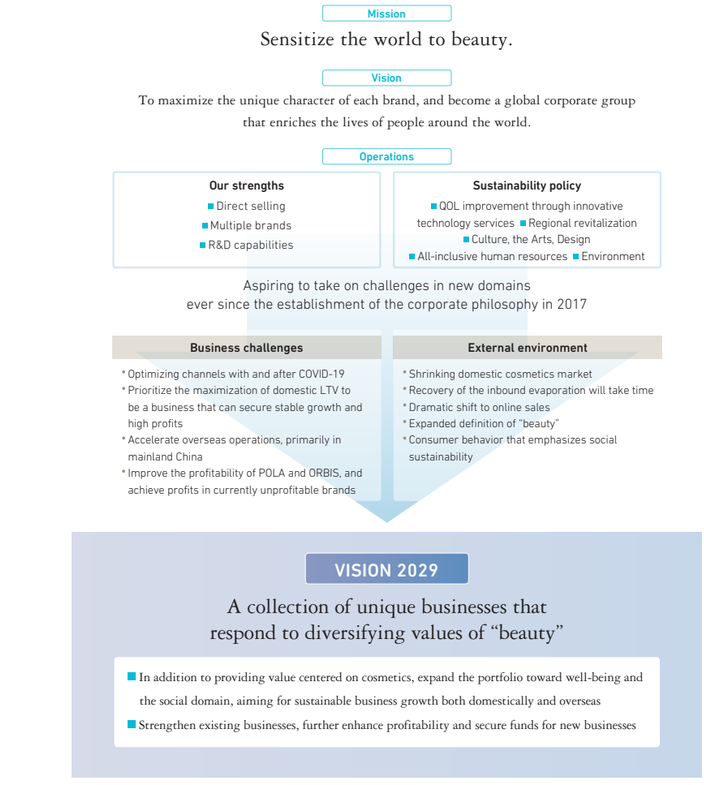
The long-term management plan launched in 2022 is based on the corporate philosophy adopted in 2017 that highlights the mission to "Sensitize the world to beauty" and a vision to "To maximize the unique character of each brand, and become a global corporate group that enriches the lives of people around the world." The Group's primary objectives—thinking about people everywhere and enhancing individual well-being—are embodied in this corporate philosophy. To achieve its stated objectives, the Group has embraced the potential of businesses beyond the mere extension of existing lines—that is, beyond the limited means of cosmetics—by venturing into new domains that transcend its current framework.

In addition, social environments have changed considerably in recent years, and fresh thinking about life values and consumer awareness among Generation Z is becoming standard. Key elements, namely, a wider definition of beauty and the provision of social value, are assuming greater significance. Embracing these changes, we defined our ideal image under VISION 2029 as a collection of unique businesses that respond to diversifying values of "beauty."

We aim to enrich the content of our business portfolio to include well-being and social domains while realizing sustainable business growth. We will strive to raise the profitability of the existing cosmetics business and then invest the profits from this business in new businesses. The concept

for the new business portfolio places cosmetics and well-being on a vertical axis and the individual and the social domain on a horizontal axis with activities transcending the realm of cosmetics—our current focus—under a broader context of well-being, that is, physical health, mental health and happiness, extending our presence into the social domain.

—VISION 2029—



Basic strategies in 2022–2029 Long-Term Management Plan

To realize VISION 2029, we will emphasize three basic strategies:

Basic Strategy 1: Develop the cosmetics business globally; reform and enhance the brand portfolio

Basic Strategy 2: Create new value and expand business domains

Basic Strategy 3: Strengthen research and technical strategy

For Basic Strategy 1, which is designed to develop the cosmetics business globally; reform and enhance the brand portfolio. In Japan, we aim to boost sales by applying the Online Merges with Offline model to flagship brands and maximize lifetime value by drawing on our strength in direct selling. We will determine return on investment for brands under development and new brands at an early stage and achieve profitable growth. Through these approaches, we expect domestic net sales to exceed the ¥180 billion mark in 2029.

Overseas, mainland China is our top-priority market, and POLA will reinforce branding investment matched to expansion of its store network, with an emphasis on stores offering facial treatments. Other brands will develop marketing channels such as e-commerce and business-to-business fine-tuned to each brand's characteristics. These measures should drive overseas net sales above the ¥100 billion mark in 2029.

Under Basic Strategy 2: Create new value and expand business domains, we seek to move beyond existing businesses centering on Cosmetics x Individual and into businesses that complement cosmetics with a well-being component and ones that offer value not just to the individual but to the social domain as a whole.

In the Well-being x Individual area, we are already developing health foods and pursuing business opportunities in AI consulting, aesthetic medicine, scents and artificial skin *(Mirror Skin)*. We are verifying the status of aesthetic medicine and other areas with business potential and believe research on artificial skin will be integral to next-generation pursuits.

In the Cosmetics x Social area, we have tapped do-it-yourself (DIY) cosmetics, specialized cosmetics for conditions like atopy and sustainable manufacturing as promising businesses. Of note, we expect that the DIY cosmetics business will make progress under the current medium-term management plan.

The Well-being x Social area is far outside the cosmetics realm. Here the goal is to use technology to satisfy people's emotional as well as physical health needs. We aim to cultivate a presence in several disciplines, including wellness tech, Femtech, food, travel and learning. For example, me-fullness, a wellness tech project already on the market, uses an app to digitally analyze the subscriber's state of mind, body condition and the balance between them, providing a truly satisfying experience that stimulates the subscriber's five senses.

We will also involve ourselves in regional revitalization by effectively using our real estate holdings. Our first project is to develop the New Aoyama Building. By incorporating aspects of culture and art into our real estate operations, we will breathe new life into this business.

Through Basic Strategy 2, we expect to have five new businesses up and running by 2029 with the business scale represented by net sales of between ¥2 billion and ¥3 billion.

Basic Strategy 3 aims to strengthen research and technical strategy that will underpin realization of Basic Strategy 1 and Basic Strategy 2. The approach to R&D investment calls for robust allocation of at least 2% of consolidated net sales and a broader range of research topics, from skin to people, feelings, bodies and the environment. We remain committed to expanding the new materials pipeline for cosmetics with world-first and industry-first results in mind, while also delving anew into skin research focusing on artificial skin *(Mirror Skin)*.

Mirror Skin exemplifies new value creation in the evolution of skin research. It will become the ultimate in personalized skincare, whereby an individual's skin is perfectly reproduced with iPS cells to address skin concerns at a level not possible with existing cosmetics. In addition, by engaging in so-called moonshot R&D to apply results gained through artificial skin research, we hope to realize diverse outputs. We will establish a new research base in Singapore and, initiating activities with artificial skin research, we will connect with various start-ups and build an infrastructure for new value creation.

We are also keen to implement sustainable manufacturing, which recycles resources from raw materials procurement. And we aim to promote a decrease in the environmental impact across the entire life cycle of products.

Sustainability and ESG policies

POLA ORBIS HOLDINGS identified five sustainability priority domains—"QOL improvement through innovative technology services," "regional revitalization," "culture, the arts, design," "all-inclusive human resources" and "environment"—and has pursued activities specific to each priority domain. Under the long-term management plan, we will adhere to these five priority domains and undertake initiatives that reflect our corporate qualities.

Regarding "QOL improvement through innovative technology services," we have numerous plans to accelerate the creation of new value. At the Multiple Intelligence Research Center (MIRC), efforts will be directed toward strengthening the incubation function and raising the quantity, quality and speed of new business development. In corporate venture capital activities, the focus will be on sustained investment in start-ups and wider collaboration with investment targets to create new businesses. In internal venture pursuits, we reinforce the function that fuels acceleration of business creation and plan to apply at an early stage DIY cosmetics research—already the winner of an IFSCC*1 Magazine Award*2—to products and services offered by Group companies.

The domains of "regional revitalization" and "culture, the arts, design" are intertwined, crossing real estate held by Group companies with culture and the arts, which have been very important to the Group from its earliest days. We will transform the conventional real estate business of providing office buildings into one that offers spaces and content integral to lifestyles.

Initiatives under the domain of "all-inclusive human resources" are to secure and develop human resources rich in diversity, establish a Talent Development Committee and strengthen efforts to enhance the skills of future senior management. In addition, we set KPIs for 2029. We newly established another committee as well—the Diversity Promotion Committee—chaired by Miki Oikawa, representative director and president of POLA INC., to accelerate efforts to promote diversity, not limited to gender equality, within the Group.

More recently, in January 2022, we updated the behavioral characteristics—that is, competency—required of senior management. We aim to improve the function and effectiveness of the Board of Directors with an emphasis on a person-centered approach, progress and transformation.

In the "environment" domain, the Technical Development Center (TDC)—the R&D arm of the POLA ORBIS Group—will work on new manufacturing methods that reduce environmental impacts as well as new dosage forms.

Progress on 2021–2023 Medium-Term Management Plan and future initiatives

We marked progress on individual measures under five strategies—evolve domestic direct selling, grow overseas businesses profitably, profit contribution from brands under development, strengthen operations and expand new brands and domains of "beauty"—described in the current medium-term management plan. However, we fell short on management indicators, due to prolonged pandemic-related pressures. Urgent issues requiring attention are rebuilding the domestic operations of POLA and ORBIS, and putting overseas brands and brands under development into the black. In addition, given fiscal 2021 results, targets set for 2023 have been pushed back a year, to 2024, and updated as current. We revised our assumption on inbound demand, now expecting that it will take all of 2023 before a return to the pre-pandemic level. We also decided, from a branding perspective, to hold back on distribution to the C2C (customer-to-customer) market as this platform carries the risk of damaging brand image.

*1 International Federation of Societies of Cosmetic Chemists

*2 IFSCC Henry Maso Award Honorary Mention is presented to young scientists under 40 who have written excellent papers

As for future initiatives, POLA will leverage a unique Online Merges with Offline model for domestic operations. Customer management and promotions, which were divided by channel, will be integrated, and efforts will be made to enhance the customer experience by connecting one to one across all touch points. In addition, POLA will energize online activities by Beauty Directors and regain the capacity to attract new customers after struggling to add to its customer base during the pandemic. Beauty Directors used local community-rooted social media tools to contact customers and implemented promotions by drawing on the strengths and special characteristics of their own shops. Some shops were able to attract new customers, and these successful examples will be rolled out laterally nationwide. Also, POLA will introduce online payment and direct delivery systems for consignment sales and strive to maximize lifetime value by organizing online and offline routes that lead customers to stores. Meanwhile, the expanding scope of e-commerce should translate into net sales of ¥10 billion in fiscal 2023.

For ORBIS's domestic operations, the focus will be on the launch of new customer relationship management and efforts to return the brand to a growth trajectory through improved lifetime value. By consolidating internal data such as customer interests and preferences, ORBIS will build a new, brand-original customer data platform. A large increase in the frequency of contact with the brand, beyond the moment of purchase, will boost lifetime value. This will be achieved by leveraging an app pegged to the ORBIS brand experience, enriching experience-driven content using AI and other technologies and ensuring accurate communication based on accumulated customer data. In addition, on the products front, ORBIS will maintain its focus on skincare while exploring new priority segments—for acne-prone skin, sensitive skin and men's cosmetics—and embark on an extensive marketing campaign tied to a major product launch marking the brand's 35th anniversary.

For overseas businesses, POLA is aiming for a 50:50 domestic-to-overseas sales ratio in 2029 based on retail net sales. In mainland China, a priority market for POLA, the company will continue to open new stores, particularly those offering facial treatments, and emphasize its mainstay *B.A* skincare series in its brand development strategy. Assuming that growth parallels rising profits, POLA will invest more capital into branding and promotions to fast-track growth on offline as well as online channels. In addition, with the opening of the Hainan Island Duty-Free Store in 2021, POLA now has a presence in the duty-free market in mainland China. More stores will be opened in the future.

For Jurlique, the focus will be on mainland China, with an emphasis on skincare, leading to higher online sales, while the brand will reinforce customer relationship management to encourage repeat purchasing by customers in Australia, where the company originated. Jurlique will also kick off a new brand strategy as a holistic beauty brand in Australia. Jurlique will highlight star skincare products such as the *Nutri-Define* series to attract new customers and promote repeat purchasing by existing customers. In conjunction with these efforts, steps will be taken to further reduce fixed costs to turn a profit in 2023.

In ORBIS's overseas business, mainland China is also a top-priority market, and the company aims to develop a wider presence not only online but also offline, targeting promising inland urban volume zones, and will reinforce investment designed to improve brand recognition.

THREE, which is developing a presence at duty-free stores, will enter the local market in China. Efforts will be directed toward quickly expanding customer contact, especially through e-commerce and specialty stores.

For brands under development, a pressing issue is turning a profit as soon as possible. ACRO, which promotes THREE as well as new brands, will continue structural reforms with profitability in mind. On the channel front, the company will leverage a shift toward e-commerce, and on the organizational front, it will review headquarters operations and cut fixed costs. On the products front, ACRO is seeking to reduce the cost of sales ratio and boost the repeat purchase rate by minimizing the stock-keeping unit (SKU) and raising the skincare ratio.

DECENCIA released a special skincare product that works on wrinkles even under makeup and will use this product to become recognized as a prestige brand in the sensitive skin market.

FUJIMI, a brand added to our portfolio in 2021, opened its first directly operated store in March 2022 to strengthen branding.

As outlined above, fiscal 2022 will see an all-out effort to accelerate growth in overseas businesses, transition to an Online Merges with Offline-driven business model, lighten losses incurred by overseas brands and brands under development and expand the brand portfolio for future growth.

One last point. The target for capital efficiency, as noted in the current medium-term management plan, is ROE of at least 9% in fiscal 2023. We are planning for an annual dividend of ¥52 per share for fiscal 2022, a ¥1 increase over that of a year earlier, and a consolidated payout ratio of 71.0%.

To our stakeholders

In a continuation from 2020, 2021 saw various corporate activities scaled back or cancelled due to the pandemic, which had a larger-than-expected impact inside and outside corporate walls. The POLA ORBIS Group was no exception, experiencing a one-year delay in the announcement of the long-term management plan through 2029, which was supposed to be unveiled in spring 2021. The delay was caused by a business environment characterized by uncertainty from the unrelenting spread of COVID-19, which made us first firm up core businesses and address existing issues. Demonstrating agility in a difficult-to-read market environment, we laid out a plan that incorporated changes in society during COVID and after COVID, hinging on solutions to short- and medium-term issues to guide us from 2022 in mainly rebuilding the cosmetics business. We will speedily strengthen e-commerce sales, an area we were already pursuing, and work quickly in transitioning to unified customer relationship management, including a mix of sales channels based on the Online Merges with Offline model, and expand overseas business, especially in the Asian sphere, where gaps in the market remain to be filled.

The long-term management plan VISION 2029 will take the Group through 2029, which will mark its 100th anniversary. In drafting VISION 2029, the Board of Directors had many opportunities for special discussions beginning back in 2017, when the new corporate philosophy was announced. In fact, directors initially expressed different opinions about diversifying our business portfolio beyond the cosmetics core to domains focused on well-being and social issues. This was natural. In the aftermath of the collapse of Lehman Brothers, we had success with skincare-focused strategies, and in 2010, we—that is, POLA ORBIS HOLDINGS—listed on the Tokyo Stock Exchange. Since the multi-brand strategy for cosmetics that followed was unique and rational, and our business strategies were ideal, was there really any need to venture into domains where we had no experience or expertise in such uncharted territory? The question was a reasonable one.

When the path ahead is unclear, how do you predict some 10 years into the future? In such circumstances, I always think it is important to look at a situation from diverse perspectives. That is because people unintentionally take whatever approach is convenient from the options they see as workable. In terms of today and from a practical perspective, past successes or achievements sometimes serve no purpose. Still, when the Board of Directors is discussing the long-term management plan, opinions based on each director's practical experience must be respected. Speaking from my own experience, I studied thermodynamics in college and tackled issues like balancing safety, fuel economy and the environment in the automotive industry. Since ESG activities of companies are drawing attention, over the past few years, I have pursued my own research topics, learning from experts and books about the theory of biological evolution, natural ecosystems, inclusive design and other subjects.

From this experience and knowledge, I have gleaned a few points that ensure corporate sustainability going forward. I believe qualities inherent in the natural world can be applied to human resources and corporate structures as well, helping ensure corporate sustainability.

- For a listed company and as one that handles consumer goods and provides services, there is a strong sense that the time has come for social contributions to be evaluated along with quantitative investment returns. This is a major premise.
- A closed system within a corporate organization or applied to corporate activities is stifling, akin to feeling trapped. A state of entropy (waste, excess) exists, meaning that energy—be it people, things or money—has to be injected into the structure or its pursuits to maintain them. Consequently, when an open organization that allows the ideas and actions of individuals to develop is created, new relationships with the outside world are born along with open innovation. This affords the organization the quality of a machine perpetually in motion.
- It is strange but when I'm focused on something or seek expertise in a certain field, a human wall appears up ahead. Our consciousness and our actions are endless no matter how much we learn. I believe, on the other side of this wall, there is the potential for business expansion. With intense centripetal force, the wall will break apart, and later I can apply the accompanying centrifugal force. This is a law of nature too—one I learned because of our concentration on skincare over the past 10 years or so.
- Characteristics of high culture that allow the theory of *The Selfish Gene* to develop and extensive activities are essential for avoiding natural selection in biological evolution or social selection triggered by sickness or challenging social issues. It is like the wandering MIRC researcher structure set up in 2018. Much like how the collective wandering of *Homo sapiens* from Africa across the globe allowed them to avoid extinction during the Ice Age. The cultural characteristics I refer to here are individual identity and traits and strengths unique to each person, which become assets for the whole organization.
- I believe it is important to link individuals to individuals and businesses to businesses inside and outside a company to solidly enhance the capacity of the organization and its business portfolio to withstand change, just as diverse things coexist within a sacred forest or biotope and the uniformity of nature is born.
- Disconnects have emerged between individuals and companies and society during the pandemic. I get a real sense that we are in the age of the individual. POLA ORBIS HOLDINGS introduced the corporate philosophy of a person-centered management style in 2017, and a more concerted effort to put this philosophy into practice will be made. To expand the business portfolio, we invited ideas from all employees. It is important that ideas are conceived from intrinsic motivation, from personal episodes. One hundred ideas have already been submitted.
- The paradigm shift known as the semantic turn—a trait of excellent designers whereby the artist repurposes an old test tube, for example, as a flower vase—and deconstruction provide the perspective for questioning whether the cosmetics business is just products that make skin beautiful or something more, and whether the real estate business is merely for obtaining rental income or something beyond that. In the past, consulting became the core value component in door-to-door sales and, in the same way, the concept or content of businesses will be redefined from social and consumer standpoints.
- From the perspectives of branding and the times, when corporate activities are evaluated from diverse circumstances, portfolio expansion will most certainly benefit the development of the existing cosmetics business.

The long-term management plan, designed with POLA ORBIS HOLDINGS taking center stage and the rest of the POLA ORBIS Group fully involved, is based on the theories outlined above. Now, revisiting the plan after its announcement for this message, I am firmly convinced that VISION 2029 has the components needed to guide us toward our goals with motivation and dreams of success.

Since POLA's establishment, the concept of thought has endured. Thought is consideration for people around the world and the desire to enrich their lives. As we look to 2029 and the Group's 100th anniversary, we will grow to be a collection of unique businesses that respond to diversifying values of "beauty." The continued support and encouragement of stakeholders will be integral to this effort.

We have formulated a new long-term management plan targeting 2029, the Group's 100th anniversary. Under the plan, we will work to reform and expand our business portfolio and create new value for sustainable business growth. This approach is based on our 2029 vision of the Group as a collection of unique businesses that respond to diversifying values of "beauty."

VISION 2029

Mission

Sensitize the world to beauty.

Vision

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

Operations

Our strengths

- Direct selling
- Multiple brands
- R&D capabilities

Sustainability policy

- QOL improvement through innovative technology services
- Regional revitalization
- Culture, the Arts, Design
- All-inclusive human resources
- Environment

Aspiring to take on challenges in new domains ever since the establishment of the corporate philosophy in 2017

Business challenges

- Optimizing channels with and after COVID-19
- Prioritize the maximization of domestic LTV to be a business that can secure stable growth and high profits
- Accelerate overseas operations, primarily in mainland China
- Improve the profitability of POLA and ORBIS, and achieve profits in currently unprofitable brands

External environment

- Shrinking domestic cosmetics market
- Recovery of the inbound evaporation will take time
- Dramatic shift to online sales
- Expanded definition of "beauty"
- Consumer behavior that emphasizes social sustainability

VISION 2029

A collection of unique businesses that respond to diversifying values of "beauty"

- In addition to providing value centered on cosmetics, expand the portfolio toward well-being and the social domain, aiming for sustainable business growth both domestically and overseas
- Strengthen existing businesses, further enhance profitability and secure funds for new businesses

Roadmap to 2029

VISION 2029

A collection of unique businesses that respond to diversifying values of "beauty"

- Basic Strategy 1 Develop the cosmetics business globally; reform and enhance the brand portfolio
- Basic Strategy 2 Create new value and expand business domains
- Basic Strategy 3 Strengthen research and technical strategy

STAGE 1 2021–2023
Build the base of existing businesses and restructure the portfolio for high profits

- Emphasize profitability and lifetime value in domestic businesses
- Accelerate global development
- Sow the seeds for growth in new businesses and engage in CVC investment
- Dispose of unprofitable businesses

STAGE 2 2024–2026
Invest in growth businesses to accelerate growth

- Rapid global development
- New business growth
- M&A and CVC investment
- Launch new materials and expand pipelines
- Develop new dosage forms technology

STAGE 3 2027–2029
Be a collection of unique businesses that respond to diversifying values of "beauty"

- Establish a clear presence in the well-being and social domains

Targets for 2029

Consolidated operating income:	¥50.0 billion
Consolidated operating margin:	15% or higher
Consolidated net sales:	¥300.0 billion
Overseas sales ratio:	30–35%
ROE:	14% or higher

Basic strategy 1 Develop the cosmetics business globally; reform and enhance the brand portfolio

- **Domestic: Improve profitability and achieve sustainable growth with profit**
- **Overseas: Emphasize the enhancement of brand value and create growth drivers**
- **Determine the continuity of unprofitable brands through the evaluation of KPIs over short cycles**

Domestic

Net sales targets for 2029

¥180.0 billion or higher

(stable growth with a CAGR of 2–3%)

Overseas

Net sales targets for 2029

¥100.0 billion or higher

(growth with a CAGR of 15% or higher)

In our domestic business, for flagship brands, we will increase sales by promoting greater Online Merges with Offline while deploying our strength in direct selling to maximize lifetime value. For brands under development and new brands, we will target profitable growth.

The most important market for our overseas business is mainland China. Specifically, POLA will step up branding-related investments while increasing new store openings centered on stores at shopping malls offering facial aesthetic treatments. For brands other than POLA, we will develop sales channels such as e-commerce and business-to-business that best suit the characteristics of each brand.

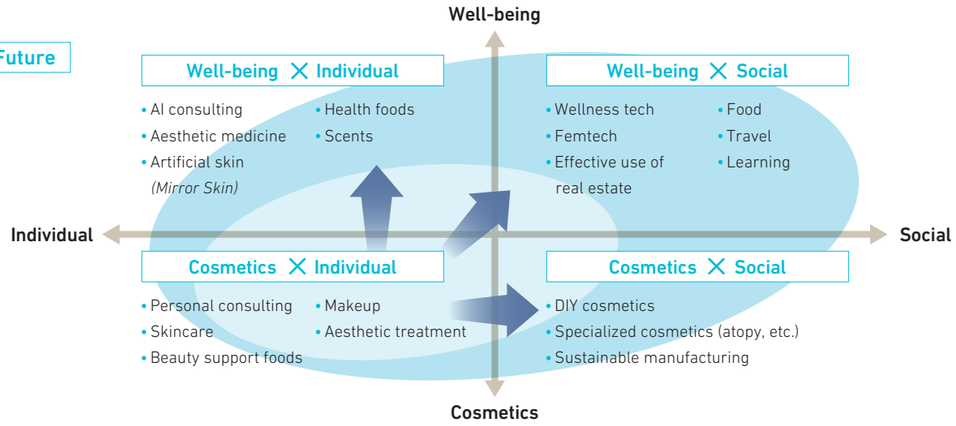
Meanwhile, for unprofitable businesses, we will evaluate KPIs in a shorter cycle to speed up management decisions in such areas as structural reforms and business withdrawals, in order to reform our brand portfolio.

Basic strategy 2 Create new value and expand business domains

■ Aim for a business portfolio that transcends the bounds of cosmetics to contribute to well-being and social value

Past Centered on businesses that realize "individual beauty" through cosmetics

Future



Basic strategy 3 Strengthen research and technical strategy

■ Expand new materials pipelines (world-first, industry-first)
■ Extend new cosmetics domains (moonshot R&D pivoting on artificial skin research)
■ Develop next-generation technologies and establish new dosage forms technology (sustainable manufacturing)

Unique research strategy

New value creation	Development of new technologies (Technical Development Center)
• **Advance skin research and research into artificial skin** Use iPS cells to create skin copies of individuals *(Mirror Skin)* Illustration Create seeds from individuals that will form the base of skin → Nurture and grow these seeds into skin • **Establish a new research base in Singapore and build the infrastructure for value creation, beginning with research into artificial skin**	• **Sustainable manufacturing** **(1) Manufacturing methods that do not produce CO_2** **(2) Usage methods that do not waste water** **Collection and reuse**: Build systems to collect resources and reuse CO_2 **Materials procurement**: Develop naturally sourced, biodegradable materials **Consumption**: Provide new uses, textures and functions **Manufacturing**: Establish low-energy manufacturing methods and environmentally friendly technologies for manufacturing processes

We will continue to focus on expanding our pipeline of world-first and industry-first new materials for cosmetics. At the same time, we will conduct research into artificial skin using iPS cells to create new value that drives advances in skin research. To help realize a sustainable society, we will promote sustainable manufacturing that reduces the environmental impact at our Technical Development Center (TDC), which will spearhead our technology development activities.

We will aggressively invest at least 2% of consolidated net sales in R&D to strengthen our research and technology strategies and implement Strategy 1 and Strategy 2 of our long-term management plan.

Progress of 2021–2023 Medium-Term Management Plan

Strategies		Evaluation	
Strategy 1	Evolve domestic direct selling	Slightly behind	• POLA e-commerce grew, but the growth was insufficient to compensate for struggling storefront channels • The downward trend in ORBIS customer numbers continued
Strategy 2	Grow overseas businesses profitably	Slightly behind	• POLA grew in mainland China and travel retail Recognize that reducing the flow of products into C2C markets is vital to achieve long-term growth in mainland China • Structural reform of overseas brands is progressing
Strategy 3	Profit contribution from brands under development	Slightly behind	• Radical structural reform is under way for THREE, Amplitude, ITRIM and FIVEISM × THREE • Losses were ameliorated, excluding the recently acquired FUJIMI
Strategy 4	Strengthen operations	On track	• The creation of new pipelines is progressing smoothly • Renewed the commitment to sustainability, enhancing effectiveness by linking non-financial KPIs with compensation for corporate executives
Strategy 5	Expand new brands and domains of "beauty"	On track	• Commenced consideration of business expansion into new domains, including the formation of a cosmetics medicine task force

2021 results

Consolidated net sales	Operating income	Overseas sales ratio	Domestic e-commerce sales ratio	ROE	Payout ratio
¥178.6 billion	¥16.8 billion	18.2%	27.1%	6.9%	96.1%

2023 management indicators

Net sales

Consolidated net sales	Overseas sales ratio	Domestic e-commerce sales ratio
¥205.0–215.0 billion CAGR 6% or higher	20–25% (15% in fiscal 2020) CAGR 20–25%	30% (24% in fiscal 2020)

Operating income

Operating margin	Operating income
12% or higher	CAGR 25% or higher

Capital efficiency

ROE
9% or higher

Shareholder returns

Consolidated payout ratio
60% or higher

With refined sensitivity, we transform with the times.

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

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

1980 — 1999 Business diversification

2000 — 2004 More sales channel variety

2005 — 2010 Multi-brand strategy

2011 — 2013 Accelerated growth through stock listing

2014 — 2016 Second stage of medium-term management plan

2017 — 2020 Accelerated expansion into the Chinese market

2021 — 2023 New medium-term management plan

Active participation of women in society
As Japan welcomes more active participation of women in society, POLA embarks on what is now a 92-year history in the cosmetics business with expansion of its door-to-door business.

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

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

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

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

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

Final stage of long-term vision
Turbulent business environment

Launch of VISION 2029 toward the Group's 100th anniversary

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

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 Begins steps to transform sales approach of door-to-door business.
2004 POLA enters mainland China's market.

2000 ORBIS THE SHOP is launched.



2001 ORBIS commences international sales.

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 mainland China's market.

Brands under Development

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

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

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 9.0% in FY2016

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

2017–2020 Medium-Term Management Plan

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

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

2021–2023 Medium-Term Management Plan

Management Indicators (Plan)
Net sales
Consolidated net sales CAGR Over 6% ¥205.0–215.0 billion in FY2023
Overseas sales ratio 20–25% in FY2023 (15% in FY2020) CAGR 20–25%
Domestic e-commerce sales ratio 30% in FY2023 (24% in FY2020)
Operating income
Operating margin Over 12% in FY2023
Operating income CAGR Over 25%
Capital efficiency
ROE Over 9% in FY2023
Shareholder returns
Consolidated payout ratio Over 60%

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

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

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

2021 The Group acquires FUJIMI in April. tricot

Environmental/Social/Governance Efforts

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

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

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

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

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

2015 Appoints outside directors.
2015 Measures and redefines executive 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.

2021 Adds reduction of CO_2 emissions to medium- to long-term incentive evaluation criteria for corporate officers.
2021 Selected for the CDP climate change A List.
2021 Selected as a constituent stock of MSCI Japan Empowering Women Index (WIN).
2021 Selected as a constituent stock of the FTSE4Good Index Series and the FTSE Blossom Japan Index.

Value Creation Process of the POLA ORBIS Group

The POLA ORBIS Group is working through milestone-marking medium-term and long-term management plans to build the ideal kind of corporate group by 2029, when the Group celebrates its 100th anniversary, and will strive to realize VISION 2029.

Mission

Sensitize the world to beauty.

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.

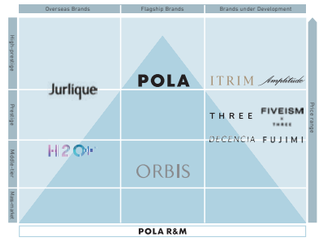
Opportunities

External environment

- Domestic cosmetics market shrinking
- Loss of inbound demand, with recovery taking time
- Sudden shift toward online purchasing
- Broader definition of beauty
- Consumer behavior pegged to sustainability of society

Multiple brands

Develop brand portfolio that is constantly responsive to changing lifestyles and values. Seek to raise brand identity of each brand



(As of December 31, 2021)*

Group strengths

R&D capabilities

Provide high-value-added products with original ingredients, patents and processes, and materials to address skin concerns, of course, but also explore research topics beyond skin to benefit entire body



Direct marketing

Build secure relationships with customers by identifying clues through purchasing trends and value perceptions, and utilize this knowledge in R&D, product planning and marketing strategies



Risks

Sustainability policy

1.	2.	3.	4.	5.
QOL improvement through innovative technology services	Regional revitalization	Culture, the arts, design	All-inclusive human resources	Environment

Operating base (corporate governance)

*It was decided that H2O PLUS would be dissolved and liquidated on April 28, 2022.

2023

Priority strategies

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

Management indicators

Consolidated net sales	¥205.0–215.0 billion CAGR 6% or higher
Overseas sales ratio	20–25% (15% in fiscal 2020) CAGR 20–25%
Domestic e-commerce sales ratio	30% (24% in fiscal 2020)
Operating margin	12% or higher
Operating income	CAGR 25% or higher
ROE	9% or higher
Consolidated payout ratio	60% or higher

2021–2023 Medium-Term Management Plan Performance-linked compensation (medium- to long-term incentives) for executives

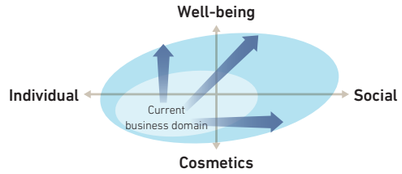
Number of new businesses created: **10**

Reduction in CO_2 emissions: **17%**

2029

VISION 2029

A collection of unique businesses that respond to diversifying values of "beauty"



Basic strategies

Basic Strategy 1	Develop the cosmetics business globally; reform and enhance the brand portfolio
Basic Strategy 2	Create new value and expand business domains
Basic Strategy 3	Strengthen research and technical strategy

Management indicators

Consolidated operating income	¥50.0 billion
Consolidated operating margin	15% or higher
Consolidated net sales	¥300.0 billion
Overseas sales ratio	30–35%
ROE	14% or higher

Improve social value

Financial impact of non-financial indicators

Sustainability and non-financial indicators (see pages 22-23)

1. **QOL improvement through innovative technology services**
   Constantly promote innovation and raise customers' quality of life
2. **Regional revitalization**
   Grow along with communities by contributing locally and deepening presence
3. **Culture, the arts, design**
   Make life more colorful by stimulating stakeholders' sensitivity to internal and external beauty
4. **All-inclusive human resources**
   Develop human resources with diverse characteristics who respond to changes and create environment in which these people thrive
5. **Environment**
   Use limited resources carefully in pursuing sustainable business activities

Recognizing and Responding to Opportunities and Risks

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

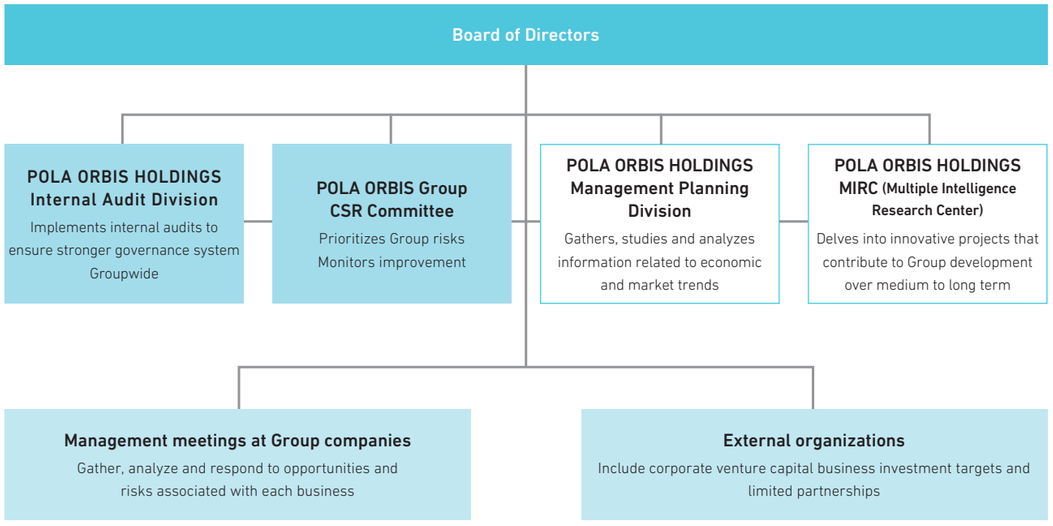
For risks, the Group CSR Committee, which meets regularly, prepares an exhaustive list of risks, given prevailing social circumstances, prioritizes these risks according to the level of impact potentially exerted on business activities and the frequency of occurrence, and tracks their status. Directly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

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

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

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

Opportunity and risk management system



Defining opportunities and risks, and efforts to minimize risks

Key business-related opportunities

Item	Details	Measures
Research and development	Steady announcement of products realized through results of highly original research	• Create new value, cultivate new business domains through MIRC and FRC • Establish TDC
Global economy	Growth of cosmetics market in mainland China	• Establish new company to oversee Group's travel retail business • Expand store network in mainland China (POLA) • Reinforce e-commerce operations
Digital marketing	Increase of marketing methods using social media	• Enhance digital consultation format • Strengthen e-commerce and promote OMO
Changing consumer awareness	Increase of products tailored to personal preferences	• Enhance personalized response irrespective of gender through *APEX*, using AI (POLA) • Use smartphone apps to facilitate digital consultations (ORBIS) • Promote personalized skincare service (ORBIS)
	Ethical thinking of millennials and Generation Z	• Promote new value creation through MIRC and FRC • Launch sustainable products • Cultivate new business domains (expand to social issue areas)
Decrease in domestic population (low birthrate, graying of society)	• Decrease in job openings, particularly in rural areas and for non-regular employees • More elderly • Empowerment of women	• Launch online consulting • Provide work that business owners can do in rural communities • Begin new partnerships (incorporation) • Increase the Beauty Directors' presence in their regions (POLA)

Key business-related risks

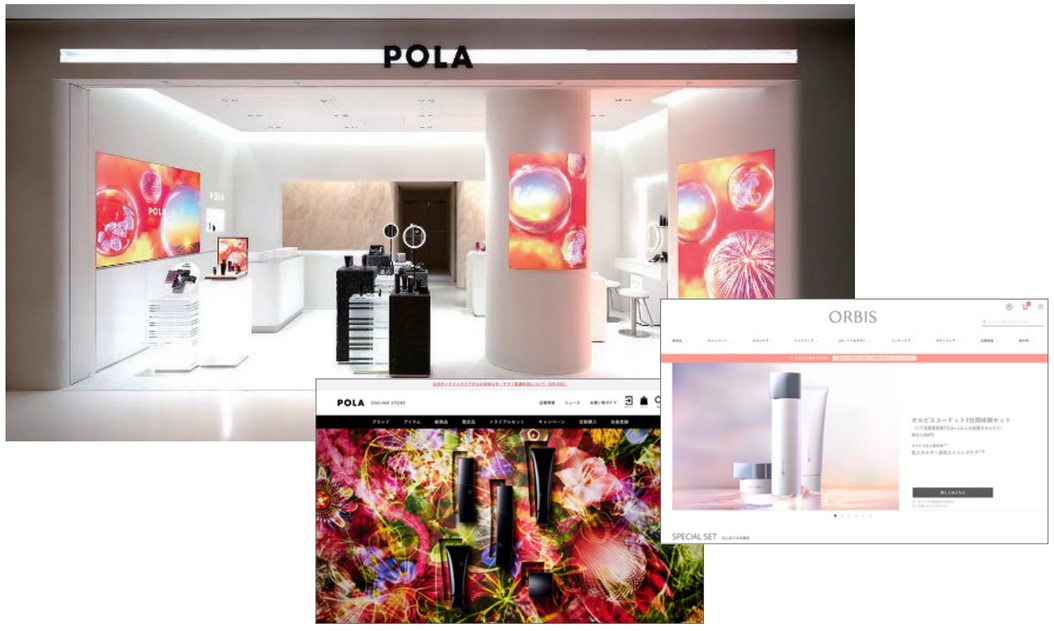
Item	Details	Measures
Erosion of brand value	Issues related to human rights along supply chains or discounting in C2C market could undermine brand image	• Emphasize CSR procurement and purchase certified palm oil • Regular brand audits and monitoring by Internal Audit Division
Securing sales partners (shop owners/ managers and Beauty Directors)	POLA might have difficulty securing sales partners due to such factors as a changing labor environment	• Run online recruitment forums • Began partnerships beyond consignment sales contracts
Strategic investment activities	If companies brought into Group through M&A or corporate venture capital activities are not as successful as initially expected, impairment losses or valuation losses are possible	• Perform accurate due diligence, calculate appropriate stock value and decide investments from Investment Approval Committee thinking
Cosmetics market environment	Domestic cosmetics market reaching maturity, heralding possible impact on businesses that cannot respond to changes in competitive environment	• Expand business portfolio beyond realm of cosmetics • Pursue robust overseas expansion (focus on mainland China and other parts of Asia)
Research and development	Possibility that results of research will not be as successful as expected	• Speed up development through establishment of TDC
Production and quality assurance	Possibility that raw materials cannot be procured or that products meeting customers' requirements for quality cannot be produced	• Create Group quality control system monitored by Quality Assurance Committee
Overseas business activities (global economic instability, etc.)	Possibility that business activities may not proceed as planned due to such circumstances as economic/political instability, labor unrest or occurrence of terrorism/conflict	• Strengthen external alliances • Cultivate new business areas based on information gathered by MIRC
Limit on protection of intellectual property rights	Possibility that intellectual property is used illegally by an outside party to produce counterfeit items or that member of Group infringes upon intellectual property of an outside party	• Secure patent/trademark rights in activity hubs at home and abroad • Monitor activities to prevent the Group's rights from being infringed upon and to prevent infringement of outside parties' rights
Information security	Possibility that personal information or confidential information will be leaked	• Reinforce information security systems and other structures • Educate all directors and all employees about importance of information security
Disasters	Possibility that supply of finished products will be delayed due to large earthquake severe enough to affect operations at production facilities	• For items deemed key from a business continuity perspective, maintain inventory of products and materials and stay in constant contact with contracted factories
Spread of infectious diseases	Possibility that business results will be impacted by measures to prevent spread of infection such as avoidance of face-to-face contact with customers or temporary store closures	• Strengthen capability to provide digital marketing • Enhance e-commerce, promote OMO and embrace DX for in-house operations
Climate change	Effects of global warming, changing ecosystems and other climate issues that alter customers' product choices and hinder procurement of raw materials	• Reduce CO_2 emissions across entire supply chain • Switch to green power
Decrease in domestic population	Situation that leads to business slump or hampers recruitment efforts	• Expand overseas business activities • Strengthen e-commerce • Promote work-style reform and efforts to energize workforce

In addition, POLA ORBIS HOLDINGS recognizes that opportunities and risks accompanying climate change have a huge impact on business strategies. The Company performs scenario analysis in line with TCFD* recommendations and discloses the results (see page 47 for details).

*TCFD: Initialism for Task Force on Climate-related Financial Disclosures, established by the Financial Stability Board

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 the Group's establishment.



Direct Marketing

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

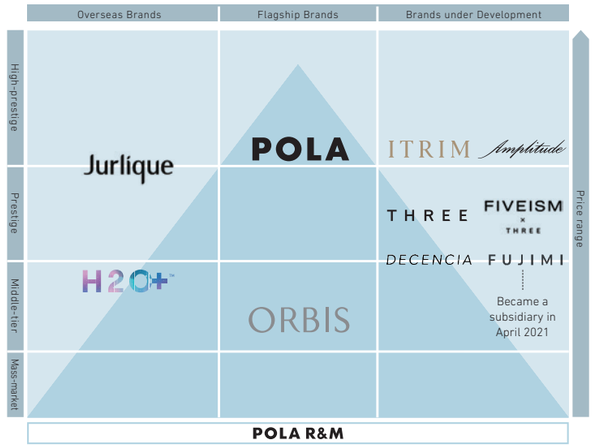
POLA's strength is to provide face-to-face consultations and aesthetic services through its network of about 33,000 Beauty Directors across Japan. Due to the pandemic, restrictions were put on in-person contact with customers and access to services was limited, prompting a shift toward online connections. The impossibility of having in-person conversations reaffirmed the value inherent in person-to-person contact.

For ORBIS, an app is the primary means of staying in touch with customers and was the key in maintaining one-to-one communication, which keeps a strong connection between the brand and customers.

These direct-selling channels enable each company to manage information on nearly all respective customers in-house. With this information, the companies have built a database of more than 19 million entries on the condition of customers' skin and collected other useful information, such as customers' purchasing histories and profiles. This diverse information is analyzed, and pertinent results are used in R&D, product planning and marketing, allowing the companies to build strong, trusting relationships with customers and secure brand loyalty and extremely high repeat purchase rates from an industry perspective. In addition, this approach helps curb investments such as advertising and promotional expenses, otherwise necessary to capture the attention of new customers, which leads to a higher profit margin. For the future, the goal remains to enhance capabilities for customer analysis using POLA's Online Merges with Offline model as well as ORBIS's new customer relationship management platform that combines data on customer interests and tastes with purchase and attribute data, and underpins efforts to provide customers with even better products and services.

Multiple Brands

Today, with customer perceptions and lifestyles becoming increasingly diversified, a single-brand approach targeting as many customers as possible dilutes the brand concept and weakens image cohesiveness. As of 2021, to constantly address lifestyles and values that change with the times, the POLA ORBIS Group had built a portfolio—shown on the right—of 10 brands, each with its own concept, price range and sales channels. Each brand has its own unique characteristics and drives brand loyalty higher by polishing brand identity through independent management. The goal is to enhance sustainability and economic rationality whether the brand is small or flagship. We believe that the Group's uniqueness can be better demonstrated with a collection of small economic units rather than a large economic block.



(As of December 31, 2021)
It was decided that H2O PLUS would be dissolved and liquidated on April 28, 2022.

Research and Development Capabilities

The Group's biggest strength from an R&D perspective is the concentration of corporate resources into products that fight the two biggest skincare concerns—dark spots and wrinkles. The reason is research and development capabilities are particularly vital in this domain. Of note, in the anti-aging and skin-brightening areas, our products feature many ingredients original to the POLA ORBIS Group and not found anywhere else in the world, and we hold numerous patents and have access to many types of raw materials. For example, the Group pioneered the world's first application of hyaluronic acid in cosmetics in the 1980s and brought these products to market. More recently, in 2017, the Group debuted the industry's first quasi-drug to improve wrinkles, and in 2019, launched quasi-drug products featuring a new active ingredient for skin-brightening, the first on the market in some 10 years. In addition, in 2020, believing that the positive power individuals acquire in their approach to life is the key to amplifying true beauty, POLA debuted a new *B.A* series using the Epi-Firmness Network Theory*, which highlights the resilience of the skin.

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

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

*The concept for formation of applied cosmetics film (network), which gives resilience to the skin's surface


B.A series


Wrinkle Shot Serum

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



Naoki Kume
Director and Vice President,
POLA ORBIS HOLDINGS INC.

Listed companies have a duty to create capital efficiency at a level that exceeds capital cost and to boost corporate value. Specifically, we see ROE as a key performance indicator and will strive for a medium-term target exceeding 9% by 2023 and a long-term target above 14% by 2029. We are implementing 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.

In February 2022, we announced Vision 2029, a long-term management plan that looks ahead to 2029. To realize sustainable business growth, we must reform and enhance our business portfolio, then strive to reinforce existing businesses and improve profitability.

Regarding growth investment, we aim to create a foundation for stable and enduring growth underpinned by the existing cosmetics business while nurturing new buds of growth. The aim of the underlying logic behind building this kind of business portfolio is to assemble a collection of unique businesses that respond to diversifying values of "beauty" and to extend beyond our current business domain, which centers on cosmetics, to well-being and social domains. In the domestic cosmetics business, management indicators for 2029 are net sales exceeding ¥180 billion and stable growth exemplified by CAGR between 2% and 3%. We will achieve stable growth by picking up the pace of digital transformation (DX), especially for flagship brands POLA and ORBIS, restructuring the business model by accelerating use of the Online Merges with Offline platform and then utilizing the profits generated as the source of investment for new business pursuits. Meanwhile, in the overseas cosmetics business, we will be working toward net sales exceeding ¥100 billion and CAGR above 15% as management indicators for 2029. POLA will prioritize profitable growth with a branding emphasis, particularly in mainland China, to realize sustainable business growth. In R&D, concerted efforts will be directed toward expanding the new materials pipelines with world-first and industry-first breakthroughs and toward leveraging the results of skin research such as *Mirror Skin*, an artificial skin. We will take a robust approach to investment, allocating at least 2% of consolidated net sales to R&D activities.

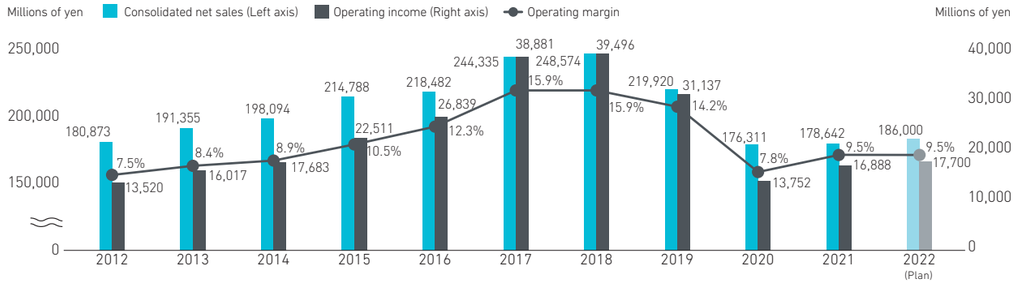
In our pursuit of improved profitability, we face a pressing issue—compensating for losses that saddle unprofitable brands. Even as we expand the brand portfolio across new domains, we will use a shorter cycle to evaluate the KPI status of unprofitable brands to determine whether a brand should be continued. Under this policy, we made the decision to dissolve and liquidate the H2O PLUS brand. Meanwhile, Jurlique emphasized measures to trim fixed costs and streamline expenses, and with higher sales, especially in mainland China, and successful efforts to restructure, the brand lessened its losses in fiscal 2021. An improved sales, given a lower break-even point, will help the brand turn a profit as demand grows. In addition, ACRO, a brand under development, strategically concentrated store networks, reviewed the number of SKUs (stock-keeping units) and streamlined its head office structure, seeking drastic structural reforms to underpin enhanced profitability.

Groupwide, we remain committed to practices designed to improve the cost of sales ratio and keep any rise in selling, general and administrative expenses below the sales growth ratio, as we aim for an operating margin above 15% by 2029. 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 pursue efforts to stably increase dividend distribution through profit growth. The annual dividend for fiscal 2021 was set at ¥51 per share, which translated into a payout ratio of 96.1%. 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.

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 9% or higher in 2023 in medium-term management plan.

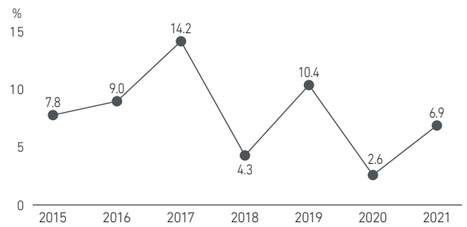
EPS Earnings per share

- Operating income: CAGR 25% or higher
- Realize net income growth higher than operating income growth → Lower effective tax rate by reducing loss in overseas business

BPS Book value per share

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

Return on equity



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

Enrich shareholder returns

In line with two basic policies—a payout ratio of at least 60% and a fuller return through profit growth—we are planning for an annual dividend of ¥52 per share for fiscal 2022. This will translate into a payout ratio of 71.0%.

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

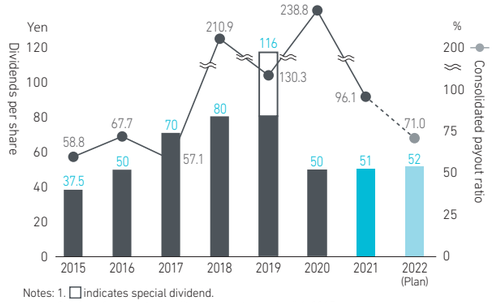
Basic policies

- With a policy of a consolidated payout ratio of 60% or higher, aim for stable increase in shareholder returns in line with 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 2022

Dividends per share (Forecast)	Annual dividend: ¥52 Comprising ¥21 interim and ¥31 year-end dividends Consolidated payout ratio: 71.0%
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.

Demonstrate strength and uniqueness, and pursue sustainable business activities while approaching solutions to social issues

Seizing on approaches that contribute to realizing a sustainable society as opportunities that grow into sustainable business activities, POLA ORBIS HOLDINGS identified materiality issues for sustainability applicable Groupwide to balance solutions to social issues with sustainable business growth.

Sustainability Statement

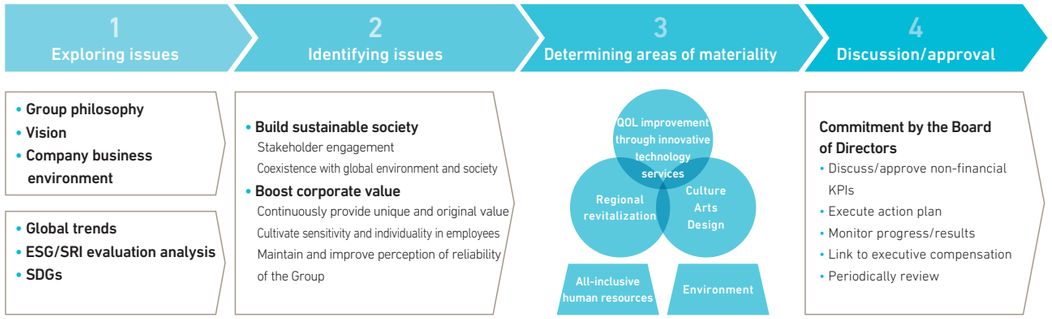
We, the POLA ORBIS Group, offer enriched lives to people all over the world, with our supple minds in which rich sensitivity and individuality is woven.

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

Sustainability policy formulation process

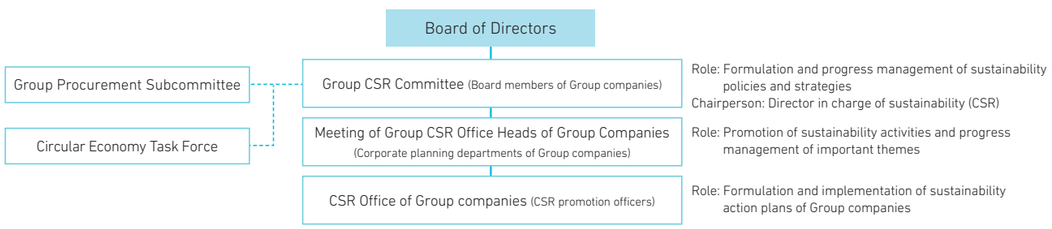
Utilizing the strengths of the POLA ORBIS Group and thinking that tracks back to the earliest days of our founding, POLA ORBIS HOLDINGS considered how best to convey value to society and identified priority issues—materiality. Each point is assigned a KPI, and efforts are under way to achieve these targets.

In 2021, the number of new businesses created was added to the KPI list. Along with the degree of success in reducing CO_2 emissions, this indicator will be linked to management targets and directors' medium- to long-term incentive evaluation criteria, as approved by the Board of Directors.



Sustainability promotion structure

The POLA ORBIS Group pursues sustainability activities led by the Group CSR Committee under the supervision of the Board of Directors. Specific targets are discussed, and measures are considered with each Group company's ability to achieve assigned targets in mind. These targets and measures are periodically discussed and monitored by the Group CSR Committee, the status is reported to the Board of Directors and revisions are made as required.



Five non-financial materiality categories and results/KPIs

Item		Explanation	2021 actual numbers	Action plan for 2022	Target for 2029
1. QOL improvement through innovative technology services	(1) Number of new businesses created	Develop new services and new fields to meet diversifying needs	3	1. New businesses grow from in-house seeds 2. Business capture through M&A 3. Creation of services and products through external collaboration	10 in total (2023 target)
	(2) Job satisfaction and engagement score*1	Create an exciting, comfortable work environment in which employees, fueled by a desire to contribute to corporate success, are able to take the initiative	60.2%	Consider, implement and then monitor action plans designed to spur enthusiasm for work and create comfortable environment	75%
	(3) Brand recognition and loyalty	Leverage brand characteristics to improve customer QOL	Researched by brand	Implement customer services that provide tangible awareness of brand concept	Set targets for each brand
	(4) Number of research awards won at home and abroad	Develop seeds that grow into high-value-added products	7 (cumulative from 2018)	Take a positive approach to making presentations at academic conferences and submit papers in Japan and overseas	10 in total
	(5) Number of researchers in cutting-edge dermatology research	People to expand research beyond skin to whole body	64 (as of December 31, 2021)	Hire specialists in such areas as dermatology, formulation and data analysis	120
2. Regional revitalization	(6) Number of regional entrepreneur owners	Shop owners who influence local economic activities	505 (as of December 31, 2021)	Cultivate ownership to strengthen cooperation and connection with community, attract customers and build continuity platform	1,200
	(7) Number of initiatives contributing to the local economy	Expand synergy through joint efforts that energize local economic activity	32 (as of December 31, 2021)	Joint events with local governments, NGOs, companies and schools, and community-oriented workshops	78
3. Culture Arts Design	(8) Number of new brand experiences created that utilized art	Develop innovative, trendy products and services	11 (2021 only)	Packaging and stores that foster worldview through art	20
	(9) Number of participants in liberal arts workshops	Cultivate aesthetic sense and personal tastes and give back to society	23,940 (cumulative from 2018)	Provide stakeholders with opportunities to experience art	550,000
4. All-inclusive human resources	(10) Percentage of female executives	• Promote diversity through management-level leadership • Utilize perspectives close to target segments in business and management activities • Build organization with diversity	26.9%	• Participation in 30% Club • Diversity promotion activities Groupwide • Encourage male employees to take child-care leave	30–50%
	(11) Percentage of female managers		49.6%		50% or higher
	(12) Percentage of candidates to become management executives	Establish/reinforce pipeline for people with management potential	91.3% (as of December 31, 2021)	Examine strategic personnel measures (Talent Development Committee)	200%
	(13) Number of people leaving the company for health reasons	Achieve balance between sickness prevention/treatment and work	Undisclosed	Improve health management skills and provide health advice	0
5. Environment	(14) CO_2 emissions (Scope 1, 2)	Actual emissions under Scope 1, 2	Down 31.5% (from 2019)	Switch electricity contracts to CO_2 reduction menu and renewable energy menu	Down 42% (from 2019)
	CO_2 emissions (Scope 3)	Actual emissions under Scope 3	Down 51.2% (from 2019)	Make procurement process and transport process more efficient	Down 30% (from 2019)
	(15) Water consumption	Scope 1 and 2 per unit of sales	Down 8.0% (from 2019)	Make capital investments and take water-saving measures in factories	Down 26% (from 2019)
	(16) Waste	Scope 1 and 2 per unit of sales	Down 40.1% (from 2015)	Set inventory ratio targets for relevant departments and reduce industrial waste	Down 26% (from 2015)
	(17) Plastic cosmetics containers and packaging consumption*2	Sustainable design of cosmetics containers and wrapping made of plastic, based on 4R's*3	Began in 2022	Considered by all Group companies	100% sustainable design

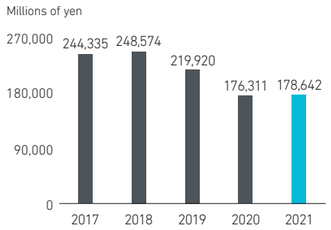
*1 Set survey result of Great Place to Work® as indicator
*2 Item added for 2022
*3 Reduce/Reuse/Replace/Recycle

Financial and Non-Financial Highlights

Financial Capital

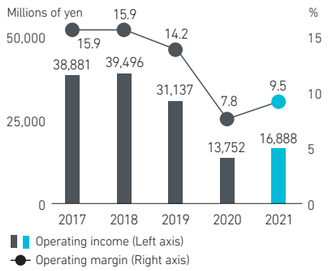
Net sales

¥178,642 million



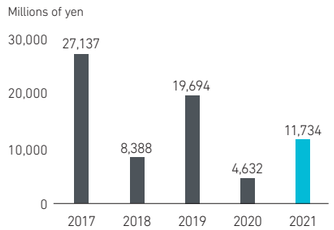
Operating income/ Operating margin

¥16,888 million/9.5%



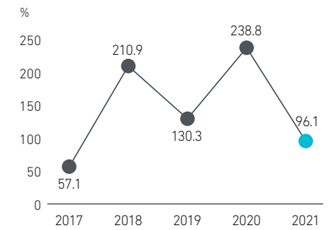
Profit attributable to owners of parent

¥11,734 million



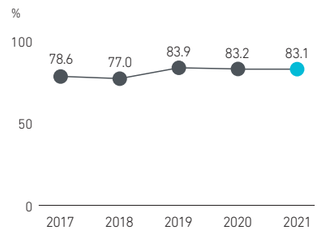
Payout ratio

96.1%



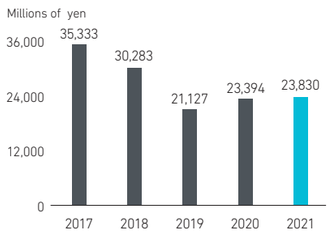
Equity ratio

83.1%



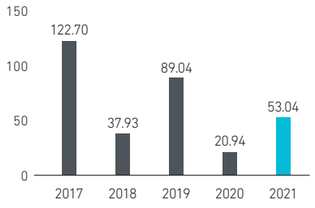
Cash flows from operating activities

¥23,830 million



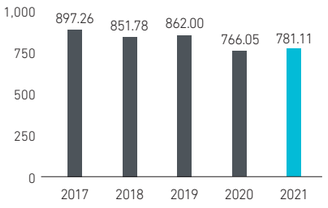
Net income per share

¥53.04



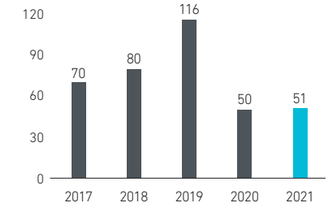
Net assets per share

¥781.11



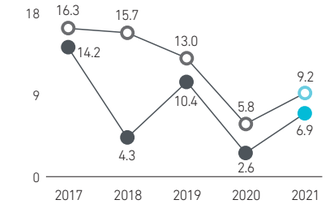
Cash dividends per share

¥51



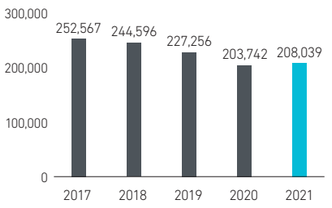
Return on equity/Return on assets

6.9%/9.2%



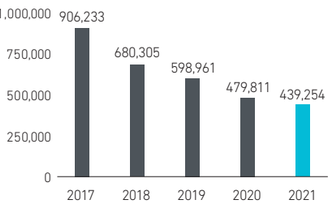
Total assets

¥208,039 million



Total market value

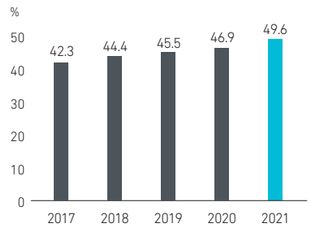
¥439,254 million



Non-Financial Capital

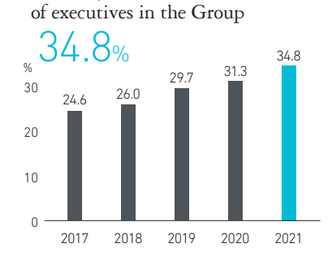
Percentage of female managers

49.6%



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

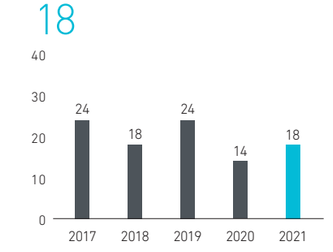
34.8%



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

Number of papers presented at scientific conferences by POLA CHEMICAL INDUSTRIES

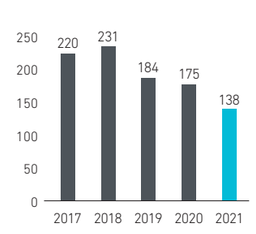
18



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

Number of POLA Grand Owners*

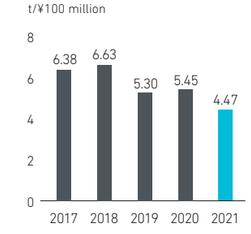
138



*Group leaders with monthly sales of over ¥10 million
Recognized from actual results achieved from July through December 2021

CO_2 emissions (Scope 1 and 2)

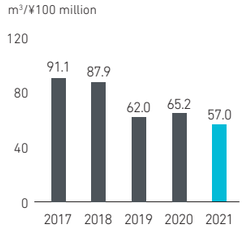
4.47 t/¥100 million



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

Water consumption

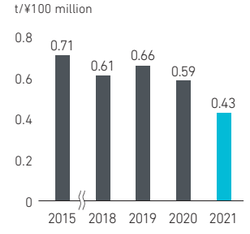
57.0 m^3/¥100 million



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

Waste

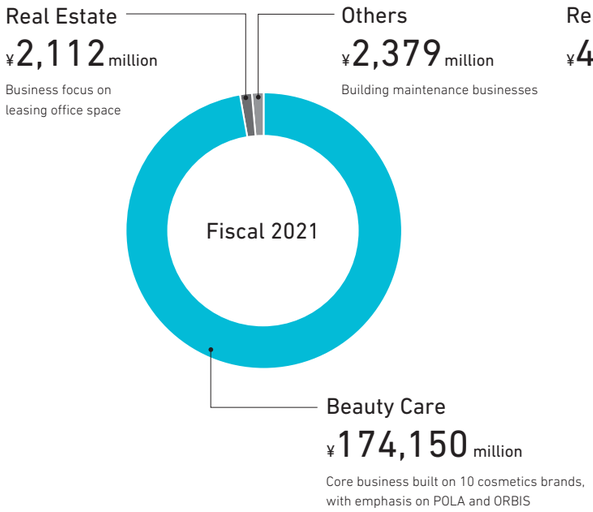
0.43 t/¥100 million



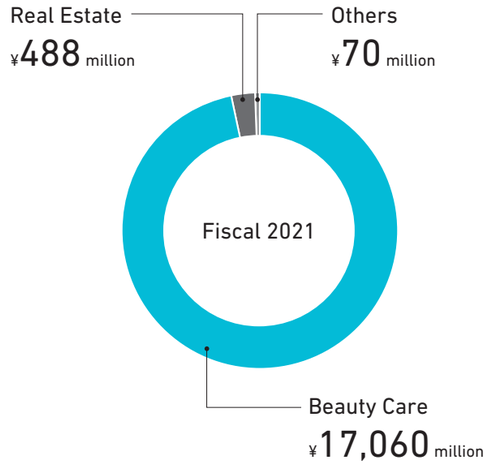
Note: On a per unit of sales basis

Business Structure

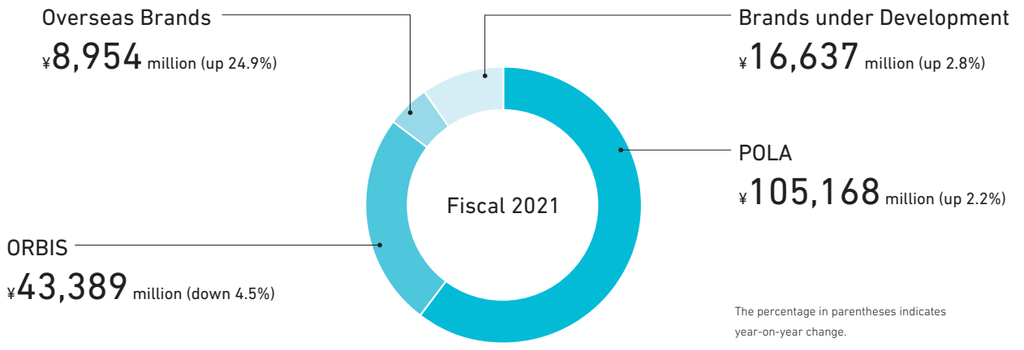
Net sales by business segment



Operating income by business segment



Beauty Care business sales by brand



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

Changes in Beauty Care business sales by brand over the past five years (2017–2021)

Millions of yen

	2017	2018	2019	2020	2021
POLA	144,012	150,183	135,502	102,888	105,168
ORBIS	53,066	51,051	50,726	45,415	43,389
Overseas Brands	15,075	12,428	9,235	7,166	8,954
Brands under Development	14,978	17,544	19,421	16,186	16,637

Flagship Brands

POLA



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

Sales channels
Consignment sales (POLA THE BEAUTY, Esthe Inn, conventional door-to-door business), department stores, directly operated retail stores, travel retail and e-commerce

Market presence
Japan, mainland China, South Korea, Hong Kong, Macao, Taiwan, Thailand, Singapore, Australia and Vietnam

ORBIS



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

Sales channels
Mail-order business (Internet and catalog), directly operated retail stores and travel retail

Market presence
Japan, mainland China, Taiwan, Singapore, South Korea, Malaysia and Thailand

Overseas Brands

Jurlique



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

Sales channels
Department stores, directly operated retail stores, travel retail and e-commerce

Market presence
Sold in 26 countries and regions, mainly Australia, mainland China and Hong Kong

H2O+™



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

Sales channels
E-commerce and hotel amenities

Market presence
Sold in four countries and regions, mainly North America

Note: It was decided that H2O PLUS would be dissolved and liquidated on April 28, 2022.

Brands under Development

THREE



Concept
Skincare and makeup brand featuring naturally derived ingredients extracted from plants

Sales channels
Directly operated retail stores, department stores, travel retail, semi-self-select cosmetics stores and e-commerce

Market presence
Japan, South Korea, Thailand, Taiwan, Malaysia, Hong Kong, Singapore, mainland China and Qatar

Amplitude



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

Sales channels
Department stores, travel retail and e-commerce

Market presence
Japan, South Korea and mainland China

ITRIM



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

Sales channels
Department stores, travel retail and e-commerce

Market presence
Japan, South Korea and mainland China

FIVEISM × THREE



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

Sales channels
Directly operated retail stores, department stores, travel retail and e-commerce

Market presence
Japan, mainland China and Thailand

DECENCIA



Concept
Skincare brand for dry, sensitive skin

Sales channels
E-commerce and a department store

Market presence
Japan and mainland China

FUJIMI



Concept
Personalized beauty care brand

Sales channels
E-commerce and a directly operated retail store

Market presence
Japan

Growth Strategies by Brand (Flagship Brands)

POLA

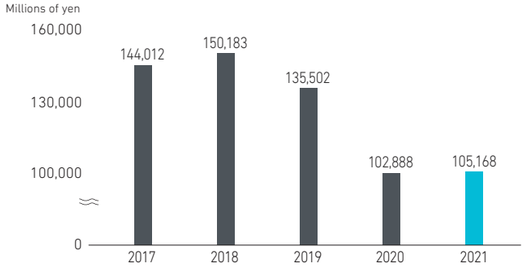
High-prestige skincare brand specializing in anti-aging and skin-brightening fields



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

Net sales

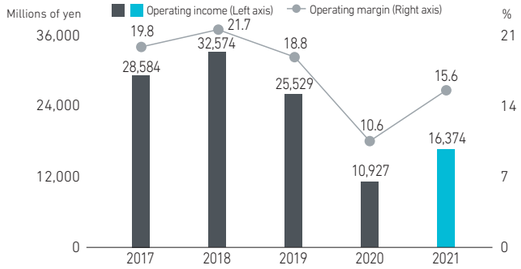
¥105,168 million (up 2.2%)



Note: Consolidated basis

Operating income and operating margin

¥16,374 million (up 49.8%)



Note: Consolidated basis

Message

President's message



Miki Oikawa
Representative Director and President
POLA INC.

POLA's vision for 2029, the 100th anniversary of its foundation, is heading "towards a society with abundant connections that trusts in the potential of individuals and society itself." The action slogan for achieving this vision is "We care more. Changing the world, with care."

In 2021, we worked to further improve profitability in Japan and grow our overseas business under our newly launched three-year medium-term management plan (2021–2023).

In our domestic business, we sought to strengthen relationships with customers through our Online Merges with Offline to maximize opportunities to meet and connect with customers, as real face-to-face customer service opportunities are being lost due to consequences of the COVID-19 pandemic. In November 2021, we released our official "PORTAL by POLA" smartphone application as a new digital contact point. By expanding opportunities to use smartphone applications to meet customers, we hope to deepen our customer relationships and improve the value we provide by exploiting the unique characteristics of apps, which are not bound by physical distance or time.

Since its founding, POLA has valued human relationships and dealt with each and every customer through face-to-face sales. Because of that, we will maximize lifetime value by not only increasing digital contact points but also use people and stores to meet and communicate with customers and provide value that is possible only in real life in both the physical and digital worlds.

We will also accelerate development of our overseas business, which we have positioned as a driver of growth. To this end, we will step up investments in branding and establish POLA's position as a high-prestige brand in the global market. We will expand the scale of our business so that, by 2029, domestic and overseas net sales will be roughly the same on a retail sales basis.

Fiscal 2021 results

To further enhance brand value and build a medium- to long-term customer base, POLA is introducing high-value-added products centered on anti-aging and skin-brightening. We are also working to attract customers with high retention rates through consulting and aesthetic treatments. In terms of products, we further enhanced *Wrinkle Shot Serum*, a medicated cosmetics product that improves wrinkles, and relaunched it in January 2021. In addition to POLA's proprietary NEI-L1®, the first quasi-drug active ingredient approved in Japan to improve wrinkles, *Wrinkle Shot Serum*, which contains moisturizing ingredients, has received many Best Cosmetics awards and is highly regarded in the wrinkle improvement medicated cosmetics market.

For domestic business, we are advancing our own Online Merges with Offline strategy. Besides enhancing brand recognition through digital contact points, we are working to improve customer retention and lifetime value in a channel-seamless manner by taking meticulous measures for in-store hygiene management and infection prevention to direct customers from digital contact points to physical stores. In addition, sales in the e-commerce channel, a focus of our efforts, grew 50% year on year.

For overseas business, we are focusing on the growth markets of mainland China and travel retail. Sales in mainland China increased 38% year on year, while overall sales for overseas business increased 25%.

As a result, net sales increased 2.2% year on year, and operating income rose a substantial 49.8% due to the higher share in net sales from domestic e-commerce and overseas businesses.

Key issues pinpointed

- Re-establish stable domestic growth platform
- Accelerate overseas business growth focusing on the Chinese market

Future measures

Evolve direct sales in Japan

We are currently working on POLA's unique Online Merges with Offline strategy, which utilizes direct sales. Through our diverse channel configuration, we will improve customer convenience and integrate customer management and communication, which were previously separated by channel, to provide one-to-one customer service at all touch points to enhance the overall customer experience. For new customers, we will augment our ongoing efforts to attract customers through e-commerce by stepping up the activities of Beauty Directors in the online domain. These will include workshops and consulting sessions hosted by Beauty Directors and promotions using social networking services. For existing customers, we will promote repeat business by providing value possible only in real life centered on consulting and aesthetic treatments.

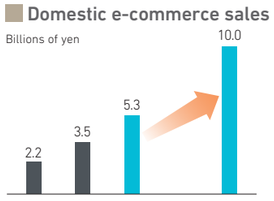
In addition, we are launching a new business model in the consignment sales channel. We have incorporated part of our consignment sales organization to create a structure that will enable us to continuously secure and train highly professional Beauty Directors. We plan to evolve this into a sustainable business model.

In e-commerce, we will focus on attracting new skincare customers with highly differentiated items such as *Wrinkle Shot Serum*. Our aim is to generate annual sales of ¥10 billion by 2023.

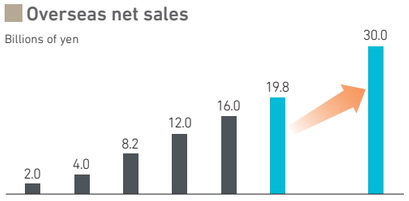
Accelerate growth of overseas business centered on mainland China

The most important market for our overseas business is mainland China. In terms of products, we will work to expand brand recognition centered on the *B.A* series, our mainstay skincare line. In terms of channels, we opened our first new store in the Chinese travel retail channel in 2021. In addition to continued expansion into travel retail and department store counters, we will increase store openings with a focus on highly differentiated stores that offer facial aesthetic treatments.
To enhance our brand presence in the high-prestige market, we will expand our network from 71 stores at the end of 2021 to 120 stores by 2023. We will also step up promotional investments and leverage both offline and online channels to expedite growth while steadily increasing profits.

Domestic e-commerce sales



Overseas net sales



ORBIS

Skincare brand that brings out
the beauty inherent in each person



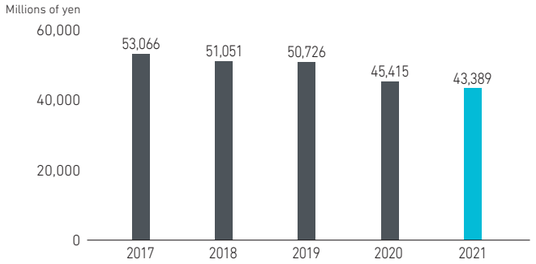
WRINKLE WHITE series



ORBIS U. series

Net sales

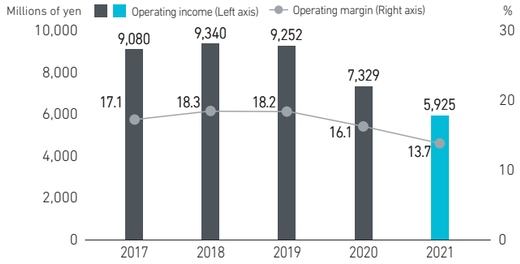
¥43,389 million (down 4.5%)



Note: Consolidated basis

Operating income and operating margin

¥5,925 million (down 19.1%)



Note: Consolidated basis

Message

President's message



Takuma Kobayashi
Representative Director and President
ORBIS Inc.

At ORBIS, we emphasize the value of SMART AGING®, whereby each person ages naturally in his or her own way by releasing innate strengths. With a "beauty brand focusing on skincare" as our business domain, we have adopted an anti-aging care approach that "brings out" rather than "improves" the beauty inherent in each person.

In terms of products, we strengthened our overall skincare lineup. For example, we introduced several new skincare lines, including the iconic *ORBIS U* series and the higher-end *ORBIS U.* series. In addition to the two series, we launched unique special care products such as *WHITE CLEAR ESSENCE* (skin-brightening beauty serum) and *WRINKLE WHITE UV PROTECTOR* (sunscreen with wrinkle improvement and brightening effects). As a result, sales in the skincare category increased year on year.

In 2022, the 35th anniversary of ORBIS's founding, we plan to launch major products under our basic policy of emphasizing skincare. We have designated growing markets related to acne, sensitive skin and men's care as new strategic segments, and will also leverage the business-to-business channel to expand the scale of our target market. In February, we launched the *ORBIS BRIGHT* series of brightening care products, and in March, we relaunched the *CLEAR* series of acne treatment products as the *CLEARFUL* series. We also anticipate business opportunities in the men's care market, which is in its infancy. In that market, we will introduce a large-scale marketing campaign that will include aggressive investment in the *ORBIS Mr.* line of men's skincare products.

On the service side, we will leverage the ORBIS app, now a solid business foundation with over 2.81 million registered users*, to deliver better brand experiences to customers. By combining general customer data, such as purchase and attribute data, with interest and taste data, we will build a customer data platform unique to ORBIS that will provide higher-quality brand experiences and maximize lifetime value.

In addition to targeting sales growth in Japan, we will accelerate our overseas business, especially in mainland China, with the aim of returning to a growth trajectory as soon as possible.

* As of February 2022

Fiscal 2021 results

ORBIS is working to enhance its presence by creating brand differentiation with the aim of achieving renewed growth and transforming into a highly profitable business.

In Japan, our *WRINKLE WHITE* series, including *WRINKLE WHITE ESSENCE* and *WRINKLE WHITE UV PROTECTOR*, which contain active ingredients that improve wrinkles and brighten skin complexion, have won many Best Cosmetics awards. Reflecting our approach that emphasizes high-performance special care, sales in the skincare category increased year on year. Meanwhile, in an initiative aimed at customers who are staying home due to COVID-19, we launched LIVE SHOPPING by ORBIS, which provides beauty information and real-time shopping, offering new experiences tailored to customers' lifestyles.

In the skincare category, we are making good progress in attracting core target customers and new customers expected to become repeat customers. However, overall sales in the ORBIS segment declined 4.5% year on year as a decrease in the number of customers led to struggling sales in the makeup and food categories, especially existing ones. Operating income fell 19.1%, due to decreased gross profit resulting from lower sales, as well as the impact of the previous year's transfer of fixed costs for store closures to extraordinary losses stemming from COVID-19.

Key issues pinpointed

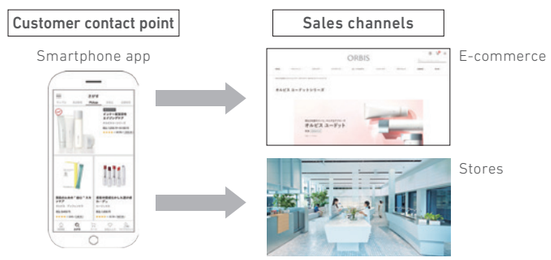
- Return to higher sales and higher income by recovering domestic market growth
- Raise e-commerce sales ratio to 70%*
- Expand overseas business (mainland China)

*As percentage of domestic sales

Future measures

Deploy original customer relationship management techniques to improve lifetime value and return to growth trajectory

Going forward, we will further enhance the smartphone app that forms the core of the ORBIS brand experience. We will also integrate interest and taste data with purchase and attribute data to build a unique customer data platform for launching a new customer relationship management campaign. Through communication that captures the benefits to each individual customer, we will increase the frequency of non-purchase-related contact with our brand and thus maximize lifetime value.



Expand product lineup

We also plan to launch major new skincare products. In addition to the mainstay *ORBIS U* and the *ORBIS U.* series, we will strategically expand our domain into two markets (acne/sensitive skin and men's care).



CLEARFUL series



ORBIS Mr.

Grow our overseas business

To date, we have pursued overseas business development centered on our own e-commerce channel, Tmall, and the like. From now, we will deploy the business-to-business channel to expand customer contact points in an effort to strengthen our China operations, which are the driver of our overseas business. We will also roll out products in physical stores, targeting so-called volume zones in China's inland cities, while stepping up advertising investment to improve brand recognition, with the aim of increasing sales as soon as possible.

Growth Strategies by Brand (Overseas Brands)

Jurlique

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



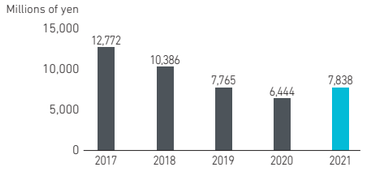
Nutri-Define series

Key issues pinpointed

- Top priority of shifting from loss reduction to profitability

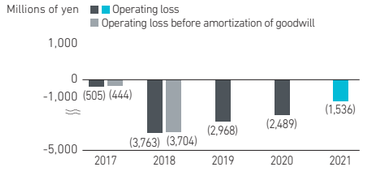
Net sales

¥ 7,838 million (up 21.6%)

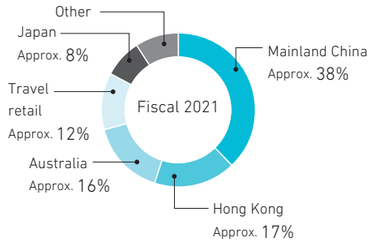


Operating loss

¥ 1,536 million (—)



Net sales breakdown by region



Fiscal 2021 results and future measures

Jurlique is working to grow its business in Asia, particularly mainland China, and in its home country of Australia. In Australia, our store business was affected by intermittent lockdowns and store closures, but e-commerce sales in mainland China increased as a result of live online streaming and social media promotions. Accordingly, net sales increased 21.6% year on year and the operating loss declined.

In 2022, we will roll out a holistic beauty brand as a new brand strategy from Australia. Our aim is to attract customers with a holistic approach centered on our star skincare products while increasing sales and reducing fixed costs to restore profitability.

H2O+™

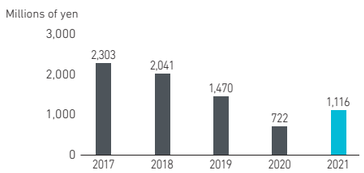
Skincare brand with a concept of innovation and the power of pure water



Hydration Age Renew Collection

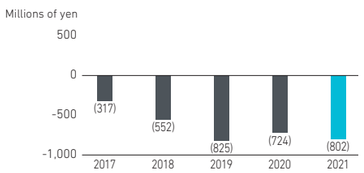
Net sales

¥ 1,116 million (up 54.6%)



Operating loss

¥ 802 million (—)



Fiscal 2021 results

H2O PLUS saw a decrease in sales in its own e-commerce channel due to less efficient acquisition of new customers. By contrast, sales in its hotel amenities business improved thanks to the resumption of operations of commercial facilities in the United States. Accordingly, net sales increased 54.6% year on year. However, one-time expenses incurred to improve our cost structure increased losses.

It was decided that H2O PLUS would be dissolved and liquidated on April 28, 2022.

Growth Strategies by Brand (Brands under Development)

THREE



Amplitude



ITRIM



FIVEISM × THREE



DECENCIA

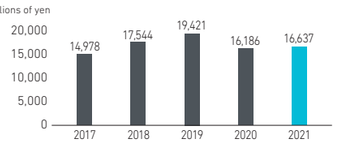


FUJIMI



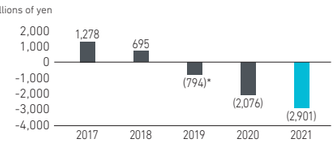
Net sales

¥ 16,637 million (up 2.8%)



Operating loss

¥ 2,901 million (—)



*Due to launch of new brands

Fiscal 2021 results and future measures

ACRO

ACRO's brand portfolio comprises THREE, Amplitude, ITRIM and FIVEISM × THREE. In line with its corporate philosophy "to create the beauty of the era through a well-honed sense of style," the company is emphasizing lifestyle solutions based on THREE and the development of the other three brands to promote new market value and cosmetics culture. For THREE, we stepped up sales of holistic care products for skincare, body care, haircare and inner care, in response to falling demand for makeup products. We also worked to establish online customer contact through social networking and online consulting. However, net sales failed to reach the previous year's level. For ACRO as a whole, net sales declined 4.9% year on year, but the operating loss was reduced through improved cost efficiency.

Changes in consumer behavior triggered by the COVID-19 pandemic have significantly affected the business models of each ACRO brand. Going forward, we will focus on product categories that maximize each brand's strengths while clarifying the roles of e-commerce and retail stores, and strengthen overseas expansion, including entry into local Chinese markets. We will also work to reduce the cost of sales ratio and fixed costs to achieve both brand regrowth and improved profitability.

DECENCIA

DECENCIA, a line of anti-aging cosmetics and skin-brightening hypoallergenic products that can be used with peace of mind by people with sensitive skin, is marketed under the concept "sensitive skin can be beautiful limitlessly." Although we struggled to attract new customers due to increasingly competitive conditions in the e-commerce market, net sales edged up 0.9% year on year and operating income increased 21.4% thanks to improved cost efficiency. In 2022, we will promote recognition of DECENCIA as a prestige brand in the sensitive-skin market through marketing that highlights the value the brand provides. We will also redesign our customer relationship management framework and work to deepen engagement with customers.

FUJIMI

FUJIMI, which became a subsidiary in April 2021, had good results for its newly launched personalized protein products. In 2022, it will work to strengthen branding and develop new products.

Quality of Life Improvement through Innovative Technology Services

Innovative technology services enrich customers' lives

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

Improving corporate value by putting materiality measures into practice

Background to materiality measures

- The POLA ORBIS Group has collected resources to tackle wrinkles and dark spots—two of the biggest skincare concerns—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
- While expanding business portfolio, cultivate new services and new domains, secure business continuity through constant innovation and lay foundation for stable growth

Working to Achieve KPIs—Track Record for 2021 Major Activities

	2021 Results	Major Activities in 2021
Number of new businesses created	3	tricot, me-fullness, BIHADA-WELLNESS TOURISM
Job satisfaction and engagement score	60.2%	Set survey results from Great Place to Work® as indicator
Brand recognition and loyalty	— (calculated for each brand and thus not disclosed)	**DECENCIA** Formulated action plan to boost target recognition rate defining brand position of "Sensitive x Anti-aging x Prestige" **ACRO** Ran product introductions using social media and messaged brand concept geared to recognition and empathy
Number of research awards won at home and abroad	7 (cumulative from 2018)	**POLA CHEMICAL INDUSTRIES** • Won Outstanding Presenter Award for Junior Researcher at the Autophagy Research Convention TOPICS • Paper won Henry Maso Award 2022 Honorary Mention from *IFSCC Magazine* (academic journal) TOPICS
Number of researchers in cutting-edge dermatology research	64 (as of December 31, 2021)	**POLA CHEMICAL INDUSTRIES** Hired new graduates and midcareer specialists in such areas as dermatology, formulation and data analysis

Research structure for creating new value

Research activities for the POLA ORBIS Group are centralized at POLA ORBIS HOLDINGS' Multiple Intelligence Research Center (MIRC). Here at MIRC, three units are in place: the R&D Strategy Team, which plans research strategies; the Curation Team, which collects all sorts of information from around the world to utilize in research activities; and the Incubation Team, which translates research into new businesses. The Frontier Research Center (FRC) at POLA CHEMICAL INDUSTRIES generates new value by combining the information collected by the Curation Team with leading-edge technology available within the POLA ORBIS Group.

MIRC gathers information from all over the world and poses new questions, and then FRC explores possible answers through leading-edge technology and research. The two centers use this relationship to work together while fostering innovation. Their activities will be complemented by the Technical Development Center (TDC), which POLA CHEMICAL INDUSTRIES is set to construct in 2024 to develop and manufacture products featuring leading-edge technology. Cooperation among these three centers will underpin the creation of products and services that delight and impress customers.

The primary purpose of basic research on cosmetics has been to ameliorate concerns that people have about their skin, namely, wrinkles and dark spots. But in the perfection of products and techniques to improve the condition of skin came the realization that the mind—the soul, emotions—will be stimulated as well. Following this thinking, FRC goes beyond research to understand skin, expanding its exploration to include research to understand people themselves, and pursues research in three areas.

Science
Research using leading-edge technologies to acquire a massive amount of knowledge about skin

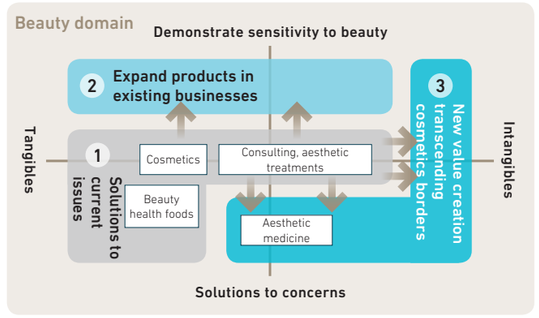
Communication
Research on environments surrounding people and "membranes" between environments and people

Life
Research about people and shifting mind-sets, based on the premise that people change

We look outside the borders of cosmetics, consider the significance people place on how they live and create new value with a high level of originality. Research activities are driven by a corporate desire to enrich the lives of our customers.

Vision of Business Expansion Designed to Create New Value

Begin consideration of business development into new domains



TOPICS

The importance of autophagy in the living body caught the eye of researchers around 2010, and POLA CHEMICAL INDUSTRIES began conducting research on this topic. Since 2019, two young researchers have transferred to the lab of Yoshinori Ohsumi, honorary professor at Tokyo Institute of Technology and recipient of the 2016 Nobel Prize in Physiology or Medicine, who has been instrumental in developing next-generation researchers. Those two young people contribute to developing basic research and also, through daily involvement in lab activities in an environment with top-notch researchers, polish their skills in basic research. This approach is exemplified by the achievement of Yoko Kagohashi, a young researcher who presented research results on the degradation mechanism of autophagy at the 14th Autophagy Research Convention in 2021 and won the Outstanding Presenter Award in the junior researcher category.

Autophagy is an extensive intracellular degradation and recycling process whereby proteins, old mitochondria and other unneeded cellular components are sequestered into a double-membrane vesicle, then broken down and eventually recycled as material to regenerate newer, healthier cells. In the past, research on the autophagy mechanism focused on how the membrane was initially formed. But finding an answer to the question of what causes the membrane to degrade after the cellular components enter the vacuole has not progressed much in some 30 years. In current research, an experiment using yeast was able to locate two types of enzymes—a fat-splitting enzyme and a protein-splitting enzyme—that worked together to cause membrane degradation. This new awareness triggered dramatic progress in understanding the degradation mechanism. It is also expected to be useful for studying measures to deal with autophagy-related diseases and aging.



Left: Yoko Kagohashi, researcher, right: Yoshinori Ohsumi, honorary professor

TOPICS

Emulsification, vital in creating standard cosmetics such as lotions and creams, requires specialized knowledge as well as blending equipment and complicated production processes. In 2021, researcher Megumi Kaji designed and developed a new emulsifier—M-Polymer—that facilitates simple emulsification of cosmetics even at home. Her paper on this research received a Henry Maso Award Honorary Mention from the academic journal *IFSCC Magazine*, affiliated with the International Federation of Societies of Cosmetic Chemists (IFSCC). The research was also announced in the oral presentation category at the 31st IFSCC Congress in October 2020, drawing considerable attention from cosmetic chemists. The POLA ORBIS Group is looking into the possibility of providing services that utilize this technology.

Efforts will be directed toward research into innovative emulsification technology that contributes to development of the industry, providing new ways for customers to enjoy cosmetics.



Megumi Kaji, researcher

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 33,000 Beauty Directors, as of December 31, 2021, 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 people 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.
- ORBIS completed the 10-year plan for the Koshu City ORBIS Forest. POLA CHEMICAL INDUSTRIES maintains a relationship with the neighborhoods near its factory. THREE, developed by ACRO, develops products on the idea of local production for local consumption.

Working to Achieve KPIs—Track Record for 2021 Major Activities

	2021 Results	Major Activities in 2021
Number of regional entrepreneur owners	505 (as of December 31, 2021)	**POLA** Japan: Developed organizations (scale of ¥5 million in monthly sales) with an influential presence in the region Mainland China: Opened 11 POLA THE BEAUTY-style shops
Number of initiatives contributing to the local economy	32 (as of December 31, 2021)	**POLA** • Comprehensive partnership agreement (Akita Prefecture, Oita Prefecture and cities of Kitakyushu, Senboku and Fuji) TOPICS • Total beauty business participated in SDGs Conference (initiatives presented were screened by POLA directors and outside judges) **ORBIS** • 10-year plan for Koshu City ORBIS Forest completed **POLA CHEMICAL INDUSTRIES** • Interacted with community at factory (clean-up campaigns, flower-bed planting, etc.) **ACRO** • Formulate products with ingredients grown organically in Wakayama Prefecture and Saga Prefecture

TOPICS

From providing office buildings to providing spaces and content integral to lifestyles

As part of the POLA ORBIS Group, P.O. REAL ESTATE, which is involved in the real estate business, shares the Group vision of enriching people's lives.

People who have come through the pandemic and all its inconveniences appreciate more than ever the value of comfortable spaces and time for relaxing. For P.O. REAL ESTATE, the basic characteristic of the real estate business has changed, and the company will transform the real estate business from one that provides office buildings to one that provides spaces and content integral to lifestyles. The New Aoyama Building, slated for completion in 2024, will showcase content tagged by the catchphrase "Art x Sensitivity Experience." With an incubation floor and a daycare area, this building will support the people of this community.



Conceptual drawing of completed New Aoyama Building

Producing female entrepreneurs who face social issues and brighten their communities

For POLA to realize the 2029 vision, which states "Towards a society with abundant connections that trusts in the potential of individuals and society itself," the company has embraced the slogan "We Care More. Changing the world and providing thoughtful consideration." We Care More is built on three kinds of care—for people, for society and for the planet—and is linked to the concept of SDGs as well.

POLA Beauty Directors, numbering about 33,000 across Japan, as of December 31, 2021, undertake sales activities fine-tuned to their respective geographical areas. They draw on individuality and a consumer perspective to recognize issues that affect their communities and local demand. This is a POLA strength. Beauty Directors act together, learn together and share together, in a cycle that spirals upward to enhanced awareness and capabilities. Efforts are being directed toward creating places to promote this process. In 2021, POLA held its first SDGs Conference as an opportunity to recognize and applaud actions that facilitate sustainable collective growth through solutions to regional, women-specific and community-based social issues. POLA collected good examples of ideas that led to action through Beauty Directors' ties with local government offices, universities, non-profit organizations and other potential partners in the area and their strong desire to act on addressing region-specific social issues. The Okayama zone took top prize.

Through initiatives on SDG topics, Beauty Directors are meeting a wider range of people than the limited scope of one-on-one sales activities, creating communities and making connections. Regional revitalization is an essential theme for sustainable business activities and also vital for creating a future customer base. With the We Care More movement, more people in every region will view POLA favorably.



VOICE



Momotaro Project
(Representative) POLA Chugoku area Okayama zone
Kazue Matsumura, Tsushima shop owner
Miki Tanaka, nicotto shop owner

The Momotaro Project was launched in 2020 to bring some cheer to Okayama. With a lovely seascape and many waterways and islands within its domain, Okayama Prefecture has strong ties to SDG Goal 14: Conserve and sustainably use the oceans, seas and marine resources, and participated in the *Umi-to-Nippon* Project (The Ocean and Japan Project), led by the Nippon Foundation. An ocean clean-up event, held September 19, 2021, attracted 125 participants, from children to adults. Ocean waste researchers were on hand to give lectures, providing an excellent opportunity for participants to contemplate the significance of SDGs. Other activities include planning an event on the topics of reusing packaging and involvement in regional disaster prevention campaigns, where we were able to make contact with numerous people in the community, at schools and at other venues. Our activities have been covered by local TV stations, and customers too have been favorably impressed. We will continue to make Okayama a happier place through SDG initiatives.

TOPICS

POLA and Oita Prefecture sign comprehensive partnership agreement

On April 9, 2021, POLA and Oita Prefecture signed a comprehensive partnership agreement to support regionally based sustainable business continuity. The signing of this agreement provided an opportunity for POLA to join the people of Oita Prefecture in building a society where women in the prefecture have the ability to make independent choices, which affords them more possibilities and enables them to thrive in the community. Already, POLA has started support for a research class at prefectural high schools and is pursuing tie-ups with local companies.

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 generate innovation in the VUCA (volatility, uncertainty, complexity, ambiguity) era, employees must acquire a heightened sensitivity and sharpen their ability to pinpoint issues and communicate. These qualities are indispensable.
- By collaborating with highly perceptive artists, we endeavor to provide content that stimulates the sensitivity of our customers.

Contributions to the Group's growth

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

Working to Achieve KPIs—Track Record for 2021 Major Activities

	2021 Results	Major Activities in 2021
Number of new brand experiences created that utilized art	11 (2021 only)	**POLA** • Proposals to make life more comfortable through artist/designer x POLA collaboration **ORBIS** • Convey new brand value with facility providing specialized experience TOPICS
Number of participants in liberal arts workshops	23,940 (cumulative since 2018)	**Group companies** • For employees: Provided Groupwide programs and human resources training **POLA ORBIS HOLDINGS** • Art gallery operation TOPICS **P.O. REAL ESTATE** • For stakeholders: Ran workshops for residents of rental condominiums

TOPICS

Convey new brand value with facility providing specialized experience

SKINCARE LOUNGE BY ORBIS, a facility providing specialized experience, opened in the Omotesando district of Tokyo in 2020. The facility has various features, including a juice bar and workshops that give women personal insight into living every day, being themselves and being beautiful. ORBIS teamed up with Takram director Hisato Ogata and MMA inc.'s Momoko Kudo to use architectural design and spatial direction to convey an integrated worldview. These initiatives were recognized in 2021 with a Red Dot Award in the Brands & Communication Design category. The facility also won a Good Design Award in 2021.



Facility providing specialized experience where you feel "comfortable" and get to know yourself

TOPICS

Operate gallery to provide a deeply relaxing time with high-quality art

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

In 2020, a charity auction was held for the first time at this gallery, and with the support of customers, all proceeds were donated to the Japanese Red Cross Society in support of measures to fight the spread of COVID-19. The success of the charity auction was noticed and ultimately recognized by the Ministry of Health, Labour and Welfare with a certificate of appreciation, the first time that a corporate gallery in Japan received such an honor. In addition, the pandemic affected artists who lost production space and places to present their artistic expressions. In view of these challenges, the gallery commissioned artists to create original pieces. A charity auction was again held in 2021, with ¥22 million donated. Going forward, the gallery will continue to stimulate visitors' sensitivity and create a more enjoyable, more spiritually rich experience. The goal is always to provide an awareness that changes the course of life.



Receiving a certificate of appreciation

Support for culture and the arts

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

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

The POLA Foundation of Japanese Culture focuses on activities to preserve, pass on and promote traditional crafts techniques, traditional performing arts, folk entertainment and other expressions of traditional Japanese intangible culture. In 2021, the foundation proposed an exhibition under a program offered by Japan's Agency for Cultural Affairs to help revive for children the experience of traditional culture. The proposal was accepted and the exhibition set up, providing a place for children to learn and at the same time giving bearers of local traditional culture the opportunity to pass on their knowledge to the next generation.

The POLA Research Institute of Beauty & Culture, established in 1976, held an exhibition in cooperation with the Maison de la culture du Japon à Paris titled "Secrets of Beauty." The atmosphere of the event was conveyed in an online seminar available throughout Japan. In addition, the institute has earned praise for continuous entry of survey data into a database for academic research and received an award from the Institute of Social Science at the University of Tokyo for this effort. Also, the institute's activities and social contributions on the topic of cosmetics culture were recognized at "This is MECENAT 2021," the award ceremony sponsored by the Association for Corporate Support of the Arts.



AGORA: Our Cyber Village of Traditional Culture

POLA Research Institute of Beauty & Culture certified under the program

Support for the POLA Art Foundation

The POLA Museum of Art, run by the POLA Art Foundation, has contributed to culture for 19 years with a concept connecting Hakone's natural beauty and works of art.

In 2021, even during the pandemic, the museum upheld its mission—to provide inspirational moments through art—without any interruption by shifting on-site events, such as lectures by curators and talks by artists, to an online format, and provided opportunities for people unable to make the trip to Hakone to experience the appeal of art appreciation from home.

Holding its first large-scale solo exhibition of a contemporary artist since opening in 2002, the museum showcased the work of Roni Horn, one of America's foremost contemporary artists. This exhibition, also a first for the artist, as she had never had a large-scale exhibition at a museum in Japan, caught the attention of people who had not previously visited the POLA Museum of Art and were drawn by the beauty of tranquility in the artist's work, which trended on social media, especially with young people.



Exhibition "Roni Horn"
Courtesy of the artist and Hauser & Wirth
© Roni Horn photo: Koroda Takeru

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

The POLA ORBIS Group oversees a portfolio of brands, each with its own concept, sales channels and market appeal. Going forward, business pursuits and brands will likely become increasingly diversified in tandem with the changing environment. Against this backdrop, it is people—with insight into the future and the ability to discover new businesses and raise the profile of diverse brands—who will be indispensable to further growth of the Group. Various activities are undertaken within the Group to cultivate human resources with leadership qualities and abundant personality.

Improving corporate value by putting materiality measures into practice

Background to materiality measures

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

Contributions to the Group's growth

- Developing as deep as possible a pool of human resources leads to sustainable business expansion. These are people with enhanced levels of sensitivity and personality who connect with society not as corporate citizens but as individuals and use an awareness of current issues to evolve with the times.
- A robust approach is being taken, with seminars and opportunities for exchange with outside people to refine sensitivity.

Working to Achieve KPIs—Track Record for 2021 Major Activities

	2021 Results	Major Activities in 2021
Percentage of female executives	26.9%	The Talent Development Committee was instrumental in selecting and fostering a diverse candidate group that included women TOPICS
Percentage of female managers	49.6%	Formulated and submitted General Employers Action Plan, based on the Act on Promotion of Women's Participation and Advancement in the Workplace, and disclosed information on promotion of women's advancement **POLA** • Implemented diversity seminar and encouraged male employees to take child-care leave
Percentage of candidates to become management executives	91.3% (as of December 31, 2021)	Continued to promote next-generation leader skills development program
Number of people leaving the company for health reasons	Undisclosed	Improve health management skills and provide health advice **POLA** • Living with cancer program

TOPICS

Structure for effective development of human resources for management positions

The POLA ORBIS Group is building a human resources development system to constantly cultivate the skills of people assigned to run operations. Within the Group, opportunities for shaping careers are offered according to rank—young people, middle management, administrative management and executive management—and programs are in place to enhance capabilities. For people in middle-management and administrative-management positions, a structure has been set up to promote effective development of human resources for executive-management positions. Under this format, candidates with the right qualifications for key positions are identified, individual training plans are drawn up and progress is monitored.

The Talent Development Committee, established in 2019, selects candidates from throughout the POLA ORBIS Group who meet the criteria for 15 key positions, then draws up and implements individual training plans. In 2021, the selection pool for executive-management candidates was expanded to include young employees. The goal is to give people with management potential access to broad experience early on to improve efforts to develop skills commensurate with those needed at the executive-management level.

Executive Competency Revised

The Group has prepared a competency model that spells out 10 performance characteristics required of directors and personnel with management responsibilities for the Group to accommodate to accelerated changes in the business environment and attain sustained growth. Redefined in January 2022, Competency sets out characteristics from a long-term perspective of how we should be in the future and with reforms as a starting point, based on performance characteristics demonstrated by past high performers. Competency placing an emphasis on "people centricity," "evolution" and "reform" conveys the Group's essence.

Cluster	Characteristic	Definition
A person-centered management Represents our group strength, individual-centered management	Pursuit of social significance	Earn trust by promoting business activities from a social point of conduct based on the mission to contribute to society
	Bi-ishiki (≈Esthetic sense)	Ability to have impact on one's surroundings as a personal/unique leader by exhibiting one's attractive personality
	Respect for individuals with diversity	Believing in one's individual abilities, respects and makes use of individuals
***SHINKA* (Evolution)** Sensitivity to changes in society and active evolution	Long-term vision	Define and penetrate the desired future image and direction with a long-term vision
	Business context awareness	Envisions the future market according to changes in social environment and recognizes the company's roles and positioning correctly
	Change-oriented mindset	Creates innovation without sticking to conventional corporate thinking and actively leads it to evolutionary opportunities
	Leverages an extensive external network	Utilizing a wide range of external networks in different fields, effectively incorporates diverse perspectives into the company
Value creation Achieves corporate value creation by taking on new challenges	Decision making to enhance agility	Enhances organizational agility by making timely decisions without relying on past experience
	Action-driven mindset	Believe in yourself and demonstrates repeat the process without fear of making mistake even if there is no perfect supporting evidence
	Passion for results	Stays passionate about what he/she wants to achieve through intrinsic motivation

TOPICS

Provide learning opportunities that spur intrinsic motivation

Planned for September 2022, a Groupwide program built on each person's intrinsic motivation will be introduced to support the desire for self-development and learning. Support for independent study will cover four courses, two with long-term attendance to acquire diverse perspectives through high-level, specialized culture education. The program is noteworthy in that employees will not lose vacation days for learning in an environment outside the company, and salaries will continue to be paid because the time spent on education is for self-development that will ultimately benefit the company. In addition, tuition support, with an upper limit, will be provided if attendance is required, regardless of whether employees work while going to classes. Other programs include courses that employees take outside the company for a short time and internships within the Group. Conditions and screening apply depending on the course.

By supporting employees with a strong desire to learn and upgrade their skills, the POLA ORBIS Group will achieve sustainable improvement in Groupwide corporate value.

POLA ORBIS Group's framework for human resources development

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

	Junior / Middle	Management	Director
	Talent Development		**Succession Plan for Officer and Director**
Career Development	**Assignment Change** "Different Job Role, Task" "Different Organization, Business" At least 2 different assignments before 30 years old	**Talent Development Committee** Selection from high potential members, and provide Individual talent development towards Officers. Provide a wide range of job experience within group companies, deepen expertise and leadership experience for each candidates. *Committee Members: POLA ORBIS HOLDINGS Directors, HR Directors from group companies	**Assessment for potential Director** Competency and Leadership assessment for officers (Korn Ferry)
	Open Opportunities [FA] Opportunity to position within the group for members who are above certain condition (evaluation) [Open Offer] Recruit within the group position by application requirement [Business Start up] New business proposal opportunity by employees (individual or team)		
Talent Development	**Future Study Program** **Content**: Team-based action learning to find solutions to management issues within POLA ORBIS Group **Output**: Innovative proposal to Group Management by teams **Members**: About 12 per year **Duration**: 9 months	**External Exchange** **Content**: Practice learning from Future Study Program through activities outside the company. eg) Short MBA School, Participating to PJ in solving social issue and training **Attendees**: members who completed Future Study Program	**Business Innovation Academy** **Content**: Reflect on personal traits and strengthen leadership skills, Find solutions to management issues that will change the company or group to which the participants belongs **Output**: Innovative proposal to Group Management by individual **Members**: About 5-6 per year **Duration**: 9 months	**Coaching for Organization Changes*** **Content**: Individual coaching based on observation of behavior for officers and directors **Duration**: 7 months **Members**: 3 per year
Common Standard	**Group's Common Competency Evaluation**		
	Group Talent Management System Collect and utilize individual ability, motivation and career plan info through group by HR talent management system		
	Group's independent study support program		

* Coaching for Organization Changes will not be offered in fiscal 2022.

Next-generation leader skills development programs

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

1. Future Study Program

Designed for young employees in their 20s and 30s, the program is, in principle, open to anyone who wants to participate. Young employees with a can-do attitude work in teams to envision the Group's future, identify issues that require attention and devise potential solutions to present to management. In 2021, with the aim of acquiring views that open perspectives to the outside world, the program expanded opportunities to learn from external guests active in different fields, such as artists, architects, social entrepreneurs and marketers, who came to give lectures. In addition, discussions were held with other companies on the topic of raising questions from social issues. The program has had 17 graduating classes since 2005. Ideas presented by participants have been linked to activities driving growth of the POLA ORBIS Group, including the development of a brand of men's cosmetics, as well as being catalysts for timely human resources strategies, such as the free-agent system and open-offer system.

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. A broad invitation is extended to employees aware of issues facing the Group, who can apply on their own or be recommended by a superior. The curriculum is designed to create leaders with the talent to drive change forward at their respective companies while bringing others and the organization into the process. Specifically, participants identify fundamental issues of concern within their own company or pertinent to the Group, pursue discussion on possible solutions and eventually draw up a plan. Over the nine months of the program, participants pinpoint issues of concern within their own company, discuss possible solutions and then draft a concrete plan. They uncover issues within the organization that should have been addressed long ago and issues needing drastic action due to the changing business landscape, and present suggestions to management on reforms to address such issues. The program, which provides a venue for discussion with guest speakers active in various fields and with middle management from other companies, reveals personal value perceptions and leadership issues. Launched in 2007, the program has been held 15 times, and 81 people have completed the curriculum. Of these participants, 21 have been appointed to executive positions at companies under the Group umbrella.

3. Coaching for Organization Changes

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

Initiatives in diversity

Within the POLA ORBIS Group, the percentage of female employees in the overall workforce is relatively high, as is the percentage of female managers, but management acknowledges that the percentage of female managers at domestic Group companies could be higher. Targets have been set for each Group company, and action plans to reach those targets have been drafted, with efforts intended to push the number of female managers to 50% or more by 2029. In January 2022, POLA ORBIS HOLDINGS established the Diversity Promotion Committee, chaired by Miki Oikawa, the senior corporate officer responsible for Group diversity. The committee explores not just gender issues but also employment for the disabled, the hiring of foreigners and issues affecting the LGBTQ+ community, and works toward creating an environment that respects individuality and in which all persons, irrespective of gender, nationality, age or any other characteristic, can demonstrate the skills they possess to maximum potential.

POLA is a driving force within the POLA ORBIS Group, implementing concrete measures and offering support such as providing female employees with opportunities to build leadership experience from early on. In the first half of fiscal 2021, the company held seminars on child-care leave for men, and in the second half of the year, the focus was on LGBTQ+. For men's leave, POLA affirmed the Male 100% Child-care Leave Declaration, which conveys a positive message to men and encourages them to utilize this program. For LGBTQ+, POLA started its first ALLY community in June 2021. In January 2022, POLA implemented a revision to its personnel system as well as employee benefits coverage previously applicable only to a legal spouse, family and relatives, and broadened the scope of those eligible to encompass nonconventional family units and relatives, including common-law partners and same-sex partners.

Along with business partners, POLA offers support that enables people with cancer to keep working. This continuous support has earned high marks, substantiated by a Gan-Ally-Bu Award in 2021—the company's third straight gold—from Gan-Ally-Bu, a private-sector project that tackles problems faced by people who work while undergoing cancer treatment.

In addition, when evaluating the texture of a product, POLA and POLA CHEMICAL INDUSTRIES have a special program to welcome the participation of people with impaired vision and hearing. Through activities that build on conversations with people with heightened senses, the companies identify sensory elements that inspire or provide a pleasant moment just by touch. The responses are then applied to developing new products planned for market release.

In support of WOMEN'S EMPOWERMENT PRINCIPLES
Established by UN Women and the UN Global Compact Office
POLA ORBIS HOLDINGS/POLA/ORBIS

30% Club GROWTH THROUGH DIVERSITY
POLA ORBIS HOLDINGS/POLA

男性育休100%企業宣言
POLA

gan-ally-bu AWARD 2021 GOLD
POLA

プラチナくるみん 子育てサポートしています
ORBIS

Health management

Policy

In 2017, POLA ORBIS HOLDINGS drafted the POLA ORBIS Group Health Management Declaration to sustain the Group as an organization brimming with human resources who possess rich individuality and deep sensitivity, and use health management to realize the Group philosophy. The physical and mental health of employees is a management priority, driven by coordinated efforts by companies, occupational health professionals and health insurance associations to ensure the well-being of Group employees and their families.

Since 2018, the Company has been recognized five years running as an outstanding organization in the large enterprise category under the Ministry of Economy, Trade and Industry's Certified Health and Productivity Management Outstanding Organization Recognition Program. The year 2022 brought another honor, inclusion in the White 500, an exclusive selection of 500 companies engaging in excellent health management activities.

2022 健康経営優良法人 Health and productivity ホワイト500

Activities

Women account for a large percentage of employees Groupwide, and POLA ORBIS HOLDINGS acknowledges that eliminating or at least reducing presenteeism—which erodes productivity—caused by female-specific health issues as well as efforts to enrich life career options are important to the Group's success. To underpin an enhanced quality of life for women, the Group implements the following activities.

Promoting measures to raise health literacy among women

Structures have been set up Groupwide to address various issues that accompany the different stages in a woman's life. These include recruitment of health-care professionals such as occupational physicians and doctors with gynecology expertise, and a consultation portal easily accessible by email. In addition, to raise Groupwide literacy of women's health, the Company opened an in-house channel dedicated to health management topics. In 2021, this channel was used to provide information and stream seminar videos on the topic of women with COVID-19 and approaches to deal with stress in the new normal.



Occupational physician answers questions about how women are spending their time during the pandemic

Launched fertility treatment support and health-care support as employee benefits

To date, POLA's efforts have included financial assistance to cover a portion of the cost to freeze eggs, treat infertility and purchase feminine hygiene products, financial assistance for counseling related to menopause and access to feminine hygiene products in all ladies' washrooms at the company. In April 2022, POLA introduced Cradle, a service to promote diversity and inclusion, and started health-care support for employees and their families as a part of employee benefits. In addition, POLA holds online discussions to promote understanding about issues such as fertility treatment and to cultivate a more compassionate atmosphere in the workplace. This approach has garnered a big response within the company.



Introduced day off and telemedicine to tackle "period taboo"

A health-related survey of female employees at ORBIS revealed that 70% of respondents cite their period and PMS (premenstrual syndrome) as reasons for wanting a day off, but the vast majority also said they have not used period pain or PMS as a reason to take a day off. Addressing this situation, ORBIS launched its Wellness Leave Program, which enables women to take one paid vacation day each month due to feeling unwell from menstruation or for fertility treatment (at a hospital), managing PMS or dealing with menopausal symptoms. Complementing this, ORBIS debuted the Online Pill Outpatient Program to make every day more enjoyable. Under this program, pills for good health are accessed through online diagnosis and prescriptions. By providing these opportunities, ORBIS strives to support a work style unique to each and every employee.

Please visit our website for the Health Management Report, which brings together the positioning of health management activities from a management perspective as well as key indicators (including actual values), issues and core activities →
https://www.po-holdings.co.jp/en/csr/social/health/

VOICE

Directors' messages

Satoshi Suzuki, Representative Director and President

However the environment may change, being healthy in mind and body is my responsibility. I can eat almost all foods and prefer a balanced diet. I relax my body and pay attention to my breathing to reduce stress. Even in running the organization, I try to improve psychological safety and keep a person-centered management style in mind.

Naoki Kume, Director and Vice President

I believe caring for both mind and body is necessary to live an active life in good health. For me, rather than worrying about my diet, I enjoy walking—10,000 steps a day—while listening to music and doing a dance workout at the gym.

Yoshikazu Yokote, Director

Being healthy in mind and body is the major premise behind heightening one's sensitivity, listening and watching in multiple directions to catch what's going on and responding in a dynamic way. Walking is important to me. When I walk, I am immersed in the shifting mood of the streets and the changing seasons. I feel constantly refreshed in body and soul.

Takuma Kobayashi, Director

Good health, being healthy—this is the underlying source of the beauty we strive to create. I think people who are healthy in both mind and body radiate an aura of positivity and are beautiful. My priority, then, is the health of employees and myself because our well-being infuses the value we provide.

Koji Ogawa, Director

Many hours of one's life are spent at work, so working hours should be an important part of one's daily habits for building a healthy body. A corporate culture that allows all employees to ask how another staff member is feeling if that person seems less energetic than usual—that's important. With the accumulation of such actions, the organization will benefit from having a sound competitive edge.

Provide sense of well-being to people around the world

A sense of well-being is integral to leading a vibrant life. To support this idea, research has started with the underlying goal of providing products and services that enhance the well-being of people around the world in a characteristic POLA ORBIS Group way. In cooperation with Takashi Maeno, a professor at Keio University's Graduate School of System Design and Management with expertise in the study of happiness, and Madoka Maeno, from the SDM Institute attached to Keio University's Graduate School of System Design and Management, POLA set up the POLA Happiness Research Institute in April 2021. The institute found a correlation between happiness levels and performance, identifying a high level of happiness among POLA sales employees, including Beauty Directors.

In January 2022, the Multiple Intelligence Research Center (MIRC) and the Frontier Research Center (FRC)—research organizations under the POLA ORBIS Group umbrella—began distribution of "me-fullness," an app that promotes an enhanced state of mind and body. Going forward, the plan is to tie up with different companies to create places for real experience, not just by using the app.

What is "me-fullness"?

"me-fullness" is a new business project in which MIRC and FRC seek to create value that transcends the cosmetics realm—in this case, aiming for "mind-fullness" and "body-fullness" in "me" through technology. A plan to shift to commercialization has been proposed for 2022, but an app has been released to subscribers as a pre-marketing step. Verification trials with the city of Tokushima, under a program funded by the Ministry of Economy, Trade and Industry, have begun. Also, joint research with the Japan Aerospace Exploration Agency (JAXA) to understand fatigue and stress levels in a spacecraft has started.

About the app

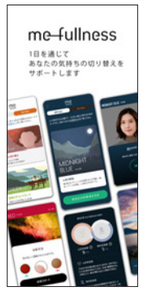
The main features of the app, which helps people who are fatigued and stressed recharge mind and body, are the following:

- Visualize an individual's fatigue and stress levels from face and skin data anywhere anytime*1
- Provide access to self-care instantaneously through optimal five-sense experience*2
- Realize desired condition*3 matched to the daily situation

*1 Utilizes skin analysis technology cultivated over many years by POLA CHEMICAL INDUSTRIES
*2 Original heartbeat-like vibration based on research into physical sensation of cosmetics products, as well as music, voices, art images and content combining these components
*3 Release mind and body, make a quick switch, just have a short break, think to cool down, etc.

VOICE





Tomonori Motokawa
Frontier Research Center
POLA CHEMICAL INDUSTRIES INC.
Won top poster award at IFSCC
Won encouragement award at the Japanese Society for Pigment Cell Research
Eagerly presents papers at domestic and international conferences
In parallel with research duties, works jointly with National Museum of Nature and Science, Tokyo to describe the qualities of skin among the Jomon people

Since entering the company more than 20 years ago, I have dedicated myself to research on skin-brightening. I was in charge of the *White Shot* series, and I've captured top awards at IFSCC. In-house, I'm known as the "Prince of Brightening." Now I'm involved in the me-fullness project, beginning when I applied for the in-house venture program. Today's society focuses so much on efficiency that a full life seems immeasurably squeezed. By making time in our routine to relax, I want to help give some beauty and richness to people's lives. With this in mind, I try to find content that would be good for everyday mindfulness in a game-like way, and I look into the potential to be gained by measuring brain waves and heart rates. At some time, the company came out with the venture program. I am always looking to create a new kind of happiness in the world. Even during my days researching skin-brightening, I felt my work wasn't just to launch skin-brightening products but to link the research to something amazing, to a new discovery, and I pursued research a little off course as well. I looked at the ancient people of Japan—the Jomon people—and used research results indicating that they were prone to dark spots. I tend to send out messages on topics I'd like to explore, and if something piques interest, it will naturally bring colleagues together regardless of whether they are inside or outside the company. For me-fullness, as well, the project involved many companies—to develop the analysis technology, to operate the server, to create the app and for other aspects—and information is not provided at bare minimum but rather as fully as possible. I always try to convey the idea that the goal is to create a world of well-being. Everyone shares this view and works together as colleagues to realize it, leading to suggestions that go beyond the business itself. Some companies have provided information voluntarily, too. The POLA ORBIS Group maintains a program for new business and companies under its umbrella to demonstrate uniqueness. With a desire for success, nothing is impossible.

Care for the global environment around us and pursue sustainable business activities

The POLA ORBIS Group, which sees climate change as a management-level risk but also as an opportunity, has set out future strategies and environmental impact reduction targets to achieve by 2029. POLA ORBIS HOLDINGS supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), performs scenario analysis of risks and opportunities that climate change poses to business, discloses pertinent information and engages with stakeholders. In addition, the Group has clarified issues, set targets conscious of biodiversity and environmental protection across the supply chain and rolls out initiatives in response.

Improving corporate value by putting materiality measures into practice

Background to materiality measures

- Natural resources and energy are indispensable to our business activities. They are also in limited supply, and we must be conscious of the environment in pursuing business activities, promote measures for recycling and save resources.

Contributions to the Group's growth

- Through greater resource- and energy-saving efforts across the supply chain, we balance the beauty of our planet with our own beauty.
- We will meet demand for ethical products by incorporating resource recycling and environmentally conscious design into our products.

Working to Achieve KPIs—Track Record for 2021 Major Activities

	2021 Results	Major Activities in 2021
CO_2 emissions (Scope 1, 2)	Down 31.5% (compared with 2019)	• Implemented measures to realize strategy and associated targets conforming to SBT 1.5˚C scenario and monitored status • Performed scenario analysis of risks and opportunities from short-, medium- and long-term perspectives assuming 2˚C and 4˚C scenarios, explored response measures, decided on actions and disclosed decisions • Switched to CO_2-free electricity derived from 100% renewable energy • Considered reduction of CO_2 emissions while being conscious of overall value chain of products • Set CO_2-reduction criteria for directors' medium- and long-term incentive compensation at Group companies
CO_2 emissions (Scope 3)	Down 51.2% (compared with 2019)	
Water consumption	Down 8.0% (compared with 2019)	Water-saving initiatives at factories, change to environmentally conscious equipment, use of rainwater, reforestation and thinning
Waste	Down 40.1% (compared with 2015)	Reduced industrial waste at Group companies
Plastic cosmetics containers and packaging consumption	Began in 2022	Newly established in 2021: Have begun assembling cross-Group task force, designing sustainable products and building resource-recycling model TOPICS

TOPICS

Selected for Climate Change A List, highest rating from CDP

POLA ORBIS HOLDINGS' climate change initiatives and information disclosure practices have earned the Company a reputation as a progressive organization with excellent corporate sustainability. In 2021, CDP*1, an international NGO, added POLA ORBIS HOLDINGS to its highest rating Climate Change A List for the first time.

Behind the selection of POLA ORBIS HOLDINGS for this prestigious list is recognition of the Company's climate change strategies, initiatives and a high level of disclosure on the processes and results achieved through these measures.

CDP DISCLOSURE INSIGHT ACTION A LIST 2021 CLIMATE

*CDP: International non-governmental organization that studies, evaluates and discloses strategies taken by companies to address climate change and measures related to greenhouse gas emissions

Scenario analysis in line with TCFD

Anticipating a highly uncertain future in parallel with the shift toward a decarbonized society, the POLA ORBIS Group performed scenario analysis aligned with TCFD recommendations for the 2˚C scenario (SSP1-2.6) and the 4˚C scenario (SSP5-8.5) to identify business issues likely to emerge. Scenario analysis targeted all businesses of the Group over time frames aligned with medium- to long-term strategies. Since climate-related risk has the potential to exert impact for an extended time, management defined the short term as running through 2023, lockstep with the medium-term management plan; medium term through 2029, the year it marks its 100th anniversary; and long term to consideration about 2050. In this analysis, the Group will take into account the entire supply chain, including raw materials procurement.

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Please visit our website for details:
https://www.po-holdings.co.jp/en/csr/environmental/environment/pdf/disclosure-doc01.pdf

Plastic policy

The Board of Directors at the Group discussed plastics recycling, determined the POLA ORBIS Group Plastic Policy and defined a goal to achieve 100% sustainable design based on the 4R's* for plastic cosmetics containers and packaging by 2029.

In April 2021, POLA ORBIS HOLDINGS set up the Circular Economy Task Force as a subcommittee of the CSR Committee to implement the plastic policy and build a circular business model with a circular economy. The task force takes an integrated approach to address all aspects, from R&D to sales.

*4R's: Reduce/Reuse/Replace/Recycle

POLA ORBIS Group Plastic Policy

The POLA ORBIS Group is committed to the following policies to conserve limited resources:

1. Reducing the amount of plastic used for containers and packaging materials
2. Working to recycle plastics used in containers and packaging
3. Reducing the amount of resources used and providing environmentally friendly products and services

TOPICS

Initiatives based on plastic policy

New initiatives in collecting resources

POLA ORBIS HOLDINGS became a member of the Japan Circular Economy Partnership (J-CEP*) in 2021. Going forward, the Company will strive to promote a circular economy in cooperation with J-CEP. From November 4, 2021, POLA ORBIS HOLDINGS began participating in activities at a recycling station designed specifically for handling plastic waste at Futaba Gakusha in Kobe, Hyogo Prefecture.

* J-CEP: Alliance of companies seeking to realize a sustainable society in cooperation with residents, governments, universities and other sectors to create new businesses aimed at promoting a circular economy

Jurlique: Collection and reuse of containers

Jurlique International has partnered with TerraCycle* to collect used cosmetics containers at stores in Australia. The program includes pumps and covers, which are typically difficult to recycle. In addition, the company offers customers who bring in their empty containers a 10% discount on purchases as a way of raising customers' awareness about the environment. About 150,000 containers have been collected since September 2018. In 2021, Jurlique Hong Kong teamed up with TerraCycle to initiate container collection there as well.



Container collection box at Jurlique store

* Social venture with the corporate mission of Eliminating the Idea of Waste, which works to reduce garbage output through material recycling and the creation of circular economies in more than 20 countries around the world

Responding with refillables

POLA has been offering refillable containers for cosmetics in the high-price range since 1985. ORBIS has been selling products in refillable containers since 1987. Early responses to environmental concerns since 1990 include simplified product packaging using film bags. Even today, many customers intend to purchase products in refillable containers.

Switching from plastic to other types of packaging materials

ORBIS and DECENCIA changed some of their plastic packaging materials to certified paper packaging.

Using recycled plastics

POLA has adopted environment-conscious sustainable materials for the four-product *Shower Break* amenities series—debuted February 2022—available in Japan. The basic raw material for the containers adopts not virgin crude oil but rather 100% recycled PET (polyethylene terephthalate) material refined on a production line certified by the U.S. Food and Drug Administration (FDA), a specialized international organization, using recycled plastics, mainly beverage-use PET bottles, as the source material. This facilitated a dramatic reduction in CO_2 emissions—down about 63%—compared with the level emitted previously using PET plastic derived from crude oil.



POLA *Shower Break*

Using biomass plastic

ORBIS uses biomass plastic in the lotion and moisture bottles (made of PET material) of the *ORBIS BRIGHT* series and the *ORBIS A* series series. This biomass plastic is derived from a plant-based material made from bagasse—the pulpy residue from crushed sugarcane—which replaces some of the petroleum-derived rough PET resin material. The amount of plant-derived content is 30%. Compared with the 100% petroleum-derived PET content previously used, this can cut the greenhouse gas effect about 20%.


ORBIS A series


ORBIS BRIGHT series

Biodiversity

Palm oil

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

Target: Switch completely to certified palm oil by 2029

Paper

Paper certified by the Forest Stewardship Council and other organizations is used by POLA for *B.A*, by ORBIS for *ORBIS U* and by DECENCIA for *ayanasu* Trial Set and *saeru* Trial Set. Meanwhile, Jurlique has adopted biodynamic, no-pesticide, organic farming methods, set an annual Tree Planting Day since 2012 and implemented tree-planting activities for 10 years.

TOPICS

ORBIS: Koshu City ORBIS Forest to reclaim and develop community forest

In January 2011, ORBIS joined the city of Koshu, in Yamanashi Prefecture, and the Organization for Industrial, Spiritual and Cultural Advancement-International in establishing the Koshu Woodland Development Promotion Council and entered into the Forest Development Agreement. About 100 hectares of a municipal forest were named the Koshu City ORBIS Forest, and in April 2012, ORBIS started working on a 10-year forest regrowth project. Ultimately, the project is not just to create a forest but to reclaim this vast area as a community-based forested space where people can gather and enjoy nature. Twice a year, ORBIS employees visited to clear up untamed growth. ORBIS's efforts have been recognized many times. Honors for ORBIS include a Medal with Dark Blue Ribbon from the government of Japan in 2018, the forest's designation as a UNESCO Eco Park in 2019 and Commendations for Contributions in Environmental Conservation from the Minister of the Environment in 2020.

In 2021, the 10-year project came to an end. The forest now features about one kilometer of walking trails, the Sunlight Stage, which can be used as an event space, and the Four-Season Lookout, where visitors can take in the beauty of the forest. From now on, families seeking abundant nature are sure to visit the area. In addition, the 4,160 trees planted during the project will help absorb CO_2 and contribute to water reserves.


Employees participate in project


Completed walking trail

Initiatives with supply chains

Processed raw materials derived from palm oil and palm kernel oil are used in cosmetics, and the associated supply chains are varied and complicated. The POLA ORBIS Group recognizes the potential for risks—destruction of the environment and human rights issues in the upstream supply chain of cosmetics—and takes steps to evaluate and control supply chain risks.

First, primary suppliers are asked for their understanding and cooperation regarding POLA ORBIS Group CSR Procurement Guidelines and given a CSR questionnaire to fill out. The questionnaire content is original, based on domestic and global best practice. In addition, on-site audits of factories run by particular key suppliers are conducted to confirm environmental management programs and the absence of human rights risks such as forced labor, child labor and work safety issues. In the 2021 audit, suppliers were told that they had to check for issues in the work environment and accommodations when receiving foreign workers for technical training.

In 2018, POLA ORBIS HOLDINGS was among participating companies at the Stakeholder Engagement Program* in Malaysia, sponsored by Caux Round Table Japan (CRT Japan), and took part in a dialogue with experts including people in charge of the Roundtable on Sustainable Palm Oil (RSPO) and small-scale farmers who grow oil palms. This event allowed attendees to grasp issues such as the potential for threats to human rights and the environment in palm oil-producing areas, prompting POLA ORBIS HOLDINGS to join RSPO in 2019.

Also, through dialogue with NGO and NPO representatives, the POLA ORBIS Group gathers information on corporate risks relating to environmental destruction and human rights violations. For five consecutive years, beginning in 2017, POLA ORBIS HOLDINGS was involved in the Stakeholder Engagement Program, organized by CRT Japan in Tokyo. The forum, which allowed participants to share issues of concern according to industry, hears from experts, NGOs and NPOs on environmental and human rights issues, using the Human Rights Guidance Tool prepared by the United Nations Environment Programme Finance Initiative (UNEP FI).

CDP SUPPLIER ENGAGEMENT LEADER 2021

* For information on the 2021 Stakeholder Engagement Program, sponsored by CRT Japan, please visit here → https://crt-japan.jp/human-rights/she-program_archive/ (available only in Japanese)

Initiatives with customers

The POLA ORBIS Group is eager to work with customers to reduce the environmental impact. Toward this end, all brands under the Group umbrella have announced a policy to stop providing shopping bags when products are purchased. Going forward, the Group will continue to reduce the environmental burden and leverage activities aimed at supplying products and services that customers purchase with peace of mind.

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	Outcome from dialogue
Customers	• Comments from customers by phone and website • Customer satisfaction surveys • Sales data analysis	Establish framework for quickly sharing customer comments all the way up the corporate ladder to realize improvements. ORBIS brought back to market loose powder, after customers requested that it be sold again. POLA Customer Service Office captured a three-star rating—the highest level—in 2021 HDI Benchmark, an evaluation survey conducted by HDI-Japan.
Business partners (Suppliers)	• Procurement policy information meetings • Quality audits • CSR procurement questionnaire/audit	Work with suppliers to build a strong supply chain. Promote communication, including procurement policy information meetings, to ensure stable procurement and build good relationships with suppliers. POLA ORBIS HOLDINGS was selected as a Supplier Engagement Leader—the top rating—for the first time in the 2021 CDP Supplier Engagement Rating evaluations.
Business partners (POLA Beauty Directors)	• Level-specific training (philosophy, products, techniques) • Leaders' business meetings • Interviews with Grand Owners	Support potential of women through POLA-related work. Promote close opinion exchange with Beauty Directors. In 2021, POLA head office collected action plans for regional revitalization and worked with Beauty Directors to implement projects.
Employees	• Employee satisfaction survey • Groupwide programs • Employee forums and training at each company • In-house intranet	Employees demonstrating individuality and playing active roles create springboard for sustainable growth. Opportunities provided. Invited new business ideas from employees. Messages from president and directors distributed over the intranet.
Shareholders/investors	• General meetings of shareholders • Conference presentation • Institutional investors' meetings • Briefings for individual investors	Top management communicates with investors at home and abroad and makes use of requests in corporate management. Working on higher level of fair disclosure, including script and rebroadcast of conference presentations and post-meeting Q&A releases.
Local communities/non-governmental organizations	• Joint activities/cooperation with local governments • NGO/NPO dialogues • Cultural and artistic activities	Collaborating with local governments and NPOs to address community-specific issues. Earnestly responding to requests from NGOs and other groups.

FTSE4Good

FTSE Blossom Japan

2021 Sompo Sustainability Index

2022 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

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3 Stars Customer Service HDI-Japan 2021

TOPICS

Stakeholder Dialogue (held on September 1, 2021)

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

In 2021, guests were invited to discuss DX—that is, transforming the business model using digital technology—which is a topic in the medium-term management plan.



Participants

Guests

Yasufumi Fujii
Executive Officer and Chief Communication Officer, beBit, Inc.

Keizo Osada
Vice-President, Equity Research Department, Equity Investment Division, J.P. Morgan Asset Management Limited

(Facilitator)
Hiroko Ozawa
Head, ESG/Responsible Investment Research Center, Japan Shareholder Services Ltd.

POLA ORBIS HOLDINGS

Satoshi Suzuki
Representative Director and President

Yoshikazu Yokote
Director (responsible for the Group's overseas expansion)

Takuma Kobayashi
Director
Representative Director and President, ORBIS Inc.

Koji Ogawa
Director (responsible for general planning, IT, HR and business development)

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

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

Comments from guests

- Digital technology is seeping through society right now. Offline is being usurped by online. The real world is always connected online. You don't make embracing DX the goal. What you do have to do is align operations to customer behavior driven by changes in society and to a different environment.
- Right now, you capture data through customer contact and then personalize the selection of products or services to that customer's needs, understand that person's skin concerns and work to improve the situation. It would be great to do that on a digital platform. Keeping experience and behavioral data together will be a key piece of the puzzle in the digital age.
- A success story under one brand should be applied as a common platform Groupwide.
- After creating new businesses through business model reform, you have to repeatedly improve the structure to match the market environment and user needs. The key will be to form a digital platform base that facilitates this process.

Comments from POLA ORBIS HOLDINGS

- In this digitally connected world, now is the perfect time to strengthen brands that touch people's heartstrings in real time to raise the relative real value.
- At POLA's stores in mainland China and ORBIS, the emphasis is on "the experience." At POLA, the goal is to provide customers with "a deeply relaxing time." The 2021–2023 Medium-Term Management Plan will describe this.
- Good points, such as POLA's relationship with customers and the underlying know-how in the ORBIS app, will be shared Groupwide.
- The Company has to be faster at imagining different things based on facts and data, and better at verifying theories. We recognize the need for employees to develop a new kind of skills set.

Examples of comments applied to business

Implemented in 2019—"Promote measures to handle climate change risk"

➡ Set long-term reduction target for CO_2 emissions and set reduction of CO_2 emissions as medium- to long-term incentive evaluation criteria for directors

Implemented in 2020—"Should pursue organizational and team psychological safety to realize corporate philosophy"

➡ Set job satisfaction and engagement score as non-financial KPI from 2022

Basic Stance on Corporate Governance

Number of meetings held in 2021

Board of Directors 19

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 2021, it met 19 times, with an average attendance rate of 98.6% for directors.

The Board of Directors comprises directors who think flexibly and have the education and knowledge to apply diverse perspectives, as well as extensive experience and expertise for the Company's corporate management activities. In addition, the Company believes that from evaluations by Executive Competency (see page 41), which was redefined in January 2022, maintaining a proper balance of knowledge, experience, capabilities and personalities among the directors is a priority. The Company appoints as outside directors those who have independence, those able to properly engage with and advise the Board of Directors' meeting and those able to reflect in the Company's management practices the expertise and insights acquired in corporate management in fields different from those of the Company.

Number of meetings held in 2021

Nomination Advisory Committee (voluntary) 7

The role of the Nomination Advisory Committee is to ensure objectivity, transparency and effectiveness in decision-making processes, including the nomination of Company director candidates, appointment of corporate officers and nomination of representative 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.

Nomination, appointment and dismissal of directors

Director candidates are nominated from persons who have the ability to contribute to the Group's sustained growth and medium- to long-term increases in its corporate value, who fully understand the Group's management policies and strategies, and who possess such properties as multifaceted points of view, flexible thinking on reforms and specialization with consideration for balance among such factors as knowledge, experience, abilities and diversity of the Board of Directors as a whole, based on an evaluation of Executive Competency. To ensure objectivity and transparency in the appointment and dismissal process, decisions are made by the Board of Directors and submitted to the General Meeting of Shareholders, based on deliberations and reports by the Nomination Advisory Committee.

Appointment and dismissal of representative directors and the president

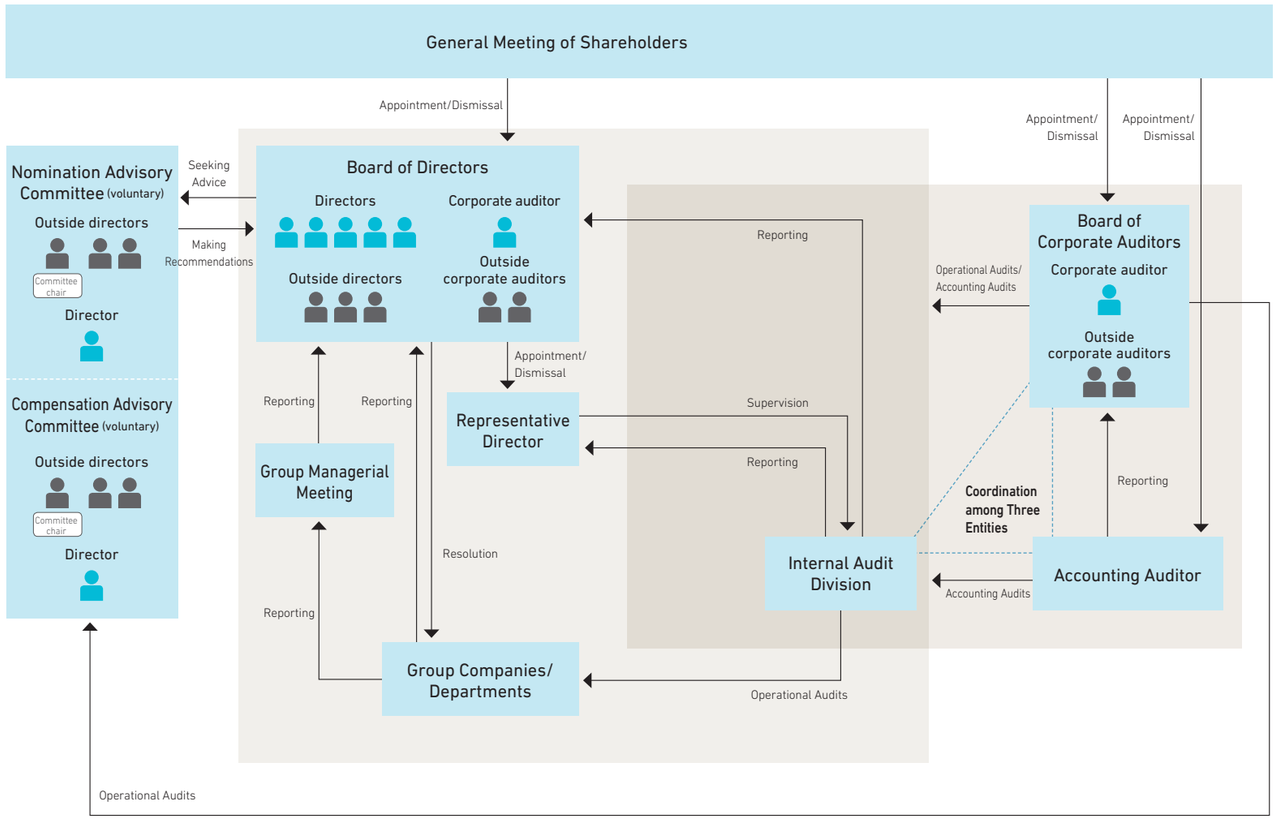
The appointment and dismissal of the representative director and president are considered the most important decisions of the Nomination Advisory Committee. Decisions on the appointment and dismissal of the representative director and president are made by the Board of Directors, based on sufficient deliberations and reporting by the Nomination Advisory Committee regarding whether the appointee possesses a suitable temperament, abilities, deportment and other properties as the Group's chief executive officer.

Number of meetings held in 2021

Compensation Advisory Committee (voluntary) 3

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 representative directors at subsidiaries of the Company, by discussing and recommending compensation based on requests from the Board of Directors. Outside directors make up the majority of the committee members. The committee chair is an outside director appointed by the Board of Directors.

Corporate governance structure (as of March 25, 2022)



Structural overview (as of March 25, 2022)

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 outside 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)
2022	Transitioned to the Prime Market of the Tokyo Stock Exchange

Number of meetings held in 2021

Board of Corporate Auditors 16

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

Number of meetings held in 2021

Internal Audit Division 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. In 2021, it set brand audits as a new audit topic, with the aim of preventing brand erosion.

Number of meetings held in 2021

Group Managerial Meeting 19

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

Policy on strategic shareholding

POLA ORBIS HOLDINGS holds listed shares under the following conditions:

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

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

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

Executive training

Through continuous improvement of skills, the directors and core management are subject to self-evaluations and external evaluations of Executive Competency for the purpose of fulfilling their responsibilities. When necessary, executive coaching programs and discussions with members of the Nomination Advisory Committee are used to provide them with opportunities to improve their understanding and acceptance of their roles, responsibilities and commitments.

Efforts are made to help newly appointed executives understand their roles and responsibilities with explanations of their expected roles and legal responsibilities upon appointment.

For newly appointed outside directors and outside corporate auditors, in addition to their expected roles, matters explained to them upon appointment include the Group's management strategies and management plans, the state of management and business environments of individual Group companies, and other management issues. These are made clear by the executives responsible and the Management Planning Division, in order to promote understanding of the topics.

Evaluation results of Board of Directors' effectiveness

Through an evaluation of the Board of Directors' effectiveness implemented in 2020, two issues were brought to management's attention and recognized as requiring action. Steps taken in 2021 to address these issues are described below.

Item	Steps taken
❶ Strengthening POLA ORBIS HOLDINGS' involvement in the execution of operations to be performed throughout the Group	The Board of Directors has defined primary areas, namely, handling e-commerce and the digital shift, expanding overseas markets, creating new businesses and new value, and organizing the Group's shared functions, and has developed an organizational structure that has implemented measures throughout the Group and reflected the results of these efforts in the Group's long-term vision. In addition, by leveraging the direct selling assets of individual subsidiaries, initiatives such as reinforcing measures for maximizing lifetime value have become more active, and the leadership of POLA ORBIS HOLDINGS has been strengthened.
❷ Creating a long-term vision that includes structural reforms and growth strategies with an eye toward lifestyles during COVID-19 and afterward	In February 2022, the Group's long-term vision for the years leading up to 2029 was announced. Given current conditions and with an eye toward the situation during COVID-19 and afterward, together with new lifestyles and consumer mentalities, especially those of Generation Z, we recognize the growing importance of providing value to society in offering the "beauty" that people seek. Against this background, the Group formulated VISION 2029, a goal of being "a collection of unique businesses that respond to diversifying values of 'beauty.' " In its business portfolio, the Group aims to expand into the new segment of "well-being," which transcends the bounds of cosmetics, and to address social needs as it engages in sustainable business growth.

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, since fiscal 2017, for evaluating a board of directors' effectiveness, we have turned to skilled third-party organizations to perform evaluation and provide analysis. In fiscal 2021, an interview was conducted with the chairman of the board, a questionnaire for all directors and corporate auditors was created, responses were gathered and a report was made based on the questionnaire's results. 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 top management development training. These employees are selected to attend executive meetings as observers and interview members of the Board of Directors.

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

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

3. Summary of analysis and evaluation results

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

Points rated highly

Points ❶, ❹, ❺ and ❻ below continued to be regarded as demonstrating the high effectiveness of the Board of Directors, while points ❷ and ❸ were newly evaluated as demonstrating high effectiveness. The board will strive to maintain and improve these points.

❶ Shared understanding of the POLA ORBIS Group philosophy and Group strengths
❷ Enhancement of POLA ORBIS HOLDINGS' leadership of individual subsidiaries and relationships with them
❸ Richness of discussions about new businesses
❹ High level of awareness and robust efforts among executives to improve governance
❺ Active involvement and contributions of outside executives and (Board of) Corporate Auditors in the Board of Directors
❻ Communication with shareholders and appropriate engagement with the capital market through IR activities and external disclosure

Points brought to attention and recognized as requiring action

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

❶ Further strengthening the Company's involvement in the execution of operations to be performed throughout the Group
❷ Implementing three basic strategies for realizing VISION 2029 and verification of the progress of implementation

Key activity status of outside directors

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

Name	Key activity status
Kazuyoshi Komiya Attendance at meetings of the Board of Directors 100% 19 of 19 meetings	Mr. Komiya views the overall management of the Group from a position independent of that of the Board of Directors and management. Moreover, after grasping essential issues and risks, he proactively offers advice and recommendations that contribute to enhancing the Group's corporate value. In addition, in the decision-making process for director and top management nominations, he serves as the chairperson of the voluntary Nomination Advisory Committee and demonstrates his extensive and outstanding knowledge of our human resources strategy and development plans through appropriate personnel evaluations and allocations. He played an important role in enhancing the supervision of subsidiaries by being responsible for improving the Company's subsidiary-monitoring functions and participating in the management meetings and Board of Directors' meetings of major subsidiaries. Specifically, he provided advice from a macro perspective on increasing the involvement of the Board of Directors in overseas business and engaging in more rigorous KPI management for business continuity. In independent outside executives' meetings, which are attended only by outside executives, he provided frank comments from objective perspectives about issues that the Group must address over the medium to long term. By deepening communication among outside executives, he worked to stimulate the discussions of the Board of Directors.
Naomi Ushio Attendance at meetings of the Board of Directors 100% 19 of 19 meetings	Ms. Ushio views the overall management of the Group from a position independent of that of the Board of Directors and management. After grasping essential issues and risks, she proactively offers advice and recommendations that contribute to enhancing the Group's corporate value. Moreover, as an expert on information communication and human resources development, she actively provides recommendations that contribute to the development of creative human resources that thrive in our advanced information society. In addition, in the decision-making process for compensation for directors and top management, she serves as the chairperson of the voluntary Compensation Advisory Committee and supervises directors and top management through appropriate evaluations of business execution. She played an important role in enhancing the supervision of subsidiaries by being responsible for improving the Company's subsidiary-monitoring functions and participating in the management meetings and Board of Directors' meetings of major subsidiaries. Specifically, she provided advice on the approach to be taken on human capital and measures for reducing CO_2 emissions and plastics waste, based on examples of measures implemented by other companies. In independent outside executives' meetings, which are attended only by outside executives, she provides frank comments from objective perspectives about issues that the Group must address over the medium to long term. By deepening communication among outside executives, she worked to stimulate the discussions of the Board of Directors.
Hikaru Yamamoto Attendance at meetings of the Board of Directors 100% 19 of 19 meetings	Ms. Yamamoto views the overall management of the Group from a position independent of that of the Board of Directors and management, offering advice and recommendations after grasping essential issues and risks. Moreover, using her extensive knowledge as a digital marketing expert, she proactively provides recommendations that contribute to enhancing the Group's corporate value. In addition, in the decision-making processes for nominations and compensation for directors and top management, she serves as a member of the voluntary Nomination Advisory Committee and Compensation Advisory Committee and supervises directors and top management with appropriate evaluations of personnel and business execution. She played an important role in enhancing the supervision of subsidiaries by being responsible for improving the Company's subsidiary-monitoring functions and participating in the management meetings and Board of Directors' meetings of major subsidiaries. She has also been appointed as an advisor to a subsidiary, ORBIS Inc., and actively participates in initiatives aimed at employees, such as holding lecture meetings on marketing topics. In independent outside executives' meetings, which are attended only by outside executives, she provides frank comments from objective perspectives about issues that the Group must address over the medium to long term. By deepening communication among outside executives, she worked to stimulate the discussions of the Board of Directors.

Independent outside executives' meeting (held on March 30, 2022)

POLA ORBIS HOLDINGS regularly holds meetings exclusively for independent outside executives. Issues facing the Company were discussed at the meeting that reviewed fiscal 2021.

Necessities for sustainable corporate management

- As independent outside executives, we are identifying businesses with financial problems and will continue to pay close attention to these businesses in the future. Human resources development is essential for the further growth of the Group.
- Most Japanese companies have personnel who can perform specific jobs but few who can define specific tasks for solving unclear problems. To survive the current decade, searching not only for the right answers but also the right questions will be essential. The Group must develop personnel capable of developing their own hypotheses after considering things from a long-term perspective and a bird's-eye view.
- The essence of conducting business consists of (1) fulfilling a specific mission (quality/price/service), (2) leveraging workers and making them happy and (3) preventing anything harmful and contributing to society. Sustainable corporate management practices fall within the scope of (3) and are essential elements for conducting business.
- It is important for human resources to be regarded not simply as a means of producing profit but as assets that are the source of sustainable business growth. Companies must pursue the well-being of each and every employee.
- Some people claim that sustainable management incurs new costs. However, this should be seen as an investment in maintaining our world, our society and sustainable business growth that will produce long-term returns.



Management Structure (As of March 25, 2022)



Satoshi Suzuki
Representative Director and President

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)

According to his executive competency evaluation, Mr. Suzuki has an exceptional ability to act decisively and decipher the social significance of the business, its current state and future direction, and to largely shift the entire Group in that direction. As representative director and president, he has a proven record of success in attaining sustainable growth and increasing the corporate value of the Group. In the current challenging business environment, he has viewed difficulties as opportunities and actively promoted new initiatives. In addition, Mr. Suzuki has exercised strong leadership in formulating the current medium-term management plan and the new long-term management plan by continuously thinking from a broad perspective as the leader of the Group and maintaining an unwavering commitment to its growth.



Naoki Kume
Director and Vice President

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.

According to his executive competency evaluation, Mr. Kume has a distinctive ability to think and act flexibly while making management decisions such as portfolio reform with an accurate grasp of social changes and viewing a wide range of fields without clinging to existing domains. As a director responsible for management planning and the accounting and finance divisions, he has abundant experience and numerous achievements in management, finance and accounting. Under the current medium-term management plan, he has actively promoted such measures as expansion of the brand portfolio and investment in and acceleration of new business, with the aim of attaining medium- to long-term business growth. Mr. Kume provides direction on various issues about management in general, maintaining a balance between offense and defense.



Yoshikazu Yokote
Director

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

According to his executive competency evaluation, Mr. Yokote always acts with a keen awareness of the social mission of the corporation, where, unbound by conventional frameworks, he leads reforms and seizes opportunities before others, even in adverse situations, by drawing on his ability to make breakthroughs and remain perseverant, backed by a sense of the mission. Having served as representative director and president of POLA INC., he has abundant management experience such as promoting organizational and cultural reforms. Currently the director in charge of the Group's overseas expansion, he is steadily generating results in management reforms aimed at making Jurlique International Pty. Ltd. profitable. As the chief executive officer at POLA ORBIS Travel Retail Limited, which was established in January 2021 to oversee the Group's travel retail business, Mr. Yokote is promoting the speedy expansion of the travel retail business throughout Asia and leading Group overseas businesses.



Koji Ogawa
Director

Apr 1991 Joined POLA Cosmetics, Inc. (currently POLA INC.)
Jan 2009 Saitama Area Manager, POLA Cosmetics, Inc.
Jan 2012 General Manager, PR & IR, POLA ORBIS HOLDINGS INC.
Jan 2014 General Manager, Corporate Communications, POLA ORBIS HOLDINGS INC.
Jan 2015 General Manager, Legal & Administration, POLA ORBIS HOLDINGS INC.
Jan 2017 Corporate Officer, POLA ORBIS HOLDINGS INC. (current)
Director, ORLANE JAPON INC.
Jan 2018 Director, ORBIS Inc. (current)
Jan 2021 Director, Jurlique International Pty. Ltd. (current)
Mar 2022 Director, POLA ORBIS HOLDINGS INC. (current)

According to his executive competency evaluation, Mr. Ogawa excels by possessing an open mind-set unbound by precedents and thinking strategically to create corporate value. His strengths include the ability to seize opportunities by making timely decisions and acting to steadily produce results by motivating individuals in various ways to take on challenges while allowing the organization to feel secure. After working for a business company, he has successively held positions as the head of the IR, PR and sustainability divisions, and the legal and administration division at POLA ORBIS HOLDINGS INC. Mr. Ogawa has taken the lead in building a sustainable management foundation by such ways as accelerating the standardization of frameworks to create new business, the establishment of a voluntary advisory committee for nominating, appointing and compensating management team members, and thorough work-style reform.



Takuma Kobayashi
Director

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)
Jan 2022 Director, tricot, Inc. (current)

According to his executive competency evaluation, Mr. Kobayashi excels at visualizing future scenarios and acting to instill them within the organization. His strengths include the ability to make decisions flexibly and the will to achieve breakthroughs for generating results. He has a broad network of personal contacts and a distinctive ability to act in a timely manner, using his innovative perspective and creative thinking, focusing on speed. He has abundant experience and numerous achievements as a business leader, including driving the rapid growth of DECENCIA INC. as its representative director and president. At ORBIS Inc., Mr. Kobayashi has made steady progress in rebranding and restructuring, embarking on reforms ahead of others within the Group by, for example, proactively using and promoting digital transformation from the perspective of the user.

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



Kazuyoshi Komiya
Outside Director
Outside
Independent

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



Naomi Ushio
Outside Director
Outside
Independent

Apr 1983 Joined Fuji Television Network, Inc.
Feb 1989 Resigned from Fuji Television Network, Inc.
Apr 1998 Lecturer, Meiji University Educational Foundation
Apr 2003 Associate Professor ("Jokyoju"), Meiji University Educational Foundation
Apr 2007 Associate Professor ("Junkyoju"), Meiji University Educational Foundation
Apr 2009 Professor, School of Information and Communication, Meiji University Educational Foundation (current)
Aug 2009 Expert Member, Liaison Conference for the Promotion of Gender Equality, Cabinet Office
Jun 2011 Outside Audit & Supervisory Board Member, Seven Bank, Ltd.
Jun 2014 Outside Corporate Auditor, JX Holdings, Inc. (currently ENEOS Holdings, Inc.)
Apr 2016 Vice President, Meiji University Educational Foundation
Mar 2018 Outside Director, POLA ORBIS HOLDINGS INC. (current)
Feb 2019 Member of 10th Central Council on Education, Ministry of Education, Culture, Sports, Science and Technology
Jun 2019 Outside Corporate Auditor, The Shizuoka Bank Ltd. (current)
Jun 2020 Outside Corporate Auditor, Hagoromo Foods Corporation (current)
Jun 2021 Outside Director, The Dai-ichi Life Insurance Company, Limited (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



Takahiro Tabata
Corporate Officer



Naotaka Hashi
Corporate Officer

Skills Matrix of Directors and Corporate Auditors of POLA ORBIS HOLDINGS

Position at the Company	Areas of responsibility	Name	Competency strength/Behavior and performance particularly expected			Strength related to experience and expertise/Area of contribution particularly expected								
			Person-centered management	*SHINKA* (Evolution)	Value creation	Corporate management (top management)	Overseas business	Business planning (business creation)	Brand business/ marketing	R&D	IT/digital	ESG	Finance/ legal affairs	HR
Representative Director and President	—	Satoshi Suzuki	◎	◎	◎	●		●	●	●		●		
Director and Vice President	Finance	Naoki Kume	●	●	●		●	●					●	●
Director	Group international business	Yoshikazu Yokote	●	●	◎	●	●		●					
Director	Management planning, IT, HR, business development	Koji Ogawa	●		●			●			●	●		●
Director	(Representative Director and President, ORBIS Inc.)	Takuma Kobayashi	●	●	◎	●	●		●		●			
Outside Director	—	Kazuyoshi Komiya	—	—	—	●							●	
Outside Director	—	Naomi Ushio	—	—	—							●		●
Outside Director	—	Hikaru Yamamoto	—	—	—				●		●			
Corporate Auditor	—	Hideki Komoto	—	—	—								●	
Outside Corporate Auditor	—	Akio Sato	—	—	—							●	●	
Outside Corporate Auditor	—	Motohiko Nakamura	—	—	—						●	●	●	

Notes: 1. The above is not an exhaustive description of all the knowledge and experience each executive has.
2. Characteristics related to competency strengths expected to be demonstrated in executives' actions are indicated by ●, and strengths expected to be especially demonstrated in their actions are indicated by ◎.

Directors and Corporate Auditors of Group companies (As of March 25, 2022)

POLA INC.


Miki Oikawa
Representative Director and President


Akira Gogo
Director and Corporate Officer


Seiichi Takaya
Director and Corporate Officer


Kazuhiro Nishikata
Director and Corporate Officer


Akira Fujii
Corporate Auditor


Kenichi Akahane
Corporate Auditor (Part-time)


Yasuro Katamine
Corporate Officer


Tomoko Kamiya
Corporate Officer


Tamotsu Sato
Corporate Officer


Yuko Shoji
Corporate Officer


Shimpei Yasuno
Corporate Officer


Kazuko Watanabe
Corporate Officer

ORBIS Inc.


Takuma Kobayashi
Representative Director and President


Motoyuki Fukushima
Director and Corporate Officer


Koji Ogawa
Director (Part-time)


Naotaka Hashi
Director (Part-time)


Kazuhiko Segaki
Corporate Auditor (Part-time)


Masaki Motoki
Corporate Officer


Emi Nishino
Corporate Officer

POLA CHEMICAL INDUSTRIES, INC.


Kazuya Kugimaru
Representative Director and President


Tadahito Seto
Director


Noriko Suenobu
Director and Corporate Officer


Takayuki Katagiri
Director and Corporate Officer


Kenichi Akahane
Corporate Auditor


Takashi Kuki
Corporate Auditor (Part-time)


Yasuhiro Fukuda
Corporate Officer


Tomomasa Shimanuki
Corporate Officer

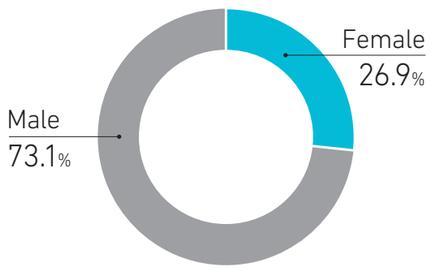

Noboru Sugimura
Corporate Officer


Shinya Chiba
Corporate Officer


Koji Yokoyama
Corporate Officer

Percentage of female POLA ORBIS Group executives

14/52*



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

Jurlique International Pty. Ltd.


Toru Yamamoto
Chairman & CEO

H2O PLUS HOLDINGS, INC.


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

ACRO INC.


Toshiaki Miyazaki
Representative Director and President

DECENCIA INC.


Hiroe Yamaguchi
Representative Director and President

P.O. REAL ESTATE INC.


Takako Konishi
Representative Director and President

tricot, Inc.


Kana Hanafusa
Representative Director and President

Fundamental Activities That Fulfill Our Corporate Responsibilities

Executive compensation

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

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

1. Basic policy

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

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

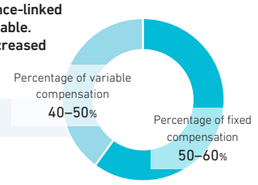
2. Compensation standard

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

3. Compensation structure

Directors/Corporate officers

The POLA ORBIS Group's executive compensation is composed of 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. From 2021, to create a foundation that contributes to long-term growth and to rapidly restore business results, we increased the composition ratio of performance-linked compensation and lowered the composition ratio of fixed compensation, with the aim of further motivating and encouraging executives.



Fixed compensation	Basic compensation	• Basic compensation reflects rank set according to role in management and duties of position for each individual.
Performance-linked compensation	Payment between 0% and 200% of base amount for each rank, according to level of success in reaching performance targets.	
	Annual bonus	• Compensation paid as an incentive to achieve performance targets each fiscal year, according to level of success in reaching Group's performance targets within a single year. • Performance indicators determined from financial bench marks (sales, income, cash flows, etc.) and non-financial bench marks for each fiscal year and missions of areas for which individuals are responsible.
	Medium- to long-term incentive (performance-linked, share-based compensation)	• Compensation paid as incentive to achieve performance targets and boost corporate value over medium to long term, according to level of success in reaching performance targets stated in Group's medium-term management plan. Company shares granted with aim of fostering greater sense of common interest between directors, corporate officers and shareholders. • Performance indicators determined from financial bench marks (sales, income and ROE) and non-financial bench marks 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 as a voluntary structure to advise the Board of Directors. Over half of the committee's members including the chairperson are outside directors.

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

Total, including compensation by executive classification; total, by type of compensation; and number of applicable executives (Fiscal 2021)

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)	129	75	37	16	5
Outside directors	30	30	—	—	3
Corporate auditors (excluding outside corporate auditors)	22	22	—	—	1
Outside corporate auditors	16	16	—	—	2

Notes: 1. Fixed compensation for outside directors includes ¥5 million in non-performance-linked, share-based compensation.
2. Some of the medium- to long-term performance-linked compensation (share-based compensation) is paid in the form of non-monetary rewards.

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. We conduct an annual compliance survey to confirm that employees abide by the Code of Conduct.

Training for employees

To preclude possible violations of compliance, POLA ORBIS HOLDINGS regularly conducts training programs. Every year, the Company provides correspondence courses on "compliance" for people newly assigned to management positions and a CSR e-learning program for all employees. In 2021, we provided training to all employees on the human rights and environmental issues involved in value chains. In addition, training sessions to respond to issues identified through the compliance surveys are conducted at each Group company.

Risk management policy

The POLA ORBIS Group comprehensively lists risks, prioritizes them according to the degree of impact on business and frequency of occurrence and manages them as Group priority risks. 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.

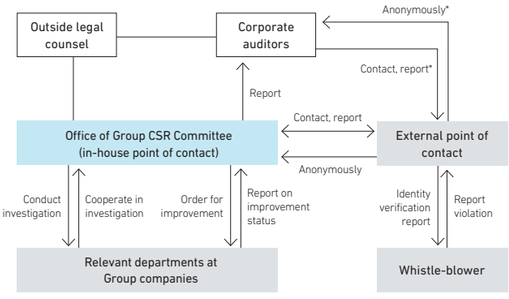
In 2021, the Company decided on and dealt with the risks in the table below.

Internal reporting system (POLA ORBIS Group Helpline)

POLA ORBIS HOLDINGS developed a system that enables all executives and employees throughout the Group to report problems and seek advice. This allows the Company to directly obtain internal risk information and underpins efforts to reduce risks and prevent compliance violations. Under the helpline structure, the anonymity of whistle-blowers is preserved through internal rules and general laws and regulations. In addition, the structure lets whistle-blowers at overseas offices facilitate anonymous 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. Complete information on using the helplines is provided to all employees, and awareness of the helplines is regularly monitored.

In 2019, the Company set up the "Corporate Auditor Hotline," which facilitates reports on possible compliance violations related to Company directors. In addition, we established the "Business Partner Hotline," which accepts reports from our business partners. The status of the use of the helplines is reported monthly to the corporate auditors and regularly to the Board of Directors. There were 17 reports to the helplines in 2021. Investigation of these reports found that the handling of all the issues that needed to be addressed has been completed.

Structure of internal reporting system (helpline)



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

2021 Group priority risks

Theme	Points	Annual plan
1. Risks arising due to COVID-19	(1) Work environment risk	(1) Introduce new tools that facilitate communication and improve work efficiency
		(2) Conduct new Groupwide engagement surveys, assess the current conditions and define targets
	(2) Information leakage risk	(1) Create rules in conjunction with the introduction of Office 365 and prepare a usage environment that includes fostering moral development
		(2) Reduce the risk of cyberattacks by reinforcing the security measures employed by Group companies
2. Risks arising due to climate change	(1) Natural disaster risk	Create detailed inventory operation rules for BCP priority items
	(2) Business risk caused by climate change	Deliberate the circular economy. Set a plastics consumption reduction KPI for the years leading to 2029
3. New infectious disease risks (including a re-expansion of COVID-19)	(1) Pandemic risk	Create business continuity policies for dealing with a re-expansion of COVID-19 or the appearance of new infectious diseases

Cyberattacks are becoming more diverse and advanced. To mitigate or eliminate risks related to cyberattacks, in 2021, we established the Information Security Committee, which spans all Group companies, both inside Japan and overseas. This committee rapidly identifies trends in cyberattacks and cybersecurity measures, clarifies Groupwide response policies and implements related measures. In 2021, we conducted information security risk assessments and identified risks and issues. Measures necessary to address these issues are being implemented gradually.

Ten-Year Summary of Selected Financial Data

	Millions of yen (Except per share data)										Thousands of U.S. dollars[*1] (Except per share data)
Years ended December 31	2012	2013	2014	2015	2016[*4]	2017	2018	2019	2020	2021	2021
Operating Results											
Net sales[*2]	¥180,873	¥191,355	¥198,094	¥214,788	¥218,482	¥244,335	¥248,574	¥219,920	¥176,311	¥178,642	$1,553,142
Beauty Care	168,811	178,306	184,475	200,570	202,446	227,133	231,207	214,886	171,658	174,150	1,514,086
POLA	99,204	100,740	99,571	109,352	116,126	144,012	150,183	135,502	102,888	105,168	914,347
ORBIS	48,009	48,163	52,302	56,354	55,857	53,066	51,051	50,726	45,415	43,389	377,233
Overseas Brands	13,011	20,298	22,476	22,334	15,665	15,075	12,428	9,235	7,166	8,954	77,855
Brands under Development	8,587	9,104	10,123	12,529	14,796	14,978	17,544	19,421	16,186	16,637	144,651
Real Estate	2,841	3,035	3,179	2,951	3,043	2,694	2,707	2,619	2,291	2,112	18,367
Others	9,220	10,013	10,440	11,266	12,992	14,507	14,659	2,415	2,361	2,379	20,689
Operating income	13,520	16,017	17,683	22,511	26,839	38,881	39,496	31,137	13,752	16,888	146,829
Beauty Care	11,812	14,780	16,535	21,290	25,904	38,121	38,294	30,193	12,965	17,060	148,325
POLA	7,031	7,951	8,583	12,302	16,993	28,584	32,574	25,529	10,927	16,374	142,360
ORBIS	7,881	8,807	10,792	11,197	11,279	9,080	9,340	9,252	7,329	5,925	51,521
Overseas Brands	(1,897)	(895)	(1,881)	(2,194)	(3,210)	(823)	(4,316)	(3,794)	(3,214)	(2,338)	(20,329)
Brands under Development	(1,202)	(1,082)	(958)	(15)	841	1,278	695	(794)	(2,076)	(2,901)	(25,226)
Real Estate	1,139	1,258	1,227	1,265	1,395	1,082	1,001	1,021	710	488	4,250
Others	335	410	472	293	(133)	(314)	796	130	128	70	612
Operating margin (%)	7.5	8.4	8.9	10.5	12.3	15.9	15.9	14.2	7.8	9.5	
Profit attributable to owners of parent	6,681	7,318	10,382	14,095	16,328	27,137	8,388	19,694	4,632	11,734	102,020
Financial Position											
Net assets	164,896	173,887	180,793	180,635	183,282	198,845	188,797	191,069	169,854	173,267	1,506,409
Total assets	209,140	218,005	224,536	235,734	228,845	252,567	244,596	227,256	203,742	208,039	1,808,727
Cash Flows											
Cash flows from operating activities	17,592	13,500	16,643	28,379	23,561	35,333	30,283	21,127	23,394	23,830	207,184
Cash flows from investing activities	(39,625)	(2,452)	(8,391)	(7,331)	16,379	(22,065)	(9,125)	(12,514)	(3,342)	(2,174)	(18,906)
Cash flows from financing activities	(3,280)	(2,815)	(3,661)	(13,896)	(10,030)	(12,945)	(20,127)	(19,336)	(27,133)	(9,100)	(79,125)
Cash and cash equivalents at end of year	25,106	34,137	39,111	45,843	75,458	75,944	76,462	65,789	58,844	71,693	623,316
Depreciation and amortization	6,466	6,704	6,948	6,528	6,787	6,551	7,075	7,377	7,255	7,110	61,822
Capital expenditure	9,609	8,670	8,257	12,074	8,127	8,885	10,514	10,091	8,464	8,945	77,777
Financial Indicators											
Equity ratio (%)	78.8	79.5	80.4	76.5	79.9	78.6	77.0	83.9	83.2	83.1	
Return on equity (%)	4.2	4.3	5.9	7.8	9.0	14.2	4.3	10.4	2.6	6.9	
Return on assets (%)	7.3	8.4	8.6	9.7	11.7	16.3	15.7	13.0	5.8	9.2	
Price-earnings ratio (times)	20.5	28.4	25.9	31.5	32.7	32.2	78.3	29.4	100.0	36.1	
Per Share Data[*3]											
Net income per share (¥/$)	30.21	33.09	46.95	63.73	73.83	122.70	37.93	89.04	20.94	53.04	0.46
Net assets per share (¥/$)	745.12	783.45	816.03	815.00	826.65	897.26	851.78	862.00	766.05	781.11	6.79
Cash dividends per share (¥/$)	12.5	13.75	46.75	37.5	50	70	80	116	50	51	0.44

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1 = ¥115.02 as of December 31, 2021.
*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 2012.
*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.

Summary of business results

In the domestic cosmetics market during fiscal 2021, consumption of face-to-face services and other consumer behavior declined significantly due to the collapse of inbound demand caused by the spread of COVID-19, as well as prolonged activity restrictions and self-restraint from going out following declarations of a state of emergency. After the declarations of a state of emergency were lifted, there were signs of gradual recovery thanks to the vaccine rollout and long-term adoption of a new way of life. While it can be said that the market is in a recovery trend compared with that of the previous year, it has not yet recovered to the level it was at before the COVID-19 pandemic. Competition is intensifying with soaring marketing costs in the e-commerce market, which has been driving the domestic cosmetics market during the COVID-19 pandemic, so further innovations must be made to adapt to the situation. In the overseas cosmetics market, there was a general trend toward recovery from the decline caused by COVID-19, with variations in each country or region. However, from the end of last year until now, the number of new cases of COVID-19 variants has increased rapidly, so the situation has become extremely severe. The Group has designated mainland China as a priority market, but since mainland China emerged from its COVID-19 crisis, strict pandemic prevention policies were taken in response to even small outbreaks in preparation for the Beijing 2022 Olympic Winter Games, and the disappointing consumption rebound caused by intermittent recurrence of the COVID-19 pandemic remains. While consumption in mainland China has returned to levels before the pandemic, the situation remains unpredictable, as movement of people remains sluggish.

Overall, POLA ORBIS HOLDINGS posted higher sales and income than those of a year earlier, on a consolidated basis.

Analysis of operating results: Comparison of fiscal 2021 and fiscal 2020

Net sales

Net sales rose 1.3% from the fiscal 2020 level, to ¥178,642 million. This was due to strong sales of the POLA brand, the overseas Jurlique and H2O PLUS brands, and DECENCIA, a brand under development.

Cost of sales
Selling, general and administrative expenses

Cost of sales dipped 4.2% year on year, to ¥28,720 million. The cost of sales ratio—the cost of sales as a percentage of net sales—increased 0.9 percentage point, to 16.1%.

Selling, general and administrative expenses increased 0.3% from those of the previous year, to ¥133,033 million. This was due to Companywide cost rationalization measures, amid a rise in expenses due to sales increases in the POLA brand and overseas brands. As a result, the ratio of selling, general and administrative expenses to net sales decreased from that of the previous year.

Operating income

Operating income rose 22.8% year on year, to ¥16,888 million, owing to higher gross profit that paralleled the increase in net sales. The operating margin rose 1.7 percentage points, to 9.5%.

Income before income taxes

Income before income taxes increased 92.1%, to ¥17,612 million. This resulted from an increase in ordinary income and the recording of a gain on step acquisitions under extraordinary income, due to the acquisition of shares in tricot, Inc.

Profit attributable to owners of parent

Given the above reasons, profit attributable to owners of parent increased 153.3% year on year, to ¥11,734 million. Net income per share increased to ¥53.04, from ¥20.94 in fiscal 2020.

Return on equity increased to 6.9%, from 2.6% a year earlier.

Key financial indicators

	2019	2020	2021
Cost of sales ratio	16.3%	17.0%	16.1%
Gross margin ratio	83.7%	83.0%	83.9%
SG&A ratio	69.5%	75.2%	74.5%
Personnel expenses	13.0%	15.6%	16.1%
Sales commissions	22.0%	20.4%	19.0%
Sales-related expenses	19.8%	21.9%	21.0%
Administrative and other expenses	14.7%	17.3%	18.3%
Operating margin	14.2%	7.8%	9.5%
Net income margin	9.0%	2.6%	6.6%

Business segment performance

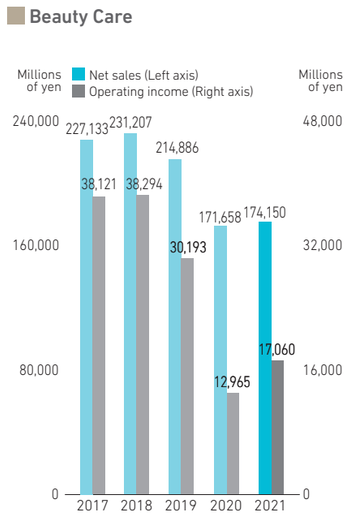
Beauty Care

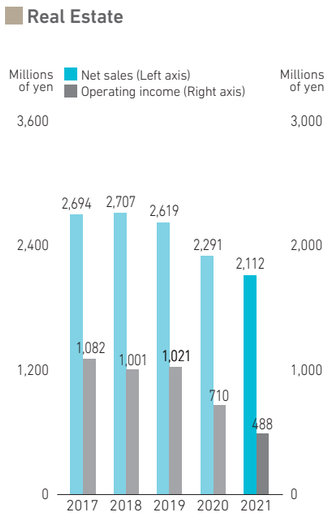
The Beauty Care segment consists of the flagship brands POLA and ORBIS, the overseas brands Jurlique and H2O PLUS, and the brands under development THREE, DECENCIA, Amplitude, ITRIM, FIVEISM × THREE and FUJIMI.

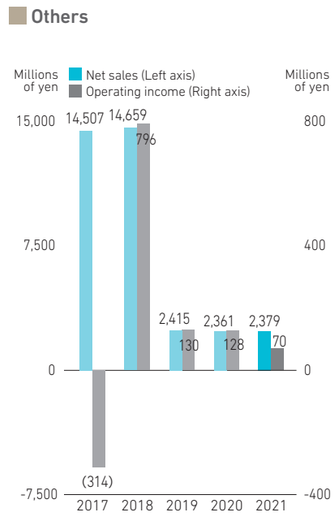
POLA is seeking to further improve the value of its brand and establish its customer foundation over the medium to long term, through efforts to launch highly functional products mainly in the fields of anti-aging and skin-brightening, and to focus on the growth markets of mainland China and travel retail. In the domestic business, POLA has worked to strengthen online consulting in the e-commerce business, which is rapidly growing, as a measure to improve communication during the COVID-19 pandemic. Since the start of the COVID-19 pandemic, POLA has been focusing on the e-commerce channel, which thus far has strongly driven its brand. Brand recognition has been improved through digital contact points, as an initiative to promote the priority strategy Online Merges with Offline. At the same time, POLA has thoroughly managed in-store hygiene and infection prevention measures, and focused on directing customers from digital contact points to physical stores. By implementing these measures, POLA has worked to retain customers seamlessly between channels and improve loyalty and lifetime value. This has resulted in the number of new customers acquired at our prestige store business (department store business) and other offline stores exceeding the level of the previous year. POLA will continue to expand communication transcending the boundaries between channels and optimize marketing functions. In the overseas business, while POLA is currently maintaining a high growth rate in mainland China, it is also focused on maintaining and improving its brand loyalty in that market over the medium to long term. In the biggest Chinese sales seasons of W11 and W12, POLA focused on measures for repeat customers by curbing discounted prices and offers using GWP. As a result, POLA performed strongly with existing customers, and POLA brand net sales and operating income rose year on year.

ORBIS is making efforts to enhance its presence through the creation of brand differentiation in order to re-grow into a highly profitable business. ORBIS is expanding its skincare customer base, with a focus on the *ORBIS U* anti-aging skincare series, as well as the sunscreen *WRINKLE WHITE UV PROTECTOR*, which improves wrinkles and brightens skin, and *ORBIS DEFENCERA*, the only FOSHU (Food for Specified Health Uses) in Japan with recognized skincare functions. In Japan, net sales of skincare products grew to a level exceeding those of the previous year, as a result of expanding high-performance special care products and strengthening connections in skincare through communication with each customer segment. Overseas, ORBIS worked to raise its brand recognition by expanding customer contact points in the Chinese market, resulting in increased net sales on major e-commerce platforms. However, growth overseas did not offset a decline in sales in the domestic business caused by the impact of COVID-19, and the ORBIS brand net sales and operating income dropped below those of the previous year.

For overseas brands, the Group is working to achieve business growth in Australia and Asia for Jurlique and in the United States, where H2O PLUS originated. Jurlique sales declined in directly managed stores and major department stores, impacted severely by intermittent lockdowns implemented in Australia due to the spread of COVID-19. On the other hand, in mainland China, Jurlique expanded its business with a focus on e-commerce channels, and continued double-digit growth for the whole year, resulting in higher net sales than those of the previous year. In terms of costs, Jurlique decreased operating loss by actively working to reduce fixed costs. H2O PLUS worked to do efficient advertising and promotion activities during the sales seasons, with the aim of expanding its business through the in-house e-commerce channel. As a result, purchases by repeat customers were promoted continuously, and net sales exceeded those of the previous year. In the hotel amenities business, more







commercial facilities resumed operations due to recovery from the COVID-19 pandemic in the United States, resulting in net sales exceeding those of the previous year. In terms of costs, recording temporary expenses to improve the cost structure toward achieving early profitability resulted in increased operating loss. For brands under development, in addition to sales growth in e-commerce channels centered on existing DECENCIA customers, sales growth caused by making tricot, Inc., which holds the FUJIMI brand, a wholly owned subsidiary in April, resulted in overall net sales of brands under development exceeding those of the previous year. However, the impact of making tricot, Inc., which holds the FUJIMI brand, a subsidiary resulted in increased operating loss.

As a result of the factors noted above, net sales—sales to external customers—were ¥174,150 million, up 1.5% year on year, and operating income was ¥17,060 million, up 31.6% year on year.

Real Estate

The Real Estate segment concentrates on the leasing of office buildings in urban areas. Efforts are currently directed at sustaining and improving rental income and reducing vacancy rates by creating attractive office environments. Another area of emphasis is the residential properties rental business. This business highlights condominiums perfect for families with young children. During fiscal 2021, some tenants moved out due to reconstruction of buildings, resulting in both net sales and operating income being lower than those of the previous year.

As a result of the above, net sales—sales to external customers—generated by the Real Estate segment totaled ¥2,112 million, down 7.8% year on year, and operating income was ¥488 million, down 31.2% year on year.

Others

The Others segment is the building maintenance business. The building maintenance business is mainly engaged in the operation and management of buildings. During fiscal 2021, net sales increased year on year due to an increase in the number of contracts, but operating income decreased year on year due to lack of progress in streamlining expenses.

As a result of the above, net sales—sales to external customers—generated by the Others segment totaled ¥2,379 million, up 0.8% year on year, and operating income was ¥70 million, down 45.1% year on year.

Analysis of financial position

Assets, liabilities and net assets

Assets

As of December 31, 2021, total assets amounted to ¥208,039 million, up 2.1% from those of a year earlier. Factors related to this change included increases of ¥12,906 million in cash and deposits, ¥2,366 million in goodwill, ¥867 million in right of trademark and ¥2,538 million in software, as well as decreases of ¥5,435 million in short-term investments in securities, ¥1,080 million in merchandise and finished goods, ¥1,537 million in other under current assets associated with a decrease of other receivable and ¥3,863 million in investments in securities.

Liabilities

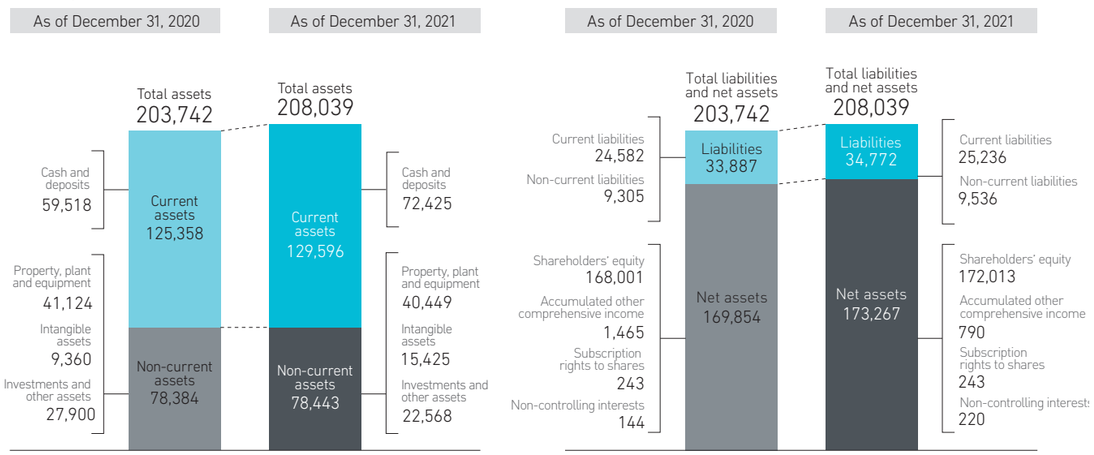
Total liabilities at fiscal year-end stood at ¥34,772 million, up 2.6% from those of a year earlier. Factors related to this change included increases of ¥1,143 million in income taxes payable and ¥1,236 million of other under current liabilities associated with an increase of deposits, as well as decreases of ¥1,240 million in accounts payable – other and ¥500 million of provision for point program.

Net assets

Net assets at fiscal year-end totaled ¥173,267 million, up 2.0% from those of a year earlier. Factors related to this change included an increase of ¥11,734 million in profit attributable to owners of parent and a decrease of ¥7,750 million in dividends from retained earnings.

Overview of consolidated balance sheets

Millions of yen



Cash flows

The balance of cash and cash equivalents as of December 31, 2021, was ¥71,693 million, up ¥12,848 million from the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥23,830 million, up 1.9% from that of the previous year. The primary components contributing to an increase in net cash were ¥17,612 million in profit before income taxes, ¥7,110 million in depreciation and amortization, ¥853 million in impairment loss, ¥714 million of decrease in notes and accounts receivable – trade, ¥2,081 million of decrease in inventories and ¥1,302 million of increase in consumption taxes payable. Major components leading to a decrease in net cash were ¥504 million of decrease in provision for point program, ¥1,581 million of foreign exchange gain, ¥414 million of decrease in notes and accounts payable – trade and ¥3,380 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥2,174 million, down 34.9% from that of the previous year. The main factors were an increase in net cash resulting from ¥14,300 million in proceeds from sales and redemption of short-term investments in securities, and decreases in net cash resulting from outflows of ¥1,700 million in purchase of short-term investments in securities, ¥2,248 million in purchase of property, plant and equipment, ¥4,948 million in purchase of intangible assets, ¥524 million in payments for retirement of non-current assets, ¥3,280 million in purchase of investments in securities and ¥3,231 million in purchase of shares of subsidiaries resulting in change in scope of consolidation.

Cash flows from financing activities

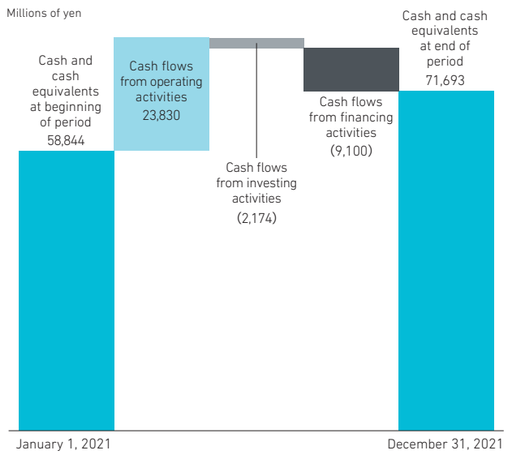
Net cash used in financing activities was ¥9,100 million, down 66.5% from that of the previous year. The decrease was primarily attributable to the application of ¥1,304 million in repayments of lease obligations and ¥7,756 million in cash dividends paid.

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 stores and boost productivity, and efforts to create and develop new brands, including M&A opportunities. The goal is to generate future cash flow from these activities. Note that the Company strives to enhance capital efficiency on a Groupwide basis through a cash management system that centralizes subsidiaries' cash operations under Company oversight. The Company adheres to fund management regulations and standards to ensure appropriate application of operating funds and surplus funds, respectively. The balance of cash and deposits stood at ¥72,425 million as of December 31, 2021, up ¥12,906 million from a year earlier.

Overview of consolidated statement of cash flows

Millions of yen



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

Fiscal 2022 forecast

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

For the consolidated performance forecasts for fiscal 2022, the Group forecasts net sales of ¥186,000 million, up 6.3%, operating income of ¥17,700 million, up 13.6%, ordinary income of ¥17,700 million, up 0.2% and profit attributable to owners of parent of ¥16,200 million, up 49.7%, compared with those of the previous year, considering the steady execution of key strategies and the downward pressure on the economy due to the expansion of COVID-19.

*Year-on-year changes have been provided for reference only, by recalculating the full-year financial results for 2021 under the 2022 standard, for comparison.

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 2022 forecast

		YoY change	
Millions of yen	Fiscal 2022 full year	Amount	Percentage
Net sales	186,000	11,103	6.3
Beauty Care	181,800	11,396	6.7
Real Estate	1,900	(212)	(10.1)
Others	2,300	(79)	(3.3)
Operating income	17,700	2,117	13.6
Beauty Care	19,130	3,375	21.4
Real Estate	400	(88)	(18.2)
Others	70	0	(0.6)
Reconciliations	(1,900)	(1,168)	—
Profit attributable to owners of parent	16,200	5,376	49.7

*YoY changes have been provided for reference only, by recalculating the full-year financial results for 2021 under the 2022 standard, for comparison.

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Consolidated Balance Sheets

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2020	2021
Assets			
Current assets			
Cash and deposits (Notes 11 and 13)	¥ 72,425	¥ 59,518	$ 629,674
Notes and accounts receivable – trade (Note 13)	17,545	17,955	152,547
Short-term investments in securities (Notes 11, 13 and 14)	20,146	25,581	175,156
Merchandise and finished goods	10,841	11,922	94,259
Work in process	734	872	6,385
Raw materials and supplies	4,295	4,361	37,345
Other	3,648	5,186	31,725
Allowance for doubtful accounts (Note 13)	(41)	(39)	(361)
Total current assets	129,596	125,358	1,126,730
Property, plant and equipment (Note 8)			
Buildings and structures	51,948	53,790	451,649
Machinery, equipment and vehicles	9,346	9,283	81,262
Land	13,986	13,973	121,601
Leased assets	8,238	7,996	71,630
Construction in progress	519	302	4,517
Other	19,641	19,485	170,762
Total property, plant and equipment	103,681	104,832	901,422
Accumulated depreciation	(63,232)	(63,707)	(549,750)
Net property, plant and equipment	40,449	41,124	351,672
Intangible assets			
Goodwill	2,366	—	20,574
Right of trademark	896	28	7,792
Software	11,774	9,235	102,365
Other intangible assets	388	96	3,379
Net intangible assets	15,425	9,360	134,110
Investments and other assets			
Investments in securities (Notes 13 and 14)	12,110	15,973	105,291
Long-term loans receivable	95	93	827
Deferred tax assets (Note 17)	6,160	7,331	53,563
Other	4,439	4,752	38,598
Allowance for doubtful accounts (Note 13)	(237)	(251)	(2,063)
Total investments and other assets	22,568	27,900	196,215
Total non-current assets	78,443	78,384	681,996
Total assets	¥208,039	¥203,742	$1,808,727

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)
	2021	2020	2021
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade (Note 13)	¥ 2,513	¥ 2,657	$ 21,855
Lease obligations (Note 24)	840	996	7,311
Accounts payable – other (Note 13)	11,507	12,747	100,044
Income taxes payable	1,736	593	15,100
Provision for bonuses	1,831	1,615	15,922
Provision for directors' bonuses	131	32	1,142
Provision for sales returns	56	69	495
Provision for point program	1,982	2,482	17,232
Current portion of long-term borrowings	11	—	104
Other	4,624	3,387	40,204
Total current liabilities	25,236	24,582	219,408
Non-current liabilities			
Provision for share benefits for directors	84	49	732
Long-term borrowings	72	—	630
Lease obligations (Note 24)	1,354	1,443	11,780
Net defined benefit liability (Note 15)	3,434	3,937	29,859
Provision for environmental measures	52	52	453
Asset retirement obligations	2,868	2,154	24,943
Other	1,669	1,667	14,512
Total non-current liabilities	9,536	9,305	82,910
Total liabilities	34,772	33,887	302,318
Net assets (Note 10)			
Shareholders' equity			
Common stock			
Authorized: 800,000,000 shares			
Issued: 229,136,156 shares at December 31, 2021 and 229,136,156 shares at December 31, 2020	10,000	10,000	86,941
Capital surplus	81,027	80,785	704,464
Retained earnings	83,853	79,868	729,030
Treasury stock, at cost			
(7,906,761 shares at December 31, 2021 and 7,915,453 shares at December 31, 2020)	(2,867)	(2,652)	(24,927)
Total shareholders' equity	172,013	168,001	1,495,509
Accumulated other comprehensive income (Note 9)			
Unrealized gain (loss) on available-for-sale securities	5	(59)	51
Foreign currency translation adjustments	999	1,794	8,688
Remeasurements of defined benefit plans	(215)	(269)	(1,870)
Total accumulated other comprehensive income	790	1,465	6,869
Subscription rights to shares (Notes 10 and 16)	243	243	2,115
Non-controlling interests	220	144	1,916
Total net assets	173,267	169,854	1,506,409
Total liabilities and net assets	¥208,039	¥203,742	$1,808,727

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)
	2021	2020	2021
Net sales (Note 20)	¥178,642	¥176,311	$1,553,142
Cost of sales (Notes 5, 6 and 20)	28,720	29,979	249,700
Gross profit	149,921	146,331	1,303,441
Selling, general and administrative expenses (Notes 6, 7 and 20)	133,033	132,578	1,156,612
Operating income	16,888	13,752	146,829
Other income (expenses) (Notes 8 and 20)			
Interest and dividend income	147	186	1,282
Foreign exchange gain	1,974	—	17,163
Loss on sales of investment securities	—	(367)	—
Loss on valuation of investment securities	(31)	(128)	(270)
Compensation expenses	—	(946)	—
Interest expenses	(88)	(88)	(771)
Foreign exchange loss	—	(7)	—
Gain on step acquisitions	297	—	2,583
Gain on sales of non-current assets	1	3	17
Subsidy income	83	776	728
Loss on disposal of non-current assets	(671)	(234)	(5,839)
Impairment loss (Note 20)	(853)	(2,608)	(7,418)
Loss related to COVID-19	(180)	(1,283)	(1,567)
Other, net	46	117	403
	723	(4,583)	6,294
Income before income taxes	17,612	9,169	153,123
Income taxes (Note 17)			
Current	5,118	4,482	44,502
Deferred	702	45	6,111
	5,821	4,527	50,613
Net income	11,790	4,641	102,510
Net income attributable to non-controlling interests	56	9	490
Net income attributable to owners of parent	¥ 11,734	¥ 4,632	$ 102,020

Per share information (Note 22)	Yen		U.S. dollars (Note 3)
Basic net income per common share	¥53.04	¥20.94	$0.46
Diluted net income per common share	¥52.99	¥20.92	$0.46
Weighted average common shares outstanding (thousands of shares)	221,226	221,220	221,226
Cash dividends declared per common share	¥51.00	¥50.00	$0.44

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)
	2021	2020	2021
Net income	¥11,790	¥4,641	$102,510
Other comprehensive income (Note 9)			
Unrealized gain (loss) on available-for-sale securities	65	2	567
Foreign currency translation adjustments	(775)	(252)	(6,746)
Remeasurements of defined benefit plans	54	72	476
Total other comprehensive income (Note 9)	(655)	(177)	(5,703)
Comprehensive income	¥11,134	¥4,463	$ 96,808
Comprehensive income attributable to:			
Owners of parent	¥11,059	¥4,453	$ 96,150
Non-controlling interests	¥ 75	¥ 9	$ 658

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 10)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 9)	Subscription rights to shares (Notes 10 and 16)	Non-controlling interests	Total net assets
Balance at January 1, 2020	229,136	¥10,000	¥80,785	¥100,915	¥(2,652)	¥1,643	¥243	¥134	¥191,069
Dividends from retained earnings				(25,678)					(25,678)
Net income attributable to owners of parent				4,632					4,632
Purchase of treasury stock									—
Disposal of treasury stock			0		0				0
Change in unrealized gain (loss) on available-for-sale securities						2			2
Foreign currency translation adjustments						(252)			(252)
Remeasurements of defined benefit plans						72			72
Subscription rights to shares							(0)		(0)
Non-controlling interests								9	9
Balance at January 1, 2021	229,136	10,000	80,785	79,868	(2,652)	1,465	243	144	169,854
Dividends from retained earnings				(7,750)					(7,750)
Net income attributable to owners of parent				11,734					11,734
Purchase of treasury stock									—
Disposal of treasury stock			242		(214)				27
Change in unrealized gain (loss) on available-for-sale securities						65			65
Foreign currency translation adjustments						(795)			(795)
Remeasurements of defined benefit plans						54			54
Subscription rights to shares							(0)		(0)
Non-controlling interests								75	75
Balance at December 31, 2021	229,136	¥10,000	¥81,027	¥ 83,853	¥(2,867)	¥ 790	¥243	¥220	¥173,267

See notes to consolidated financial statements.

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income (Note 9)	Subscription rights to shares (Notes 10 and 16)	Non-controlling interests	Total net assets
Balance at January 1, 2021	$86,941	$702,358	$694,390	$(23,063)	$12,740	$2,118	$1,258	$1,476,742
Dividends from retained earnings			(67,380)					(67,380)
Net income attributable to owners of parent			102,020					102,020
Purchase of treasury stock								—
Disposal of treasury stock		2,105		(1,863)				242
Change in unrealized gain (loss) on available-for-sale securities					567			567
Foreign currency translation adjustments					(6,914)			(6,914)
Remeasurements of defined benefit plans					476			476
Subscription rights to shares						(3)		(3)
Non-controlling interests							658	658
Balance at December 31, 2021	$86,941	$704,464	$729,030	$(24,927)	$ 6,869	$2,115	$1,916	$1,506,409

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)
	2021	2020	2021
Cash flows from operating activities			
Income before income taxes	¥17,612	¥ 9,169	$153,123
Adjustments to reconcile income before income taxes to net cash flows from operating activities:			
Depreciation and amortization	7,110	7,255	61,822
Impairment loss	853	2,608	7,418
Amortization of goodwill	283	—	2,469
Increase (decrease) in allowance for doubtful accounts	(13)	(919)	(116)
Increase (decrease) in provision for bonus	187	68	1,628
Increase (decrease) in provision for point program	(504)	(389)	(4,388)
Increase (decrease) in other provisions	147	16	1,284
Increase (decrease) in net defined benefit liability	(435)	158	(3,789)
Interest and dividend income	(147)	(186)	(1,282)
Interest expenses	88	88	771
Loss (gain) on sales of investment securities	—	367	—
Foreign exchange loss (gain)	(1,581)	(305)	(13,746)
Loss (gain) on sales of non-current assets	(1)	(3)	(16)
Loss on disposal of non-current assets	671	234	5,839
Subsidy income	(83)	(776)	(728)
Loss related to COVID-19	180	1,283	1,567
Changes in operating assets and liabilities:			
Decrease (increase) in notes and accounts receivable – trade	714	3,726	6,208
Decrease (increase) in inventories	2,081	2,535	18,098
Increase (decrease) in notes and accounts payable – trade	(414)	(465)	(3,606)
Increase (decrease) in consumption taxes payable	1,302	(639)	11,324
Decrease (increase) in other assets	43	1,653	376
Increase (decrease) in other liabilities	(885)	(392)	(7,701)
Other	(71)	300	(625)
Subtotal	27,136	25,388	235,930
Interest and dividends received	230	206	2,006
Interest paid	(90)	(88)	(785)
Income taxes paid	(3,380)	(1,794)	(29,391)
Subsidy income received	83	776	728
Payment for loss related to COVID-19	(149)	(1,093)	(1,304)
Net cash provided by operating activities	¥23,830	¥23,394	$207,184

See notes to consolidated financial statements.

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2021	2020	2021
Cash flows from investing activities			
Payments into time deposits	¥ (245)	¥ (245)	$ (2,135)
Proceeds from withdrawal of time deposits	245	330	2,135
Purchase of short-term investments in securities	(1,700)	(10,000)	(14,780)
Proceeds from sales and redemption of short-term investments in securities	14,300	20,400	124,326
Purchase of property, plant and equipment	(2,248)	(3,497)	(19,545)
Proceeds from sales of property, plant and equipment	3	15	27
Purchase of intangible assets	(4,948)	(3,955)	(43,019)
Payments for disposal of non-current assets	(524)	(17)	(4,558)
Purchase of investments in securities	(3,280)	(9,222)	(28,520)
Proceeds from sales of investments in securities	—	3,452	—
Payments for asset retirement obligations	(379)	(156)	(3,299)
Purchase of long-term prepaid expenses	(218)	(373)	(1,902)
Payments for lease and guarantee deposits	(138)	(288)	(1,201)
Proceeds from collection of lease and guarantee deposits	387	241	3,369
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(3,231)	—	(28,099)
Other	(196)	(25)	(1,705)
Net cash used in investing activities	(2,174)	(3,342)	(18,906)
Cash flows from financing activities			
Repayments of borrowings	(39)	—	(345)
Repayments of lease obligations	(1,304)	(1,462)	(11,343)
Cash dividends paid	(7,756)	(25,670)	(67,437)
Purchase of treasury shares	(270)	—	(2,354)
Proceeds from sales of treasury shares	270	0	2,354
Net cash used in financing activities	(9,100)	(27,133)	(79,125)
Effect of exchange rate changes on cash and cash equivalents	294	136	2,557
Net increase (decrease) in cash and cash equivalents	12,848	(6,944)	111,711
Cash and cash equivalents at beginning of year (Note 11)	58,844	65,789	511,606
Cash and cash equivalents at end of year (Note 11)	¥71,693	¥ 58,844	$623,316

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 32 subsidiaries included in the scope of consolidation at December 31, 2021 (30 at December 31, 2020). There was one subsidiary within the scope of non-consolidated subsidiary at December 31, 2021. During fiscal 2021, POLA ORBIS Travel Retail Limited was newly established and included in the scope of consolidation. tricot, Inc. was included in the scope of consolidation due to the acquisition of its shares.

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

1.3. Unification of accounting policies applied to foreign subsidiaries

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

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

1.4. Business combinations

The purchase method of accounting is used to account for acquired businesses. Assets and liabilities of consolidated subsidiaries are evaluated using the full fair value method at the acquisition date. The difference between the cost of purchased businesses and the fair value of their net assets is recorded as goodwill or negative goodwill (i.e., bargain purchase) after the purchased businesses' identifiable assets and liabilities are measured at their fair value at the acquisition date.

1.5. Investments in securities

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

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

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

financial statements to the reporting date specified in the partnership agreement.

1.6. 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. 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	8—50 years
Machinery, equipment and vehicles	7—15 years

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

1.8. Intangible assets, excluding leased assets

Intangible assets are amortized using the straight-line method.

Trademark	10 years
Software for internal use	5 years (estimated useful life)

1.9. Leases

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

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

1.10. 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.

1.11. 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.

1.12. 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.

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

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

Provisions 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.

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

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 2021 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. Foreign currency translation

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

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

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

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

1.16. Research and development costs

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

1.17. Income taxes

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

1.18. Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average common shares outstanding during the period. The number of shares used in the computations was 221,229 thousand shares for fiscal 2021 (221,220 thousand shares for fiscal 2020).
Diluted net income per share is computed for fiscal 2021 and fiscal 2020 due to the dilutive effect of subscription rights to shares arising from stock options.

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

The Company's shares held by the officer compensation BIP trust are included in shares of treasury stock that are deducted from the number of shares issued and outstanding at December 31, 2020 in the calculation of net assets per share and are included in shares of treasury stock that are deducted in the calculation of the average number of shares of treasury stock during the period for calculating net income per share and diluted net income per share. The number of shares of deducted treasury stock at December 31, 2021 is 244,708 and the average number of shares is 206,798 during the period.

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

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

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

1.19.3. Application of tax effect accounting related to the transition from the consolidated tax system to the group total system
The Group has a non-consolidated tax payment system in line with the transition to the group accounting system established in the "Act for Partial Revision of Income Tax Act, etc." (Act No. 8 of 2020) and the transition to the group accounting system. Regarding the items that have been reviewed, under Paragraph 3 of "Tax Effect Accounting for Transition from Deferred Tax System to Group Total System" (PITF No. 39, March 31, 2020),

the provisions of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) are not applied, and the amount of deferred tax assets and deferred tax liabilities is based on the provisions of the tax law before the revision.

1.20. Significant accounting estimates

1. Impairment loss on fixed assets related to individual stores

(1) Carrying amounts in the current year's consolidated financial statements

Fixed assets related to individual stores	¥3,617 million ($31,447 thousand)
Impairment loss	¥488 million ($4,250 thousand)

(2) Information on the nature of significant accounting estimates for identified items

i) Method in making the accounting estimates

In assessing whether there is any indication that individual stores may be impaired, the Company considers each store the smallest unit that generates independent cash flows and assesses whether an impairment loss should be recognized for stores for which there is an indication of impairment. If the total undiscounted future cash flows of a store are less than the carrying amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized. Estimates of future cash flows are based on the profit plan by store based on the medium-term management plan approved by the Board of Directors.

ii) Key assumptions used in making the accounting estimates

The main assumption in formulating a medium-term management plan is the sales plan by customer base. The sales plan for each customer base estimates and reflects market trends due to the new coronavirus infection (COVID-19) based on changes in sales performance over the past years, and it is assumed that the impact will continue until the end of 2023.

iii) Effect on the next year's financial statements

If the assumptions used in the estimates for the current fiscal year change due to the spread or cessation of COVID-19, future changes in the market environment or other factors, it could have a significant impact on the valuation of tangible fixed assets related to individual stores in the following fiscal year.

2. Impairment of intangible assets including goodwill related to tricot, Inc.

(1) Carrying amounts in the current year's consolidated financial statements

Intangible assets including goodwill	¥3,530 million ($30,692 thousand)

(2) Information on the nature of significant accounting estimates for identified items

i) Method in making the accounting estimates

Intangible assets including goodwill generated by the acquisition of shares of tricot, Inc. in the current fiscal year are recorded. If there is an indication of impairment in an asset group that includes goodwill, an impairment loss is recognized, and if the total undiscounted future cash flows from the asset group are less than the carrying amount, the carrying amount will be reduced to the recoverable amount and an impairment loss will be recorded.

Estimates of future cash flows are based on the profit plan by store based on the medium-term management plan approved by the Board of Directors.

ii) Key assumptions used in making the accounting estimates

The main assumptions in formulating a medium-term management plan are sales plans and customer retention rates by customer base. Sales plans and customer retention rates by customer base are based on changes in sales performance over the past years.

iii) Effect on the next year's financial statements

If the assumptions used in the estimation for the current fiscal year change due to changes in the market environment, etc., it may have a significant impact on the valuation of intangible fixed assets including goodwill for tricot, Inc. in the next fiscal year.

1.21. Amortization method and period of goodwill

Goodwill is amortized over a period of seven years by the straight-line method.

Note 2 Changes in Accounting Policies

2.1. Accounting standards and guidance issued but not yet adopted

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

Summary: The above is a comprehensive accounting standard related to revenue recognition. Revenue is recognized by applying the following five steps.

(Step 1): Identify the contract with the customer
(Step 2): Identify the performance obligation in the contract
(Step 3): Determine the transaction price
(Step 4): Allocate the transaction prices to the performance obligation in the contract
(Step 5): Recognize revenue when or as the performance obligation is satisfied

Effective date: This standard will become effective for the Group from the beginning of fiscal 2022.
Impact on consolidated financial statements: The Group is currently evaluating the impact of applying this accounting standard on its consolidated financial statements.

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

Summary: In order to improve the comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" were developed, and Guidance, etc., related to calculation methods of fair value were defined. These standards are applied to fair value of the following:

Financial instruments in "Accounting Standard for Financial Instruments" and Inventory for the purpose of trading in "Accounting Standard for Measurement of Inventories"

"Implementation Guidance on Disclosure for Fair Value of Financial Instruments, etc." was updated and determined notes on each level for fair value of financial instruments.
Effective date: These standards will become effective for the Group from the beginning of fiscal 2022.
Impact on consolidated financial statements: The Group is currently evaluating the impact of applying these accounting standards on its consolidated financial statements.

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

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

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

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

2.2. Changes in presentation method

Significant Accounting Estimates

The Company applies "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the end of the fiscal year ended December 31, 2021. The notes for the previous fiscal year are not presented in accordance with the transitional treatment set forth in a provision of paragraph 11 of the accounting standard.

Consolidated Statements of Cash Flows

"Payments for asset retirement obligations" has been presented independently for the fiscal year ended December 31, 2021 due to its materiality. This item had been included in "Other" under "Cash flows from investing activities" for the previous fiscal year ended December 31, 2020. The consolidated statement of cash flows for the previous fiscal year has been restated in order to reflect this change.

As a result, ¥156 million of "Payments for asset retirement obligations" and ¥25 million of "Other" previously included as a part of ¥181 million of "Other" on the consolidated statement of cash flows for the previous fiscal year have been reclassified.

2.3. 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 with shareholders. It was resolved at the Board of Directors meeting held on April 28, 2021 to extend and continue the trust period.

1. Summary of the Plan
   The structure of the Plan is based on the adoption of a scheme referred to as a Board Incentive Plan Trust (the "BIP Trust"). The BIP Trust delivers and grants shares of the Company to the applicable directors, etc., along with the cash proceeds from the conversion thereof (collectively, the "shares in the Company, etc."), commensurate with their individual executive ranking and level of achievement against the corporate performance targets.

2. The Company's shares remaining in the trust
   The Company's shares remaining in the trust are booked in net 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, 2020 were ¥517 million and 148,600 shares, respectively. The book value and corresponding number of shares of treasury stock at December 31, 2021 were ¥760 million and 244,708 shares, respectively.

Note 3 U.S. Dollar Amounts

The accompanying consolidated financial statements are presented in Japanese yen, and solely for the convenience of readers outside Japan, certain amounts have been translated into U.S. dollars at the rate of U.S. $1= ¥115.02, the approximate rate of exchange prevailing at December 31, 2021. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such a rate.

Note 4 Information on Consolidated Balance Sheets

Balance for non-consolidated subsidiaries consists of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
Investment securities	¥5	¥0	$47
Total	¥5	¥0	$47

Contingent liabilities consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
Guarantees of loans			
Employees' mortgages	¥2	¥4	$24
Total	¥2	¥4	$24

Note 5 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	2021	2020	2021
Reversal of provision for sales returns	¥69	¥61	$606
Provision for sales returns	¥56	¥69	$494

Note 6 Research and Development Costs

Research and development costs of ¥4,872 million (U.S. $42,366 thousand) and ¥4,627 million were expensed for fiscal 2021 and 2020, respectively, as incurred, and included in selling, general and administrative expenses and cost of sales.

Note 7 Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2021	2020	2021
Sales commission	¥ 33,992	¥ 35,996	$ 295,538
Promotion expenses	17,989	19,483	156,406
Packing and transportation expenses	4,793	5,019	41,672
Advertising expenses	12,113	10,834	105,320
Provision of allowance for doubtful accounts	23	104	206
Provision for point program	1,732	2,304	15,064
Salaries, allowances and bonuses	21,443	20,674	186,431
Welfare expenses	4,108	3,731	35,718
Retirement benefit expenses	730	755	6,347
Provision for bonuses	1,619	1,359	14,079
Depreciation and amortization	5,482	5,229	47,668
Amortization of goodwill	283	—	2,469
Other	28,719	27,085	249,695
Total	¥133,033	¥132,578	$1,156,612

Note 8 Other Income (Expenses)

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2021	2020	2021
Buildings and structures	¥ 65	¥ 79	$ 567
Machinery, equipment and vehicles	0	35	0
Removal and demolition	526	18	4,580
Software	25	50	220
Others	54	51	470
Total	¥671	¥234	$5,839

8.2. Impairment loss consists of the following:

Year ended December 31, 2021			Millions of yen	Thousands of U.S. dollars
Location	Function	Type	2021	2021
Japan	Stores and offices	Buildings and structures, Property, plant and equipment (Other), Software, Intangible assets (Other) and Investments and other assets (Other)	¥716	$6,230
Australia	Factories and business asset	Buildings and structures, Machinery, equipment and vehicles, Land, Property, plant and equipment (Other) and Software	11	97
Australia, Hong Kong, China, USA and Macau	Stores and offices	Buildings and structures, Machinery, equipment and vehicles, Property, plant and equipment (Other) and Software	125	1,090
Total			¥853	$7,418

(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).

Factories and business asset 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 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 asset are classified into groups on a company basis.

(3) Calculation methods of recoverable amount

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

Year ended December 31, 2020			Millions of yen
Location	Function	Type	2020
Japan	Stores and offices	Buildings and structures, Property, plant and equipment (Other), Software, Intangible assets (Other) and Investments and other assets (Other)	¥1,073
Australia	Factories and business asset	Buildings and structures, Machinery, equipment and vehicles, Land, Property, plant and equipment (Other) and Software	925
Australia, Hong Kong, China, USA and Macau	Stores and offices	Buildings and structures, Machinery, equipment and vehicles, Property, plant and equipment (Other) and Software	609
Total			¥2,608

(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).

(2) Grouping method of assets

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

(3) Calculation methods of recoverable amount

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

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

Note 9 Information on Consolidated Statements of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2021	2020	2021
Unrealized gain (loss) on available-for-sale securities			
Amount arising during the year	¥ (24)	¥ (68)	$ (214)
Reclassification adjustment	114	71	993
Amount before tax effect	89	2	778
Tax effect	(24)	(0)	(211)
Unrealized gain (loss) on available-for-sale securities, net of tax	65	2	567
Foreign currency translation adjustments			
Amount arising during the year	(775)	(192)	(6,746)
Reclassification adjustment	—	(75)	—
Amount before tax effect	(775)	(268)	(6,746)
Tax effect	—	16	—
Foreign currency translation adjustments	(775)	(252)	(6,746)
Remeasurements of defined benefit plans			
Amount arising during the year	(47)	143	(412)
Reclassification adjustment	117	107	1,018
Amount before tax effect	69	251	605
Tax effect	(14)	(179)	(129)
Remeasurements of defined benefit plans	54	72	476
Total other comprehensive income	¥(655)	¥(177)	$(5,703)

Note 10 Net Assets

Information regarding changes in net assets is summarized as follows:

10.1. Shares issued and outstanding/Treasury stock

	Common stock	
Shares	Shares issued	Treasury stock
Balance at January 1, 2020	229,136,156	7,916,253
Increase	—	—
Decrease	—	800
Balance at January 1, 2021	229,136,156	7,915,453
Increase (note)	—	104,000
Decrease (note)	—	112,692
Balance at December 31, 2021	229,136,156	7,906,761

Note: The number of shares of treasury stock at December 31, 2021 includes the Company's shares held by the officer compensation Board Incentive Plan (BIP) trust (244,708 shares).

Treasury stock
Increase due to purchase based on the trust contract of BIP: 104,000
Decrease due to disposal by allocation to third party (BIP) and sale to market: 111,892
Decrease due to the exercise of stock option rights: 800

10.2. Subscription rights to shares

Year ended December 31, 2021

							Millions of yen	Thousands of U.S. dollars
			Number of shares issued					
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, 2021	
POLA ORBIS HOLDINGS INC.	Stock options	—	—	—	—	—	¥243	$2,115
	Total		—	—	—	—	¥243	$2,115

Year ended December 31, 2020

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

10.3. Dividends

10.3.1. Dividends paid in fiscal 2021

Year ended December 31, 2021

		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 25, 2021	Common stock	¥3,320	$28,869	¥15.00	$0.13	December 31, 2020	March 26, 2021
Board of Directors' Meeting on July 30, 2021	Common stock	¥4,429	$38,510	¥20.00	$0.17	June 30, 2021	September 10, 2021

Note: Total dividends resolved by the Annual Meeting of Shareholders on March 25, 2021 include the dividends of ¥2 million on the Company's shares held by the BIP trust.
Total dividends resolved by the Board of Directors' Meeting on July 30, 2021 include the dividends of ¥4 million on the Company's shares held by the BIP trust.

10.3.2. Dividends paid in fiscal 2020

Year ended December 31, 2020

		Millions of yen	Yen		
Resolution	Type of shares	Total dividends	Dividends per share	Record date	Effective date
Annual Meeting of Shareholders on March 24, 2020	Common stock	¥17,930	¥81.00	December 31, 2019	March 25, 2020
Board of Directors' Meeting on July 30, 2020	Common stock	¥ 7,747	¥35.00	June 30, 2020	September 7, 2020

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

10.3.3. Dividends with the record date in fiscal 2021 and the effective date in fiscal 2022

Year ended December 31, 2021

			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 25, 2022	Common stock	Retained earnings	¥6,865	$59,691	¥31.00	$0.27	December 31, 2021	March 28, 2022

Note: Total dividends include the dividends of ¥7 million on the Company's shares held by the BIP trust.

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

Year ended December 31, 2020

			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 25, 2021	Common stock	Capital surplus	¥3,320	¥15.00	December 31, 2020	March 26, 2021

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

Note 11 Cash Flow Information

11.1. Cash and cash equivalents consist of the following:

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
Cash and deposits	¥ 72,425	¥ 59,518	$ 629,674
Short-term investments in securities	20,146	25,581	175,156
Less:			
Time deposits with maturities exceeding three months	(731)	(673)	(6,358)
Stocks and bonds with maturities exceeding three months	(20,146)	(25,581)	(175,156)
Cash and cash equivalents	¥ 71,693	¥ 58,844	$ 623,316

11.2. Breakdown of major assets and liabilities of the subsidiary newly consolidated as a result of stock acquisition

	Millions of yen	Thousands of U.S. dollars
December 31	2021	2021
Current assets	¥ 731	$ 6,356
Non-current assets	1,324	11,513
Goodwill	2,650	23,043
Current liabilities	(125)	(1,083)
Non-current liabilities	(866)	(7,531)
Stock acquisition value acquired prior to the previous period	(95)	(825)
Marginal gain on step acquisitions	(297)	(2,583)
Acquisition price of Tricot shares	¥3,323	$28,889
Cash and cash equivalents	(90)	(790)
Net: Payment for purchase of shares	¥3,231	$28,099

11.3. Significant non-cash transactions

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
Assets and liabilities related to finance leases	¥939	¥918	$8,172
Asset retirement obligations	¥994	¥116	$8,645

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

Note 12 Leases

(As a lessee)

12.1. Finance leases that do not transfer ownership

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

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

12.2. Operating lease transactions

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

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
Due within 1 year	¥ 59	¥ 58	$ 519
Due after 1 year	75	113	659
Total	¥135	¥171	$1,178

Note 13 Financial Instruments

13.1. Overview of financial instruments

13.1.1. Policies on financial instruments

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

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

Trade receivables such as notes and accounts are exposed to customers' credit risk. In order to manage such risk, the Group manages payment dates and outstanding balances by individual customer and 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.

13.1.3. Supplementary information on fair value of financial instruments

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

13.2. Fair value of financial instruments

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

	Millions of yen		
	2021		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	¥ 72,425	¥ 72,425	—
(ii) Notes and accounts receivable – trade (*1)	17,504	17,504	—
(iii) Investments in securities:			
Available-for-sale securities	29,232	29,232	—
Total assets	119,161	119,161	—
Liabilities			
(i) Notes and accounts payable – trade	2,513	2,513	—
(ii) Accounts payable – other	11,507	11,507	—
Total liabilities	¥ 14,020	¥ 14,020	—

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

	Thousands of U.S. dollars		
	2021		
December 31	Carrying amount	Fair value	Difference
Assets			
(i) Cash and deposits	$ 629,674	$ 629,674	—
(ii) Notes and accounts receivable – trade (*1)	152,185	152,185	—
(iii) Investments in securities:			
Available-for-sale securities	254,148	254,148	—
Total assets	1,036,008	1,036,008	—
Liabilities			
(i) Notes and accounts payable – trade	21,855	21,855	—
(ii) Accounts payable – other	100,044	100,044	—
Total liabilities	$ 121,899	$ 121,899	—

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

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

Assets

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

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

(iii) Investments in securities

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

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

Liabilities

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
December 31	Carrying amount		Carrying amount
Unlisted stock	¥1,011	¥ 681	$ 8,790
Capital contribution to investment in a limited partnership	2,008	997	17,466
Total	¥3,019	¥1,679	$26,256

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			
	2021			
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	¥ 72,425	¥ —	¥—	¥ —
Notes and accounts receivable – trade	17,504	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	2,199	1,299	—	—
Available-for-sale securities with maturities (other)	17,947	7,786	—	2,008
Total	¥110,075	¥9,085	¥—	¥2,008

	Millions of yen			
	2020			
December 31	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥ 59,518	¥ —	¥—	¥ —
Notes and accounts receivable – trade	17,915	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	4,091	2,497	—	—
Available-for-sale securities with maturities (other)	21,490	11,796	—	¥997
Total	¥103,015	¥14,294	¥—	¥997

	Thousands of U.S. dollars			
	2021			
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	$629,674	$ —	$—	$ —
Notes and accounts receivable – trade	152,185	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	19,121	11,299	—	—
Available-for-sale securities with maturities (other)	156,035	67,693	—	17,466
Total	$957,016	$78,991	$—	$17,466

(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 2021 and 2020.

Note 14 Investments in Securities

14.1. Non-marketable securities consist of the following:

	Millions of yen					
	2021			2020		
December 31	Carrying amount	Acquisition cost	Difference	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost						
Government and municipal bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —
Corporate bonds	1,002	1,000	1	1,004	1,001	2
Other	5,845	5,799	46	10,035	9,998	36
Subtotal	6,847	6,799	47	11,039	11,000	39
Securities whose carrying amount does not exceed acquisition cost						
Government and municipal bonds	—	—	—	—	—	—
Corporate bonds	2,496	2,505	(8)	5,584	5,616	(31)
Other	19,887	20,000	(113)	23,251	23,309	(58)
Subtotal	22,384	22,505	(121)	28,836	28,926	(90)
Total	¥29,232	¥29,305	¥ (73)	¥39,875	¥39,926	¥(50)

	Thousands of U.S. dollars		
	2021		
December 31	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost			
Government and municipal bonds	$ —	$ —	$ —
Corporate bonds	8,714	8,699	14
Other	50,822	50,421	402
Subtotal	59,536	59,120	416
Securities whose carrying amount does not exceed acquisition cost			
Government and municipal bonds	—	—	—
Corporate bonds	21,707	21,779	(72)
Other	172,905	173,888	(984)
Subtotal	194,611	195,667	(1,056)
Total	$254,148	$254,787	$ (640)

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

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

None

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

	Millions of yen					
	2021			2020		
December 31	Sales proceeds	Gain on sales	Loss on sales	Sales proceeds	Gain on sales	Loss on sales
Government and municipal bonds	¥—	¥—	¥—	¥ —	¥—	¥ —
Corporate bonds	—	—	—	—	—	—
Other	—	—	—	1,452	—	367
Total	¥—	¥—	¥—	¥1,452	¥—	¥367

	Thousands of U.S. dollars		
	2021		
December 31	Sales proceeds	Gain on sales	Loss on sales
Government and municipal bonds	$—	$—	$—
Corporate bonds	—	—	—
Other	—	—	—
Total	$—	$—	$—

14.4. Securities for which the holding purpose was changed

None

14.5. Loss on valuation of investment securities

In fiscal 2021, loss on valuation of investment securities was recognized in the amount of ¥31 million (U.S. $270 thousand).

Note 15 Retirement Benefits

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

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

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

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

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

15.1.1. Movement in retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
Years ended and at December 31	2021	2020	2021
Balance at the beginning of the year	¥9,522	¥9,714	$82,786
Service cost	659	690	5,738
Interest cost	30	26	268
Actuarial loss (gain)	38	(179)	338
Benefits paid	(573)	(747)	(4,983)
Decrease due to change of the scope of consolidation	—	—	—
Other	64	18	563
Balance at the end of the year	¥9,743	¥9,522	$84,711

15.1.2. Movement in pension assets

	Millions of yen		Thousands of U.S. dollars
Years ended and at December 31	2021	2020	2021
Balance at the beginning of the year	¥5,585	¥5,842	$48,557
Expected return on pension assets	83	85	728
Actuarial gain (loss)	(8)	(35)	(74)
Contribution paid by the employer	1,022	280	8,885
Benefits paid	(373)	(434)	(3,245)
Decrease due to change of the scope of consolidation	—	—	—
Other	—	(152)	—
Balance at the end of the year	¥6,309	¥5,585	$54,851

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

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
Funded retirement benefit obligations	¥ 8,781	¥ 8,624	$ 76,348
Pension assets	(6,309)	(5,585)	(54,851)
	2,472	3,039	21,497
Unfunded retirement benefit obligations	961	897	8,363
Total net liability for retirement benefits in the consolidated balance sheets	3,434	3,937	29,859
Net defined benefit liability	3,434	3,937	29,859
Total net liability for retirement benefits in the consolidated balance sheets	¥ 3,434	¥ 3,937	$ 29,859

15.1.4. Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2021	2020	2021
Service cost	¥659	¥690	$5,738
Interest cost	30	26	268
Expected return on pension assets	(83)	(85)	(728)
Amortization of net actuarial loss (gain)	117	107	1,018
Amortization of past service cost	—	—	—
Other	62	76	541
Total retirement benefit costs	¥786	¥814	$6,836

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

(2) ¥78 million (U.S. $682 thousand) in fiscal 2021 and ¥96 million in fiscal 2020, which exceeded the provisions for additional lump sum retirement payment and lump sum retirement payment, were recorded under "Other."

15.1.5. Remeasurements of defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2021	2020	2021
Actuarial loss (gain)	¥69	¥251	$605
Total	¥69	¥251	$605

15.1.6. Accumulated remeasurements of defined benefit plans

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

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
Unrecognized actuarial loss	¥315	¥385	$2,745
Total	¥315	¥385	$2,745

15.1.7. Items related to pension assets

15.1.7.1. Pension assets comprise

Years ended December 31	2021	2020
Life insurance general accounts	76.8%	100%
Life insurance special accounts	14.6%	—
Other	8.6%	—

15.1.7.2. Long-term expected rate of return

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

15.1.8. Items related to actuarial assumptions

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

Years ended December 31	2021	2020
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, 2021.

15.2. Defined contribution pension plans

Consolidated subsidiaries' required contributions to defined contribution pension plans were ¥10 million (U.S. $93 thousand) in fiscal 2021 (¥10 million in fiscal 2020).

Note 16 Stock Options

16.1. Stock option-related expenses

There was no applicable information on share-based compensation expenses arising from stock options in fiscal 2021 and 2020.

16.2. Details of the stock options

16.2.1. Information on the stock options

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

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

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

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

16.2.2. Information on and changes to the stock options

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

a. Number of stock options

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

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

	Subscription rights to shares issued in fiscal 2012
Date of approval	March 30, 2012
Non-vested	(shares)
Outstanding at beginning of year	52,760
Granted	—
Forfeited	—
Vested	—
Outstanding at end of year	52,760
Vested	(shares)
Outstanding at beginning of year	13,520
Vested	—
Exercised	800
Forfeited	—
Outstanding at end of year	12,720

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

b. Price information

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

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

	Subscription rights to shares issued in fiscal 2012
Date of approval	March 30, 2012
	Yen
Exercise price	¥ 1
Average stock price at the time of exercise	2,539
Fair value of stock options on the grant date	¥ 458

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

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

There was no applicable information on the method used for estimating the fair value of stock options in fiscal 2021.

16.4. Method used for estimating the exercise of stock options

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

Note 17 Income Taxes

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

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
Deferred tax assets:			
Provision for bonuses	¥ 458	¥ 415	$ 3,988
Net defined benefit liabilities	1,040	1,208	9,044
Loss on valuation of inventories	777	1,278	6,761
Impairment loss	1,947	1,893	16,929
Provision for point program	609	766	5,298
Unrealized inter-company profit	1,529	1,595	13,300
Tax loss carry-forwards	12,377	10,606	107,608
Enterprise tax payable	214	135	1,865
Asset retirement obligations	1,080	778	9,395
Other	1,799	2,534	15,644
Subtotal deferred tax assets	21,834	21,212	189,833
Valuation allowance for tax loss carry-forwards	(12,324)	(10,551)	(107,155)
Valuation allowance for total deductible temporary differences	(2,678)	(3,109)	(23,286)
Subtotal valuation allowance	(15,003)	(13,661)	(130,441)
Total deferred tax assets	6,831	7,551	59,392
Deferred tax liabilities:			
Unrealized gain (loss) on available-for-sale securities	(37)	(11)	(329)
Translation differences of long-term foreign currency denominated receivables and payables	(42)	—	(368)
Fair value at acquisition of subsidiaries	(402)	—	(3,500)
Restoration cost for asset retirement obligations	(315)	(207)	(2,743)
Other	(4)	—	(43)
Total deferred tax liabilities	(803)	(219)	(6,983)
Deferred tax assets, net	¥ 6,028	¥ 7,331	$ 52,409

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

	Millions of yen						
	2021						
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)	¥ 188	¥ 1,829	¥ 180	¥ 976	¥ 191	¥ 9,010	¥ 12,377
Less valuation allowance	(178)	(1,787)	(180)	(976)	(191)	(9,010)	(12,324)
Deferred tax assets	¥ 9	¥ 42	¥ —	¥ —	¥ —	¥ —	¥ 52

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

	Thousands of U.S. dollars						
	2021						
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)	$ 1,638	$ 15,907	$ 1,569	$ 8,491	$ 1,668	$ 78,335	$ 107,608
Less valuation allowance	(1,554)	(15,538)	(1,569)	(8,491)	(1,668)	(78,335)	(107,155)
Deferred tax assets	$ 84	$ 369	$ —	$ —	$ —	$ —	$ 453

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

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

Years ended December 31	2021	2020
Statutory income tax rate	30.6%	30.6%
Expenditure not allowable for income tax purposes (Entertainment expense, etc.)	0.3	0.8
Per capita inhabitants' tax	0.3	0.6
Increase (decrease) in valuation allowance	4.1	21.1
Tax credits for research and development costs	(2.2)	(3.8)
Other	0.0	(0.0)
Effective income tax rate	33.1%	49.4%

Note 18 Asset Retirement Obligations

18.1. General information about asset retirement obligations

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

18.2. Calculation method of asset retirement obligations

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

18.3. Increase/decrease in total amount

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
At beginning of year	¥2,181	¥2,185	$18,962
Increase due to asset acquisition	994	116	8,644
Adjustment amount over time	12	20	110
Decrease due to fulfillment of asset retirement obligations	(342)	(123)	(2,977)
Other	51	(18)	445
At end of year	¥2,896	¥2,181	$25,184

Note 19 Investment and Rental Property

19.1. Overview

The Group owns office buildings and residential properties for rental in Tokyo and other areas. Net rental income (loss) was ¥613 million (U.S. $5,330 thousand) in fiscal 2021, (¥(162) million in fiscal 2020) (rental income is recorded under sales and other income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and other expenses).

19.2. Fair value of investment properties

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

		Millions of yen		Thousands of U.S. dollars
		2021	2020	2021
Carrying amount				
	At beginning of year	¥17,777	¥18,077	$154,556
	Movement during the year	13	(300)	117
	At end of year	17,790	17,777	154,674
Fair value at end of year		¥65,970	¥61,778	$573,555

(1). The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.

(2). Components of change

Increase:

In fiscal 2021: Refurbishment of office buildings for lease: ¥420 million (U.S. $3,658 thousand)

In fiscal 2020: Refurbishment of office buildings for lease: ¥330 million

Decrease:

In fiscal 2021: Depreciation on office buildings, residential properties and other properties for lease: ¥401 million (U.S. $3,493 thousand)

In fiscal 2020: Depreciation on office buildings, residential properties and other properties for lease: ¥526 million

(3). Method for calculating fair values

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

Note 20 Segment Information

20.1. General information about reportable segments

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

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

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

The Beauty Care business manufactures and distributes cosmetics and health foods and sells fashion items (women's underwear, women's apparel and jewelry) under the following brand names: ***POLA, ORBIS, Jurlique, H2O PLUS, THREE, DECENCIA, Amplitude, ITRIM***, ***FIVEISM × THREE*** and ***FUJIMI.*** 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						
	2021						
	Reportable segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Year ended or at December 31	Beauty Care	Real Estate	Subtotal				
Net sales							
Sales to external customers	¥174,150	¥ 2,112	¥176,262	¥2,379	¥178,642	¥ —	¥178,642
Inter-segment sales or transfers	78	468	547	1,968	2,515	(2,515)	—
Total	174,228	2,581	176,810	4,347	181,157	(2,515)	178,642
Segment income	17,060	488	17,549	70	17,619	(731)	16,888
Segment assets	170,722	22,717	193,440	2,649	196,089	11,949	208,039
Other items							
Depreciation and amortization	6,480	453	6,933	12	6,945	164	7,110
Amortization of goodwill	283	—	283	—	283	—	283
Increase in property, plant and equipment and intangible assets	¥ 7,163	¥ 528	¥ 7,692	¥ 12	¥ 7,704	¥ 1,241	¥ 8,945

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and includes the building maintenance business.

2. Reconciliations consist of the following:
   (1) The segment income reconciliation of ¥(731) million (U.S. $(6,358) thousand) includes inter-segment transaction eliminations of ¥3,684 million (U.S. $32,035 thousand) and corporate expenses of ¥(4,416) million (U.S. $(38,394) 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 ¥11,949 million (U.S. $103,893 thousand) includes inter-segment eliminations of ¥(86,540) million (U.S. $(752,392) thousand) and corporate assets of ¥98,489 million (U.S. $856,286) 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.

Year ended or at December 31	Millions of yen 2020 Reportable segments Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	¥171,658	¥ 2,291	¥173,949	¥2,361	¥176,311	¥ —	¥176,311
Inter-segment sales or transfers	66	528	594	2,417	3,012	(3,012)	—
Total	171,724	2,820	174,544	4,778	179,323	(3,012)	176,311
Segment income	12,965	710	13,676	128	13,804	(51)	13,752
Segment assets	163,864	22,720	186,585	3,018	189,604	14,138	203,742
Other items							
Depreciation and amortization	6,709	569	7,278	12	7,290	(34)	7,255
Amortization of goodwill	—	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	¥ 6,928	¥ 438	¥ 7,366	¥ 5	¥ 7,372	¥ 1,092	¥ 8,464

Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and includes the building maintenance business.
2. Reconciliations consist of the following:
(1) The segment income reconciliation of ¥(51) million includes inter-segment transaction eliminations of ¥3,788 million and corporate expenses of ¥(3,840) 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 ¥14,138 million includes inter-segment eliminations of ¥(81,416) million and corporate assets of ¥95,555 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.

Year ended or at December 31	Thousands of U.S. dollars 2021 Reportable segments Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Consolidated total (Note 3)
Net sales							
Sales to external customers	$1,514,086	$ 18,367	$1,532,453	$20,689	$1,553,142	$ —	$1,553,142
Inter-segment sales or transfers	684	4,076	4,760	17,111	21,871	(21,871)	—
Total	1,514,770	22,442	1,537,213	37,800	1,575,012	(21,871)	1,553,142
Segment income	148,325	4,250	152,575	612	153,188	(6,358)	146,829
Segment assets	1,484,282	197,513	1,681,795	23,038	1,704,834	103,893	1,808,727
Other items							
Depreciation and amortization	56,344	3,939	60,283	105	60,388	1,434	61,822
Amortization of goodwill	2,469	—	2,469	—	2,469	—	2,469
Increase in property, plant and equipment and intangible assets	$ 62,280	$ 4,597	$ 66,878	$ 109	$ 66,986	$ 10,791	$ 77,777

20.4. Related information

20.4.1. Sales information by product and service

Years ended December 31	Millions of yen 2021	2020	Thousands of U.S. dollars 2021
Sales to external customers			
Cosmetics	¥168,775	¥165,835	$1,467,355
Fashion	5,375	5,822	46,731
Others	4,492	4,653	39,056
Total	¥178,642	¥176,311	$1,553,142

20.4.2. Information by geographical area

a. Sales

Years ended December 31	Millions of yen 2021	2020	Thousands of U.S. dollars 2021
Japan	¥146,254	¥149,861	$1,271,560
Asia	28,607	23,189	248,717
Overseas	3,780	3,259	32,864
Total	¥178,642	¥176,311	$1,553,142

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

b. Property, plant and equipment

Years ended December 31	Millions of yen 2021	2020	Thousands of U.S. dollars 2021
Japan	¥36,242	¥37,756	$315,101
Overseas	4,206	3,367	36,571
Total	¥40,449	¥41,124	$351,672

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 2021 and 2020.

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

Year ended December 31	Millions of yen 2021 Reportable segments Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	¥853	¥—	¥853	¥—	¥—	¥853

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

Year ended December 31	Thousands of U.S. dollars 2021 Reportable segments Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Impairment loss	$7,418	$—	$7,418	$—	$—	$7,418

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

Year ended December 31	Millions of yen 2021 Reportable segments Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	¥ 283	¥—	¥ 283	¥—	¥—	¥ 853
Balance of goodwill	¥2,366	¥—	¥2,366	¥—	¥—	¥2,366

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

	Thousands of U.S. dollars					
	2021					
	Reportable segments					
Year ended December 31	Beauty Care	Real Estate	Subtotal	Others	Reconciliations	Total
Amortization of goodwill	$ 2,469	$—	$ 2,469	$—	$—	$ 2,469
Balance of goodwill	$20,574	$—	$20,574	$—	$—	$20,574

Note 21 Related-Party Transactions

There was no applicable information on related-party transactions involving the Company or significant affiliates in fiscal 2021 and 2020 to be disclosed.

Note 22 Per Share Information

The Company's shares held by the officer compensation BIP trust are included in shares of treasury stock that are deducted from the number of shares issued and outstanding at December 31, 2021 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, 2021 is 244,708 and the average number of shares is 206,798 during the period.

For fiscal 2021 and 2020, 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 2021 and 2020 due to the dilutive effect of subscription rights to shares arising from stock options.

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

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

	Millions of yen		Thousands of U.S. dollars
Years ended December 31	2021	2020	2021
Numerator:			
Net income attributable to owners of parent	¥11,734	¥4,632	$102,020
Amount not attributable to shareholders of common stock	—	—	—
Net income attributable to owners of parent associated with common stock	¥11,734	¥4,632	$102,020
Denominator:			
Weighted average number of common stock outstanding (shares)	221,226,689	221,220,210	221,226,689
	Yen		U.S. dollars
Basic net income per share	¥53.04	¥20.94	$0.46
Adjustment for Numerator:			
Adjustment of net income attributable to owners of parent	—	—	—
Adjustment for Denominator:			
Increase in the number of common stock (shares)	236,266	236,912	236,266
[Of which, subscription rights to shares]	(236,266)	(236,912)	(236,266)
	Yen		U.S. dollars
Diluted net income per share	¥52.99	¥20.92	$0.46

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

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
Numerator:			
Total net assets	¥173,267	¥169,854	$1,506,409
Amount deducted from total net assets	463	388	4,031
[Of which, subscription rights to shares]	(243)	(243)	(2,115)
[Of which, non-controlling interests]	(220)	(144)	(1,916)
Net assets attributable to common stock	¥172,803	¥169,466	$1,502,378
Denominator:			
Common shares outstanding used in the calculation of net assets per share (shares)	221,229,395	221,220,703	221,229,395
	Yen		U.S. dollars
Net assets per share	¥781.11	¥766.05	$6.79

Note 23 Business Combination

Business combination by acquisition

The Company acquired tricot, Inc. (hereinafter "Tricot") as a subsidiary by acquiring 29.61% stakes on March 1, 2021 and 59.83% stakes on April 1, 2021.

(1) Outline of business combination

1. Overview of the subsidiary to be transferred

Company name:	tricot, Inc.
Description of business:	Mail-order sales of personalized supplement FUJIMI and other

2. Reason for the acquisition of shares

Tricot is a venture company that develops the FUJIMI brand and provides customized skin supplements and face masks that match each and every user's skin on a subscription basis.

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

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

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

3. Date of the transfer
April 1, 2021

4. Statutory form of business combination
Asset and stock purchase for cash as consideration

5. Name of company after business combination
There is no change.

6. Acquired voting rights and number of shares

Number of shares to be acquired	7,230 shares (ratio of voting rights held: 40.17%) (5,330 shares (ratio of voting rights held: 29.61%) acquired at March 1, 2021)
Number of additional shares acquired on the business combination date	10,770 shares (ratio of voting rights held: 59.83%)
Ratio of voting rights held after the acquisition	100%

7. Grounds for determining acquiring company
Asset and stock purchase for cash as consideration by a consolidated subsidiary

(2) Period of acquired business's results included in the consolidated financial statements
From April 1, 2021, to December 31, 2021

(3) Cost of acquisition and details

Market value of shares held immediately before additional acquisition on the business combination date	¥392 million
Cost of additional acquisition (Cash)	¥3,323 million (U.S. $28,889 thousand)
Purchase price	¥3,715 million

(4) Major acquisition-related costs

Advisory fees and others	¥9 million

(5) Difference between the acquisition cost of the acquired company and the total acquisition cost for each transaction that led to the acquisition

Gain on step acquisitions	¥297 million (U.S. $2,583 thousand)

(6) Amount of goodwill, measurement principle, amortization method and useful life
1. Amount of goodwill: ¥2,650 million
2. Measurement principle: Goodwill is measured as the excess of the purchase price over the fair value of identifiable assets acquired and liabilities assumed.
3. Amortization method and useful life: Straight-line method over seven years

(7) Details of assets acquired and liabilities assumed as of the acquisition date

Current assets	¥731 million (U.S. $6,356 thousand)
Non-current assets	¥1,324 million (U.S. $11,513 thousand)
Total assets	¥2,055 million (U.S. $17,870 thousand)
Current liabilities	¥125 million (U.S. $1,083 thousand)
Non-current liabilities	¥866 million (U.S. $7,531 thousand)
Total liabilities	¥991 million (U.S. $8,614 thousand)

Amount of identifiable intangible assets other than goodwill, its details and amortization period

Intangible assets	Amount	Amortization period
Trademark	¥941 million	10 years
Customer relationships	¥361 million	4 years

(8) Approximate amount of impact on the consolidated income statement for the current fiscal year and its calculation method, assuming that the business combination was completed on the first day of the current fiscal year

Net sales	¥474 million
Operating income	¥38 million

The difference between the sales and profit and loss information calculated assuming that the business combination was completed on the start date of the current fiscal year and the sales and profit and loss information in the consolidated income statement of the acquiring company is used as the estimated amount of impact. This note is not subject to audit.

Note 24 Short-Term and Long-Term Debt

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

	Millions of yen		Thousands of U.S. dollars
December 31	2021	2020	2021
Short-term loans payable	¥ —	¥ —	$ —
Long-term borrowings-current portion	11	—	104
Lease obligations-current portion	840	996	7,311
Long-term borrowings (excluding due within a year)	72	—	630
Lease obligations-long term (excluding due within a year)	1,354	1,443	11,780
Total debt	¥2,280	¥2,440	$19,826

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

December 31	2021	Maturity
Long-term loans-current portion	3.06%	—
Lease obligations-current portion	3.41	—
Long-term loans payable	1.41	2023 to 2024
Lease obligations-long term	4.41%	2023 to 2031

At December 31, 2021, the annual maturities of loans payable and lease obligations excluding those within one year for the subsequent five years are as follows:

	Loans payable		Lease obligations	
Years ending December 31	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
2022	¥ —	$ —	¥569	$4,955
2023	72	630	390	3,396
2024	—	—	196	1,707
2025	¥ —	$ —	¥ 91	$ 798

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

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Independent Auditor's Report

The Board of Directors
Pola Orbis Holdings Inc.

Opinion

We have audited the accompanying consolidated financial statements of Pola Orbis Holdings Inc. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment loss on fixed assets related to individual stores	
Description of Key Audit Matter	Auditor's Response
As described in the notes to the consolidated financial statements (Significant Accounting Estimates), the Company recognized impairment loss of ¥488 million ($4,250 thousand) on property, plant and equipment of ¥3,617 million ($31,447 thousand) for fixed assets related to individual stores during the year ended December 31, 2021. In assessing whether there is any indication that individual stores may be impaired, the Company considers each store to be the smallest unit that generates independent cash flows and assesses whether an impairment loss should be recognized for stores for which there is an indication of impairment. If the total undiscounted future cash flows of each store are less than the carrying amount, the carrying amount is reduced to the recoverable amount and an impairment loss is recognized. As described in the notes to the consolidated financial statements (Significant Accounting Estimates), estimates of future cash flows are based on the profit plan by store under the medium-term management plan approved by the Board of Directors. The main assumption in formulating a medium-term management plan is sales plans by customer base. The sales plan for each customer segment estimates and reflects market trends in consideration of the new coronavirus infection based on changes in sales performance over the past years, and it is assumed that the impact will continue until the end of 2023. Given that the significant assumptions used to estimate the recoverable amounts are subject to uncertainty and require management's judgement, we determined impairment loss on fixed assets related to individual stores to be a key audit matter.	The audit procedures we performed to assess impairment loss on fixed assets related to individual stores include the following, among others: ・ We compared the cash flow projection period with the remaining economic lives of the major assets. ・ We made inquiries of management about the medium-term management plan, which is the basis for estimating future cash flows at each store, including the impact of the new coronavirus infection on business performance and the prospect of economic recovery. ・ We compared the estimated sales plans by store base with the medium-term management plan approved by the Board of Directors. ・ We compared the estimated future cash flows of each store with sales plans by store base. ・ We compared the medium-term management plan for prior years with actual results to evaluate the effectiveness of management's estimation process. ・ For the sales plan by customer base, which is the basis of the medium-term management plan, we compared the outcome of trend analyses based on past performance. Also, we made inquiries about sales metrics reflected in the sales plan.

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Intangible assets including goodwill related to tricot, Inc..	
Description of Key Audit Matter	Auditor's Response
As described in the notes to the consolidated financial statements (Business Combination), The Company acquired tricot, Inc. (hereinafter "Tricot") as a subsidiary by acquiring 29.61% on March 1, 2021 and 59.83% on April 1, 2021 for a total of ¥3,323 million. In acquiring the shares of Tricot, the Company used the results of a share valuation by an external expert for the future business plan and estimated future cash flows based on the business plan. In addition, the Company used an external expert on the valuation of intangible assets to identify and measure such identifiable assets. As a result, trademark was recognized in the amount of ¥941 million, customer relationships in the amount of ¥361 million, and goodwill in the amount of ¥2,650 million was recorded. The Company makes certain assumptions in estimating future cash flows in the process of calculating trademark, customer relationships and goodwill (hereinafter, intangible assets, etc.), and the main assumptions are sales plans and customer retention rates by customer base. This transaction is non-recurring, the transaction price is highly significant, and the valuation of intangible assets, etc. requires specialized knowledge related to stock valuation. In addition, given that the significant assumptions used to estimate the future cash flows are subject to uncertainty and require management's judgement, we determined intangible assets including goodwill related to Tricot to be a key audit matter.	The audit procedures we performed to assess intangible assets including goodwill related to Tricot include the following, among others: ・ We reviewed the minutes of the Board of Directors and considered the acquisition price in consideration of the share valuation results of external experts at the time of acquisition, and assessed the valuation results of external experts regarding the valuation of intangible assets, etc. ・ Regarding the valuation results of external experts of shares and intangible assets used by the Company, we involved valuation specialists from our network farm to assist us in assessing the adequacy of the valuation model and discount rate, including comparisons with available information outside the Company. ・ We made inquiries of management about the business plan, which is the basis for estimating future cash flows, and compared the assumptions for preparing the sales plan and customer retention rate by customer base and Tricot's current business and past data.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

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

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Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 25, 2022

横内龍也
Tatsuya Yokouchi
Designated Engagement Partner
Certified Public Accountant

大屋誠三郎
Seizaburo Oya
Designated Engagement Partner
Certified Public Accountant

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Corporate Information (As of December 31, 2021)

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	4,261 (for the Group) 171 (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 Transitioned to the Prime Market of the Tokyo Stock Exchange in April 2022
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.
tricot, Inc.

Real Estate business
P.O. REAL ESTATE INC.

Other businesses
P.O. TECHNO SERVICE INC

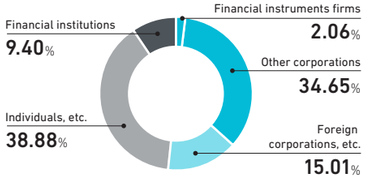
In-house venture
encyclo.INC

Stock Information (As of December 31, 2021)

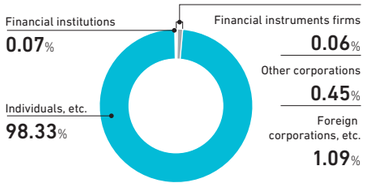
Total number of authorized shares	800,000,000
Total number of issued shares	229,136,156
Number of shareholders	56,881

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	50,625	22.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	11,544	5.2
THE BANK OF NEW YORK MELLON 140051	5,814	2.6
Custody Bank of Japan, Ltd. (Trust Account)	5,504	2.5
Naoko Nakamura	4,770	2.2
Hiromi Suzuki	3,113	1.4
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	2,266	1.0
SMBC Nikko Securities Inc.	1,607	0.7
POLA ORBIS Group Employees' Stockholding	1,555	0.7

Notes: 1. In addition to the above, the Company holds 7,662 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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