POLA ORBIS HOLDINGS

POLA ORBIS HOLDINGS Integrated Report 2022

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 2022—the 12 months from January 1, 2022 to December 31, 2022—but some fiscal 2023 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 2022 has been prepared on the basis of data available as of February 14, 2023.

Editorial Structure

The Corporate Communications Division—specifically, the IR team and the sustainability supervision team within this division—functions as the production office and coordinates with corporate planning departments, finance departments, human resources departments and Group companies to compile this report. The director in charge of PR, IR, CSR and sustainability, who holds a concurrent role as chair of the Group CSR Committee, carries responsibility for production of this report.

WE SUPPORT

UN GLOBAL COMPACT

SUSTAINABLE DEVELOPMENT GOALS

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Our perception of value/what we hold dear

To Our Stakeholders

Satoshi Suzuki
Representative Director and Chairman

Yoshikazu Yokote
Representative Director and President

The POLA ORBIS Group formulated VISION 2029, a long-term management plan that will take the Group to 2029, when POLA marks its 100th anniversary. We seek to be a collection of unique businesses that respond to diversifying values of "beauty," and toward this end, we aim to expand the portfolio toward well-being and the social domain, aiming for sustainable business growth both domestically and overseas in addition to providing value centered on cosmetics.

The current medium-term management plan is the first stage of VISION 2029, and 2023 is the final year of this stage. Indispensable to a successful second stage, which runs from 2024 through 2026, will be rebuilding the foundation to support the growth of existing businesses and realization of a high-revenue-generating portfolio while making rapid progress in global development. To achieve those goals, it was decided that POLA ORBIS HOLDINGS needed to approach both the second and the third (2027–2029) stages of VISION 2029 with a management structure rebuilt for sustainability and primed for more robust reforms and innovation. Under the new management structure, which went into effect in January 2023, Satoshi Suzuki shifted out of his representative director and president role and into that of representative director and chairman and, while retaining a central role in management, transferred decision-making authority to Yoshikazu Yokote, who now holds the position of representative director and president.

The invigorated management structure, along with human resources rich in personality and diversity who underpin Group pursuits and are guided by a mission "to sensitize the world to beauty," will take the POLA ORBIS Group forward and shape a global corporate group that enriches the lives of people around the world. This perspective has endured since our foundation.

We ask for the continued support of stakeholders as we travel new roads together.

鈴木郷史
Satoshi Suzuki
Representative Director and Chairman

横手喜一
Yoshikazu Yokote
Representative Director and President

Our perception of value/what we hold dear

A Message from the President

People play the leading roles.

I stand behind person-centered management strategies and new value creation to shape a solid future for the POLA ORBIS Group.

横手喜一

Yoshikazu Yokote
Representative Director and President

On appointment as president

Toward deepening a person-centered management style, where personal growth becomes the source of organizational growth

My name is Yoshikazu Yokote, recently appointed president of POLA ORBIS HOLDINGS. I feel a great sense of responsibility in taking the helm of this corporate ship and management of the POLA ORBIS Group. But I am also truly looking forward to working with management teams, employees, business partners and all other stakeholders, including shareholders and investors, in growing the Group.

I have always been conscious of and valued three things about the POLA ORBIS Group. One is *bi-ishiki* (esthetic sense), a component of competency criteria unique to the Group. This quality refers to a process of drawing on inherent individuality and strengths, rather

—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.

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

than relying on position or rank, to demonstrate leadership qualities that define that particular person. Setting a competency criterion like this is unique from an organizational perspective and serves a key purpose because it is people, ultimately, who enable a brand to evolve and who drive business development forward. If people—that is, employees—do not approach brand creation with motivation, seeking to spur brand loyalty, then the effort will be for naught. In my more than 30 years of experience in the POLA ORBIS Group, my efforts have been supported many times by the person-centered concept of management under which individual initiative is the driving force that shapes an organization. Top management has put its heart and soul into human resources development to draw out that initiative and personality. This fact is ingrained in the corporate DNA. Indeed, it is the foundation of a corporate culture that has always emphasized the importance of human capital and perceptions of value.

The second thing is the Group mission to sensitize the world to beauty. To ensure the longevity of our businesses, we must create new value matched to the times, deliver that value to society and continue to be chosen by customers. The times, society and customers are not static. They are constantly changing. None of us should take the obvious for granted, but rather look at familiar things as if for the first time and pose questions from that perspective. We should also approach our tasks with personal sensitivity and a large amount of curiosity. Awareness, sensitivity and curiosity—these qualities are the biggest drivers in the evolution of the POLA ORBIS Group, and evolution links back to customers, too.

A person-centered management style, as implemented by POLA ORBIS HOLDINGS, is perfectly aligned with the ideas of posing questions and approaching our tasks. People are an asset in any organization, and people grow as individuals while performing their work. This personal development translates into the evolution of the organization, and this kind of corporate atmosphere brings many unique individuals together and creates new networks inside and outside the Group. This cycle and our relationship with society are certainly the key building blocks of the foundation that supports our businesses.

A symbol of this foundation is our direct-selling business model. And this is the third thing about the POLA ORBIS Group that I value. The POLA ORBIS Group began with direct selling. This business model has endured from our foundation in 1929 to the present day, not simply as a way to sell cosmetics but as something much more, thanks to POLA Beauty Directors—our business partners—who utilize direct selling to provide customers with a high-prestige experience and ponder how best to fine-tune their relationship with each customer. When I was president of POLA, I too was able to look closely at the constant efforts of Beauty Directors to apply new ways to attract customers in a changing environment, and so I am keenly aware of the tremendous power these women wield. This is the power that has fueled the Group's growth for more than 90 years.

My biggest responsibility now is to create places where each and every employee and business partner whose presence and commitment support the Group can play a leading role and thrive, in other words, environments conducive to the successful embrace of new challenges.

The POLA ORBIS Group is working toward becoming a collection of unique businesses that respond to diversifying values of "beauty," as stated in VISION 2029. This outcome will not be possible on the growth of existing businesses alone. All members of the Group will observe things not experienced before, things not necessarily clear going forward and, with intrinsic motivation, discover buds of business creation, create new value in society and build new relationships to make those buds bloom. Without this process, it is unlikely that the Group can be the kind of corporate organization we envision. The Group ensures that all employees can be themselves and grow, taking great satisfaction in the freedom to express who they are. I want the Group to continue to be this kind of organization. And for this reason, we will bring in more people with abundant personality and curiosity, an approach that is certain to drive momentum to a higher level.

Management onboarding

Opportunity for management team to share short-, medium- and long-term management issues and desired status, and consider the Group's future

Those involved in corporate management have the challenge of furthering Groupwide understanding of the policy on building a structure that enables the Group to reach its management targets. Management onboarding was launched to facilitate this process through a 10-member top management team comprising directors and corporate officers from POLA ORBIS HOLDINGS and executives from flagship operating companies POLA and ORBIS as well as POLA CHEMICAL INDUSTRIES. The goal is team building for a new management structure.

In January 2023, I succeeded Satoshi Suzuki, a member of POLA's founding family, as president of POLA ORBIS HOLDINGS. Against this backdrop, I realized that board members and corporate officers all bring different experience value and skills to the table. For sustainable Group management, the top management team must demonstrate individuality and strength and apply these qualities to management with an understanding of issues from the same perspective. Specifically, POLA ORBIS HOLDINGS directors and corporate officers regularly gather with the presidents of operating companies, and in a setting different from that of the Board of Directors or the Managerial Meeting, offer candid opinions and discuss management issues, from short term to long term. This format has created an opportunity to ensure that decision makers are on the same page. The primary aim of management onboarding is to align ideas along a single medium- to long-term trajectory to achieve the Group's future image of itself. The operating environment that envelops the Group today is changing at a bewildering pace—a speed not seen before. Perceptions about domestic and international situations, work styles,

1 **Yoshikazu Yokote**
Representative Director and President

2 **Naoki Kume**
Director and Vice President in charge of finance, legal affairs, administration

3 **Koji Ogawa**
Director in charge of management planning, IT, HR, business development

4 **Takuma Kobayashi**
Director
Representative Director and President, ORBIS Inc.

5 **Miki Oikawa**
Senior Corporate Officer in charge of Group diversity
Representative Director and President, POLA INC.

6 **Kazuya Kugimaru**
Senior Corporate Officer
Representative Director and President, POLA CHEMICAL INDUSTRIES, INC.

7 **Noriko Suenobu**
Corporate Officer in charge of Group Research and Intellectual Property & Regulatory Affairs
Director and Corporate Officer, POLA CHEMICAL INDUSTRIES, INC.

8 **Takahiro Tabata**
Corporate Officer in charge of Group International Business

9 **Naotaka Hashi**
Corporate Officer in charge of PR, IR, CSR and Sustainability

10 **Shinya Chiba**
Corporate Officer in charge of Group QCD Management

lifestyles and other facets of our world are always shifting. Can we anticipate these shifts and overcome obstacles that appear in our path? What should we prioritize and what should we create? We have to paint a picture of a future that presents value. The primary objective of management onboarding is therefore to foster common awareness to allow us to execute successful responses.

At the kickoff meeting in March 2023, Mr. Suzuki, now representative director and chairman of POLA ORBIS HOLDINGS, shared background from his childhood and eventual management of POLA and then the Company, as a member of the family that founded POLA. He touched on various themes, particularly management policy, as well as the Group's history and sense of values. But the intention here was not to pass along the history or traditions of past management. It was to better prepare the current management team and reacquaint members with the origins of the POLA ORBIS Group and the process behind its establishment so that, against the backdrop of today's society and the times, which are completely different from when POLA was founded more than 90 years ago, the management team will have a foundation for exploring the prospects of new business development and determining the provided value we present to customers and society right now. We—the new management team—will take this as an opportunity to consider what the Company and the Group should do from now on with a totally fresh perspective, as if business had just started. It was a valuable look back at what has been accomplished, providing us with a genuine understanding of the past. We will build on this understanding to make management decisions through backcasting that anticipates the future for the next generation. Since April, we 10 members of the top management team have taken a long-term perspective in discussing the image we want the Group to portray.

I would like to maintain this process, building a stronger leadership team by promoting shared awareness and constructive conversations at management onboarding.

Update on medium-term management plan

Communication with customers is changing, helping us build good relationships with customers

The medium-term management plan that has been guiding Group activities from 2021 through 2023 is in its final year. Our picture of the future operating environment and the actual conditions prevailing right now are quite different, exemplified by fiscal 2022 results, with net sales slipping 4.9% year on year, to ¥166.3 billion, and operating income dropping 19.3%, to ¥12.5 billion.* Consequently, an issue of the highest priority in 2023 is to return flagship brands POLA and ORBIS, which underpin domestic operations, to a growth trajectory. Already, POLA and ORBIS felt the tug of recovery in business results in the fourth quarter of fiscal 2022, and both brands will be working to strengthen that development and show full-year success in fiscal 2023. Overseas brands and brands under development are

*Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.

making headway in their struggle to escape the red zone, but the pace of progress really needs to be faster.

In R&D, efforts to create new value are advancing. Researchers have been sent to Singapore to develop *Mirror Skin*, an artificial skin, as announced in our long-term management plan. Expansion of the pipeline of new materials in the anti-aging care field is also on track. And construction of the Technical Development Center (TDC), which will pursue original research into new formulations and develop high-value-added products, is progressing toward the start of operations in 2024.

Meanwhile, to ramp up global development of the Group, in 2023, we began adjusting the overseas operating structure. The new structure should be in place in 2024, with operations grouped by region rather than having independent business structures for each brand. This will speed up decision making and facilitate maximum use of local resources.

Also in 2023, the leadership team I mentioned earlier will be involved in drafting the next medium-term management plan. The key strategies we are considering right now are measures to accelerate the growth trends shown by domestic operations and to restructure the overseas operating structure with the next stage in mind.

Regarding relationships with customers, it is much more important to build relationships where customers themselves are inclined to remain loyal to their chosen brand over the long term rather than the brand trying to close any perceived gap through short-lived promotions. I will be paying particular attention to progress by Group businesses toward creating brands with this kind of strong customer connection.

Over these past three years, pandemic-related restrictions kept people at home and minimized face-to-face contact, a situation that generated unfavorable conditions for the Group's businesses. However, against this backdrop, each brand endeavored to find another way to connect beyond the simple buying and selling of products when in-person contact was impossible or impractical and maximized digital possibilities to stay connected. Once various restrictions are lifted, the results of these efforts will be revealed, and I think we will see more than just a return to the past—that is, the old style of staying connected—and witness instead a continuation of new ways of growing connections and bonding with customers. I am really looking forward to this.

For us to connect with customers this way in real time, we need to prioritize their circumstances and the rhythm of their lives. The significance of one-way communication based on corporate convenience, namely, the release of information about a new product from a certain date or a product launch date, will fade, increasingly replaced with personalized communication such as a customer-specific product recommendation on a given day. I believe this will mark a tremendous development in the relationship between customers and their chosen brands. Our ability to carefully deepen the personal connection between brand and customers is also an inherent strength. Going forward, I am sure that communication between brand and customers will be advanced.

Long-term management strategy

Present new brands, expand presence in beauty-related domains and paint a picture of the Group in the Future

When we get to know our customers—that is, their environment, their lifestyles, the things that concern them or give them joy—we can infer what might make them really happy. New businesses spring from such musings. I don't like to use the word "consumers." Our customers are more than just people who purchase products. They are "individuals" who live in this time and in this environment with us, with our brands, and they are "people" who live in the area. When keen to make these people happier, that employee, that researcher, that executive, whoever, might realize that simply recommending cosmetics isn't the best approach. This awareness should be galvanized into an extremely high level of motivation that leads us to create new businesses.

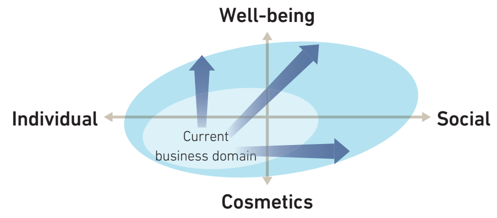
POLA's door-to-door sales employees probably took this approach 80 or 90 years ago. They listened to customers' various concerns, gave advice and built a rapport that went beyond cosmetics. Without a doubt, it was these connections that fostered lifelong loyalty to the POLA brand. This concept of lifelong loyalty has been shaken by changing times, and today, with cosmetics bought through e-commerce channels rather than face-to-face, the relationship between customers and the brand has been relegated to a mere buy-sell association. This is a terrible shame. We must venture into new domains with efforts driven by ideas on potential new products and services that spring to mind when we think of customers—individuals.

To celebrate its 100th anniversary, the POLA ORBIS Group is working to build a business portfolio that will contribute to well-being and social value and seeks to create new brands and expand the Group's presence in beauty-related domains. Our focus on well-being encompasses the environment, society, lifestyles, regions and culture, and people will ultimately understand this. Because it's only when these aspects are organically linked that people will feel truly happy. In other words, the image we have of the Group cannot be achieved on our strength alone. We must collaborate and connect with customers, other companies, regions and communities, and of course consider the environment, as we move forward together to make our vision a reality.

The sustainability of humans, the earth and society supports the sustainability of the POLA ORBIS Group. Guided by my own perceptions, I will demonstrate leadership to drive the Group forward, and with the Company, one step at a time, I will strive to paint a bright future for customers and society as a whole.

VISION 2029

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



TOPICS

Diversity in the POLA ORBIS Group

The future is not an extension of what has been but rather an uncharted expanse waiting for us to explore it from diverse perspectives and through multifaceted dialogue.

Miki Oikawa

Senior Corporate Officer responsible for Group diversity, POLA ORBIS HOLDINGS INC.
Representative Director and President, POLA INC.

The POLA ORBIS Group established the Diversity Promotion Committee in January 2022. The committee is chaired by Miki Oikawa, representative director and president of POLA INC., who has been a driving force within the Group and has been instrumental in promoting a forward-thinking approach to diversity and inclusion. She provides her thoughts on activities that POLA is currently pursuing and what the Group's objectives are going forward.

I want employees to believe in their potential and the potential of others, too.

POLA devised an action slogan—"We Care More. Changing the world, with care."—and a vision—"Towards a society with abundant connections that trusts in the potential of individuals and society itself"—to guide efforts toward 2029, when the company celebrates its 100th anniversary. Along with this action slogan and vision, we unveiled a new direction on sustainability, with a particular emphasis on gender equity and empowerment of women. We have developed various measures based on the idea that the realization of gender equity is connected to other aspects of diversity.

Structurally, barriers exist that block women from a more active role in the corporate hierarchy. At POLA, the biggest issue is gender bias, and initiatives designed to expand employees' perspectives on gender have acquired greater importance. A look at a list of candidates for management positions shows surprisingly few women. I felt this reflected two factors: gender bias held by managers who pass over a potential candidate who is female and has young children at home; and a tendency among female employees as well to devalue their own capabilities because they previously experienced gender bias.

To remedy this situation, we have to visualize capabilities, with women themselves as well as those around them recognizing their inherent potential. And then we have to appreciate the contribution that women make in an environment where barriers previously preventing them from playing an active role in the workplace have been knocked down. Giving credit where credit is due is, in my opinion, linked to the skills development of not only women but also of men. I believe in the potential of all employees. I think that doing right by employees encourages individuals to believe in themselves and the abilities of others.

Embracing a structure that enables everyone to demonstrate potential

The male-to-female ratio of new employees who enter POLA to fill regular positions with the prospect of promotion is 50:50, so you'd think that as these employees advance in their careers, the ratio of men to women in management positions would also be 50:50. But it is not. It is about 70:30. The truth of the matter is that 20% of women with the capabilities needed for management positions might be falling through the cracks. The hidden causes for this, I believe, are issues that prevent women from gaining experience during the 10 to15 years before they take the promotion exam, issues related to stages of life, including child raising, and outdated allocation of household responsibilities, particularly housework.

To address this situation, we have implemented work-style reform initiatives that support child raising, shorter working hours and remote work as well as programs such as childcare leave for men. Not only that, we also encourage male managers to join their female staff in the PMS (premenstrual syndrome) Study Group. Why? Because the entire team has to think about how best to support women who complain of discomfort once a month. If employees, free from gender stereotypes, can create friendly rivalry in the true meaning of healthy competition and compete with each other to enhance each other's skills, then there will be more opportunities for both men and women to develop their capabilities. Toward this end, POLA has communicated to employees its thoughts on gender and on diversity and inclusion, and the company is working to create an in-house culture that makes it easy for employees to utilize available programs and structures.

External evaluations in 2022

- POLA received the 2022 Tokyo Metropolitan Government Women's Participation Promotion Award Grand Prize in the industrial category.
- At the Forbes JAPAN WOMEN AWARD 2022, Miki Oikawa won the Initiative Award in the individual category and POLA took third place in the general corporate category (101 or more employees but fewer than 1,000) for the ability of top management to achieve results.
- POLA captured a perfect-mark gold certificate in PRIDE Index* 2022, satisfying all index criteria.

*Established in 2016 by the non-profit organization "work with Pride," the PRIDE Index is Japan's first index that evaluates workplace initiatives for sexual minorities, including members of the LGBTQ+ community.

Employee-led initiatives born through dialogue

About three years ago, I started up the corporate version of a town hall meeting with employees. Our conversations were very valuable, going beyond diversity initiatives to running an organization. I'm not an expert in every field, either, so I always have in mind the idea that the creation of monolithic teams—that is, solid and cohesive—reveals bigger possibilities through group dialogue than I would on my own.

This kind of issue awareness, allowing me to motivate employees to act on their own will, led me to the slogan "be sharp, be united" and culminated in the establishment in 2021 of LGBT+ALLY at POLA as a working group for employees. The working group has a meeting with people external to POLA once a month, and during one such meeting, the issue of LGBTQ+ in regard to personnel systems came up. That prompted a revision at POLA to broaden the definition of a family from a legal perspective to a practical perspective that includes common-law and same-sex partners. This real worldview of a family was then applied by departments and divisions in, for example, basic knowledge training for Beauty Directors and Beauty Coordinators as well as customer service manuals.

I am extremely pleased that these kinds of employee-driven activities have started. POLA sees employees as value creators. I believe the corporate culture has been refreshed by enabling each and every employee, collectively presenting diverse perceptions of value, to fully demonstrate their capabilities and inspire actions aimed at realizing our vision for a better society.

Accelerating awareness of diversity and inclusion across the Group

The Diversity Promotion Committee was established in January 2022 as a Groupwide structure to raise diversity throughout the POLA ORBIS Group. As chairperson of this committee, I want to contribute to Group innovation by advancing diversity in the Group. The committee will be the driving force of activities within the Group that respect individuality and enable all employees to demonstrate their abilities irrespective of gender, nationality, age, health status or any other traits that define a person. The establishment of this committee was the catalyst for activities bringing together all companies under the Group umbrella to create a diversity-welcoming structure that gives shape to the concept of a person-centered management style. Action plans matched to the characteristics of each company are being drafted and implemented.

My goal for 2023 is to realize a form of diversity that epitomizes the qualities of the POLA ORBIS Group, and through the committee, I will confirm progress at each Group company, exchange information and encourage implementation of actions Companywide. Together, we will become more attentive to diversity issues and enhance the effectiveness of approaches to raise diversity awareness. All employees throughout the Group will be the stars in this production, working toward forming a structure that enables everyone to be themselves and show their full potential. Concurrently, I will see that society is mindful of the Group's many case studies, underpinning the position of POLA ORBIS HOLDINGS as a vanguard in gender diversity initiatives that contribute to promoting diversity and inclusion practices throughout society.

Goals of the Diversity Promotion Committee

- Achieve a high level of diversity throughout the Group
- Contribute to Group innovation by realizing diversity Groupwide
- Be the driver of activities Groupwide that respect individuality and enable all employees to demonstrate their abilities irrespective of gender, nationality, age, health status or any other traits that define a person
- Make society more aware of diversity by taking a leadership role in diversity and inclusion initiatives, and contribute to realizing diversity and inclusion in society

Examples of diversity and inclusion at POLA

- Gender-bias seminar for managers
- Discussions with companies outside the Group
- Gender-bias seminar for all employees
- Discussions on career development of women in rural areas
- Succession plan and mentor program for executive appointments

Examples of working groups (WGs) related to diversity and inclusion

- WG to deepen understanding of LGBTQ+ community
- WG to consider personalized work styles, taking a cue from maternity and childcare leave
- WG to consider issues related to PMS
- WG to consider menopause

Pursuing real discussion about diversity

Discussions by the Board of Directors at POLA ORBIS HOLDINGS more frequently than not start off from a diversity, equity and inclusion perspective. The Company established the Diversity Promotion Committee and, seeing gender equality, the hiring of foreign nationals and people with disabilities, and LGBTQ+ as issues to address, recently set a new KPI related to gender to better leverage the qualities that make the Group unique. I believe active participation of women in the workplace was already high within the POLA ORBIS Group. Of course, setting targets such as the percentage of female managers has great significance, but target setting that identifies the fundamental essentials that link that percentage to creativity, job satisfaction, engagement and other aspects that define the Group are also vital. I will firmly convey this to the Board when discussing the new KPI.

Going forward, I will continue to fulfill my obligation as an outside director with input from a more objective perspective and contribute to further improvement of the Group's corporate value.

Naomi Ushio

Outside Director

Value creation story

POLA ORBIS Group History

With refined sensitivity, we transform ahead of changing 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

Active participation of women in society
As Japan welcomes more active participation of women in society, POLA embarks on what is now a 93-year history in the cosmetics business with expansion of its door-to-door business.

POLA

1929 Shinobu Suzuki founds the business in Shizuoka Prefecture.
1940 POLA CHEMICAL INDUSTRIES, INC. is established.
1946 The current POLA INC. is established.

Mortar used by the Company's founder

1980 — 1999 Business diversification

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

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

ORBIS

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

ORBIS' first generation 100% oil-free series

2000 — 2004 More sales channel variety

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

2000 Begins steps to transform sales approach of door-to-door business.
2004 POLA enters mainland China's market.

2000 ORBIS THE SHOP is launched.

2001 ORBIS commences international sales.

2005 — 2010 Multi-brand strategy

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

2006 POLA ORBIS HOLDINGS INC. is established and the Group transitions to a pure holding company system in September.
2010 POLA ORBIS HOLDINGS INC. is listed on the Tokyo Stock Exchange, First Section (currently Prime Market), 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
Current DECENCIA INC. is established.
DECENCIA
ACRO INC. is established.
THREE

2011 — 2013 Accelerated growth through stock listing

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

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)

Overseas Brands

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

Jurlique

2014 — 2016 Second stage of medium-term management plan

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

2014–2016 Medium-Term Management Plan

Management Indicators (Results)

Consolidated net sales
CAGR 4.5%
¥218.4 billion in FY2016

Overseas sales ratio
8.7% in FY2016

Operating income
CAGR 18.9%

Operating margin
12.3% in FY2016

Capital efficiency
ROE 9.0% in FY2016

2014 THREE commences international sales.
2016 First quasi-drug to improve wrinkles approved in Japan.

2017 — 2020 Accelerated expansion into the Chinese market

Final stage of long-term vision
Turbulent business environment

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
60% or higher

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 — 2023 New medium-term management plan

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

2021–2023 Medium-Term Management Plan

Management Indicators (Plan)

Net sales
Consolidated net sales
CAGR 6% or higher
¥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
12% or higher in FY2023
Operating income
CAGR 25% or higher

Capital efficiency
ROE 9% or higher in FY2023

Shareholder returns
Consolidated payout ratio
60% or higher

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"

2021 The Group acquires tricot, Inc. in April.

FUJIMI

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.

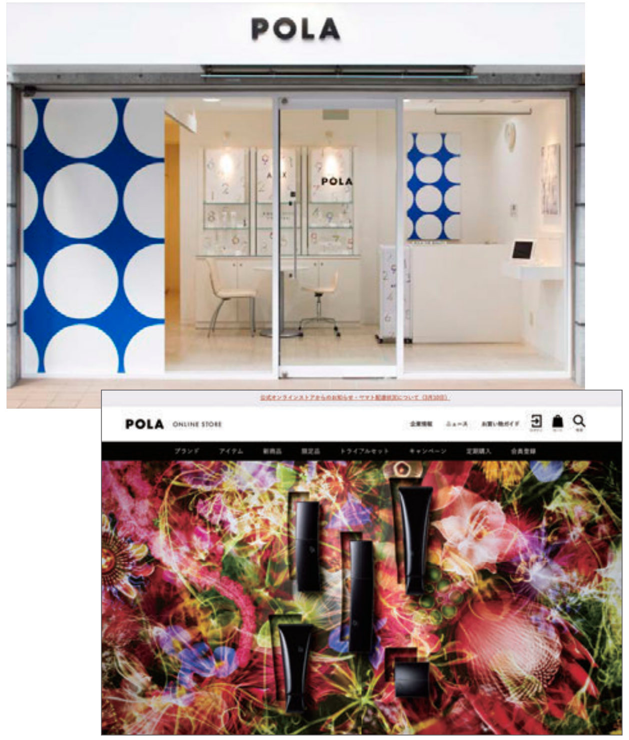
2021 Adds reduction of CO_2 emissions to medium- to long-term incentive evaluation criteria for corporate officers.
2021–2022
Selected for the CDP* climate change A List.
Selected as a constituent stock of MSCI Japan Empowering Women Index (WIN).
Selected as a constituent stock of the FTSE4Good Index Series and the FTSE Blossom Japan Index.

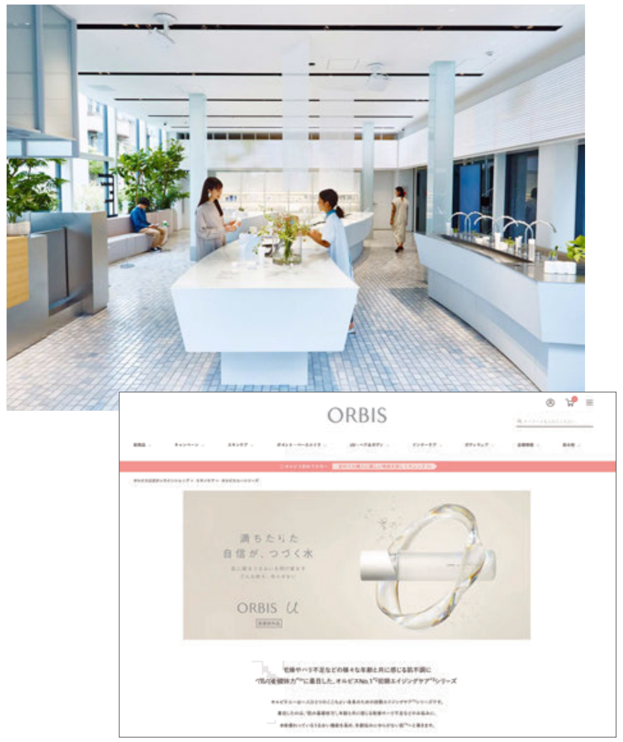
*CDP: International non-governmental organization that researches, evaluates and discloses corporate strategies on climate change and efforts to curb greenhouse gas emissions

Value creation story

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, both strive to improve lifetime value by deepening mutual appreciation between the respective brand and its customers, and building long-term relationships with these customers through communication based on sales channels to facilitate direct contacts.

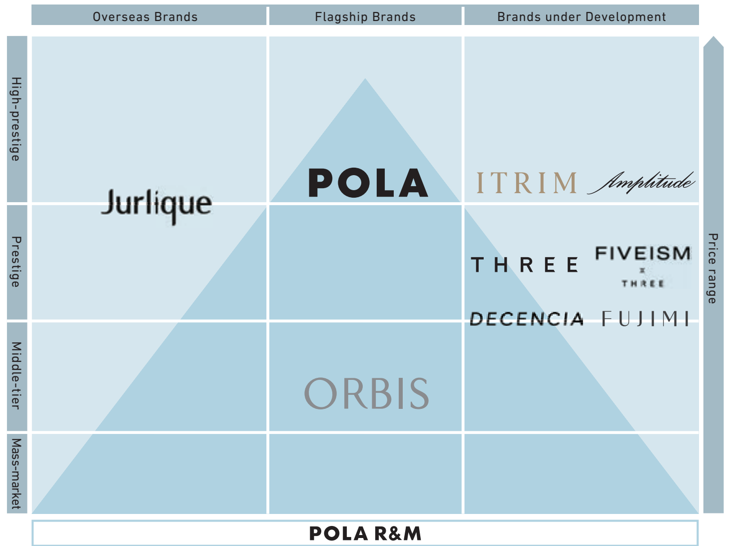
POLA's strength is to provide face-to-face consulting and aesthetic services through its network of about 27,000 Beauty Directors across Japan. During the pandemic, restrictions limited in-person contact with customers and access to services, but digital contact expanded through social media messaging that drew on the strengths and features of each store. In addition, access to online consulting and online workshops actually deepened engagement with customers.

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.

Through these direct-selling channels, each company is able to manage information on nearly all its customers in-house, together building a database of about 20.2 million entries on the condition of customers' skin and other useful information such as customer attributes and purchasing trends. 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. Going forward, the goal remains to enhance capabilities for customer analysis by using POLA's Online Merges with Offline (OMO) model as well as ORBIS's new customer data platform that combines data on customer interests and tastes with purchase and attribute data, underpinning efforts to provide each customer with ideal 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 2022, to constantly address lifestyles and values that change with the times, the POLA ORBIS Group had built a portfolio—shown on the right—of nine brands, each with its own concept, price range and sales channels. Each brand has its own unique characteristics and drives brand loyalty higher by polishing brand identity through independent management. The goal is to enhance sustainability 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, 2022)
The Amplitude and ITRIM brands will be discontinued in 2023.

Research and Development Capabilities

The Group's biggest strength from an R&D perspective is the concentration of corporate resources into the anti-aging care area, specifically, products to fight dark spots and wrinkles. The reason for this focus is that we can utilize our R&D capabilities in this area perfectly. We own several patents, materials and ingredients original to the POLA ORBIS Group and not found anywhere else in the world. 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. The sophistication of R&D capabilities supports POLA ORBIS HOLDINGS' multi-brand strategy. The formation of a stable customer base reflects efforts to cultivate new markets with innovative products and encourage a high repeat purchase rate on the strength of direct marketing.

The R&D structure is built on two facilities: the Multiple Intelligence Research Center (MIRC), which coordinates overall R&D strategies, and the Frontier Research Center (FRC), which handles basic research. We complement this structure with ventures into science and the pursuit of open innovation through robust alliances with external specialist organizations.

In addition, we will establish the Technical Development Center (TDC) to strengthen research on new dosage forms and development of high-value-added products. 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.

B.A series

WRINKLE SHOT SERUM

Value creation story

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 shrank, owing to spread of COVID-19
- Sudden shift toward online purchasing
- Broader definition of beauty
- Consumer behavior pegged to sustainability of society

Risks

Group strengths

- Multiple brands
- R&D capabilities
- Direct marketing

Sustainability policy

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

Operating base (corporate governance)

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

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

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

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
- Establish new dosage forms technology

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

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

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%

Improve social value
Financial impact of non-financial indicators

Sustainability and non-financial indicators (see pages 24-25)

Value creation story

Recognizing and Responding to Opportunities and Risks

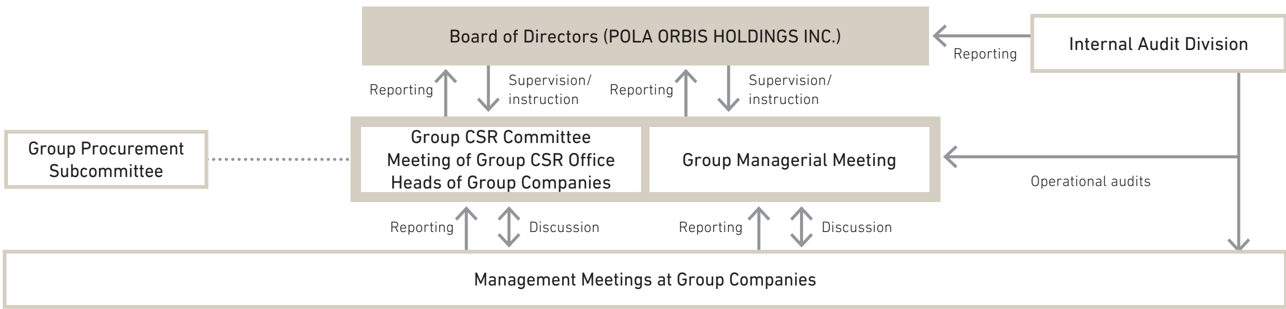
At POLA ORBIS HOLDINGS, we ask outside directors with outstanding knowledge to participate in Board of Directors' meetings from an objective standpoint. At those meetings, they use diverse values and perspectives to discuss long-term management issues.

One of the functions of the Board of Directors is to oversee opportunities and risks related to the Group's business continuity. To handle this function, we established the Group Managerial Meeting and the Group CSR Committee directly under the Board of Directors. Each Group company lists up the opportunities and risks associated with its business and addresses them in management meetings at Group companies. Information from those meetings is discussed and monitored monthly at the Group Managerial Meeting and quarterly by the Group CSR Committee, then reported to the Board of Directors.

The Group Managerial Meeting consists of the Company's directors and full-time corporate auditors, as well as presidents and directors of subsidiaries who are appointed as members by the Board of Directors. Focusing on business management aimed at maximizing opportunities for each Group company, Group Managerial Meeting members discuss solutions to various risks that may materialize and work out details for supervision and instruction that are deployed across all Group companies as shared information.

The Group CSR Committee consists of management from the Company, management from other Group companies and members from outside the Company. The committee aims to prevent problems from arising by identifying risks that may materialize during corporate activities, including strategic and operational risks, and by practicing risk management across the Group.

Organization



In risk management, we comprehensively, inclusively and strategically identify and list up our risks from a Groupwide perspective. These include business risk, information security risk, compliance-related risk and climate change risk. We then evaluate the listed items once a year and define items deemed highly important as "Group priority risks," for which we take countermeasures to ensure optimal outcomes. In line with recent trends, we have expanded the scope of risk management beyond the operations of the Group to include the entire supply chain, and we have decided on risk owner divisions and committees to implement action plans for improvement.

Risks addressed by the Group (2022)

Risk formulation process (2022)

We comprehensively identify Groupwide risks and perform risk assessments based on the impact, frequency of occurrence and status of responses to risks, then select risks that should be promptly addressed Groupwide. We also designated the risk associated with upgrading our core system, which has a large impact on the Group, as a priority theme for 2022 and implemented countermeasures based on our action plan. Business risks are handled by the Group Managerial Meeting. Because we had already addressed the risk for infectious disease, we excluded its BCP, despite the potential impact and high frequency of occurrence of infectious diseases.

Theme	Item	Action
1. Risk from digitization of information	1) Information security risk	① Avoid risk of personal information leaks throughout the Group
		② Practice stricter BYOD (bring your own device) management to permit diverse work styles for employees and ensure information security
		③ Comply with revised Act on the Protection of Personal Information
	2) SNS flaming risk	Clarify measures to prevent SNS flaming (prevention and post-incident responses) and avoid damage to reputation
2. Risk of operational trouble associated with core system upgrade	Operational risk associated with system upgrade for BPR in accounting	Identify and solve any problems after accounting system upgrades
3. Risks from climate change	Disaster risk (floods, etc.)	Confirm employee safety when an emergency warning is issued or during a flood, etc.

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.

Key business-related opportunities

Item	Details	Measures
Research and development	Steady announcement of products realized through results of highly original research	• Develop original research strategies to create new value (dispatch researchers to research base in Singapore) • Invest in R&D (Technical Development Center (TDC), which will start operations in 2024)
Global economy	Growth of cosmetics market in mainland China	• Reorganize overseas organizational structure (change to regionally segmented operations) • Strengthen store operations and increase store openings in mainland China (POLA) and invest in the Chinese market (ORBIS) • Expand use of external e-commerce
Digital marketing	Increase of marketing methods using social media	• Enhance digital consultation format • Strengthen e-commerce, promote OMO, integrate domestic customer information and advance communication with customers (POLA)
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)
	Ethical thinking of millennials and Generation Z	• Cultivate new business domains (expand to social issue areas) • Create new value through MIRC and FRC • Launch sustainable products
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	• Promote 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
Brand value damage and human rights risk	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 • Begin 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	• Accelerate R&D by establishing TDC and research base in Singapore
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 newly formed QCD* Committee *QCD: Initialism for quality, cost and delivery
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	• Establish the Information Security Committee to protect and manage information assets and maintain and improve information security • 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 or floods 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	• With involvement of suppliers, reduce CO_2 emissions throughout product life cycle • Switch to electricity from renewable energy sources
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

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 49 for details). Risks related to human rights are listed on page 52.

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

Strategy

Financial Strategies

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.

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

Message from director in charge of finance

Listed companies have a duty to create capital efficiency that exceeds capital cost and to boost corporate value. Specifically, we see ROE as a key performance indicator and, with a long-term view, are striving to exceed 14% by 2029, as highlighted in VISION 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.

Regarding growth investment, over the long term, we aim to create a foundation for stable and enduring growth in the existing cosmetics business while nurturing buds of new growth. Our business portfolio concentrated resources in the cosmetics business, which was underpinned by accumulated R&D capabilities, and we achieved stable growth. But today, with diversifying perceptions of beauty, sustainable business growth requires us to build a more extensive business portfolio, still centered on cosmetics but complemented by contributions to well-being and social value. In the domestic cosmetics business, management indicators for 2029 are targeting net sales above ¥180 billion and stable growth exemplified by CAGR between 2% and 3%. We will realize stable growth by accelerating digital transformation (DX) and Online Merges with Offline, with an emphasis on flagship brands POLA and ORBIS, reshaping our business model and then applying the profits generated as the source of investment for new business pursuits. Meanwhile, in the overseas cosmetics business, we will be working toward management indicators of net sales exceeding ¥100 billion and CAGR above 15% 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 that for *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 addition, the Technical Development Center, currently under construction, will be tasked with original, new-formulation research and high-value-added product development. Operations are slated to commence in 2024. In the short term, that is, in 2023, we will reinforce investment to attract customers to flagship brands POLA and ORBIS, with an emphasis on funds for sales-related activities. Keen to have both brands return to a growth track, we will also seek to increase net sales and build a revenue base for the future.

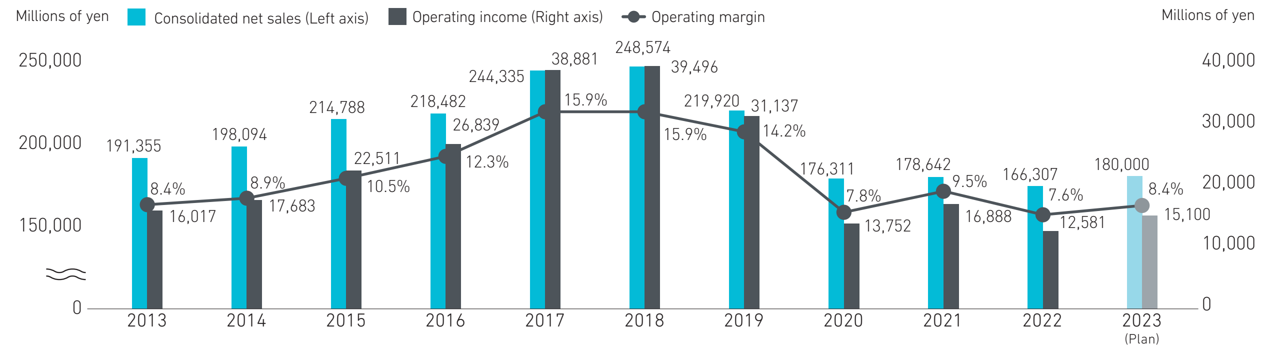
In pursuit of improved profitability, an urgent issue is to remedy the losses that plague unprofitable brands. Even as we expand the brand portfolio across new domains, we have to consider divestment and business continuity, applying a shorter cycle to evaluate KPI status and determine whether a brand should be maintained. Under this policy, we decided to dissolve and liquidate H2O PLUS in 2022. We took a similar step in 2023, discontinuing the Amplitude and ITRIM brands. In the real estate business, we are pursuing the sale of buildings with low profitability. Aiming to improve profitability, we are striving for further restructuring of the brand portfolio. Of note, Jurlique lessened its losses, thanks to a determined commitment to trim fixed costs, shrink expenses and successfully restructure. Improved sales, given a lower break-even point, will help the brand turn a profit. THREE drastically restructured to improve profitability by strategically concentrating its store network, reviewing the number of SKUs (stock-keeping units) and streamlining its head office structure.

Groupwide efforts to streamline operations are being rolled out as well. We are working to merge the IT divisions and the finance and accounting divisions into a Group oversight structure. In 2024, we plan to reorganize overseas operations under a geographical breakdown rather than by brand. We will make drastic organizational changes beyond streamlining, seeking to accelerate business expansion and maximize return on investment. We are aiming for an operating margin above 15% by 2029, complemented by net income growth higher than 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 2022 was set at ¥52 per share, which translated into a payout ratio of 100.5%. 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

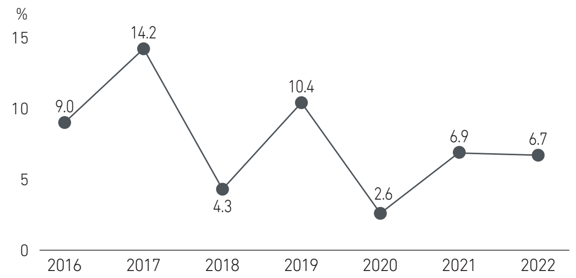
EPS Earnings per share

- 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

Our basic policy on dividends is twofold—a payout ratio of at least 60% and a fuller return through profit growth. We expect a decrease in net income attributable to owners of parent in fiscal 2023 but operating income should increase. Consequently, we are planning for an annual dividend of ¥52 per share, the same as in fiscal 2022. This will translate into a payout ratio of 115.0%.

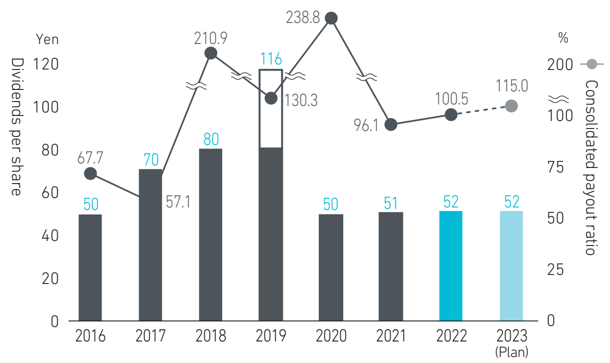
Basic policies

- 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 2023

Dividends per share (Forecast)	Annual dividend: ¥52 Comprising ¥21 interim and ¥31 year-end dividends Consolidated payout ratio: 115.0%

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.

Strategy

Initiatives on Sustainability

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 in areas of materiality is assigned a KPI, and the progress of efforts to achieve these targets is tracked. The Board of Directors has decided to add palm oil responses as an environmental KPI, starting in 2024, to address changing social issues. The degree of success in the "number of new businesses created" and in "reducing CO_2 emissions" is now linked to management targets and the medium- to long-term incentive evaluation criteria of executive compensation.

1 Exploring issues

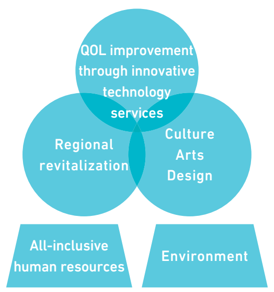
- Group philosophy
- Vision
- Company business environment

- Global trends
- ESG/SRI evaluation analysis
- SDGs

2 Identifying issues

- Build sustainable society
  - Stakeholder engagement
  - Coexistence with global environment and society
- Boost corporate value
  - Continuously provide unique and original value
  - Cultivate sensitivity and individuality in employees
  - Maintain and improve perception of reliability of the Group

3 Determining areas of materiality



4 Discussion/approval

Commitment by the Board of Directors
- Discuss/approve non-financial KPIs
- Execute action plan
- Monitor progress/results
- Link to executive compensation
- Periodically review

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.

Board of Directors

Group Procurement Subcommittee — Group CSR Committee (Board members of Group companies)
Role: Formulation and progress management of sustainability policies and strategies
Chairperson: Director in charge of sustainability (CSR)

Meeting of Group CSR Office Heads of Group Companies (Corporate planning departments of Group companies)
Role: Promotion of sustainability activities and progress management of important themes

CSR Office of Group companies (CSR promotion officers)
Role: Formulation and implementation of sustainability action plans of Group companies

Five non-financial materiality categories and results/KPIs

Item		Explanation	2022 actual numbers	Action plan for 2023	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	7 (since 2021)	1. New businesses grow from in-house seeds 2. Business capture through M&A 3. Creation of services and products through external collaboration	10 (from 2021 through 2023)
	(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	57.6%	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 (since 2018)	Take a positive approach to making presentations at academic conferences and submit papers in Japan and overseas	10 (from 2018 through 2029)
	(5) Number of researchers in cutting-edge dermatology research	People to expand research beyond skin to whole body	60 (as of December 31, 2022)	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	425 (as of December 31, 2022)	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	31 (as of December 31, 2022)	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	28 (2022 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	224,179 (since 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	22.9% (as of March 31, 2023)	• Participation in 30% Club • Promote activities through the Group Diversity Promotion Committee • Encourage male employees to take child-care leave	30–50%
	(11) Percentage of female managers		47.8%		50% or higher
	(12) Percentage of candidates to become management executives	Establish/reinforce pipeline for people with management potential	161.9% (as of December 31, 2022)	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 and 2)	Actual emissions under Scope 1, 2	Down 43.0% (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 48.3% (from 2019)	• Make containers and packaging materials thinner and lighter • Consider development of products and services that reduce environmental impacts • Make procurement process and transport process more efficient	Down 30% (from 2019)
	(15) Water consumption	Scope 1 and 2 per unit of sales	Down 1.9% (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 51.9% (from 2015)	Set inventory ratio targets to optimize production and purchasing	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]	24%	• Have Group companies consider refills and alternatives in the product planning stage • Conduct research into recycling technology	100% sustainable design

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

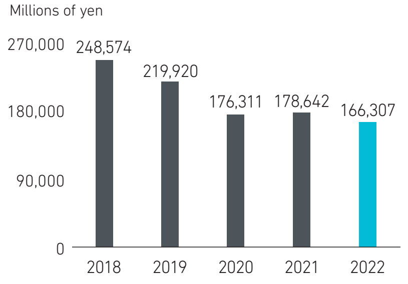
Strategy

Financial and Non-Financial Highlights

Financial Capital

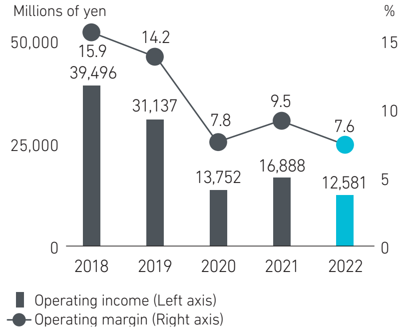
Net sales

¥166,307 million



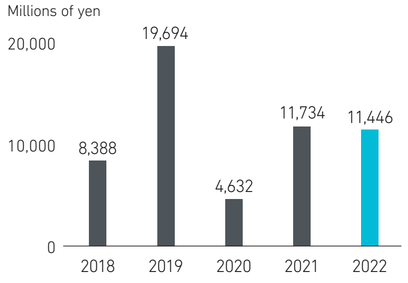
Operating income/Operating margin

¥12,581 million/7.6%



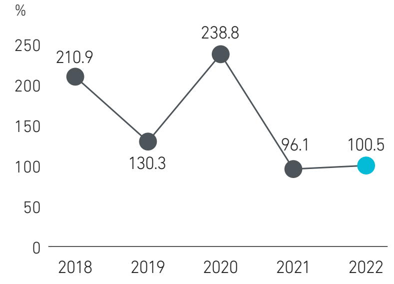
Profit attributable to owners of parent

¥11,446 million



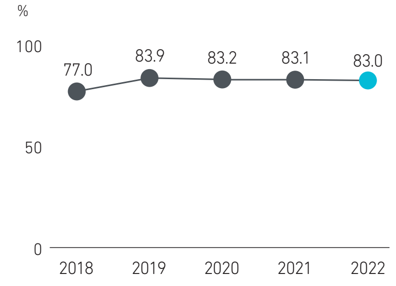
Payout ratio

100.5%



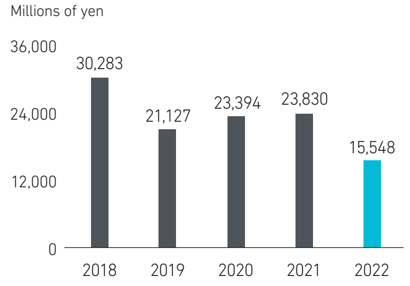
Equity ratio

83.0%



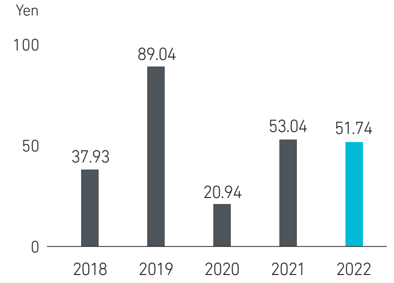
Cash flows from operating activities

¥15,548 million



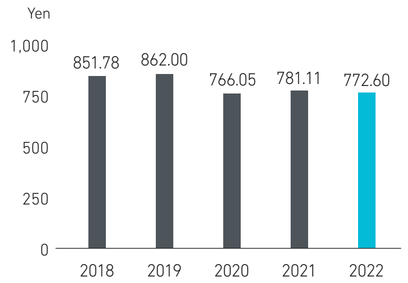
Net income per share

¥51.74



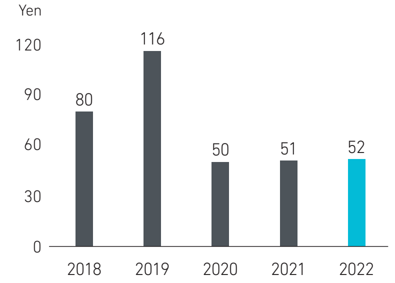
Net assets per share

¥772.60



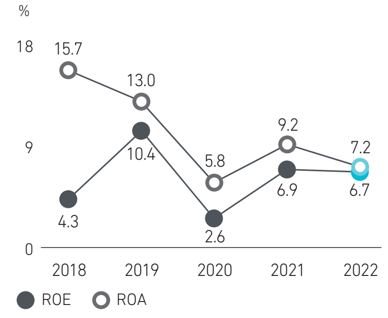
Cash dividends per share

¥52



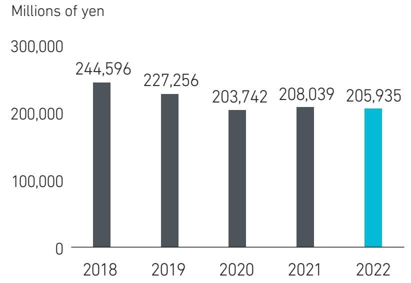
Return on equity/Return on assets

6.7%/7.2%



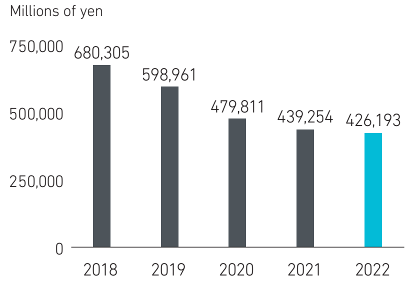
Total assets

¥205,935 million



Total market value

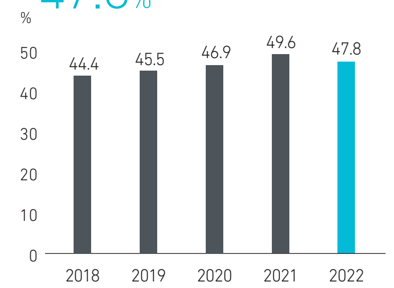
¥426,193 million



Non-Financial Capital

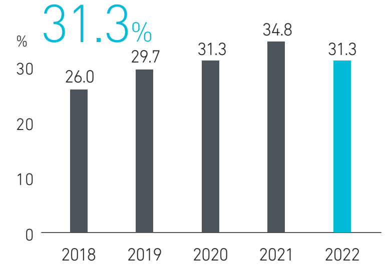
Percentage of female managers

47.8%



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

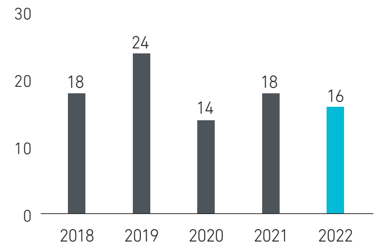
31.3%



Note: Excludes part-time directors and outside directors

Number of papers presented at scientific conferences by POLA CHEMICAL INDUSTRIES

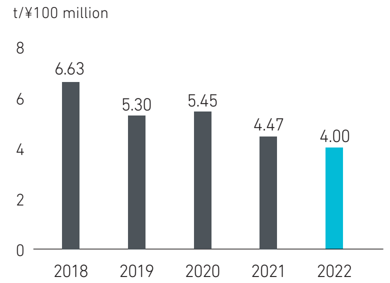
16



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

CO_2 emissions (Scope 1 and 2)

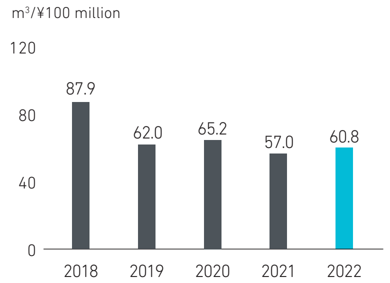
4.00 t/¥100 million



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

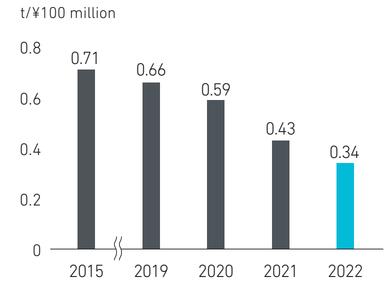
60.8 m³/¥100 million



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

Waste

0.34 t/¥100 million

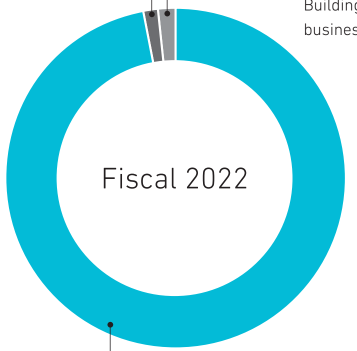


Note: On a per unit of sales basis

Strategy

Business Structure

Net sales by business segment

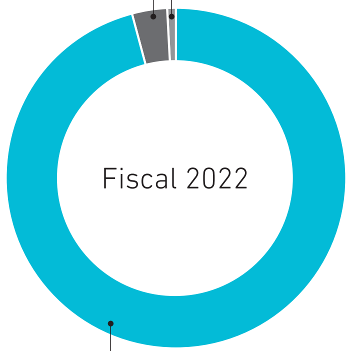


Real Estate
¥2,083 million
Business focus on leasing office space

Others
¥2,569 million
Building maintenance businesses

Beauty Care
¥161,654 million
Core business built on nine cosmetics brands, with emphasis on POLA and ORBIS

Operating income by business segment

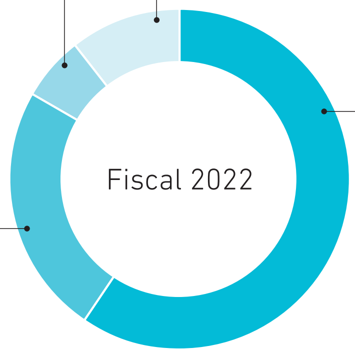


Real Estate
¥491 million

Others
¥96 million

Beauty Care
¥13,793 million

Beauty Care business sales by brand



Overseas Brands
¥9,972 million (up 10.1%)

Brands under Development
¥16,892 million (up 2.3%)

POLA
¥96,371 million (down 8.9%)

ORBIS
¥38,417 million (down 1.7%)

The percentage in parentheses indicates year-on-year change.
Year-on-year changes are comparisons with 2021 results calculated with the same revenue recognition standards as those for 2022.

Changes in Beauty Care business sales by brand over the past five years (2018–2022)

Millions of yen

	2018	2019	2020	2021	2022
POLA	150,183	135,502	102,888	105,168	96,371
ORBIS	51,051	50,726	45,415	43,389	38,417
Overseas Brands	12,428	9,235	7,166	8,954	9,972
Brands under Development	17,544	19,421	16,186	16,637	16,892

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, Vietnam and Malaysia

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, 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 28 countries and regions, mainly Australia, mainland China and Hong Kong

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 and mainland China

Amplitude

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

Sales channels
Department stores, travel retail and e-commerce

Market presence
Japan and South Korea

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
Cosmetics brand under concept of gender fluidity

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

Amplitude and ITRIM are scheduled to end in 2023.

Strategies

Growth Strategies by Brand (Flagship Brands)

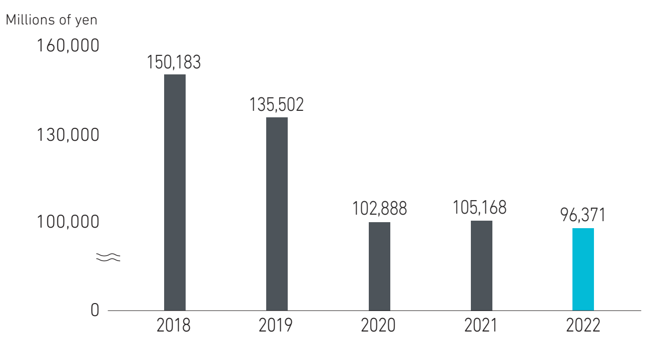
POLA

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

B.A series　*White Shot* series　*WRINKLE SHOT* series

Net sales

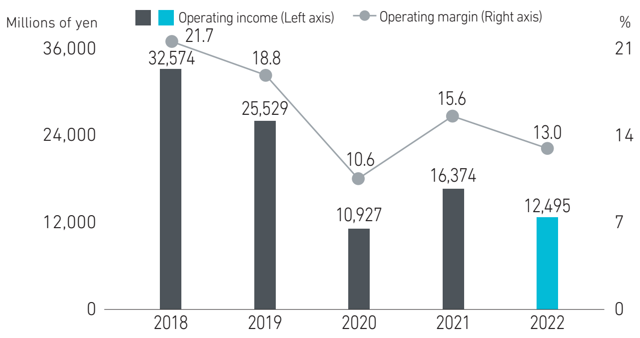
¥96,371 million (down 8.9%)*



*Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.

Operating income and operating margin

¥12,495 million (down 17.5%)*



*Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.

Miki Oikawa
Representative Director and President
POLA INC.

President's message

In 2022, we worked to improve the profitability of our domestic business, further grow our overseas business and create new value by fusing offline and online operations under our medium-term management plan (2021–2023).

In Japan, our store business was significantly impacted by the COVID-19 pandemic. Nevertheless, we expanded online customer contact points through our official smartphone app. We also deepened online relationships with customers by strengthening communication through social media at all our stores. Meanwhile POLA is working on its unique Online Merges with Offline (OMO) strategy with the aims of strengthening relationships between its customers and its brand and improving lifetime value by providing brand experiences that maximize the characteristics of all sales channels. In the e-commerce channel, we will utilize digital technologies to create new experiences and improve convenience, while in department stores and the consignment sales channel we will strengthen efforts to provide value through customer services, aesthetic experiences and other means that are only possible with face-to-face communication.

Overseas, business growth in the Chinese market will continue to be the driver of our business. Accordingly, we will work swiftly to expand customer contact points, both online and offline, to establish a brand presence in that market.

POLA's vision for 2029, the 100th anniversary of its founding, is to move "Towards a society with abundant connections that trusts in the potential of individuals and society itself." The action slogan for achieving the vision is "We Care More. Changing the world, with care." To this end, we will work to raise employee gender awareness, support career education for the next generation and achieve women's empowerment and gender equity. Our aim is to help create a society in which all people can make independent choices and live their lives without giving up on their potential.

Fiscal 2022 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 care and skin-brightening. We are also working to attract customers with high retention rates through consulting and aesthetic treatments. On the products front, we renewed our eye cream within the *B.A* series of high-prestige skincare products. This product focuses on people's lifestyles in the "new normal era," evidenced by prolonged use of such items as digital devices. It has won many best cosmetics awards and is very much acclaimed in the high-prestige cosmetics market.

In our domestic business, we faced the issue of declining customer numbers in the consignment sales channel. Since the second half of 2022, however, we have stepped up activities at physical contact points, a traditional strength of the Company, in every region. Our aesthetic treatments are now on a recovery path, and sales peaked in the fourth quarter of the year.

In our overseas business, we are focusing on the Chinese market and travel retail. In mainland China, we experienced intermittent lockdowns due to COVID-19, which impacted our sales activities. In addition, we restricted shipments to South Korean duty-free stores, reflecting our decision to hold back on distribution to the C2C (customer-to-customer) market. Accordingly, sales from our overseas business declined 21% year on year.

As a result, we posted an 8.9% decline in net sales and a 17.5% decrease in operating income.*

*Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.

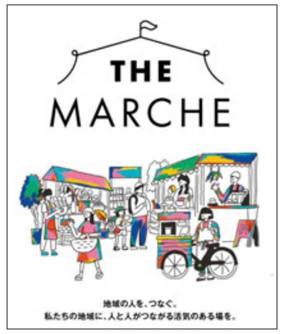
Key issues pinpointed	• Recover customer numbers in the domestic business to re-establish a foundation for stable growth • Accelerate overseas business growth focusing on the Chinese market

Future measures

Evolve direct sales in Japan

Starting in 2023, we will integrate customer IDs that were previously managed separately for each channel and build a new shared customer base for our domestic business. In this way, we will leverage the characteristics and strengths of each channel to improve the brand experience for customers through cross-channel collaboration.

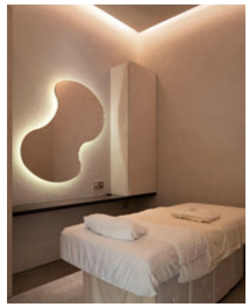
To gain new customers, we will invest intensively in digital advertising and expand offline events, such as THE MARCHE, a market to increase contact. At the same time, we will step up investments to attract new customers. For existing customers, we will provide value that only real stores can offer, centered on consulting and aesthetic treatments, and develop a membership program for all channels aimed at capturing repeat purchasing. We have positioned 2023 as a year of increased upfront investment to bolster customer numbers and lifetime value, with priority given to increasing net sales.



THE MARCHE
Nationwide events with the theme "everyday + alpha experience"

Accelerate growth of overseas business

We will continue to prioritize the Chinese market, where we will expand store openings with a focus on stores offering facial

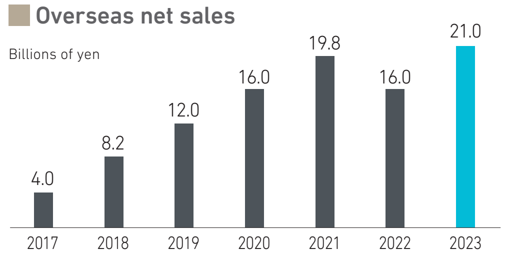


Store offering facial aesthetic services in mainland China

aesthetic services. By providing highly differentiated services, we aim to improve customer retention rates and lifetime value. We will also expand into new countries, particularly in Asia, to enhance our global brand presence and build a new foundation for growth to complement that in mainland China.

In 2023, the POLA ORBIS Group began to reorganize its overseas business operating structure to accelerate global expansion. Specifically, we will speed up decision making by switching from conventional independent business management for each brand to a regional management system. Together with other brands in the Group, we will build a system that can maximize the use of local resources, with the launch earmarked for 2024.

Overseas net sales



ORBIS

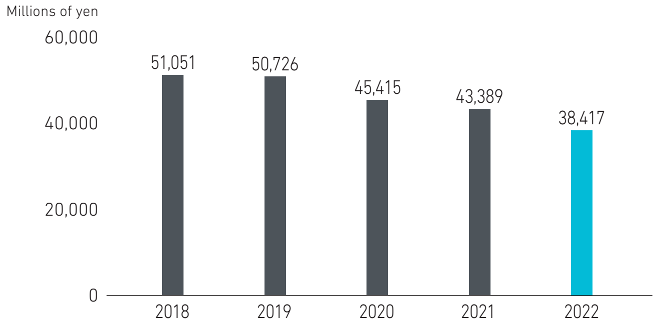
Skincare brand that brings out
the beauty inherent in each person


ORBIS U series


WRINKLE BRIGHT series

Net sales

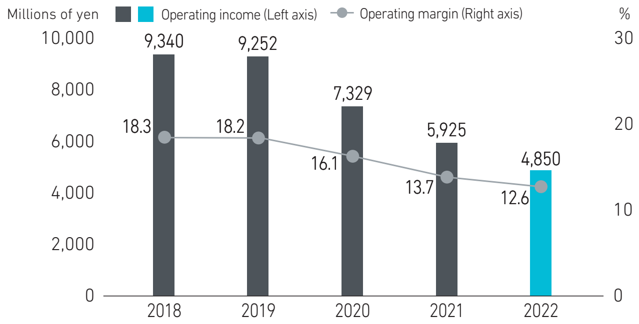
¥ 38,417 million (down 1.7%)*



*Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.

Operating income and operating margin

¥ 4,850 million (down 18.7%)*



*Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.

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 "affects" the beauty inherent in each person.

In terms of services, we set the ORBIS app as the core of our customer communications and are working to enhance brand experiences for customers by seamlessly connecting multiple channels, including stores and mail order. The app had a solid business foundation of more than 3.16 million registered users as of December 31, 2022. Leveraging our original customer data platform, together with technologies and personalized services, we will provide individual customers the correct answers to their beauty needs. By joining customers on their lifelong journey of exploration, we will further strengthen the way we connect with customers and improve lifetime value.

On the channels front, we are working strategically to strengthen our external e-commerce presence in response to recent consumer behavior, symbolized by the growing proliferation of e-commerce platforms. Sales via external channels have remained high, growing at around 50% year on year in 2022.

In recent years, the number of customers has declined as we changed our marketing emphasis from price appeal to lifetime value. However, we are building a highly profitable customer base thanks to efforts to suppress point program costs and discounts, and shift to high-value-added merchandise. In the fourth quarter of 2022, we succeeded in halting the decline in the number of customers and are now on track for a performance recovery.

In 2023, we will step up investments to increase the number of customers and prioritize sales growth with the aim of returning to a growth trajectory.

Fiscal 2022 results

Committed to building a highly profitable business, ORBIS is working to enhance its presence and customer loyalty by creating brand differentiation. In Japan, we are working to expand our skincare customer base with highly differentiated products. In August 2022, we launched a renewed lineup of *ORBIS U*, the first anti-aging care series that symbolizes our brand, and in October, we introduced *WRINKLE BRIGHT SERUM* for improving wrinkles and brightening skin complexion. In terms of services, we use AI to analyze content and offer a manned chat service to provide consulting that, despite being digital, has the human touch of a beauty advisor in a store setting. In these ways, we are accelerating efforts to improve lifetime value for our customers.

In 2022, we made good progress in attracting core target customers in the skincare business and securing new customers with the potential to become repeat customers. However, the number of customers fell below the previous year's level, with net sales declining 1.7% year on year. Operating income was down 18.7% due to a decrease in gross profit resulting from the revenue decline, as well as the impact of a decision to quickly withdraw from a new business into which we had made upfront investments.*

*Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.

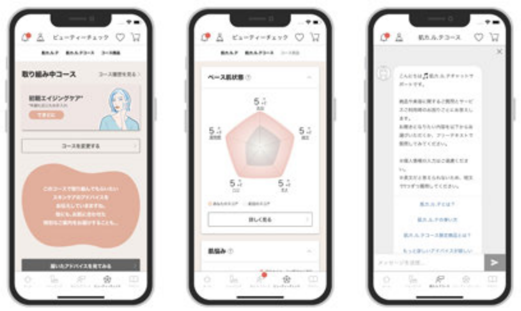
Key issues pinpointed	• Increase number of customers and improve lifetime value of domestic business to foster high-quality growth and evolution into a highly profitable business • Expand target markets

Future measures

Evolve our proprietary customer data platform and return to growth trajectory

Leveraging the ORBIS app, we have forged close personal relationships with our customers while building on the solid customer relationship management (CRM) foundation we have developed since our establishment. Through the ORBIS app, we provide skin analysis, psychological tests, news article content and other services. At present, we are integrating the results of these analyses with interest and taste data, such as the preferred content of news articles, and purchase and attribute data, to build a unique customer data platform that provides more advanced analysis of customer information.

From 2023, this approach will help us expand the frequency of customer contact with our brand beyond product purchases, thus deepening one-to-one communication and increasing lifetime value for customers. We will continue converting technological advances into user benefits to constantly increase customer value.


ORBIS app

Strategically expand target markets

Our plan is to strategically expand our target markets to achieve further business growth. In February 2023, we launched *ORBIS AMBER*, a new skincare series targeting people in their 50s and 60s, a market that is expected to expand. Going forward, we will leverage the iconic *ORBIS U* series of our first anti-aging products and the fully developed *ORBIS U.* series, as well as the newly launched *ORBIS AMBER* series, to expand our marketing segments and evolve ORBIS into a lifelong brand that remains close to customers.

Strategies

Growth Strategies by Brand (Overseas Brands)

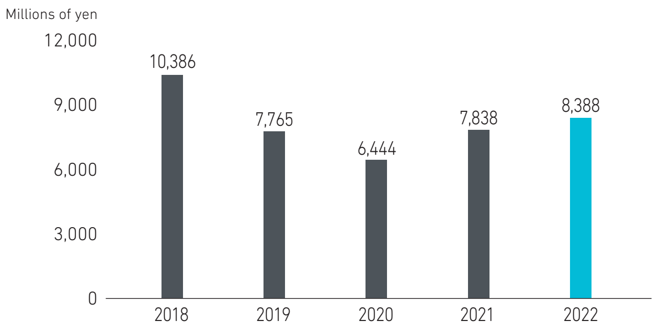
Jurlique

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

Company-owned farm in Adelaide, Australia

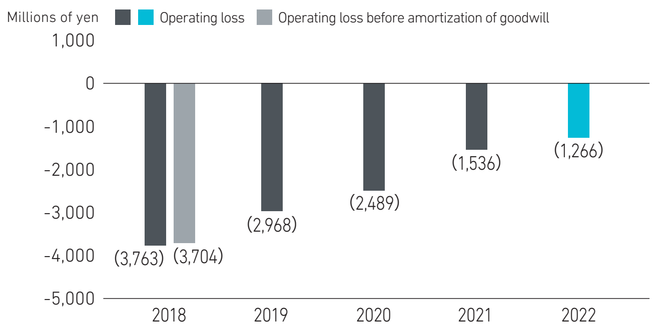
Net sales

¥ 8,388 million (up 5.6%)*



Operating loss

¥ 1,266 million (—)



*Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.

Fiscal 2022 results and future measures

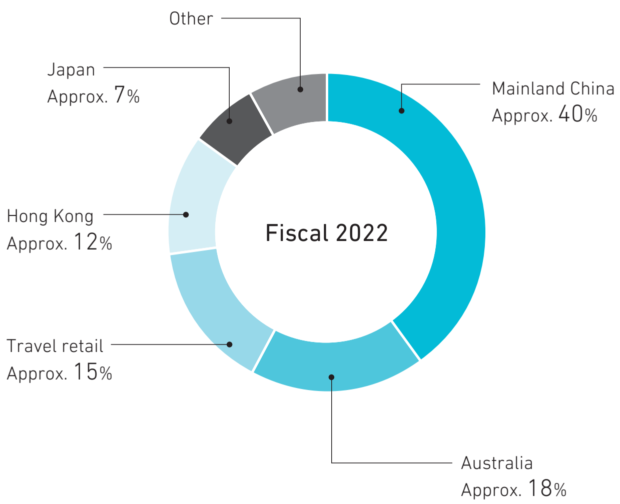
Jurlique is working to grow its business in Asia, particularly mainland China, and in its home country of Australia, and to restore profitability as soon as possible. On the products side, we launched *Rare Rose Face Oil*, which contains ingredients from our original rose "Jurlique," and are strengthening our branding of Jurlique as a holistic and conscious beauty brand centered on our star skincare products. By region, sales in the Chinese market increased year on year thanks to successful live online streaming and social media promotions, despite the impact of lockdowns caused by COVID-19. For the year, Jurlique achieved a 5.6% rise in net sales and reduced its operating loss compared with that of the previous year.*

In 2023, we will accelerate business growth in the Chinese market, particularly through online sales, and achieve business recovery in Australia and Hong Kong now that the COVID-19 pandemic has subsided. In terms of products, we will strive to attract and retain new customers with our holistic approach centered on facial skincare products. Seeking to turn to profitability, we will target growth of net sales and further implement structural reforms to improve our break-even point. We aim to turn to profitability in 2024.

*Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.

Key issues pinpointed	• Top priority of shifting from loss reduction to profitability

Net sales breakdown by region



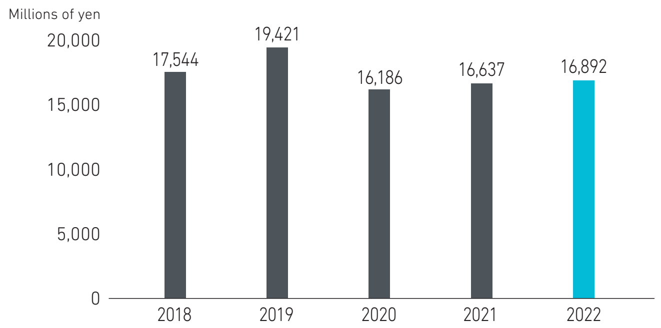
Strategies

Growth Strategies by Brand (Brands under Development)

The Amplitude and ITRIM brands will be discontinued in 2023.

Net sales

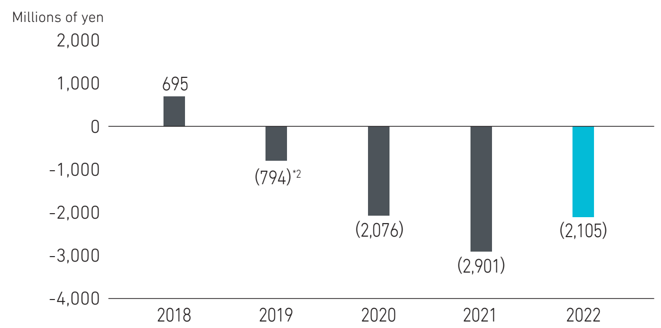
¥ 16,892 million (up 2.3%)*1



*1 Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.

Operating loss

¥ 2,105 million (—)



*2 Due to launch of new brands

Fiscal 2022 results and future measures

ACRO

ACRO's corporate philosophy is "to create the beauty of the era through a well-honed sense of style." Under this philosophy, we are using the THREE brand to roll out lifestyle merchandise that is not limited to cosmetics.

Net sales of THREE declined 13.7% year on year due to the suspension of its e-commerce site and refraining from promotions, in addition to restrictions on face-to-face customer services stemming from COVID-19. On the other hand, the operating loss contracted thanks to various structural reforms, including a review of our sales channels and the streamlining of expenses. Meanwhile, we are making good progress in expanding new customer contacts aimed at renewing the brand's growth with initiatives that include strengthening sales via external e-commerce platforms and entering the local Chinese market.*3

On the basis of the need to reform the Group's brand portfolio and improve profitability, we decided on March 6, 2023, to discontinue the Amplitude and ITRIM brands.

DECENCIA

DECENCIA is a line of anti-aging care cosmetics and skin-brightening products that can be used with peace of mind by people with sensitive skin. In 2022, we launched a new *DECENCIA* series to promote recognition of DECENCIA as a prestige brand in the sensitive-skin market. During the year, we narrowed our focus to attracting new customers through a strategic shift to marketing with a greater emphasis on communicating brand value. As a result, net sales declined 13.5% and operating income fell 16.7%. In 2023, we will continue our focus on building brand equity of DECENCIA as a prestige brand while strengthening CRM to increase customer retention and lifetime value.*3

FUJIMI

FUJIMI, which became a subsidiary in April 2021, is a pioneer in personalized beauty care brands. Under this brand, we sell personalized supplements, face masks and proteins based on the results of our proprietary analysis. In 2023, we will launch a skincare series as a new product line to expand net sales. We will also rigorously control costs with the aim of turning to profitability*4 in 2023.

*3 Year-on-year change represents a comparison with the results for 2021 calculated using the same revenue recognition standards as for 2022.
*4 Before amortization of acquired intangible assets

Five non-financial materiality categories

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.

Working toward non-financial KPIs

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.

Non-financial KPIs and results of major activities in 2022

	Explanation	2022 results	Major activities in 2022
① Number of new businesses created	Develop new services and new fields to meet diversifying needs	7 (since 2021)	Frozen foods for beautiful skin (BIDISH), regional renaissance project, learning business, Bihada-ken tours
② Job satisfaction and engagement score	Create an exciting, comfortable work environment in which employees, fueled by a desire to contribute to corporate success, are able to take the initiative	57.6%	Consider, implement and then monitor action plans designed to spur enthusiasm for work and create comfortable environment
③ Brand recognition and loyalty	Leverage brand characteristics to improve customer QOL	Researched by brand	DECENCIA Reviewed content and creative appeal of advertising and official websites tricot Pursued rebranding of FUJIMI brand
④ Number of research awards won at home and abroad	Develop seeds that grow into high-value-added products	7 (since 2018)	POLA CHEMICAL INDUSTRIES Did not win any awards but published papers in *Cell Reports*, an internationally respected academic journal. Made two oral presentations and two poster presentations at 32nd International Federation of Societies of Cosmetic Chemists (IFSCC) Congress
⑤ Number of researchers in cutting-edge dermatology research	People to expand research beyond skin to whole body	60 (as of December 31, 2022)	POLA CHEMICAL INDUSTRIES Hired new graduates and midcareer specialists in such areas as dermatology, formulation and data analysis

Non-financial KPI Item ①

New businesses that go beyond boundaries of cosmetics and contribute to social value

We made the number of new businesses created a target for realizing VISION 2029 and turning the Group into a collection of unique businesses that respond to diversifying values of "beauty." In 2022, four projects—frozen foods for beautiful skin (BIDISH), a regional renaissance project, a learning business and Bihada-ken tours—have moved toward starting business operations. These projects originated from the Multiple Intelligence Research Center (MIRC), the Group R&D base, from corporate venture capital activities and from ideas collected through the in-house venture program.

Frozen foods for beautiful skin (BIDISH)

Non-financial KPI Item ④

Research structures to generate new value

The POLA ORBIS Group's basic research activities are undertaken by MIRC and the Frontier Research Center (FRC). MIRC gathers information from around the world and poses new questions, while FRC looks for answers to those questions through leading-edge technology and research. The two centers, which collaborate and work with global research organizations, also explore moonshot research and other pursuits, striving to realize new value creation beyond the boundaries of cosmetics.

Investment in intellectual property

POLA ORBIS HOLDINGS sees intellectual property and intangible assets—including patents, trademarks and other intellectual rights, technologies, brands, designs and know-how—as vital management resources. To maintain and reinforce these intangible assets, the Company will actively invest at least 2% of consolidated net sales into R&D, promote global development of the cosmetics business through enhanced research and technology strategies, reshape and enrich the brand portfolio, create new value and expand business domains. The Company links management strategies and business strategies to research strategies and protects R&D results, the naming used for each brand and other intangible aspects according to intellectual property rights, such as patent rights, design rights and trademark rights. POLA ORBIS HOLDINGS encourages the use of acquired intellectual property rights within the POLA ORBIS Group but also takes a robust approach to additional applications, such as in joint activities with other companies. Intellectual property rights of the Group are centrally managed by the POLA ORBIS HOLDINGS Group Research and Pharmaceutical Center to maximize the value of intellectual property. In addition, we conduct anti-infringement checks on the products and services of each Group company to minimize the risk of disputes, thereby preventing damage to brand value.

2022 Research Results: Example 1

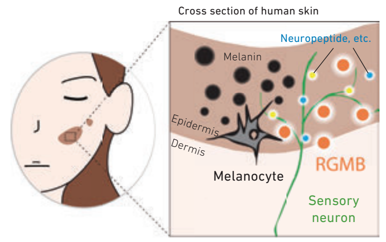
POLA CHEMICAL INDUSTRIES is pursuing research into the correlation between dark spots and neurons in the skin in a joint effort with the Ikeuchi Lab at the University of Tokyo's Institute of Industrial Science. Research results describing the influence of neurons on dark spots were published in an academic journal for dermatologists, and then, in 2022, after successfully ascertaining the underlying mechanism, the team wrote a paper published in *Cell Reports*, a sister magazine of *Cell*, the internationally respected scientific journal.

Title of paper

"Human sensory neurons modulate melanocytes through secretion of RGMB"

Summary

This study revealed increased neuron-melanocyte contact deep within a dark spot and showed that sensory neurons secrete a protein called RGMB, which activates melanocytes and induces pigmentation (melanin production). The results from this study will contribute to a better understanding of the mechanism that causes dark spots and other localized pigmentation in the skin and underpin development of treatments to fade dark spots.



2022 Research Results: Example 2

POLA CHEMICAL INDUSTRIES announced the results of joint work with Tokyo Medical Center—part of the National Hospital Organization—and the National Center for Child Health and Development in the poster category at the 32nd IFSCC Congress in 2022. The results clarified the occurrence of fiber rebuilding in subcutaneous tissue.

Title of presentation

"Identifying a gene orchestrating skin regeneration via tissue rebuilding ~Inspiration from aesthetic treatments~"

Summary

Despite the fact that aesthetic treatments often cause some damage to the skin, such procedures do deliver definite improvements. For example, a procedure where adipose-derived stem cells are injected subcutaneously revealed the occurrence of fiber rebuilding, where old fibers accumulated in the subcutaneous area rebuild into new fibers, reducing the appearance of wrinkles, sagging and other aging skin-related concerns. However, the underlying details of this mechanism are not yet clear.

With that procedure in mind, the research team ascertained that the key factor in fiber rebuilding was TSG-6, a multi-functional protein released by adipose-derived stem cells. The discovery of TSG-6 opens the door to possible alternative products and services for aesthetic treatments that rebuild fiber structures. In addition, this discovery of fiber rebuilding bodes well for a broad range of applications, including procedures to improve the appearance of scars, which has been a challenge to date, and aesthetic treatment aftercare.

Five non-financial materiality categories

2 Regional Revitalization

Enriching the lives of local people

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

Working toward non-financial KPIs

Background to materiality measures

- The POLA ORBIS Group has provided job opportunities to women since 1937, when working women were a rarity, and has supported female entrepreneurs in rural areas. As of December 31, 2022, POLA had a network of about 27,000 Beauty Directors, who deepen communication with customers through consulting but go beyond making skin beautiful to truly get to know customers and help them live comfortable lives.
- Other brands in the portfolio also collaborate with regions to contribute to active communities.

Non-financial KPIs and results of major activities in 2022

	Explanation	2022 results	Major activities in 2022
6 Number of regional entrepreneur owners	Shop owners who influence local economic activities	425 (as of December 31, 2022)	**POLA** Japan: Developed organizations (scale of ¥5 million in monthly sales) with an influential presence in the region Mainland China: Opened 16 shops
7 Number of initiatives contributing to the local economy	Expand synergy through joint efforts that energize local economic activity	31 (as of December 31, 2022)	**POLA** • Total beauty business organized SDGs Conference • Launched new project "From Loss to Beauty" • Rolled out THE MARCHE, a market-style event, nationwide **ORBIS** Sponsored Tohoku social entrepreneur development program **POLA CHEMICAL INDUSTRIES** Interacted with community at factory (clean-up campaigns, flower-bed planting, etc.) **ACRO** Applied new natural ingredients in revamp of *Balancing* line

Non-financial KPI Item 6

POLA produces female entrepreneurs who face social issues head-on and add sparkle to the community

POLA is strengthening activities across Japan under the slogan "We Care More. Changing the world, with care." toward realizing "a society with abundant connections that trusts in the potential of individuals and society itself" by 2029, when the company will celebrate its 100th anniversary. "We Care More." comprises three kinds of care—caring for people, caring for society and caring for the planet—and is linked to the concept of SDGs. In 2022, POLA rolled out a market-style event—THE MARCHE—nationwide. Built on the theme "everyday + alpha," each market event featured content matched to the region and venue, with partner stores invited to set up booths where visitors could try out products and treatments as well purchase items. In other pursuits, employees and shops in areas across the country cocreated content regionally and promoted various SDG-oriented activities. POLA organized the SDGs Conference again in 2022 to allow initiatives to be shared. The conference attracted 45 entries from all over Japan. The screening process began with written submissions, then video, and on the day of the actual gathering, five groups made their presentations. The top prize went to the presentation "Save women from period poverty! Efforts in the Shizuoka zone to raise the quality of life for women."

Regional revitalization is essential for POLA to conduct sustainable business activities. By working together with the local community to address social issues pertinent to that area, the company creates opportunities to meet people whom the previous one-to-one sales format excluded and thus greatly expand the circle of communication.


THE MARCHE

To realize a society in which women live active lives

I was shocked to learn that some young women have a hard time getting ahold of feminine hygiene products due to economic circumstances. With the idea "What could I do through POLA for women whose ability to demonstrate strengths today or realize potential tomorrow is blocked?" I reached out to business partner shop owners, who willingly agreed to join forces with me. When customers made a purchase and put the item in their own bag, we set aside the amount the shop would have paid for a paper bag. The money we collected was donated to fight period poverty. In conjunction with this program, POLA reached out to the Shizuoka Prefecture Gender Equality Center (Azalea) to open a Period Poverty Counter for Shizuoka Prefecture. In addition, one of the customers who supported our campaign teaches at a high school in the city of Shizuoka, and a class was run there for 120 students on the theme "women's bodies and the importance of health and resources." I hope that POLA will continue to contribute to realizing a society in which women can live active lives.


Naoko Konagaya
Shizuoka Zone, POLA INC.

Non-financial KPI Item 7

Generating new value from unused resources

POLA launched a new project, "From Loss to Beauty." The idea is that some resources that would be lost are transformed into new value connected to beauty that will enable POLA to support resource utilization, regional revitalization and primary industry. From a corporate perspective, POLA will benefit by connecting with people sharing new ideas and experiences with the local population, and generating new possibilities for growth. The project's first activity is a joint effort with Shimane Prefecture and Shimane University to use grapevine clippings—the lateral shoots that have no value—from Shinku, an original grape variety that Shimane Prefecture spent 10 years cultivating. The project team developed a hand serum, *Hand Confiture*, infused with extract from the shoots to give hands glowing, silky-smooth skin. The product debuted in January 2023. The journey toward bringing *Hand Confiture* to market involved Shimane Prefecture providing the untapped resources, Shimane University analyzing the efficacy of the Shinku grapevine extract and POLA developing a product incorporating the extract. Looking to the future, POLA relishes the challenge of creating fresh and beautiful value in many areas across Japan.


Discussion with grower


Hand Confiture

Began developing ingredients in cooperation with local producers

In October 2022, ACRO began developing ingredients through regional cooperation. The goal is to create high-quality herbal ingredients originating in Japan by pursuing R&D that utilizes local resources and special features. Working with the town of Genkai and the city of Karatsu in Saga Prefecture, ACRO formed a partnership with the Genkai Research Institute of Medicinal Plants (Medicinal Plant Garden) and others, and began trial cultivation of herbs focusing on the climate and soil of the area. In cooperation with Kumamoto Prefecture, ACRO formed a partnership with Kumamoto Keiwa Co., Ltd., an herb tea manufacturer and marketer handling herbs and wildflowers from around the world but with an emphasis on herbs grown in the Minami-Aso area. With Kumamoto Keiwa, ACRO will develop ingredients for use in cosmetics. Through regional cooperation, ACRO will utilize the natural geography and resources specific to various areas in Japan to promote development of ingredients and products that embody the holistic care concept of the THREE brand.


At signing ceremony with representatives of Minami-Aso municipal hall and Kumamoto Keiwa Co., Ltd.

Five non-financial materiality categories

3 Culture, the Arts, Design

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

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

Working toward non-financial KPIs

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.

Non-financial KPIs and results of major activities in 2022

	Explanation	2022 results	Major activities in 2022
8 Number of new brand experiences created that utilized art	Develop innovative, trendy products and services	28 (2022 only)	**POLA** Proposals to make life more comfortable through artist/designer x *B.A* brand collaboration **Jurlique** Collaborated with artists on designs for packaging
9 Number of participants in liberal arts workshops	Cultivate aesthetic sense and personal tastes and give back to society	224,179 (since 2018)	**Group companies** Ran art workshops for employees at Groupwide training sessions **POLA ORBIS HOLDINGS** Art gallery operation **P.O. REAL ESTATE** Ran workshops for residents of rental condominiums

Non-financial KPI Item 8

Product designs earned high marks on world stage

The POLA ORBIS Group conveys a message of creative work with a sense of the times and presents value beyond the ingredients and performance of portfolio products. POLA's *B.A Makeup* and *Kenbi Sansen* each earned a Red Dot Award for packaging design in the brands and communication category at Red Dot Award: Brands & Communication Design 2022. ORBIS captured a gold iF Design Award 2022—the highest prize—for *ORBIS CLEANSING CREAM*, a POLA ORBIS Group first. This product earned high marks for its simple and reduced style as well as for environmental consideration (refillable containers). A look at iF Design rankings over the five years from 2018 through 2022 shows ORBIS designs hitting the No. 2 mark and POLA reaching No. 3 in the beauty category. Skincare Lounge by ORBIS, which took a Good Design Award in 2021, is a specialized "experience facility" where the company presents the brand message "Simply you. Simply beautiful." down to the tiniest detail, from the interior layout to service design.

ORBIS CLEANSING CREAM

B.A Makeup

Non-financial KPI Item 9

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 June and November 2022, the gallery showcased exhibitions in support of Ukraine. "Prayers for Tomorrow," a solo event of works by Morihiro Hosokawa, opened in June, with paintings exhibited and sold. Also, a donation box was on-site. Proceeds raised from this exhibition were given to the United Nations High Commissioner for Refugees. A charity auction, an annual event since 2020, took place in November with the theme "Spring," with 20 artists connected to the gallery who supported the charity idea by gifting one piece of their work. This was a silent auction, and bidding was done online. In conjunction with this event, the gallery conducted raffles of line drawings and also sold an official catalog. Proceeds from the auction and from the sale of the drawings and catalog reached about ¥21 million, all of which was donated to the Japan Committee for UNICEF's Ukraine Emergency Fundraiser to help children in Ukraine. Going forward, the POLA Museum Annex will strive to stimulate visitors' sensitivity to the world around them and provide a place and time to enrich their souls.

Receiving letter of appreciation (left: Naotaka Hashi, Corporate Officer and General Manager, Corporate Communications, POLA ORBIS HOLDINGS; right: Ken Hayami, Executive Director, Japan Committee for UNICEF)

Other activities related to 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 Research Institute of Beauty & Culture, established in 1976, organized an exhibition titled "Ukiyo-e ni miru Edo bijin no yosooi" (Fashion and Make-up of Edo Beauties Seen in *Ukiyo-e* Prints) at the Niigata Prefectural Museum of History. The institute received a request from the Japan Foundation in New Delhi to give a lecture on the history of cosmetics culture in Japan for an online course at the center. For "Poison," an exhibition at the National Museum of Nature and Science, the institute provided tools used to apply *oshiroi*, the white foundation powder typical of a geisha's makeup, as well as *ukiyo-e* for display. In addition, the institute distributed a research report on beauty trends in the "with-COVID-19 era" and age and aging awareness.

The POLA Foundation of Japanese Culture, which has the support of the POLA ORBIS Group, preserves, passes on and promotes traditional crafts techniques, traditional performing arts, folk entertainment and other expressions of traditional Japanese intangible culture. The foundation creates archives and, in 2022, produced its 50th documentary film, titled "From Mansaku Nomura to Mansai and Yuki." This film, which depicts the passion of people who keep performing arts from past ages relevant in the present and ensure their future, earned high praise at home and abroad.

Left: "Ukiyo-e ni miru Edo bijin no yosooi" (Fashion and Make-up of Edo Beauties Seen in *Ukiyo-e* Prints)
Right: "From Mansaku Nomura to Mansai and Yuki"

Support for the POLA Art Foundation

The POLA Museum of Art, run by the POLA Art Foundation, has contributed to culture for more than 20 years with a concept connecting Hakone's natural beauty and works of art. Recently, the museum expanded its focus from impressionist art to contemporary art. The exhibition "Roni Horn: When You See Your Reflection in Water, Do You Recognize the Water in You?" which ran until March 2022, was the first large-scale exhibition of a contemporary artist at the museum.

Representative of American contemporary art, Roni Horn's works resonated with a new visitor segment—persons under 40—with pieces echoing nature and her consistent production approach. The artist came to Japan, and the exhibition saw considerable media coverage and drew attention across other formats, including social media. After the exhibition, *Air Burial (Hakone)*, a masterpiece, became a permanent installation on the nature trail in the woods surrounding the museum. This cast-glass work has won favorable reviews.

"Roni Horn: When You See Your Reflection in Water, Do You Recognize the Water in You?"

Air Burial (Hakone) 2017–2018

Five non-financial materiality categories

All-Inclusive Human Resources

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. Toward realization of VISION 2029, which sees the Group as "a collection of unique businesses that respond to diversifying values of 'beauty,' " we are striving to cultivate human resources with leadership qualities and abundant personality.

Working toward non-financial KPIs

Background to materiality measures

- Recognized risk of insufficient human resources to manage Group operations over medium to long term due to business portfolio expansion and now working to develop management personnel.
- Must create environment where employees can thrive in their assigned duties, in good health, maximize sensitivity and capitalize on potential for career advancement. In particular, as a corporate group with significant number of female customers and female employees, priority must be given to issue of women's empowerment.

Non-financial KPIs and results of major activities in 2022

	Explanation	2022 results	Major activities in 2022
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	22.9% (as of March 31, 2023)	Talent Development Committee was instrumental in selecting and fostering a diverse candidate group that included women
11 Percentage of female managers		47.8%	Diversity Promotion Committee drafted action plans matched to characteristics of each Group company POLA Conducted gender-bias seminar and encouraged male employees to take child-care leave
12 Percentage of candidates to become management executives	Establish/reinforce pipeline for people with management potential	161.9% (as of December 31, 2022)	Continued to promote next-generation leader skills development program
13 Number of people leaving the company for health reasons	Achieve balance between sickness prevention/treatment and work	Undisclosed	Improved health management skills and provided health advice POLA Living with cancer program

Non-financial KPI item 10 11

Initiatives in diversity

In January 2022, POLA ORBIS HOLDINGS established the Diversity Promotion Committee, chaired by Miki Oikawa, representative director and president of POLA INC., assigned a KPI to diversity efforts and decided the direction of activities to achieve that KPI. Toward realization of a diversity-based organization epitomizing a person-centered management style, the committee was tasked with drafting action plans matched to the characteristics of each Group company and overseeing their implementation. Lateral cooperation across the Group will be strengthened and, through activities that generate synergies, the Group will accelerate its embrace of diversity and inclusion. Looking toward 2029 and our 100th anniversary, we defined the Group's future image as "a collection of unique businesses that respond to diversifying values of 'beauty.' " Management is very much aware that achieving this desired image requires the capability of securing and cultivating diversity-rich human resources.

POLA pushed ahead with specific measures that drove the Group's progress. Internally, the company encouraged male employees to take advantage of child-care leave and conducted gender-bias seminars. Employee benefits related to infertility treatments and egg freezing were also enhanced. Externally, the company took an active position on several fronts, conveying a message of women's empowerment and offering career counseling for the next generation. POLA earned high marks for such efforts, substantiated by the 2022 Tokyo Metropolitan Government Women's Participation Promotion Award Grand Prize in the industrial category. In addition, for the LGBTQ+ community within the company, POLA broadened the definition of a family, which had been based on a legal perspective. The introduction of a practical approach instead of the legal perspective to the human resources system and employee benefits means that a family now includes common-law partners and same-sex partners. Measures such as the creation of a helpline for sexual minorities and support for employees to continue working while undergoing gender-affirming surgery or hormone treatments have earned praise, substantiated by a gold certificate in PRIDE Index 2022, which evaluates LGBTQ+ efforts in the workplace. POLA won a gold Gan-Ally-Bu Award 2022 as well, marking the fourth straight year that the company has been recognized by Gan Ally Bu, a private-sector project to address the issue of cancer and employment, for enabling employees with cancer to continue working while undergoing medical treatment.

Achieving active participation of diverse human resources of the Group

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 Group 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. Enthusiasm for the job and a pleasant work environment are two sides of the same coin, and diversity and inclusion and health management must be components of the support foundation to keep human resources actively engaged.

Junior — Middle — Management

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 Member: POLA ORBIS HOLDING Directors, Group companies CEOs and HR directors

Open Opportunities
[Group FA System] A system that allows employees who meet certain conditions (evaluation, etc.) to take on the challenge of transferring to a desired company or department within the Group
[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.
Example: Support for studying in Business school, exchange training at other companies, etc.

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: Proposal and execution of business innovation to management by individuals
Members: About 5-6 per year
Duration: 9 months

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

Active Learning Program

Sabbatical Leave Program School Learning	Sabbatical Leave Program Free Choice	Schooling Support	Internship within Group companies
Minimum 3 months, up to 2 years	1 month, up to 6 month	Up to 2 years	One week, up to 3 months
Study at higher education institutions	Learning in an environment of your choice outside the company	Going to Higher educational institution while keeping your current job	Learning by engaging in desired work within the Group

Diversity and Inclusion | **Health Management**

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

東京で輝く、自分らしく。 — POLA

gan-ally-bu AWARD 2022 GOLD — POLA

ORBIS

Non-financial KPI item 12

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 and administrative 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.

Set up in 2019, the Talent Development Committee selects candidates from throughout the POLA ORBIS Group who meet criteria for key positions that have management responsibility. The committee then clarifies individual aptitude, performance and any skills in need of refinement and drafts a training program designed to enable the individual to acquire the necessary experience. Progress is monitored. In 2022, the selection pool was expanded to include more young people and a higher percentage of women. The committee confirmed the filling of positions and the status of each talent-related training program, and discussed the findings. Individual skill-development plans were drafted and activities were undertaken to increase the effectiveness of experience-building programs.

Employee competency revised

Under VISION 2029, POLA ORBIS HOLDINGS aims to expand the Group's business portfolio beyond the cosmetics realm to the domains of well-being and society, thereby ensuring sustainable business growth. Toward this end, in 2022, the director competency model was revised, and in 2023, the model was redefined for employees as well. Competency criteria were identified, based on performance characteristics demonstrated by past high performers and using as the starting point a long-term perspective of how the Group should be in the future and which reforms are needed to arrive there, and subsequently criteria were set.

Keywords: "social significance," "sensitivity to changes, acceptance of changes and active evolution," "embrace complex situations," "actions based on intrinsic motivation"
Continued importance: "*bi-ishiki* (≈esthetic sense)," "diversity," "individuality," "individual starting point"

Cluster	Characteristic	Definition
A Person-Centered Management Put mindset and thinking hinging on "individual" into practice	Pursuit of social significance	Looks at community and wider society and earns trust from all around
	Bi-ishiki (≈Esthetic sense)	Values personal viewpoints and sensitivities unique to self and expresses own views
	Respect for diverse individuals and ability to draw on their skills	Respects different opinions and viewpoints and draws on them for inspiration
***SHINKA* (Evolution)** Sensitivity to changes in society and active evolution	Vision creation	Defines division or team direction and envisions desired end-point status
	Business context awareness	Watches for emerging market and social trends with forward-looking perspective
	Leverages an extensive external network	Builds broad network inside and outside company and utilizes connections
	Conceptual thinking	Views things comprehensively to describe concepts and stories
	Analytical thinking	Arranges complicated information in easy-to-understand format and delves into topics
Value Creation Put corporate value creation driven by challenging spirit and cocreation capabilities into practice	Cultivate climate of development	Cultivates climate where people learn from each other, develops and fosters growth in others
	Challenge-embracing, action-oriented	Holds fast to own ideas and repeats—and lets others repeat—process of trial and error without fear of failure
	Passion for results	Responds to change and seeks results with intrinsic motivation

Next-generation leader skills development programs

There are two programs to develop the skills of next-generation leaders: the Future Study Program, for young employees, and the Business Innovation Academy, for administrative management. The structure of these programs was initially set up in 2005 with the debut of the Future Study Program, and the curriculum has constantly evolved since then to the present. 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 2022, we enhanced the program that focuses on the mindset needed to identify issues requiring attention—which reveal buds for change—and behavior development. People active in different fields, such as artists, architects, social entrepreneurs and marketers, were invited as special guests to give lectures, providing opportunities to learn about thinking external to the program participants' own companies and about the ability to influence others positively. In addition, seeking to foster awareness in next-generation leaders, participants in the Future Study Program joined administrative management in the Business Innovation Academy for combined sessions. For participants in both programs, this was an eye-opening opportunity. The program has had 18 graduating classes since 2005. Proposals offered by participants over the years have been linked to activities driving the 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 Group free-agent system and the open-offer system.

2. Business Innovation Academy

This program for administrative 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. 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, then formulate a strategy to address these issues through repeated discussions within the participant group as well as with management of the company where issues exist. They uncover issues within the organization that should have been addressed long ago and issues needing drastic action due to the changing business landscape, then present suggestions to management on reforms to address such issues. In addition, the program reveals personal value perceptions and leadership issues through such approaches as dialogue with guest speakers, art workshops at the POLA Museum of Art in Hakone and discussions with management. Launched in 2007, the program has been held 16 times, and 78 people—excluding participants who have retired—have completed the curriculum. Of these participants, 21 have been appointed to executive positions at companies under the Group umbrella.

2022 Business Innovation Academy

Provide learning opportunities that spur intrinsic motivation

A Groupwide program built on each person's intrinsic motivation was introduced to support the desire for self-development and learning. Support for independent study covers 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.

Non-financial KPI item 13

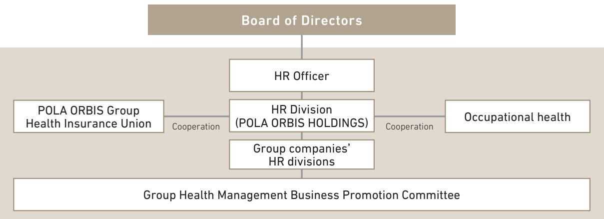
Health management

In 2017, the Group drafted the POLA ORBIS Group Health Management Declaration to continue 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.

For six straight years since 2018, the Company has earned certification as an outstanding organization in the large enterprise category under the Certified Health and Productivity Management Outstanding Organization Recognition Program.

Health management system

POLA ORBIS HOLDINGS set up the Health & Productivity Management Promotion Team, under the supervision of the Board of Directors, to connect with occupational insurance and health insurance associations and the human resources departments of Group companies while promoting health management activities across the Group. In addition, the Group Health Management Business Promotion Committee, with participation mainly from managers and directors responsible for human resources within the Group, occupational health staff and employee representatives, is tasked with planning, considering, evaluating and improving initiatives related to health and productivity management.



The Group Health Management Center, which functions as an occupational health organization, performs many administrative functions. For example, the center coordinates health information on employees Groupwide, deals with risk management from a health perspective (including assessing risk from health-check results, making recommendations to seek medical attention and offering health guidance and counseling), helps employees, including those taking leave due to a mental health issue or returning to work after receiving care, and supports overworked employees.

Develop support measures to improve quality of life for female employees

Women account for a large percentage of employees Groupwide, and POLA ORBIS HOLDINGS knows that eliminating or at least reducing presenteeism—which erodes productivity—caused by female-specific health issues and promoting programs that enrich career options for women are vital to the future of the Group. Toward this end, the Group Health Management Center recruits gynecologists, maintains a consultation portal easily accessible by email and offers various awareness programs designed to improve health literacy. Also, since 2022, female employees have had access to LunaLuna Office, a femtech service that helps working women navigate health problems related to menstruation, menopause and other female-specific issues.

In addition, at POLA, Club Amazones, an informal networking group run by employees, holds activities on its own, including online lunchtime seminars on female-specific health issues such as "mind and body in menopause."

2023 健康経営優良法人 Health and productivity

Presenting life career choices for adult women

I was approaching 50, confused by physical changes I could never before have imagined and had reached an age when I held positions of responsibility both socially and professionally. When I felt my physical and mental balance crumbling, I reached out to colleagues who had similar worries and similar experiences. Talking with these women helped me cope. This was the inspiration for Club Amazones.

The group's theme, which came about through discussions with members, is "What kind of life am I going to live from 50?" Adult women, having developed varied lifestyles, are mothers and wives but also children. They are supervisors and employees. They have positions of responsibility and expectations to meet daily, so they endure mental and physical discomfort to do their best to meet their obligations. For these adult women, I want this project to provide awareness of technologies and solutions that put a positive slant on worries and present various life career choices for women.

Club Amazones

A voluntary social group run by POLA employees (17 members as of February 2023). Project presenting and supporting various life career choices for women of adult age.

Chie Baba
Club Amazones informal networking group core member
POLA INC.

Five non-financial materiality categories

Environment

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

The POLA ORBIS Group has positioned climate change-related risks and opportunities as a key management theme in its business strategy. To disclose information in accordance with TCFD recommendations, we are phasing in measures for governance, strategy, risk management, and indicators and targets for the 2029 SBT 1.5°C scenario certification target and the 2050 net-zero target. Climate change is a direct cause of biodiversity loss and, in addition to reducing the Group's CO_2, water, waste and plastics emissions, we are working to protect the environment. The Group is identifying issues and taking measures through the entire supply chain with particular focus on palm oil and plastic materials, which are used extensively in cosmetics ingredients and packaging materials.

Working toward non-financial KPIs

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.

Non-financial KPIs and results of major activities in 2022

	Explanation	2022 results	Major activities in 2022
14 CO_2 emissions (Scope 1, 2, 3)	Aiming for net zero emissions by 2050	Down 43.0% (compared with 2019) Down 48.3% (compared with 2019)	• Obtained certification for SBT 1.5°C by 2029; formulated low-carbon transition plan for net-zero emissions by 2050 • Increased solar power generation at production bases and switched to renewable energy at major offices, factories and laboratories • Considered reduction of CO_2 emissions, taking into account the entire product life cycle
15 Water consumption	Aiming to conserve water resources and reduce water risks and water stress	Down 1.9% (compared with 2019)	Water-saving initiatives at factories, change to environmentally conscious equipment, use of rainwater, reforestation and thinning
16 Waste	Aiming for sustainable production as a responsible manufacturer	Down 51.9% (compared with 2015)	Reduced industrial waste at Group companies
17 Plastic cosmetics containers and packaging consumption	Aiming for resource recycling to conserve limited resources	24%	Surveyed actual plastics consumption; studied and implemented 4R's-compliant products; studied remanufacturing; studied resource-recycling model

Non-financial KPI item 14

Addressing climate change challenges

To align the timescale with our medium- to long-term strategy, and since climate-related risk has the potential to exert impacts for an extended time, the POLA ORBIS Group defined the year 2023 as the short term, in line with our medium-term management plan, the year 2029, the year of our 100th anniversary as the medium term, and the year 2050, the government's target year for achieving carbon neutrality, as the long term.

The CO_2 emissions reduction targets for 2023 and 2029 have been formulated in line with SBTi*. Recognizing the importance of limiting the temperature rise to 1.5°C, an even harder target than that for 2°C, and the impact on our business, we have obtained certification for the SBT 1.5°C target for reducing CO_2 emissions, a goal that is also set in the Group's non-financial KPIs (medium term). In addition, we are aiming for net zero emissions in our long-term goals of 2050. Our approach is set forth in the Group's low-carbon transition plan.

The POLA ORBIS Group Low Carbon Transition Plan leverages existing systems for addressing climate change to manage and oversee the achievement of the following targets.

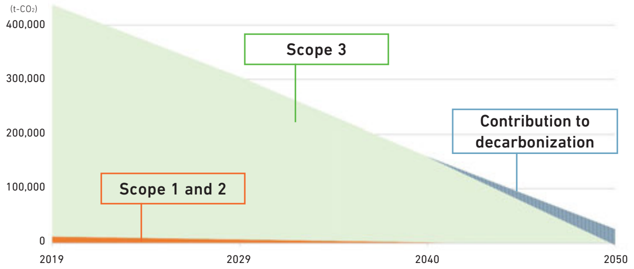
*SBTi: An international initiative to promote the establishment of science-based greenhouse gas emission reduction targets for companies with the aim of achieving the goals of the Paris Agreement. Jointly operated by the CDP, an international NGO for the disclosure of environmental information; the WWF (World Wide Fund for Nature); WRI (World Resources Institute) and UNGC (United Nations Global Compact)

- Aim to achieve net-zero CO_2 emissions (Scope 1 and 2) that are owned or controlled by the POLA ORBIS Group by 2040
- Aim to achieve net-zero CO_2 emissions (Scope 3) from business activities throughout the product life cycle by 2050

The Group has already begun to consider various initiatives to realize the above indicators. The following are the main initiatives we are currently implementing or considering.

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Carbon Reduction Scenario



Scope 1 and 2

- Install the latest equipment with low CO_2 emissions and convert from fuel to LNG with low CO_2 emission coefficients
- In addition to existing private power generation facilities, further expand the use of renewable energy to support scalability (such as by expanding solar power generation systems and considering the introduction of corporate PPA)
- Switch to a menu of electricity derived from renewable energy sources (with switch already completed at major production and research bases and offices)
- Establish Technical Development Center (TDC, a new research and development facility)
- Consider introducing internal carbon pricing

Scope 3

- Reduce CO_2 emissions throughout the supply chain by implementing a carbon footprint (classifying this into procurement, manufacturing, transportation, use and disposal/recycling, and working with various stakeholders in each area to promote reduction)
- Link to the POLA ORBIS Group Plastic Policy, reducing use of resources and replacing them with eco-friendly raw materials
- Contribution to low carbon

Scope 1 and 2	CO_2 emission volume target	CO_2 emission volume reduction ratio target	Baseline year (2019) result	2022 result
2023	9,677 t-CO_2	17%	11,659 t-CO_2	6,645 t-CO_2
2029	6,762 t-CO_2	42%		
Scope 3	**CO_2 emission volume target**	**CO_2 emission volume reduction ratio target**	**Baseline year (2019) result**	**2022 result**
2029	492,776 t-CO_2	30%	703,966 t-CO_2	220,203 t-CO_2

Our target is to reduce total CO_2 emissions (Scope 1, 2 and 3) by 4,484 t-CO_2 over the three-year period 2021–2023.

*In June 2022, we reviewed the calculation method of Scope 3 for SBT certification.

Reducing CO_2 emissions

CO_2 emissions (in-house direct emissions)

In 2022, following efforts at our major factories and bases in Japan, the Group completed the switch to CO_2-free electricity derived from 100% renewable energy at the Yokohama R&D Center, POLA CHEMICAL INDUSTRIES and 34 POLA offices across Japan. This change has reduced CO_2 emissions 43% for the Group as a whole. With these reductions, the Group is on track to achieve net-zero emissions by 2050.

CO_2 emissions (emissions over the life cycle)

In 2022, with the cooperation of customers, the Group conducted a concept testing survey of products that appeal to environmental values. To visualize the environmental impact, we calculated the CO_2 emissions for the entire life cycle of the carbon footprint and disclosed the environmental value externally.

Biodiversity

The POLA ORBIS Group recognizes loss of biodiversity as a significant risk in its business, especially in the procurement of natural ingredients. We educate all our employees about the importance of biodiversity to ensure that in the course of our business activities they will think of the need to allow other living organisms to coexist. Because biodiversity is closely related to climate change and pollution throughout the product life cycle, we not only make improvements within our organization but also provide CSR procurement guidelines to our business partners and ask them to consider biodiversity.

TCFD support

The POLA ORBIS Group disclosed information in March 2022 in line with TCFD recommendations. As a result of a risk assessment, we identified transition risks and physical risks, selecting the 32 risks and 25 opportunities that had high business impacts. We defined the 2°C scenario as a "society focused on sustainability" and the 4°C scenario as a "society requiring disaster responses" and then analyzed these scenarios to calculate the potential financial impact. Regarding the POLA ORBIS Group's vision and actions to achieve it, we have used a seven-force analysis, a duplication of five-force analysis that adds government (regulation), investors and society to the five competitive forces. We then put our findings into specific strategies. Specific countermeasures are: (1) response to tighter GHG (greenhouse gas) emission regulations; (2) response to the introduction of regulations on plastic; (3) response to risks and opportunities arising from changes in demand associated with climate change and (4) response to the risk of damage due to abnormal weather events.

Key climate change risks and opportunities

Category	Sub-category	Type	Details of risks and opportunities	Metric	Degree of financial impact	Duration of impact	Applicable scenario
Risks	Transition risks	Policy and Legal	Risks of higher costs due to tighter GHG emission regulations or the introduction of carbon pricing	Higher costs	Medium	Short, medium, and long	2℃
			Risk of higher costs for the research and development of alternative materials due to the introduction of regulations on plastic, and higher manufacturing costs due to rising raw material prices	Higher costs	Medium	Short, medium, and long	2℃
			Risk of higher costs due to the introduction of regulations on water usage	Higher costs	Small	Medium and long	2℃
		Technology	Risk of decreased sales due to startups specializing in the reduction of environmental impacts, etc. or new market players in China or emerging economies	Decreased sales	Medium	Medium and long	2℃/4℃
			Risk of being unable to recoup investment in technology or research and development to address environmental concerns	Assets	Medium	Long	4℃
		Market	Risk of decreased sales due to inability to adapt to shift in customer demand towards ecofriendly products	Decreased sales	Medium	Medium and long	2℃/4℃
		Reputation	Risk of damage to reputation as a result of slow response to climate change or inadequate communication with society	Decreased sales	Small	Short, medium, and long	2℃
	Physical risks	Acute	Resulting from damage to supply chains (own plants, suppliers, logistics infrastructure, etc.) from worsening extreme weather events • Risk of decreased sales due to supply disruptions • Risk of incurring higher procurement costs and recovery costs	Decreased sales, Higher costs	Medium	Medium and long	2℃/4℃
		Chronic	Risk of higher costs due to rising raw materials price as a result of environmental changes accompanying climate change	Higher costs	Small to medium	Medium and long	2℃/4℃
Opportunities	Resource efficiency		Opportunity for cost reductions achieved through the establishment of a recycling-based model using direct marketing	Cost reductions	Medium	Short, medium, and long	2℃
			Opportunity for cost reductions achieved through energy conservation, improvement of efficiency and DX in logistics processes, and the utilization of direct marketing methods	Cost reductions	Medium	Medium and long	2℃/4℃
	Energy sources		Opportunity for cost reductions achieved through the use of renewable energy and promotion of energy conservation at own facilities	Cost reductions	Small	Short and medium	2℃/4℃
	Products and services		Opportunity for increased sales as a result of the development and sale of products to address growing skin concerns under the impact of climate change (growing demand for UV skincare and wrinkle-fighting products associated with increased ultraviolet radiation and growing demand for products to combat aging caused by dryness and skin roughness)	Increased sales	Medium	Medium and long	2℃/4℃
	Market		Opportunity for new demand arising from changes in consumer preferences under the impact of climate change	Increased sales	Medium	Short, medium, and long	2℃/4℃
			Opportunity for increased sales due to growing global demand (emerging markets and regions where relevance of our products grows due to climate change)	Increased sales	Medium	Medium and long	2℃/4℃
	Resilience		Opportunity to strengthen research and development capabilities in response to climate change and implement climate measures such as new product development, business expansion as a lifestyle brand and the creation of our own unique recycling model	Equity	Medium	Medium and long	2℃/4℃

Overview of countermeasures

	Impact on business	Existing initiatives	Future actions
Countermeasures (1) Response to tighter GHG emissions regulations	▼ Increase in carbon tax costs ▼ Higher direct energy costs including taxation on fuel and rising electricity rates ▼ Higher costs due to measures to reduce CO_2 emissions (capital investment, etc.)	• Procurement of power derived from renewable energy and J-credits • Introduction of solar power generation and its consumption • Conservation of resources focusing on Fukuroi Factory, our domestic production site • Linkage of CO_2 emission reduction targets to executives' compensation	• Expansion of existing initiatives • Reduction of CO_2 emissions throughout value chain (product design, decarbonization of logistics, support for suppliers' CO_2 reductions, reduction of volume of waste in product life cycle, etc.)
Countermeasures (2) Response to the introduction of regulations on plastic	▼ Increase in alternative materials research and development expenses ▼ Increase in packaging costs ▼ Risk of damage to reputation	• Reduction in plastics use through refillable containers • Molding of containers made from recycled plastic and biomass plastic • Implementation of container collection	• Unique sustainable manufacturing with recycling at every stage from procurement through to collection and reuse • Review of design of cosmetics containers and packaging based on 4R's • Exploration of alternative materials
Countermeasures (3) Response to risks and opportunities arising from changes in demand associated with climate change	▼ Increase in procurement costs through procurement of raw materials with traceability and sustainable materials ▼ Decrease in sales due to change in demand such as weakening appeal of moisturizing skin care products due to rising temperatures △ Expansion of sales due to the development and sale of products to address skin problems aggravated by climate change and environmental impacts △ Increase in sales in emerging markets and in regions where relevance of our products grows due to climate change	• Response to need for sustainable palm oil Acquisition of RSPO supply chain certification at Fukuroi Factory • Research and development on the themes of sustainability and environment, led by MIRC (Multiple Intelligence Research Center) • Establishment of sustainability business units for core brands POLA and ORBIS to step up implementation of sustainability initiatives	• Development of low-carbon eco-friendly products (raw materials, production processes, etc.) • Establishment of ecosystem for the collection of resources and reuse of CO_2 • Development and sale of products that tap into demand arising from climate change • Development of structure for strengthening marketing globally and tapping into growing demand for adaptation to climate change
Countermeasures (4) Response to the risk of damage due to abnormal weather events	▼ Increased costs as a result of damage to our factories, etc., or those of suppliers as a result of disaster ▼ Decreased sales due to holdups in the supply of products as a result of damage to factories affected by disaster or disruption to logistics	• Formulation of basic BCP • BCP measures: preparation during normal times and emergency drills (logistics network redundancy, diversification of raw material suppliers, ensuring BCP inventories of priority product items)	• Sophistication of BCP measures (production network redundancy, ensuring alternative suppliers for raw materials, etc.) • Implementation of additional specific measures at each site according to disaster risk

Selected for Climate Change A List, highest rating from CDP, for second consecutive year

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

*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

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 2022 CLIMATE

Initiatives aimed at low-energy emulsion production and recycling POLA CHEMICAL INDUSTRIES developed new technology for recycling cosmetics emulsions

Mixing water and oil to make emulsions such as lotions and creams emits CO_2 in the heating process. Emulsions are difficult to separate and recover, meaning that unused products had to be destroyed. In response, POLA CHEMICAL INDUSTRIES pursued the development of recycling technology aimed at reducing both (1) CO_2 emissions during manufacturing and (2) emulsion waste. As a result, we found that our in-house-developed emulsifier M-Polymer can be emulsified at room temperature, and emulsification and separation can be controlled according to concentration. This approach eliminates the need for a heating process during production, thereby reducing CO_2 emissions. In addition, the emulsion can be separated and components such as oils and M-polymers can be recovered. We also confirmed that the recycled ingredients are the same quality as new ones. The results were presented at the poster section of the 32nd IFSCC (International Federation of Societies of Cosmetic Chemists) Congress in London, UK, in September 2022. The Company is currently studying practical applications.


At the 32nd IFSCC

Non-financial KPI item 15

Water resources

For cosmetics, especially skincare items, good-quality water is a vital ingredient. Water is also used for cleaning and cooling in the production process. We have set a water reduction target in our non-financial KPIs and are working toward a 26% reduction by 2029 (compared to the usage in 2019).

The Group has one production base in Japan (the Fukuroi Factory) and one in Australia (the Adelaide Factory). The main water resources used are groundwater and the public water supply. Water risks are analyzed and assessed by using the Water Risk Filter (WRF), developed by the World Wide Fund for Nature (WWF) and others. While it was clear that the Fukuroi Factory is an area with extremely low water stress, we installed water-saving equipment and improved our cleaning and cooling methods to further protect the environment. On the other hand, we have reaffirmed that the Adelaide Factory is an area that faces water stress such as drought, and we are continuing our efforts to use rainwater and install dams. We also ask our suppliers to monitor their water usage. Going forward, the Company will deepen our analysis of water risks and promote activities to achieve reduction targets.

Non-financial KPI item 16

Disposal (management of chemical substances and prevention of pollution)

The POLA ORBIS Group complies with national and regional laws, agreements and voluntary standards in the use and management of chemical substances. By fully understanding and managing the risks of chemical substances, we strive to prevent disasters and accidents, maintain a safe and healthy work environment, preserve the environment and reduce our impact on the ecosystem.

In managing chemical substances, the Company uses Safety Data Sheets (SDS) to provide appropriate information to employees and ensure proper handling. We thoroughly monitor, manage, report and reduce chemical substances emitted from our offices. In addition, we provide CSR procurement guidelines to our business partners and ask them to thoroughly manage chemical substances.

Non-financial KPI item 17

Plastic circulation

The POLA ORBIS Group has set a goal of achieving 100% sustainable design based on the 4R's* for plastic cosmetics containers and packaging by 2029, in accordance with our own POLA ORBIS Group Plastic Policy.

We are reviewing container development standards, using recycled plastics, container collection and recycling models.

*4R's: Reduce (reduce the amount), Reuse (use repeatedly), Replace (replace with other materials), Recycle (recycle resources and keep using them)

Initiatives based on the POLA ORBIS Group Plastic Policy

Container development criteria applied to the life cycle

Reduce | Reuse | Replace | Recycle

Jurlique International has changed up to 94% of the containers and packaging in its *RARE ROSE* series* to the use of renewable materials. The company has set five criteria for product design: (1) resource saving, (2) design simplicity, (3) recyclability, (4) prioritizing local suppliers and (5) recycling and prioritizing renewable materials. It aims to reduce its environmental impact throughout the life cycle, switching to renewable materials for all product containers and packaging materials by 2024.


Rare Rose series

*In Japan, it is sold as the Jurlique Rose Collection.

Initiatives for container collection

Recycle

POLA ORBIS HOLDINGS, in collaboration with Shiseido Company, Limited, has launched BeauRing, a recycling project of plastic cosmetics containers. Since April 2023, we have collected used plastic cosmetics containers in a trial experiment at 10 locations in Yokohama, including POLA counters at department stores and POLA THE BEAUTY stores. This initiative enables us to demonstrate the recycling model as a resource. We will continue working with our customers to build "a society with abundant connections."


In-store collection box BeauRing BOX

Responding with refillables

Reduce | Reuse

POLA has been offering refillable containers for cosmetics in the high-price range since 1985. ORBIS has been selling products in refillable containers since 1991. As the Group is mainly engaged in direct selling, the sales rate of refillables is high. We will continue to promote this approach.

Using biomass plastic

Replace

POLA and ORBIS are switching to biomass plastic, a material derived from plants, for some products.


POLA *B.A EYE ZONE CREAM*


ORBIS A series

Using recycled plastics

Recycle

POLA uses 100% recycled materials as the basic raw materials for the containers of the four-product *Shower Break* amenities series. This has enabled a roughly 63% reduction in CO_2 emissions compared with the level emitted previously using PET plastic derived from crude oil.

In addition, POLA has adopted the recycling pallet of Gifu Plastic Industry Co., Ltd., which upcycles plastic waste at risk of ending up in the sea. The plastic is reused to produce shipping materials for the transportation and storage of products. We aim to have all pallets be recycled pallets by 2027.


POLA *Shower Break*

Human Rights

In support of the Guiding Principles on Business and Human Rights, the POLA ORBIS Group formulated the POLA ORBIS Group Human Rights Policy in 2018. The Group promotes initiatives to respect human rights with emphasis not only on measures to prevent violation of human rights in the Group's own business activities but also on efforts to remedy situations should any negative impact on human rights arise in Group business activities or in the activities of business partners. Further emphasis is placed on women's empowerment, which is intricately connected to the Group's business pursuits and to the creation of value with communities.

Regarding priority human rights issues, POLA ORBIS HOLDINGS relies on a structure hinging on CSR promotion officers (CSR committee members) at each Group company who, under the direction of the Group CSR Committee, connect with appropriate departments and working groups, pinpoint issues and implement responses.

POLA ORBIS HOLDINGS provides human rights-related education and training, through e-learning, once a year for all employees (in Japan and overseas) under the Group umbrella and keeps everyone informed of the Group's policy on human rights and on any issues of note. When transactions with business partners commence or when business partners are involved in purchasing meetings or asked to fill out certain documents, such as the Company's CSR procurement questionnaire, the Company makes the Group's CSR Procurement Guidelines known and works to get business partners agreeable to the concepts on human rights that the Company has embraced.

POLA ORBIS Group Human Rights Policy
https://www.po-holdings.co.jp/en/csr/social/right/

Identifying human rights issues

As a first step, POLA ORBIS HOLDINGS sorted through issues related to human rights, following the Human Rights Due Diligence Regulations, established for application Groupwide.

The Company zeroed in on employment and the work environment, safeguarding personal information and privacy, protecting human rights connected to products and services, protecting the human rights of suppliers and business partners, protecting human rights connected to the process of selling products (including advertising/promotion) and protecting human rights connected to the process of product disposal.

In addition to these issues, POLA ORBIS HOLDINGS utilized the Human Rights Guidance Tool, designed by the United Nations Environment Programme Finance Initiative (UNEP FI), to consider the potential for human rights violations across all stakeholder groups. Human rights risks to region and society identified as issues requiring close watch are the possible impact of products on the health and safety of consumers, the exploitation of natural resources (leading to water stress and negative impacts on maintenance of land resources), the ability to contribute to a sustainable society (the need for a circular model), efforts to ensure sound business dealings (preventing bribery) and providing suitable information to children. In all categories, POLA ORBIS HOLDINGS considers impacts from a value-chain perspective covering procurement*, R&D, manufacturing, logistics, advertising/promotion, sales, use and disposal.

The Company conducted assessments to identify material human rights issues for the Group based on the degree of impact caused by such issues, the frequency of occurrence and the status of countermeasures. As a result, even though all categories carry some risk of human rights violation, three are priority issues: for risk associated with business partners, the emphasis is on pinpointing issues in the supply chain; for risk associated with customers, the focus is on managing personal information; and for risk associated with employees, the key theme is cultivating a suitable work environment.

*Procurement covers human rights issues at business partners.

Human rights issues specific to business activities of POLA ORBIS Group and deemed priorities

Priority issues	Rights holders	Efforts to identify issues	Efforts to reduce impacts
Pinpoint human rights issues in the supply chain	Business partner employees and citizens of the community	• CSR questionnaire for business partners • Traceability survey initiated • Virtual tours of palm oil plantations	• Update CSR Procurement Guidelines and make them known • Purchase RSPO-certified palm oil • Obtain RSPO supply chain certification • Maintain Business Partner Hotline
Manage personal information	Customers	• Understand security status of e-commerce sites	• Set up Information Security Committee • Strengthen security of e-commerce sites • Be thorough in management and administration of personal information
Cultivate suitable work environment	Employees	• Conduct compliance and fact-finding surveys	• Control working hours and optimize operations • Hold training on issue of harassment • Internal reporting system

POLA ORBIS HOLDINGS is preparing to implement traceability surveys to pinpoint human rights issues along the Group's supply chains.

Palm oil

Raw materials derived from palm oil are used in cosmetics, and POLA ORBIS HOLDINGS recognizes that the associated supply chains carry potential environmental and social risks. Therefore, the Company, on behalf of the POLA ORBIS Group, signed on to the Roundtable on Sustainable Palm Oil (RSPO), and the Fukuroi Factory has acquired RSPO supply chain certification. In addition, POLA ORBIS HOLDINGS backs a policy of purchasing RSPO-certified palm oil and having a roadmap toward reaching completely sustainable palm oil procurement. Going forward, reaching completely sustainable palm oil procurement will be set as a non-financial KPI target to ensure the roadmap is leading toward the desired destination, with regular monitoring of progress by the Group CSR Committee and updates to POLA ORBIS HOLDINGS' Board of Directors.

Initiatives with supply chains

It is acknowledged within the POLA ORBIS Group that the potential for risks—environmental destruction and human rights issues—exists in the upstream supply chain of cosmetics, and POLA ORBIS HOLDINGS considers measures to confirm traceability right through to farms that produce the raw materials used in portfolio cosmetics and also 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 the implementation of environmental management programs, including those for CO_2, water and waste, biodiversity initiatives and the absence of human rights risks, such as forced labor, child labor and work safety issues.

In 2018, POLA ORBIS HOLDINGS was among participating companies at the Stakeholder Engagement Program in Malaysia, sponsored by Caux Round Table 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.

POLA ORBIS HOLDINGS was selected as a Supplier Engagement Leader—the top rating—for the second straight year in the Supplier Engagement Rating, conducted by CDP.

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. In 2023, the Group became a member of Sedex*. Jurlique International, a member of the POLA ORBIS Group, also belongs to Sedex, having joined on its own. Membership in Sedex facilitates evaluation of supplier risks.

CDP SUPPLIER ENGAGEMENT LEADER 2022

*Sedex: A membership NPO that seeks to actively promote responsible business practices in global supply chains. It provides a world-encompassing self-assessment questionnaire and auditing scheme, and enables the sharing of survey and audit results among members over an online platform.

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 way up corporate ladder to realize improvements. POLA changed design of serum containers to format that facilitates use to last drop. POLA Customer Service Office captured three-star rating—highest level—for second straight year in 2022 HDI Benchmark, evaluation survey conducted by HDI-Japan.
Business partners (Suppliers)	• Procurement policy information meetings • Quality audits • CSR procurement questionnaire/audit	Work with suppliers to build strong supply chain. Promote communication, including procurement policy information meetings, to ensure stable procurement and build good relationships with suppliers. POLA ORBIS HOLDINGS selected as Supplier Engagement Leader—top rating—in CDP Supplier Engagement Rating evaluation for two consecutive years since 2021.
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. Beauty Directors and POLA head office have been working together to implement activities related to SDGs and revitalization of local communities.
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 ideas from employees for new businesses and received more than 100 suggestions. Long-term plans, management direction and messages from president and directors distributed over intranet as needed.
Shareholders/investors	• General meetings of shareholders • Conference presentations • Institutional investors' meetings • Briefings for individual investors	Promote engagement with domestic and overseas institutional investors by top management, from president down, including management at each business, and apply comments from capital markets to business management. Working on higher level of fair disclosure, including scripts and rebroadcasts 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

2022 Sompo Sustainability Index

2023 CONSTITUENT MSCI JAPAN EMPOWERING WOMEN INDEX (WIN)

CDP SUPPLIER ENGAGEMENT LEADER 2022

Dialogue with stakeholders: Example

Stakeholder Dialogue (held on November 17, 2022)

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 2022, Taku Satoh, a graphic designer, was the invited guest, joining directors from POLA ORBIS HOLDINGS in a dialogue on the theme of requirements for sustainable product design. We invited a student studying sociology in London to the dialogue and heard the opinions of Generation Z members living in Europe.

Participants

Guests

Taku Satoh
Chairman and Representative Director, TSDO Inc.

Profile
Graduated from the Department of Design of Tokyo University of the Arts and its Graduate School. Work includes packaging design for Lotte XYLITOL Gum and Meiji Oishii Gyunyu. Activities focus on posters and other branding materials, product and facility branding, and corporate identity programs. Provides art direction on NHK Educational TV for *Design Ah!* and *Design Ah! neo* as general director, serves as director and facility manager of 21_21 Design Sight and plans and holds many exhibitions.

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

POLA ORBIS HOLDINGS

Satoshi Suzuki
Representative Director and Chairman

Yoshikazu Yokote
Representative Director and President

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

Takuma Kobayashi
Director
Representative Director and President, ORBIS Inc.

Miki Oikawa
Senior Corporate Officer (responsible for Group diversity)
Representative Director and President, POLA INC.

Noriko Suenobu
Corporate Officer (responsible for Group Research and Intellectual Property & Regulatory Affairs)
Director and Corporate Officer, POLA CHEMICAL INDUSTRIES, INC.

Mr. Satoh

- If we take a big picture of social issues, we can be overwhelmed by the number of problems, and because it's all so vague, we have to go at it in small bits. You can't have perfect conditions overnight, so you have to keep trying to adjust the trajectory of your arrow to hit the mark. To respond to changes fueled by diversifying perceptions of value, you have to identify each aspect you're aiming for and proactively approach the work at hand.
- Most people know hardly anything about the processes that go into bringing something—a product—to the stage it has when it is right in front of them. I pursue activities such as the Design Anatomy Project from the perspective of using design as a way to kickstart carbon footprint awareness among average consumers.

Consumers (Generation Z)

- Members of Generation Z are not going to support companies that praise the virtues of SDGs but then sell disposable products. They can see whether there is consistency in environmental or social initiatives that promote a company or a brand and actual business activities. And they can tell whether management is being transparent about what the company does.
- Companies might have the power to change basic consumer perceptions. For example, hamburgers are made from beef. That's the general perception in Japan today. But when you look at Europe, you see that livestock farming is already plagued by environmental issues, and different diets, such as the vegan lifestyle, are more widely accepted and respected. So there are cases where hamburgers are made from ingredients other than beef, which is par for the course in Europe.

POLA ORBIS HOLDINGS

- Corporate transparency will be an increasingly vital factor guiding consumers in product selection who question currently existing perceptions while watching how a brand responds. This amounts to impressive observations.
- We have to know how containers, packaging and ingredients—all components of cosmetics products—are procured and what issues might arise during procurement that have a negative impact on society. We have to set materiality (priority issues) fine-tuned to the Company. These steps must be taken at the management level. Associated initiatives must be driven by factors of originality, personality and fun. Also, we want to actively collaborate with other companies on what one company cannot achieve alone.
- The accelerating need to understand our carbon footprint—to trace the kind of supply chain and identify the products made and then delivered through this supply chain—really hit home. I realized the importance of establishing sustainable research and technology reforms to provide product transparency conscious of human rights and environmental issues.

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

Implemented in 2021—"Cycle through loop of experience and behavior data, utilizing a digital platform"

In November 2022, ORBIS began "hada ka.r.te," an app-based service using AI to analyze the condition of a customer's skin and tailor a skincare routine to that individual's needs.

Basic Stance on Corporate Governance

Number of meetings held in 2022

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 2022, it met 19 times, with an average attendance rate of 98.0% 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 Director Competency Model (see page 62), 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 2022

Nomination Advisory Committee (voluntary) 6

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 by Director Competency Model. 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 director and president

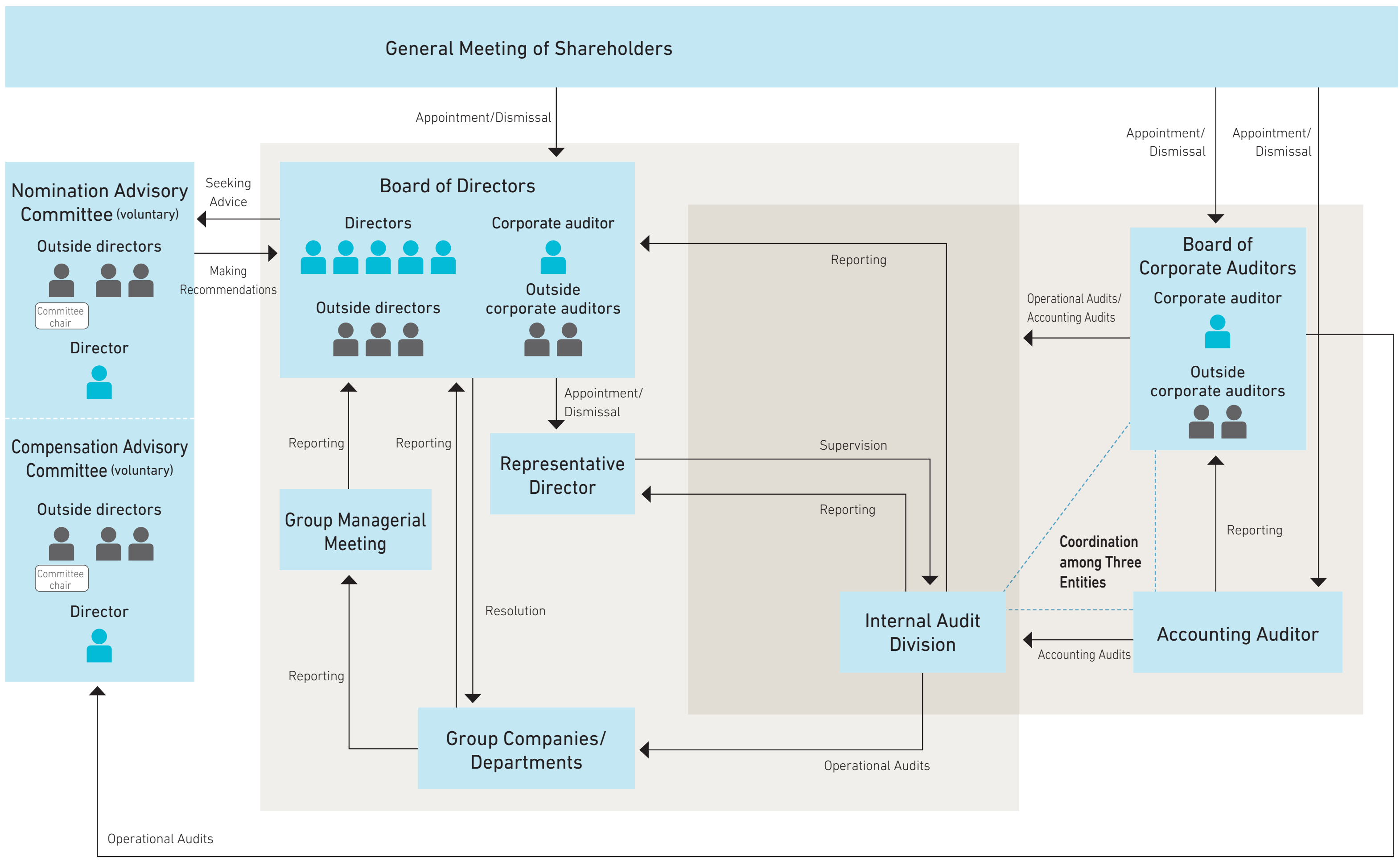
The appointment and dismissal of the representative director and president are considered the most important decisions of the Nomination Advisory Committee. Decisions on the appointment and dismissal of the representative director and president are made by the Board of Directors, based on sufficient 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 2022

Compensation Advisory Committee (voluntary) 6

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 28, 2023)



Comments from the chairperson of the Nomination Advisory Committee

Although the change of representative director and president was decided in fiscal 2022, the Nomination Advisory Committee had been deliberating on candidates for a long time. We reviewed the talent requirements for representative director and president, selected multiple candidates and held numerous interviews with candidates and committee members. In addition, on the basis of the Group's proprietary Director Competency, which emphasizes "a person-centered approach," "evolution" and "transformation," we had external experts conduct multiple assessments. After carefully evaluating candidates for overall temperament, management capabilities, management experience and deportment in corporate ethics, etc., we decided to nominate Mr. Yoshikazu Yokote as the candidate for the new president.

Kazuyoshi Komiya
Chairperson of the Nomination Advisory Committee
Outside Director

Structural overview (as of March 28, 2023)

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 2022

Board of Corporate Auditors 17

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 2022

Internal Audit Division 12

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.

Number of meetings held in 2022

Group Managerial Meeting 20

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 Director 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.

Matters Related to the Board of Directors

Evaluation results of Board of Directors' effectiveness

Through an evaluation of the Board of Directors' effectiveness implemented in 2021, these issues were brought to management's attention and recognized as requiring action. Steps taken in 2022 to address these issues are described below.

Item	Steps taken
❶ Developing the cosmetics business globally and restructuring each brand and brand portfolio	After discussing and deliberating the Group's overseas structure, the Board of Directors decided to integrate the overseas businesses of each Group company and has fully put in place an implementation system for transitioning to the new structure. In addition, we have finished integrating the travel retail businesses of each Group company. Meanwhile, although the income plans for each brand, including Jurlique, were not achieved, losses of unprofitable brands improved.
❷ Creating new business and new value	We explored and invested in alliances to create new value, including CVC investment and domestic and overseas LP investment. For developing new domains, we began to seriously consider entering the aesthetic medicine business. In research and development, we are steadily "sowing the seeds" for creating new businesses and new value, including making efforts to develop new dosage forms on schedule.
❸ Responding to the revised Corporate Governance Code (environmental and sustainability issues across the Group)	We conducted scenario analysis of the impact of climate change risks and profit opportunities on the Company's business activities, profits, etc., based on TCFD recommendations, and published the findings in our integrated report, on our website, etc. In addition, the Board of Directors decided on a sustainability plan aligned to the SDGs and non-financial KPIs linked to the medium-term management plan. This information has been released to the public.

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 2022, 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, and some of these employees are selected to attend management meetings and Board of Directors' meetings as observers and interview board members.

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

The following points were recognized as demonstrating the high effectiveness of the Board of Directors. The board will strive to maintain and improve these points.

❶ Putting in place an environment to develop future management and the next management team
❷ Fostering a mind-set for expanding business into domains other than cosmetics
❸ Making the most of governance functions stemming from the diversity of the Board of Directors

Points brought to attention and recognized as requiring action

The following points were recognized as having room for improvement. In the future, the implementation and progress of efforts to resolve these issues will be monitored, verified and adjusted as necessary to increase their effectiveness.

❶ Strengthening verification of the multi-brand strategy and business portfolio
❷ Clarifying the role of the holding company and demonstrating leadership (involvement in subsidiaries)
❸ Building a consensus on the Board of Directors' operations and roles (management boards, monitoring boards, etc.)

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 89% 17 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. Using his abundant knowledge and experience in corporate management, he actively makes recommendations on the Company's overall management that prove correct. Furthermore, in the decision-making process for director and top management nominations, he serves as the chairperson of the voluntary Nomination Advisory Committee and, through appropriate personnel evaluations and allocations, demonstrates his extensive and outstanding knowledge about our human resources strategy, development plans and the appointment and dismissal of the representative director and president. 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. 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 95% 18 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 regarding our human resources development, the promotion of diversity, etc. 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. 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 April 6, 2023)

We regularly hold meetings attended only by independent outside executives. In fiscal 2022, we resolved that Mr. Satoshi Suzuki, from the founding family, would assume the office of representative director and chairman, and Mr. Yoshikazu Yokote would assume the office of representative director and president. In response to this change, the Group exchanged views on how it should pursue sustainable growth.

- The Nomination Advisory Committee functioned appropriately regarding personnel essential from a management perspective. Mr. Yokote assumed the office through a decision-making process that fully ensured objectivity, transparency and effectiveness.
- We highly appreciate Mr. Yokote's strong ability in management strategy, his abundant management experience and his business management capabilities with regard to global expansion. We look forward to seeing him demonstrate his skills in the Company's overseas expansion.
- As an owner of the Company, Mr. Suzuki has long-term thinking and macro thinking from a broad perspective. While Mr. Yokote does not need to follow preexisting patterns, reform should nonetheless go further than merely addressing the current situation. Strong skills are needed to communicate how to change things.
- Although the Company has developed human resources who excel in business execution, the number of personnel with the qualities of professional managers is low. The Company should develop management personnel who possess both leadership skills and a bold spirit.
- Although progress has been made in selecting and appointing young employees, the Company should actively promote the appointment of people from outside the Company (including non-Japanese) and integrate new culture from outside into homogeneous groups. Educating employees about diversity and inclusion is also vital for retaining human resources.
- I would like to question whether management has a sense of urgency. If they do recognize a specific urgency, they should take measures and produce results, even though that may be challenging.

Management Structure (As of April 1, 2023)

Satoshi Suzuki
Representative Director and Chairman

According to his director 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.

- 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.
- Apr 2010 Representative Director and Chairman, POLA INC.
- Jan 2016 Chairman, POLA INC. (current)
- Jan 2023 Representative Director and Chairman, POLA ORBIS HOLDINGS INC. (current)

Yoshikazu Yokote
Representative Director and President

According to his director 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.

- 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.
- Jan 2021 CEO, POLA ORBIS Travel Retail Limited
- Jan 2023 Representative Director and President, POLA ORBIS HOLDINGS INC. (current)

Naoki Kume
Director and Vice President

According to his director 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.

- 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.

Koji Ogawa
Director

According to his director competency evaluation, Mr. Ogawa excels by possessing an open mindset unbound by precedents and thinking strategically to create corporate value. He has a distinctive 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.

- 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. Director, ORLANE JAPON INC.
- Jan 2018 Director, ORBIS Inc.
- Jan 2021 Director, Jurlique International Pty. Ltd. (current)
- Mar 2022 Director, POLA ORBIS HOLDINGS INC. (current)
- Jan 2023 Director, POLA INC. (current)

Takuma Kobayashi
Director

According to his director 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.

- 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.
- Mar 2020 Director, POLA ORBIS HOLDINGS INC. (current)
- Jan 2022 Director, tricot, Inc. (current)

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.
- Jun 2020 Outside Corporate Auditor, Hagoromo Foods Corporation (current)
- Jun 2021 Outside Director, The Dai-ichi Life Insurance Company, Limited (current)
- Oct 2022 Outside Director, Shizuoka Financial Group, Inc. (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
- Dec 2015 Outside Director, MTI Ltd. (current)
- Mar 2020 Outside Director, POLA ORBIS HOLDINGS INC. (current)
- Apr 2023 Professor, Faculty of Business and Commerce, Keio University (current)

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

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 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)
- Apr 2023 Director, Accounting Education & Research Center, Chiba University of Commerce (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

Shinya Chiba
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: Person-centered management	SHINKA (Evolution)	Value creation	Strength related to experience and expertise/Area of contribution particularly expected: 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 Chairman	—	Satoshi Suzuki	◎	◎	◎	●		●	●	●		●		
Representative Director and President	—	Yoshikazu Yokote	●	●	◎	●	●		●					
Director and Vice President	Finance, legal affairs, administration	Naoki Kume	●	●	●		●	●					●	●
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 ◎.

Director Competency Model

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-i-shiki (≒Esthetic Sense)	Ability to have impact on one's surroundings as a personal/unique leader by exhibiting one's attractive personality
	Concern for 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	Creates innovation without sticking to conventional corporate thinking and actively leads 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	Make Decisions to Enhance Mobility	Enhances organizational agility by making timely decisions without relying on past experience
	Action-Oriented	Believe in oneself and repeats 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

Directors and Corporate Auditors of Group companies (as of April 1, 2023)

POLA INC.


Miki Oikawa
Representative Director and President


Seiichi Takaya
Director and Corporate Officer


Akira Gogo
Director and Corporate Officer


Kazuhiro Nishikata
Director and Corporate Officer


Koji Ogawa
Director (Part-time)


Naoki Mikami
Corporate Auditor


Yasuro Katamine
Corporate Officer


Tamotsu Sato
Corporate Officer


Yuko Shoji
Corporate Officer


Shimpei Yasuno
Corporate Officer

ORBIS Inc.


Takuma Kobayashi
Representative Director and President


Emi Nishino
Director and Corporate Officer


Naotaka Hashi
Director (Part-time)


Kazuhiko Segaki
Corporate Auditor (Part-time)


Masaki Motoki
Corporate Officer


Ryosuke Imai
Corporate Officer

POLA CHEMICAL INDUSTRIES, INC.


Kazuya Kugimaru
Representative Director and President


Noriko Suenobu
Director and Corporate Officer


Takayuki Katagiri
Director and Corporate Officer


Kenichi Akahane
Corporate Auditor


Yasuhiro Fukuda
Corporate Officer


Hiroki Tsuruoka
Corporate Officer


Tomomasa Shimanuki
Corporate Officer


Noboru Sugimura
Corporate Officer


Koji Yokoyama
Corporate Officer

ACRO INC.


Toshiaki Miyazaki
Representative Director and President

P.O. REAL ESTATE INC.


Takako Konishi
Representative Director and President

DECENCIA INC.


Hiroe Yamaguchi
Representative Director and President

tricot, Inc.


Kana Hanafusa
Representative Director and President

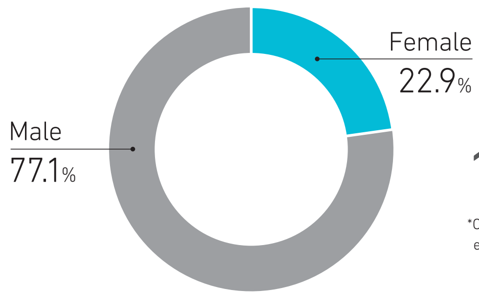
Jurlique International Pty. Ltd.


Joe Princi
CEO

POLA ORBIS Travel Retail Limited


Takahiro Tabata
Director and CEO (Part-time)

Percentage of female POLA ORBIS Group executives



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

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 medium-term management plan (2021–2023), 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.

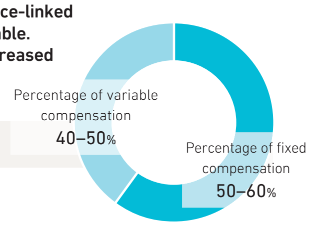
2. Compensation standard

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

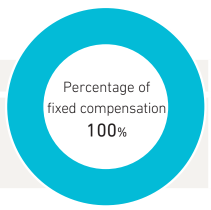
The POLA ORBIS Group's executive compensation is composed of basic compensation, which is fixed, and a performance-linked annual bonus and a medium- to long-term incentive (performance-linked, share-based compensation), which are variable. From 2021, to create a foundation that contributes to long-term 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 2022)

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)	187	119	67	1	6
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") sets forth standards for actions to put the Group philosophy into practice and for behavior that not only complies with general laws and regulations and internal rules for business activities but also shows a high level of social ethics. We ask all executives and employees to submit a written pledge confirming that they will abide by the stated Code of Conduct, and carry out thorough refresher training each year. The Code of Conduct is updated every three to four years to ensure its effectiveness.

Training for employees

To instill the Group philosophy and 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 executives and employees. In addition, we conduct theme-based training on a relevant topic every year. (In 2022, we provided training on harassment to all people in management positions.)

Compliance surveys

The Group conducts annual compliance surveys of all Group executives and employees. With a response rate above 90%, the survey comprehensively evaluates risk in areas such as compliance. The results of the evaluation are reported to the Board of Directors of the holding company. The management and corporate auditors of each Group company take the lead in addressing any matters identified as issues in the survey. While ensuring anonymity, we conduct fact-checking investigations and provide corrective measures and refresher training as necessary, reporting to the committee chair of the Group CSR Committee.

Risk management policy

The Group comprehensively identifies Groupwide risk items and conducts risk assessment based on the degree of impact, frequency of occurrence and the status of responses to risks. Risks that should be prioritized throughout the Group are managed as Group priority risks. Meanwhile, each company manages risks specific to its business and brand with the same process as that for Group priority risks.

Risk management structure

A risk management structure has been established across the Group, with the committee chair of the Group CSR Committee as the leader, to monitor each company's risk assessment and countermeasures. The risks decided as themes are perfected by determining the risk owner divisions, committees and subcommittees. The content of improvements is decided after deliberation by the Board of Directors and is reported and monitored quarterly.

Internal reporting system (POLA ORBIS Group Helpline)

The Group developed a system that enables all executives and employees of domestic and overseas Group companies to report and discuss internal company issues. This approach allows the Company to directly obtain internal risk information and underpins efforts to reduce risks and prevent compliance violations. Reports and consultations are received by external contractors and anonymized. Only the content of the report is given to a contact person in charge of the helpline of the Group CSR Committee office. For cases involving directors of the Company or the CSR Committee office, we have put in place the Corporate Auditor Line, which allows the external contractor to directly contact the corporate auditors of the Company. Reports and consultations are accepted by e-mail or letter 24 hours a day, 365 days a year. Depending on the case, an investigator is assigned to fact-check the situation. Investigations are conducted in coordination with external agencies, as necessary. If any items that need to be improved are found, instructions for corrective measures are given.

Under the helpline structure, the anonymity of whistle-blowers is protected and preserved through internal rules and general laws and regulations. If a report falls under the category of internal whistle-blowing as defined in the Whistleblower Protection Act, the contact person and the person in charge of the investigation and correction submit a written pledge confirming that they are obliged to keep confidential the information identifying the whistle-blower in accordance with Article 12 of the Whistleblower Protection Act.

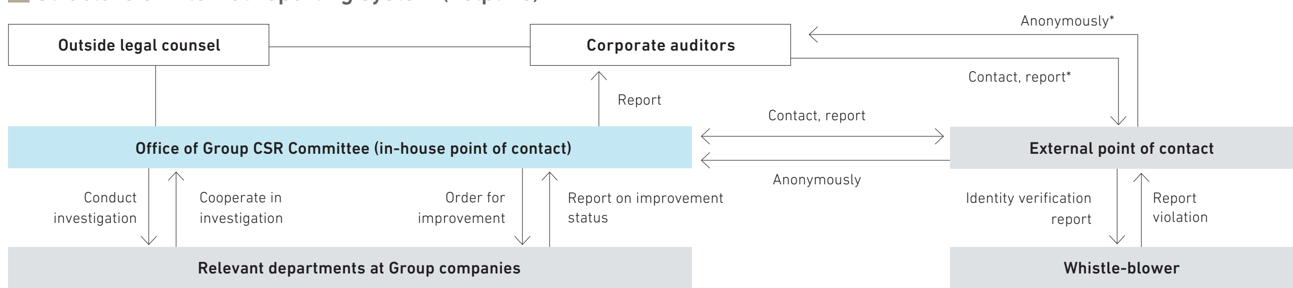
In addition, the status of the use of the helplines is reported monthly to the corporate auditors and regularly to the Board of Directors.

All Group employees are notified of the contact information for reporting on the Group's portal site and through a CSR e-learning program that is conducted annually.

Nine reports were made to the helplines in 2022. All cases to be addressed for correction have been completed.

In addition, we established the "Business Partner Hotline," which allows our business partners to report compliance violations by our Group employees, creating a system for reporting and discussing problems with our business partners.

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.

Ten-Year Summary of Selected Financial Data

Years ended December 31	2013	2014	2015	2016*4	2017	2018	2019	2020	2021	2022	2022
					Millions of yen (Except per share data)						Thousands of U.S. dollars*1 (Except per share data)
Operating Results											
Net sales*2	¥191,355	¥198,094	¥214,788	¥218,482	¥244,335	¥248,574	¥219,920	¥176,311	¥178,642	¥166,307	$1,253,259
Beauty Care	178,306	184,475	200,570	202,446	227,133	231,207	214,886	171,658	174,150	161,654	1,218,195
POLA	100,740	99,571	109,352	116,126	144,012	150,183	135,502	102,888	105,168	96,371	726,239
ORBIS	48,163	52,302	56,354	55,857	53,066	51,051	50,726	45,415	43,389	38,417	289,506
Overseas Brands	20,298	22,476	22,334	15,665	15,075	12,428	9,235	7,166	8,954	9,972	75,151
Brands under Development	9,104	10,123	12,529	14,796	14,978	17,544	19,421	16,186	16,637	16,892	127,300
Real Estate	3,035	3,179	2,951	3,043	2,694	2,707	2,619	2,291	2,112	2,083	15,701
Others	10,013	10,440	11,266	12,992	14,507	14,659	2,415	2,361	2,379	2,569	19,363
Operating income	16,017	17,683	22,511	26,839	38,881	39,496	31,137	13,752	16,888	12,581	94,813
Beauty Care	14,780	16,535	21,290	25,904	38,121	38,294	30,193	12,965	17,060	13,793	103,942
POLA	7,951	8,583	12,302	16,993	28,584	32,574	25,529	10,927	16,374	12,495	94,164
ORBIS	8,807	10,792	11,197	11,279	9,080	9,340	9,252	7,329	5,925	4,850	36,550
Overseas Brands	(895)	(1,881)	(2,194)	(3,210)	(823)	(4,316)	(3,794)	(3,214)	(2,338)	(1,446)	(10,902)
Brands under Development	(1,082)	(958)	(15)	841	1,278	695	(794)	(2,076)	(2,901)	(2,105)	(15,870)
Real Estate	1,258	1,227	1,265	1,395	1,082	1,001	1,021	710	488	491	3,706
Others	410	472	293	(133)	(314)	796	130	128	70	96	729
Operating margin (%)	8.4	8.9	10.5	12.3	15.9	15.9	14.2	7.8	9.5	7.6	
Profit attributable to owners of parent	7,318	10,382	14,095	16,328	27,137	8,388	19,694	4,632	11,734	11,446	86,258
Financial Position											
Net assets	173,887	180,793	180,635	183,282	198,845	188,797	191,069	169,854	173,267	171,459	1,292,080
Total assets	218,005	224,536	235,734	228,845	252,567	244,596	227,256	203,742	208,039	205,935	1,551,886
Cash Flows											
Cash flows from operating activities	13,500	16,643	28,379	23,561	35,333	30,283	21,127	23,394	23,830	15,548	117,168
Cash flows from investing activities	(2,452)	(8,391)	(7,331)	16,379	(22,065)	(9,125)	(12,514)	(3,342)	(2,174)	(12,370)	(93,220)
Cash flows from financing activities	(2,815)	(3,661)	(13,896)	(10,030)	(12,945)	(20,127)	(19,336)	(27,133)	(9,100)	(12,668)	(95,464)
Cash and cash equivalents at end of year	34,137	39,111	45,843	75,458	75,944	76,462	65,789	58,844	71,693	62,562	471,458
Depreciation and amortization	6,704	6,948	6,528	6,787	6,551	7,075	7,377	7,255	7,110	8,482	63,922
Capital expenditure	8,670	8,257	12,074	8,127	8,885	10,514	10,091	8,464	8,945	12,532	94,441
Financial Indicators											
Equity ratio (%)	79.5	80.4	76.5	79.9	78.6	77.0	83.9	83.2	83.1	83.0	
Return on equity (%)	4.3	5.9	7.8	9.0	14.2	4.3	10.4	2.6	6.9	6.7	
Return on assets (%)	8.4	8.6	9.7	11.7	16.3	15.7	13.0	5.8	9.2	7.2	
Price-earnings ratio (times)	28.4	25.9	31.5	32.7	32.2	78.3	29.4	100.0	36.1	35.9	
Per Share Data*3											
Net income per share (¥/$)	33.09	46.95	63.73	73.83	122.70	37.93	89.04	20.94	53.04	51.74	0.39
Net assets per share (¥/$)	783.45	816.03	815.00	826.65	897.26	851.78	862.00	766.05	781.11	772.60	5.82
Cash dividends per share (¥/$)	13.75	46.75	37.5	50	70	80	116	50	51	52	0.39

*1 Dollar amounts are shown for convenience only and are calculated based on the prevailing exchange rate of U.S.$1 = ¥132.7 as of December 31, 2022.
*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 2013.
*4 The Group's consolidated subsidiary has changed its accounting policy, recognizing deferred tax liabilities on intangible assets with an indefinite useful life that have been acquired as part of a business combination. Figures for fiscal 2016, ended December 31, 2016, reflect retroactive adjustment.

Management's Discussion and Analysis

Summary of business results

In the domestic cosmetics market during fiscal 2022, the easing of activity restrictions had a significant effect, and demand for makeup products, which had been markedly sluggish due to the impact of the COVID-19 pandemic, recovered substantially. On the channel side, demand for face-to-face services is gradually recovering as a result of the easing of activity restrictions. However, neither of them has recovered to levels seen prior to the COVID-19 pandemic. In skincare products, a specialty of the POLA ORBIS Group (the "Group"), we maintained demand through the pandemic mainly using online channels. While online services are driving the overall cosmetics market, marketing costs are soaring as the competitive environment intensifies. The pandemic ushered in behavioral changes through which current lifestyles have taken hold as ordinary. We are now in a situation where further creativity is needed to review the value delivered online and offline, and to expand new services that integrate these two areas. In the overseas cosmetics market, although there had been variations between countries and regions, the economy was on a recovery trend from the turmoil caused by COVID-19. However, various downward pressures on the economy and consumption in addition to the threat of COVID-19, such as the rise in energy prices and the normalization of high inflation on a broad scale caused by the Russian and Ukrainian situations, have fueled a sense of uncertainty about the future. In the Chinese market, which the Group has designated as a priority market, COVID-19 showed a resurgence from the end of last year, and the continuation of the zero-COVID policy weighed on the economy and consumption. As well as responding to COVID-19, we need to closely monitor the impact of soaring prices of commodities and energy.

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

Analysis of operating results: Comparison of fiscal 2022 and fiscal 2021

Net sales

Net sales decreased 6.9% from the fiscal 2021 level, to ¥166,307 million. This was due to lower sales stemming from the decline in the number of customers of the POLA and ORBIS brands, and also to curbs on Korean duty-free shipments of the POLA brand.

Cost of sales
Selling, general and administrative expenses

Cost of sales increased 8.1% year on year, to ¥31,037 million. The cost of sales ratio—the cost of sales as a percentage of net sales—increased 2.6 percentage points, to 18.7%.

Selling, general and administrative expenses decreased 7.8% from those of the previous year, to ¥122,688 million.

Operating income

Operating income dipped 25.5% year on year, to ¥12,581 million. This was due to lower gross profit that paralleled the aforementioned decrease in net sales. The operating margin decreased 1.9 percentage points, to 7.6%.

Income before income taxes

Income before income taxes decreased 30.1%, to ¥12,311 million. This resulted from a decrease in ordinary income and extraordinary losses from the recording of an impairment loss on goodwill of the FUJIMI brand and a loss arising from the liquidation of H2O PLUS.

Profit attributable to owners of parent

Given the above reasons, profit attributable to owners of parent decreased 2.5% year on year, to ¥11,446 million. Net income per share decreased to ¥51.74, from ¥53.04 in fiscal 2021. Return on equity decreased to 6.7%, from 6.9% a year earlier.

Key financial indicators

	2020	2021	2022
Cost of sales ratio	17.0%	16.1%	18.7%
Gross margin ratio	83.0%	83.9%	81.3%
SG&A ratio	75.2%	74.5%	73.8%
Personnel expenses	15.6%	16.1%	17.5%
Sales commissions	20.4%	19.0%	21.0%
Sales-related expenses	21.9%	21.0%	17.1%
Administrative and other expenses	17.3%	18.3%	18.3%
Operating margin	7.8%	9.5%	7.6%
Net income margin	2.6%	6.6%	6.9%

Operating status by segment

Beauty Care

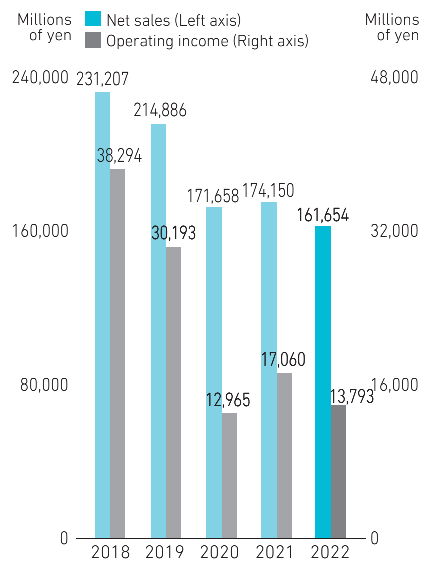
The Beauty Care segment consists of the flagship brands POLA and ORBIS, the overseas brand Jurlique, and the brands under development THREE, DECENCIA, Amplitude, ITRIM, FIVEISM × THREE and FUJIMI.

POLA is working to further improve the value of its brand and build a medium- to long-term customer base by launching highly functional products mainly in the field of anti-aging and skin-brightening. In the domestic business, we are focusing on integrating online and offline channels (OMO: Online Merges with Offline), acquiring and retaining new customers, and improving customer lifetime value. In the overseas business, we are focusing on mainland China and travel retail, both of which are growth markets. In the domestic business, we worked to improve customer communication by strengthening online consulting and live commerce in the e-commerce channel, where market growth has continued even through the COVID-19 pandemic. This channel plays an important role in the OMO strategy of acquiring new customers and directing them to offline stores. As well as boosting existing e-commerce customers, the channel is gradually retaining customers seamlessly, including growing sales in the prestige store business (department store business). However, we have not yet been able to fully offset the impact of the decline in the Beauty Director operation rate and in the number of customers in consignment sales channels (face-to-face sales) resulting from the COVID-19 pandemic. In the overseas business, POLA has focused on medium- to long-term brand control in the Chinese market, a priority area, and in the travel retail market. We aim to maintain and improve brand loyalty through measures such as curbing sales at discounted prices, gift-with-purchase (GWP) offers, and distribution of products to the consumer-to-consumer (C-to-C) market. In addition, we worked to acquire new customers and increase lifetime value by stepping up promotions on platforms that have a high affinity for our target customers for deepening customer-specific personal communication and accelerating the shift to e-commerce. However, the prolonged zero-COVID policy had a heavy impact on performance, and POLA brand net sales and operating income declined year on year.

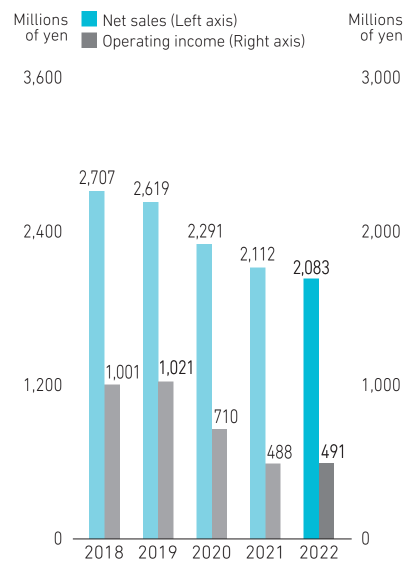
ORBIS is proceeding to enhance its presence by creating brand differentiation, improving customer loyalty and increasing the number of users of skincare products for improving wrinkles and brightening skin, especially users of the *ORBIS U* anti-aging skincare series, with the aim of regrowing into a highly profitable business. In the domestic business, ORBIS further evolved its one-stop app, a cornerstone of the brand experience, promoting communication reform through ORBIS's unique customer relationship management, which increases the frequency of users' active contact with the brand. The number of app downloads grew by double digits from the previous year, and the customer purchasing activity rate surpassed that of the previous year. The number of customers, which had continued to decline, has been improving since the fourth quarter, although it has not yet recovered to the level of the previous year. In the overseas business, ORBIS focused its investment in operations in mainland China, a priority market, continuing efforts to raise brand recognition by expanding customer contact points. As a result, ORBIS achieved double-digit growth in mainland China. However, ORBIS brand net sales and operating income dropped below those of the previous year due to the significant impact of the decline in the number of customers in the domestic business.

The Jurlique brand continues to work toward business growth in Australia, mainland China and the travel retail market, particularly in Asia. Except for Hong Kong, which was particularly affected by COVID-19, net sales rose year on year in all regions. In addition, operating losses improved as a result of aggressive reductions in fixed costs. The H2O PLUS brand has manufactured and sold cosmetics mainly in the US market, but the business environment surrounding the company is severe, and the business performance fell below the plan. Effective April 28, 2022, the Group decided to exit from the entire

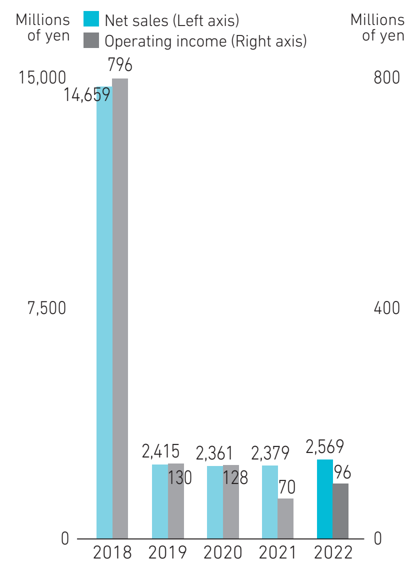
Beauty Care



Real Estate



Others



businesses that the H2O PLUS brand is developing, to reform its brand portfolio of the beauty care segment as a part of enhancement of its profitability.

For brands under development, while the THREE brand, whose main channel is offline stores, struggled, sales grew due to the effect of making the FUJIMI brand a wholly owned subsidiary in April of the previous year, resulting in higher overall net sales for the brands under development year on year. Operating loss also improved due to strict cost controls implemented for each brand.

As a result of the factors noted above, net sales—sales to external customers—were ¥161,654 million, down 7.2% year on year, and operating income was ¥13,793 million, down 19.2% 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 2022, net sales were lower than those of the previous year due to less office demand from COVID-19. However, operating income was higher than that of the previous year due to aggressive cost-cutting efforts.

As a result of the above, net sales—sales to external customers—generated by the Real Estate segment totaled ¥2,083 million, down 1.4% year on year, and operating income was ¥491 million, up 0.6% 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 2022, both net sales and operating income increased year on year due to an increase in the number of contracts.

As a result of the above, net sales—sales to external customers—generated by the Others segment totaled ¥2,569 million, up 8.0% year on year, and operating income was ¥96 million, up 37.4% year on year.

Analysis of financial position

Assets, liabilities and net assets

Assets

As of December 31, 2022, total assets amounted to ¥205,935 million, down 1.0% from those of a year earlier. Factors related to this change included increases of ¥4,793 million in construction in progress, ¥4,044 million in investments in securities and ¥4,445 million in deferred tax assets, as well as decreases of ¥9,106 million in cash and deposits, ¥2,153 million in short-term investments in securities, ¥957 million in raw materials and supplies and ¥2,366 million in goodwill.

Liabilities

Total liabilities at fiscal year-end stood at ¥34,476 million, down 0.9% from those of a year earlier. Factors related to this change included increases of ¥5,437 million in contract liabilities and ¥875 million in asset retirement obligations, as well as decreases of ¥1,541 million in accounts payable - other and ¥1,549 million in net defined benefit liability.

Net assets

Net assets at fiscal year-end totaled ¥171,459 million, down 1.0% from those of a year earlier. Factors related to this change included a recording of ¥11,446 million in profit attributable to owners of parent, ¥11,516 million in dividends from retained earnings and a decrease of ¥1,302 million in foreign currency translation adjustments.

Cash flows

The balance of cash and cash equivalents as of December 31, 2022, was ¥62,562 million, down ¥9,131 million from the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥15,548 million, down 34.8% from that of the previous year. The primary components contributing to an increase in net cash were ¥12,311 million in profit before income taxes, ¥8,482 million in depreciation and amortization, ¥2,539 million in impairment loss, and ¥1,487 million of increase in contract liabilities. Major components leading to a decrease in net cash were ¥986 million of decrease in net defined benefit liability, ¥2,174 million of foreign exchange gain, ¥1,584 million of decrease in other liabilities, and ¥5,695 million in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled ¥12,370 million, up 468.9% from that of the previous year. The main factors were an increase in net cash resulting from ¥10,200 million in proceeds from sales and redemption of short-term investments in securities, and a decrease in net cash resulting from outflows of ¥2,000 million in purchase of short-term investments in securities, ¥7,482 million in purchase of property, plant and equipment, ¥3,917 million in purchase of intangible assets, and ¥9,907 million in purchase of investments in securities.

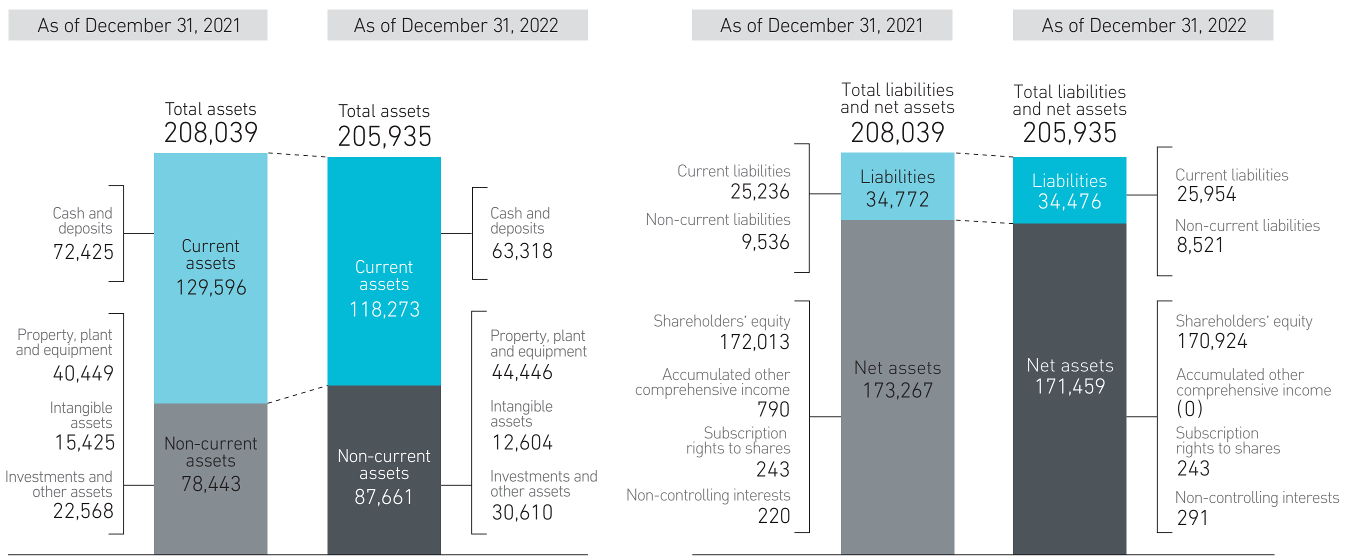
Cash flows from financing activities

Net cash used in financing activities was ¥12,668 million, up 39.2% from that of the previous year. The increase was primarily attributable to the application of ¥1,136 million in repayments of lease obligations and ¥11,518 million in cash dividends paid.

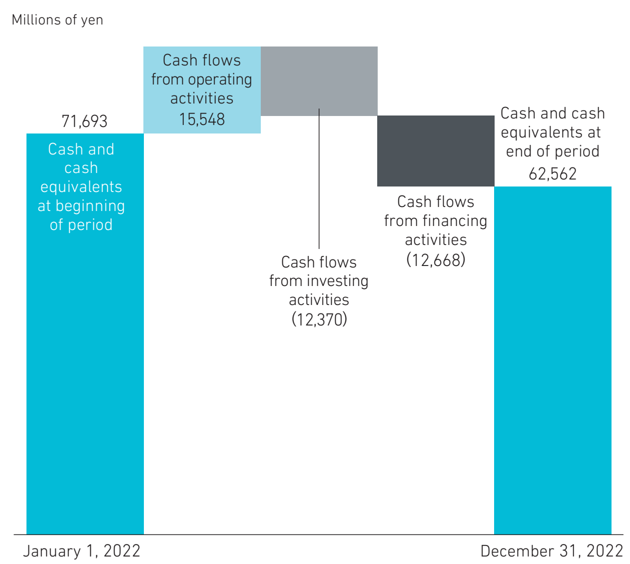
Sources of funds and policy on fund liquidity

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 ¥63,318 million as of December 31, 2022, down ¥9,106 million from a year earlier.

Overview of consolidated balance sheets



Overview of consolidated statement of cash flows



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

Fiscal 2023 forecast

Under the medium-term management plan that runs from 2021 through 2023, the Group implements 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 2023, the Group forecasts sales of ¥180,000 million, up 8.2% year on year, operating income of ¥15,100 million, up 20.0%, ordinary income of ¥15,100 million, up 1.2%, and profit attributable to owners of parent of ¥10,000 million, down 12.6%, considering the steady execution of key strategies and downward pressure on the economy due to re-expansion of COVID-19 as well as entrenched inflation and financial market turmoil around the world.

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 2023 forecast

		YoY change	
Millions of yen	Fiscal 2023 full year	Amount	Percentage
Net sales	180,000	13,692	8.2
Beauty Care	175,500	13,845	8.6
Real Estate	2,000	(83)	(4.0)
Others	2,500	(69)	(2.7)
Operating income	15,100	2,518	20.0
Beauty Care	15,450	1,656	12.0
Real Estate	300	(191)	(39.0)
Others	80	(16)	(17.3)
Reconciliations	(730)	1,070	—
Profit attributable to owners of parent	10,000	(1,446)	(12.6)

Corporate Information (As of December 31, 2022)

Company name	POLA ORBIS HOLDINGS INC.
Foundation	September 29, 2006
Capital	¥10 billion
Number of employees	4,128 (for the Group) 221 (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, Prime Market
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.
DECENCIA INC.
ACRO INC.
tricot, Inc.
POLA ORBIS Travel Retail Limited

Real Estate business
P.O. REAL ESTATE INC.

Other businesses
P.O. TECHNO SERVICE INC

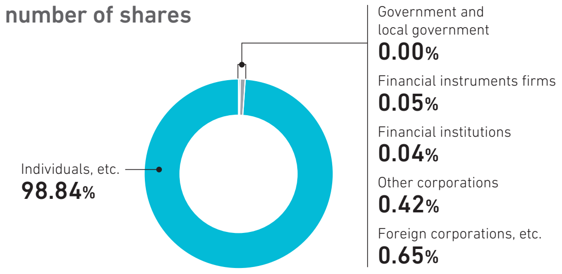
In-house venture
encyclo.INC

Stock Information (As of December 31, 2022)

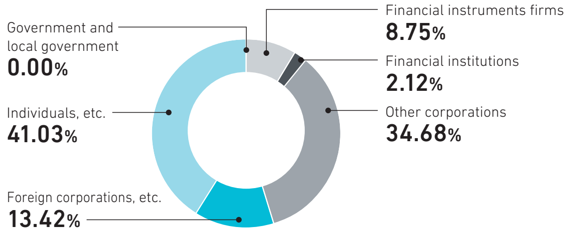
Total number of authorized shares	800,000,000
Total number of issued shares	229,136,156
Number of shareholders	71,694

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	50,624	22.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,254	6.0
THE BANK OF NEW YORK MELLON 140051	6,924	3.1
Naoko Nakamura	4,770	2.2
Custody Bank of Japan, Ltd. (Trust Account)	3,491	1.6
Hiromi Suzuki	3,113	1.4
JPMorgan Securities Japan Co., Ltd.	2,151	1.0
THE BANK OF NEW YORK 133612	1,549	0.7
SMBC Nikko Securities Inc.	1,530	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.

POLA ORBIS HOLDINGS INC.

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POLA ORBIS HOLDINGS

FINANCIAL INFORMATION REPORT 2022

For the Fiscal Year Ended December 31, 2022

Contents

Financial Information

1. Consolidated Financial Statements Preparation Methods

The Company's consolidated financial statements are prepared in accordance with the "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976).

2. Audit Certification

The Company's consolidated financial statements for the consolidated fiscal year (January 1 through December 31, 2022) and financial statements for the fiscal year (January 1 through December 31, 2022) have been audited by Ernst & Young ShinNihon LLC in accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

The "Independent Auditor's Report and Internal Control Audit Report" is an English translation of the relevant portions of the Annual Securities Report.

3. Special Measures to Ensure the Appropriateness of Consolidated Financial Statements, etc.

The Company takes special measures to ensure the appropriateness of its consolidated financial statements, etc. Specifically, to properly understand the content of accounting standards and conduct appropriate disclosure, the Company has joined the Financial Accounting Standards Foundation and participates in seminars and other events organized by the foundation, auditing firms and other organizations.

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

1) Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Assets			
Current assets			
Cash and deposits	**¥ 63,318**	¥ 72,425	**$ 477,153**
Notes and accounts receivable – trade	**17,817**	17,545	**134,273**
Short-term investments in securities	**17,993**	20,146	**135,592**
Merchandise and finished goods	**11,149**	10,841	**84,018**
Work in process	**661**	734	**4,984**
Raw materials and supplies	**3,337**	4,295	**25,153**
Other	**4,055**	3,648	**30,559**
Allowance for doubtful accounts	**(59)**	(41)	**(447)**
Total current assets	**118,273**	129,596	**891,285**
Property, plant and equipment			
Buildings and structures	**51,892**	51,948	**391,052**
Accumulated depreciation	**(35,639)**	(35,251)	**(268,572)**
Buildings and structures, net	**16,253**	16,697	**122,480**
Machinery, equipment and vehicles	**9,585**	9,346	**72,233**
Accumulated depreciation	**(7,867)**	(7,519)	**(59,286)**
Machinery, equipment and vehicles, net	**1,718**	1,827	**12,947**
Land	**14,226**	13,986	**107,208**
Leased assets	**7,503**	8,238	**56,544**
Accumulated depreciation	**(6,628)**	(6,989)	**(49,953)**
Leased assets, net	**874**	1,249	**6,591**
Construction in progress	**5,313**	519	**40,041**
Other	**19,318**	19,641	**145,577**
Accumulated depreciation	**(13,257)**	(13,471)	**(99,904)**
Other, net	**6,060**	6,169	**45,673**
Net property, plant and equipment	**44,446**	40,449	**334,940**
Intangible assets			
Goodwill	—	2,366	—
Right of trademark	**797**	896	**6,013**
Software	**11,510**	11,774	**86,739**
Other intangible assets	**296**	388	**2,235**
Net intangible assets	**12,604**	15,425	**94,987**
Investments and other assets			
Investments in securities	*1 **16,154**	*1 12,110	*1 **121,738**
Long-term loans receivable	**139**	95	**1,052**
Deferred tax assets	**10,606**	6,160	**79,930**
Other	**3,881**	4,439	**29,253**
Allowance for doubtful accounts	**(172)**	(237)	**(1,298)**
Total investments and other assets	**30,610**	22,568	**230,675**
Total non-current assets	**87,661**	78,443	**660,601**
Total assets	**¥ 205,935**	¥ 208,039	**$ 1,551,886**

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Liabilities and net assets			
Current liabilities			
Notes and accounts payable – trade	**¥ 2,745**	¥ 2,513	**$ 20,687**
Current portion of long-term borrowings	**12**	11	**93**
Lease obligations	**739**	840	**5,576**
Accounts payable – other	**9,965**	11,507	**75,096**
Income taxes payable	**1,252**	1,736	**9,439**
Contract Liabilities	**5,437**	—	**40,976**
Provision for bonuses	**1,749**	1,831	**13,181**
Provision for directors' bonuses	**157**	131	**1,186**
Other provisions	**16**	2,038	**121**
Other	**3,879**	4,624	**29,235**
Total current liabilities	**25,954**	25,236	**195,589**
Non-current liabilities			
Long-term borrowings	**59**	72	**446**
Lease obligations	**1,067**	1,354	**8,044**
Net defined benefit liability	**1,884**	3,434	**14,204**
Provision for share benefits for directors	**115**	84	**870**
Provision for environmental measures	**52**	52	**392**
Asset retirement obligations	**3,744**	2,868	**28,218**
Other	**1,598**	1,669	**12,044**
Total non-current liabilities	**8,521**	9,536	**64,217**
Total liabilities	**34,476**	34,772	**259,806**
Net assets			
Shareholders' equity			
Common stock	**10,000**	10,000	**75,358**
Capital surplus	**81,025**	81,027	**610,593**
Retained earnings	**82,759**	83,853	**623,657**
Treasury stock, at cost	**(2,860)**	(2,867)	**(21,553)**
Total shareholders' equity	**170,924**	172,013	**1,288,055**
Accumulated other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	**120**	5	**908**
Foreign currency translation adjustments	**(303)**	999	**(2,284)**
Remeasurements of defined benefit plans	**182**	(215)	**1,373**
Total accumulated other comprehensive income	**(0)**	790	**(2)**
Subscription rights to shares	**243**	243	**1,833**
Non-controlling interests	**291**	220	**2,195**
Total net assets	**171,459**	173,267	**1,292,080**
Total liabilities and net assets	**¥205,935**	¥208,039	**$1,551,886**

2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

[Consolidated Statements of Income]

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Net sales	¥ *1 **166,307**	¥ 178,642	$ *1 **1,265,369**
Cost of sales	*2, 3 **31,037**	*2, 3 28,720	*2, 3 **236,150**
Gross profit	**135,270**	149,921	**1,029,219**
Selling, general and administrative expenses			
Sales commission	**34,870**	33,992	**265,318**
Promotion expenses	**11,277**	17,989	**85,808**
Packing and transportation expenses	**5,492**	4,793	**41,793**
Advertising expenses	**11,026**	12,113	**83,900**
Salaries, allowances and bonuses	**21,481**	21,443	**163,446**
Welfare expenses	**4,219**	4,108	**32,104**
Retirement benefit expenses	**768**	730	**5,844**
Provision for bonuses	**1,591**	1,619	**12,112**
Depreciation and amortization	**6,774**	5,482	**51,543**
Amortization of Goodwill	**378**	283	**2,881**
Other	**24,806**	30,476	**188,742**
Total selling, general and administrative expenses	*3 **122,688**	*3 133,033	*3 **933,490**
Operating income	**12,581**	16,888	**95,729**
Non-operating income			
Interest income	**164**	147	**1,255**
Foreign exchange gains	**2,355**	1,974	**17,924**
Other	**252**	176	**1,925**
Total non-operating income	**2,773**	2,297	**21,104**
Non-operating expenses			
Interest expense	**91**	88	**697**
Commission expenses	**102**	73	**783**
Loss related to COVID-19	**75**	—	**576**
Information security expenses	**121**	—	**921**
Other	**35**	55	**273**
Total non-operating expenses	**427**	217	**3,251**
Ordinary income	¥ **14,928**	¥ 18,968	$ **113,582**

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Extraordinary income			
Gain on sales of fixed assets	¥ *4 **762**	¥ *4 1	$ *4 **5,804**
Gain on step acquisitions	—	297	—
Subsidy income	—	83	—
Other	—	1	—
Total extraordinary income	**762**	383	**5,804**
Extraordinary losses			
Loss on disposal of non-current assets	*4 **496**	*4 671	*4 **3,775**
Impairment loss	*5 **2,539**	*5 (853)	*5 **19,320**
Loss on valuation of investment securities	**(165)**	(31)	**1,258**
Loss on liquidation of business	**165**	—	**1,263**
Loss related to COVID-19	—	180	—
Other	**12**	4	**94**
Total extraordinary losses	**3,379**	1,740	**25,710**
Income before income taxes	**(12,311)**	(17,612)	**93,676**
Income taxes – current	**(5,233)**	(5,118)	**39,822**
Income taxes – deferred	**(4,429)**	702	**(33,704)**
Total income taxes	**804**	5,821	**6,118**
Net income	**11,507**	11,790	**87,558**
Profit attributable to non-controlling interests	**61**	56	**466**
Profit attributable to owners of parent	¥ **11,446**	¥ 11,734	$ **87,092**

Consolidated Statements of Comprehensive Income

POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Net income	**¥ 11,507**	¥ 11,790	$ **87,558**
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	**114**	65	**872**
Foreign currency translation adjustments	**(1,300)**	(775)	**(9,893)**
Remeasurements of defined benefit plans	**397**	54	**3,023**
Total other comprehensive income	*1 **(788)**	*1 (655)	*1 **(5,998)**
Comprehensive income	**¥ 10,719**	¥ 11,134	**$ 81,560**
Comprehensive income attributable to:			
Owners of parent	**¥ 10,656**	¥ 11,059	**$ 81,080**
Non-controlling interests	**¥ 63**	¥ 75	**$ 480**

3) Consolidated Statements of Changes in Net Assets

	Millions of yen								
	Common shares (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	**Total net assets**
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 January 1, 2022	**229,136**	**10,000**	**81,027**	**83,853**	**(2,867)**	**790**	**243**	**220**	**173,267**
Cumulative effects of changes in accounting policies				**(1,023)**					**(1,023)**
Restated balance		**10,000**	**81,027**	**82,829**	**(2,867)**	**790**	**243**	**220**	**172,243**
Dividends from retained earnings				**(11,516)**					**(11,516)**
Net income attributable to owners of parent				**11,446**					**11,446**
Purchase of treasury stock									□
Disposal of treasury stock			**(1)**		**6**				**5**
Change in unrealized gain (loss) on available-for-sale securities						**114**			**114**
Foreign currency translation adjustments						**(1,302)**			**(1,302)**
Remeasurements of defined benefit plans						**397**			**397**
Subscription rights to shares							□		□
Non-controlling interests								**70**	**70**
Balance at December 31, 2022	**229,136**	**¥ 10,000**	**¥ 81,025**	**¥ 82,759**	**¥ (2,860)**	**¥ (0)**	**¥ 243**	**¥ 291**	**¥ 171,459**

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	**Total net assets**
Balance at January 1, 2022	**$ 86,941**	**$ 702,358**	**$ 694,390**	**$ (23,063)**	**$ 12,740**	**$ 2,118**	**$ 1,258**	**$ 1,476,742**
Cumulative effects of changes in accounting policies								
Restated balance	**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, 2022	**$ 86,941**	**$ 704,464**	**$ 729,030**	**$ (24,927)**	**$ 6,869**	**$ 2,115**	**$ 1,916**	**$ 1,506,409**

4) Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Cash flows from operating activities			
Income before income taxes	**¥ 12,311**	¥ 17,612	**$ 92,779**
Adjustments to reconcile income before income taxes to net cash flows from operating activities:			
Depreciation and amortization	**8,482**	7,110	**63,922**
Impairment loss	**2,539**	853	**19,135**
Amortization of goodwill	**378**	283	**2,853**
Increase (decrease) in allowance for doubtful accounts	**(45)**	(13)	**(346)**
Increase (decrease) in provision for bonus	**(121)**	187	**(917)**
Increase (decrease) in other provisions	**33**	(357)	**252**
Increase (decrease) in net defined benefit liability	**(986)**	(435)	**(7,431)**
Interest and dividend income	**(164)**	(147)	**(1,243)**
Interest expenses	**91**	88	**690**
Foreign exchange loss (gains)	**(2,174)**	(1,581)	**(16,389)**
Gain (loss) on valuation of investment securities	**165**	31	**1,246**
Loss (gain) on sales of non-current assets	**(762)**	(1)	**(5,747)**
Loss on disposal of non-current assets	**496**	671	**3,739**
Subsidy income	—	(83)	—
Loss related to COVID-19	—	180	—
Loss on liquidation of business	**165**	—	**1,251**
Decrease (increase) in notes and accounts receivable – trade	**(7)**	714	**(59)**
Decrease (increase) in inventories	**1,042**	2,081	**7,855**
Increase (decrease) in notes and accounts payable – trade	**43**	(414)	**328**
Increase (decrease) in contract liabilities	**1,487**	—	**11,207**
Increase (decrease) in consumption taxes payable	**(397)**	1,302	**(2,995)**
Decrease (increase) in other assets	**109**	43	**825**
Increase (decrease) in other liabilities	**(1,584)**	(885)	**(11,938)**
Other	**175**	(102)	**1,324**
Subtotal	**21,277**	27,136	**160,340**
Interest and dividends received	**201**	230	**1,519**
Interest paid	**(92)**	(90)	**(695)**
Payment for liquidation of business	**(143)**	—	**(1,079)**
Payment for loss related to COVID-19	—	(149)	—
Income taxes paid	**5,695**	(3,380)	**42,918**
Subsidy income received	—	83	—
Net cash provided by operating activities	**¥ 15,548**	¥ 23,830	**$ 117,168**

	Millions of yen		Thousands of U.S. dollars
	2022	2021	**2022**
Cash flows from investing activities			
Payments into time deposits	¥ **(245)**	¥ (245)	$ **(1,851)**
Proceeds from withdrawal of time deposits	**245**	245	**1,851**
Purchase of short-term investments in securities	**(2,000)**	(1,700)	**(15,072)**
Proceeds from sales and redemption of short-term investments in securities	**10,200**	14,300	**76,865**
Purchase of property, plant and equipment	**(7,482)**	(2,248)	**(56,390)**
Proceeds from sales of property, plant and equipment	**1,010**	3	**7,616**
Purchase of intangible assets	**(3,917)**	(4,948)	**(29,519)**
Payments for disposal of non-current assets	**(232)**	(524)	**(1,749)**
Purchase of investments in securities	**(9,907)**	(3,280)	**(74,663)**
Payments for asset retirement obligations	**339**	(379)	**(2,559)**
Purchase of long-term prepaid expenses	**(134)**	(218)	**(1,010)**
Payments for lease and guarantee deposits	**(131)**	(138)	**(988)**
Proceeds from collection of lease and guarantee deposits	**466**	387	**3,514**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	*2 (3,231)	—
Other	**97**	(196)	**736**
Net cash used in investing activities	**(12,370)**	(2,174)	**(93,220)**
Cash flows from financing activities			
Repayments of borrowings	**(12)**	(39)	**(98)**
Repayments of lease obligations	**1,136**	(1,304)	**(8,562)**
Cash dividends paid	**(11,518)**	(7,756)	**(86,805)**
Purchase of treasury shares	**(6)**	(270)	**(53)**
Proceeds from sales of treasury shares	**6**	270	**53**
Net cash used in financing activities	**(12,668)**	(9,100)	**(95,464)**
Effect of exchange rate changes on cash and cash equivalents	**358**	294	**2,704**
Net increase (decrease) in cash and cash equivalents	**(9,131)**	12,848	**(68,812)**
Cash and cash equivalents at beginning of year	**71,693**	58,844	**540,270**
Cash and cash equivalents at end of year	¥ *1 **62,562**	¥ *1 71,693	$ *1 **471,458**

[Notes]

■ (Basis for Preparation of Consolidated Financial Statements)

1. The scope of consolidation

(1) Number of consolidated subsidiaries: 32

Names of major consolidated subsidiaries

POLA INC.

ORBIS Inc.

POLA CHEMICAL INDUSTRIES INC.

P.O. REAL ESTATE INC.

and 28 other companies

(2) Number of non-consolidated subsidiaries: 1

Name of major non-consolidated subsidiaries

encyclo.INC

Reason for exclusion from scope of consolidation

Total assets, net sales, net income or loss (amount corresponding to equity) and retained earnings (amount corresponding to equity) all have a negligible effect on the consolidated financial statements.

2. Application of the equity method

(1) Number of affiliated companies to which the equity method is applied

None

(2) Names of non-consolidated subsidiaries to which the equity method is not applied and the reason

One non-consolidated subsidiary (encyclo.INC) and eight affiliated companies (Kohaku Co., Ltd., AGG Co., Ltd., SOULA Inc., lealea Co., Ltd., Lance Co., Ltd., AQUALIE Co., Ltd., Some FaB Co., Ltd., Viva Trail Co., Ltd.) are excluded from the scope of application of the equity method because their net income or loss (amount corresponding to equity) and retained earnings (amount corresponding to equity) have a negligible effect on the consolidated financial statements and are not significant as a whole.

3. Fiscal year, etc., at consolidated subsidiaries

The last day of the fiscal year at all consolidated subsidiaries is the same as the consolidated closing date.

4. Accounting policies

(1) Valuation standards and method for material assets

1) Securities

Available-for-sale securities

Items other than shares, etc., without a market price

Market value method (in which valuation differences are processed by all being included directly in net assets, and the cost of securities sold is calculated by the moving average method)

Shares, etc., without a market price

Cost method according to the moving-average method

The Company's contribution to investment limited partnerships, which is defined as securities under Article 2, Paragraph 2 of the Financial Instruments and Exchange Act of Japan, is recorded at net equity based on the most recently available financial statements according to the reporting dates specified in the partnership agreement.

2) Inventories

The cost of merchandise, finished goods, work in process and raw materials is determined using the cost method according to the monthly moving-average method (in which balance sheet values are calculated by writing down the carrying amount based on a decline in profitability), and the cost of supplies is principally determined using the last purchase cost method.

(2) Depreciation and amortization method for significant depreciable and amortizable assets

1) Property, plant and equipment (excluding leased assets)

The Company and its domestic consolidated subsidiaries:

Declining balance method

However, the straight-line method is used for buildings acquired in or after April 1998 (excluding facilities attached to buildings) and facilities attached to buildings and structures acquired in or after April 2016.

The primary useful lives are as follows:

Buildings and structures………………………..8‐50 years

Machinery, equipment and vehicles……………7‐15 years

The straight-line method over three years is used for small depreciable assets with an acquisition cost greater than or equal to ¥100,000 and less than ¥200,000.

Overseas consolidated subsidiaries:

Straight-line method based on local accounting standards

2) Intangible assets (excluding leased assets)

Straight-line method

Right of trademark……………………………10 years

Software for internal use……………………….5 years (estimated useful life at the Company)

3) Leased assets

Leased assets related to finance lease transactions that do not transfer ownership:

The straight-line method is used when the lease term is deemed the useful life of the asset and the residual value is zero.

Subsidiaries that had prepared their financial statements in accordance with IFRS adopted IFRS 16 Leases ("IFRS 16"). Under IFRS 16, a lessee of a lease is required to book all leases as assets and liabilities in principle, and the depreciation method of right-of-use assets booked in assets is the straight-line method.

(3) Basis for recording significant allowances and provisions

1) Allowance for doubtful accounts

To prepare for possible bad debt losses on notes and accounts receivable and loans receivable, etc., the Company and its domestic consolidated subsidiaries record estimated uncollectible amounts based on the historical bad debt ratio for general receivables and based on an individual assessment of the collectability of specific doubtful accounts receivable. Overseas consolidated subsidiaries mainly record estimated uncollectible amounts for specific receivables.

2) Provision for bonuses

To provide for the payment of bonuses to employees, a provision is recorded based on the estimated amount of the bonuses.

3) Provision for directors' bonuses

To provide for the payment of bonuses to directors, a provision is recorded based on the estimated amount of the bonuses.

4) Provision for directors' share benefits

To provide share benefits to the Company's directors, etc., in accordance with the Company's rules on the issuing of shares to directors, etc., a provision is recorded based on the estimated amount of the share benefit obligation at the end of the current fiscal year.

5) Provision for environmental measures

To provide for the disposal of polychlorinated biphenyl (PCB) waste, the estimated cost of disposal is recorded.

(4) Accounting method for retirement benefits

1) Periodic allocation method for estimated retirement benefits

The retirement benefit obligation is calculated by allocating the estimated retirement benefits to the period up to the end of the current fiscal year using the benefit formula basis.

2) Amortization of actuarial gains or losses and past service cost

Past service cost is amortized on a straight-line basis over a certain number of years (10 years) within the average remaining service period of employees at the time of occurrence in each consolidated fiscal year. Actuarial gains or losses are amortized on a straight-line basis over a certain number of years (10–14 years) within the average remaining service period of employees at the time of occurrence in each consolidated fiscal year, and the amount is amortized from the following consolidated fiscal year.

(5) Basis for recording significant revenues and expenses

The Group manufactures and markets cosmetics and related products, and for the marketing of such products, the Group's performance obligation is primarily to deliver finished products based on sales contracts with customers. Upon delivery of a product, the customer acquires control of the product, and the performance obligation is deemed satisfied and revenue is recognized. However, for sales of products in Japan, revenue is recognized at the time of shipment because the period from the time of shipment to the time when control of the products is transferred to the customer is a normal period of time.

The Group has introduced a point program that awards points for purchases of products and other items, and when points awarded under a contract with a customer provide the customer with significant rights, the points expected to be exercised by the customer in the future are recorded as a performance obligation under contract liabilities in the consolidated balance sheets. Transaction prices are allocated based on the ratio of the stand-alone selling price to the performance obligation related to these points and the performance obligation related to the products for which the points are granted. Transaction prices allocated to performance obligations for points that are recorded under contract liabilities are recognized as revenue in accordance with the use of the points.

For transactions in which a sales incentive or other consideration is paid to the sales agent or others who are customers of a product sales transaction, if the consideration paid is not in exchange for goods or services separate from the sale of the product, the transaction is considered a revenue reduction.

Consideration in product sales contracts is collected primarily within one year from the time when control of the goods is transferred to the customer and does not include a significant financial component.

(6) Basis for translating significant assets and liabilities denominated in foreign currencies into Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the consolidated account closing date, and differences arising from the translations are recognized as gains or losses.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at the spot exchange rate on the account closing date, while revenue and expenses are translated into Japanese yen at the average exchange rate for the year, and differences are included in the foreign currency translation adjustments and minority interests under net assets.

(7) Amortization method and period of goodwill

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

(8) Scope of cash and cash equivalents on consolidated statements of cash flows

Cash and cash equivalents consist of cash on hand, bank deposits 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 value fluctuation.

(9) Other important matters related to the preparation of the consolidated financial statements

1) Application of consolidated tax system

The consolidated tax system is applied.

2) Application of tax effect accounting related to the transition from the consolidated tax system to a group tax sharing system

Regarding the transition to the group tax sharing system and the items that have been reviewed in the non-consolidated tax system in line with the transition to the group tax sharing system established in the “Act for Partial Revision of Income Tax Act, etc.” (Act No. 8 of 2020), under Paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No. 39, March 31, 2020), the Group does not apply provisions of Paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018), and the amount of deferred tax assets and deferred tax liabilities is based on the provisions of the tax law before the revision.

From the beginning of the next consolidated fiscal year, the Group plans to apply the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021), which provides for accounting and disclosure of corporate and local income taxes and tax effect accounting when applying the group tax sharing system.

■ (Significant Accounting Estimates)

Items for which an accounting estimate has been recorded in the consolidated financial statements for the current fiscal year that may have a significant impact on the consolidated financial statements in the following fiscal year are as follows:

1. Impairment loss on non-current assets related to individual stores

(1) Amount recorded in the consolidated financial statements for the current fiscal year

(Millions of yen)

	FY2021 December 31, 2021	FY2022 December 31, 2022
Non-current assets related to individual stores	3,617	2,850
Impairment loss	488	212

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

1) Method of calculating the amount recorded in the consolidated financial statements for the current fiscal year

In assessing whether there is any indication that individual stores may be impaired, the Group 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 any 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 medium-term management plan approved by the Board of Directors.

2) Key assumptions

A main assumption in formulating the 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 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.

3) Effect on consolidated financial statements for the following fiscal year

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

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

(1) Amount recorded in the consolidated financial statements for the current fiscal year

(Millions of yen)

	FY2021 December 31, 2021	FY2022 December 31, 2022
Goodwill	2,366	—
Right of trademark and other intangible assets	1,163	979
Impairment loss	—	1,987

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

1) Method of calculating the amount recorded in the consolidated financial statements for the current fiscal year

If there is an indication of impairment in an asset group including goodwill, the Group assesses whether an impairment loss should be 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 medium-term management plan approved by the Board of Directors.

tricot, Inc. recorded an impairment loss of ¥1,987 million on goodwill due to operating losses in the previous and current fiscal years, a significant discrepancy between the reasonable medium-term management plan initially formulated and actual results, and the total amount of undiscounted future cash flows being less than the carrying amount.

2) Key assumptions

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

3) Effect on consolidated financial statements for the following fiscal years

Changes to the assumptions used in the estimates for the current fiscal year due to changes in the market environment or other factors could have a significant impact on the valuation of intangible assets related to tricot, Inc. in the following fiscal year.

■ (Accounting Standards To Be Applied)

Accounting standards for fair value measurement, etc.

- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021)

(1) Overview

At the time the implementation guidance was issued on July 4, 2019, since it was believed that a certain period of time was required for discussions with related parties regarding the calculation of the fair value of investment trusts, and since notes on the fair value of investments in partnerships, etc., in which the net amount of the equity interest is recorded on the balance sheet also require a certain amount of discussion, after the Accounting Standard for Fair Value Measurement was released, discussions of roughly one year were planned, resulting in the June 17, 2021 amendments to the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31).

(2) Effective date

This guidance will become effective from the beginning of fiscal 2023.

(3) Impact of adoption of the accounting standard, etc.

The Group is currently evaluating the impact of applying the Implementation Guidance on Accounting Standard for Fair Value Measurement on its consolidated financial statements.

■ (Changes in Presentation Method)

(Consolidated balance sheets)

“Provision for sales returns” and “Provision for points” under “Current liabilities” in the previous fiscal year were included in “Other provisions” from the current fiscal year due to their decreased importance.

As a result, “Provision for sales returns” of ¥56 million and “Provision for points” of ¥1,982 million, which were presented under “Current liabilities” on the consolidated statements of income for the previous fiscal year, have been reclassified as ¥2,038 million of “Other provisions.”

(Consolidated Statements of Income)

“Provision of allowance for doubtful accounts” and “Provision for points” under “Selling, general and administrative expenses” in the previous fiscal year were included in “Other” from the current fiscal year due to their decreased importance.

As a result, “Provision of allowance for doubtful accounts” of ¥23 million, “Provision for points” of ¥1,732 million and ¥28,719 million of “Other,” which were presented in “Selling, general and administrative expenses” on the consolidated statements of income for the previous fiscal year, have been reclassified as ¥30,476 million of “Other.”

“Gain on sales of fixed assets,” which was included in “Other” under “Extraordinary income” in the previous fiscal year, is separately presented in the current fiscal year due to its increased importance in terms of amount.

As a result, “Other” of ¥2 million presented under “Extraordinary income” on the consolidated statements of income for the previous fiscal year has been reclassified as ¥1 million of “Gain on sales of fixed assets” and ¥1 million of “Other.”

(Consolidated Statements of Cash Flows)

“Increase (decrease) in provision for points” under “Cash flows from operating activities” in the previous fiscal year was included in “Increase (decrease) in other provision” from the current fiscal year due to its decreased importance.

As a result, “Decrease in provisions for points” of ¥504 million and “Increase in other provision” of ¥147 million, which were presented under “Cash flows from operating activities” on the consolidated statements of cash flows for the previous fiscal year, have been reclassified as ¥357 million of “Decrease in other provision.”

“Gain (loss) on valuation of investment securities,” which was included in “Other” under “Cash flows from operating activities” in the previous fiscal year, is separately presented in the current fiscal year due to its increased importance in terms of amount.

As a result, “Other” of ¥(71) million presented under “Cash flows from operating activities” on the consolidated statements of income for the previous fiscal year has been reclassified as ¥31 million of “Gain on valuation of investment securities” and ¥(102) million of “Other.”

■ (Consolidated Balance Sheets)

*1. The following are related to non-consolidated subsidiaries and affiliates.

(Millions of yen)

FY2021 December 31, 2021		FY2022 December 31, 2022	
Investment securities	5	Investment securities	44

2. Contingent liabilities

The Company has guaranteed the loans from financial institutions, etc., of the following counterparties.

(Millions of yen)

FY2021 December 31, 2021		FY2022 December 31, 2022	
Employees' mortgages	2	Employees' mortgages	1

■ (Consolidated Statements of Income)

*1. Revenue from contracts with customers

Net sales are not separately presented as revenue from contracts with customers and other revenues. The amount of revenue from contracts with customers is presented in "Notes, (Revenue Recognition), 1. Information analyzing revenue from contracts with customers" of the consolidated financial statements.

*2. Provision for sales returns included in cost of sales

(Millions of yen)

	FY2021 (January 1, 2021–December 31, 2021)	FY2022 (January 1, 2022–December 31, 2022)
Reversal of provision for sales returns	69	—
Provision for sales returns	56	—

*3. Research and development costs included in general and administrative expenses and the current fiscal year's manufacturing costs consist of the following:

(Millions of yen)

FY2021 (January 1, 2021–December 31, 2021)	FY2022 (January 1, 2022–December 31, 2022)
4,872	4,686

*4. Details of gain on sales of fixed assets are as follows:

(Millions of yen)

	FY2021 (January 1, 2021–December 31, 2021)	FY2022 (January 1, 2022–December 31, 2022)
Buildings and structures	0	235
Machinery, equipment and vehicles	1	—
Land	—	527
Other	0	0
Total	1	762

Details of loss on disposal of non-current assets are as follows:

(Millions of yen)

	FY2021 (January 1, 2021–December 31, 2021)	FY2022 (January 1, 2022–December 31, 2022)
Buildings and structures	65	142
Machinery, equipment and vehicles	0	0
Leased assets	8	46
Removal and demolition costs	526	230
Software	25	44
Other	45	31
Total	671	496

*5. Impairment loss

The Group recognized impairment losses on the following assets or asset groups.

FY2021 (January 1, 2021–December 31, 2021)

(1) Asset groups and amounts of impairment losses recognized

Location	Usage	Type	Amount (millions of yen)
Japan	Stores and offices	Buildings and structures, Property, plant and equipment (Other), Software, Investments and other assets	716
Hong Kong	Stores and offices	Buildings and structures, Property, plant and equipment (Other)	11
Japan	Business assets	Buildings and structures	125
Total			853

(2) Background leading to the recognition of impairment losses

With regard to stores and offices, the Group wrote down to the recoverable amount the carrying amount of asset groups that continuously recorded operating losses and whose total cash flow estimates fell below their carrying amount, and recorded the difference as an impairment loss.

The carrying amount of business assets was reduced to the residual value and the difference was recorded as an impairment loss as the assets are no longer expected to be used for business purposes following a decision to remove them in accordance with the reorganization of business offices.

(3) Asset grouping method

Stores and offices are mostly grouped by individual store and office, on the basis of business divisions whose revenues and expenses are regularly monitored.

Business assets are grouped by company.

(4) Calculation method for recoverable amounts

The recoverable amount is measured by value in use. Value in use is assessed as a zero recoverable amount if expected future cash flows are negative.

FY2022 (January 1, 2022–December 31, 2022)

(1) Asset groups and amounts of impairment losses recognized

Location	Usage	Type	Amount (millions of yen)
Japan	Stores and offices	Buildings and structures, Property, plant and equipment (Other), Software, Investments and other assets	314
China	Stores and offices	Buildings and structures	14
Japan	Business assets	Software	223
Japan	—	Goodwill	1,987
Total			2,539

(2) Background leading to the recognition of impairment losses

With regard to stores and offices, the Group wrote down to the recoverable amount the carrying amount of asset groups that continuously recorded operating losses and whose total cash flow estimates fell below their carrying amount, and recorded the difference as an impairment loss.

For business assets, since initially anticipated earnings from some new business services are no longer expected, the Group wrote down the carrying amount of the asset group relating to such business to the recoverable amount and recorded the difference as an impairment loss.

The Group wrote down the carrying amount of goodwill to the recoverable amount and recorded the difference as an impairment loss due to operating losses in the previous and current fiscal years, a significant discrepancy between the reasonable business plan initially formulated and actual results and the total amount of undiscounted future cash flows being less than the carrying amount.

(3) Asset grouping method

Stores and offices are mostly grouped by individual store and office, on the basis of business divisions whose revenues and expenses are regularly monitored.

Business assets and goodwill are grouped by company.

(4) Calculation method for recoverable amounts

The recoverable amount is measured by value in use. Value in use is assessed as a zero recoverable amount if expected future cash flows are negative.

■ (Consolidated Statements of Comprehensive Income)

*1. Reclassification adjustments and tax effects for each component of other comprehensive income

(Millions of yen)

	FY2021 (January 1, 2021– December 31, 2021)	FY2022 (January 1, 2022– December 31, 2022)
Valuation difference on available-for-sale securities		
Amount arising during the period	(24)	85
Reclassification adjustment	114	98
Amount before tax effect	89	183
Tax effect	(24)	(68)
Valuation difference on available-for-sale securities	65	114
Foreign currency translation adjustments		
Amount arising during the period	(775)	(1,134)
Reclassification adjustment	—	—
Amount before tax effect	(775)	(1,134)
Tax effect	—	(165)
Foreign currency translation adjustments	(775)	(1,300)
Remeasurements of defined benefit plans		
Amount arising during the period	(47)	463
Reclassification adjustment	117	102
Amount before tax effect	69	565
Tax effect	(14)	(168)
Remeasurements of defined benefit plans	54	397
Total other comprehensive income	(655)	(788)

■ (Consolidated Statements of Changes in Net Assets)

FY2021 (January 1, 2021–December 31, 2021)

1. Shares issued and outstanding

Type of shares	At the beginning of the period	Increase	Decrease	At the end of the period
Common stock (shares)	229,136,156	—	—	229,136,156

2. Treasury stock

Type of shares	At the beginning of the period	Increase	Decrease	At the end of the period
Common stock (shares)	7,915,453	104,000	112,692	7,906,761

Notes: 1. The number of shares of treasury stock at the beginning and end of the period includes 244,708 shares of the Company's shares held by the officer compensation Board Incentive Plan (BIP) trust.

2. (Summary of reasons for changes)

The increase in the number of shares of treasury stock was due to the acquisition of shares based on the officer compensation BIP trust contract.

The decrease in the number of shares of treasury stock was due to the disposal of 111,892 shares through third-party allotment to the officer compensation BIP trust and sale to market, and a decrease of 800 shares due to the exercise of stock option rights.

3. Subscription rights to shares, etc.

Company name	Breakdown of subscription rights	Type of shares to be offered for subscription	Number of shares to be offered(shares)				Balance at the end of the period (millions of yen)
			At the beginning of the period	Increase	Decrease	At the end of the period	
POLA ORBIS HOLDINGS INC.	Subscription rights as stock options	—	—	—	—	—	243
Total			—	—	—	—	243

4. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Annual Shareholders' Meeting held on March 25, 2021	Common stock	3,320	15.00	December 31, 2020	March 26, 2021
Board of Directors' Meeting held on July 30, 2021	Common stock	4,429	20.00	June 30, 2021	September 10, 2021

Note: Total dividends resolved at the Annual Shareholders' Meeting held on March 25, 2021 include dividends of ¥2 million on the Company's shares held by the officer compensation BIP trust.

Total dividends resolved at the Board of Directors' Meeting held on July 30, 2021 include dividends of ¥4 million on the Company's shares held by the officer compensation BIP trust.

(2) Dividends with a record date in the current fiscal year and an effective date in the following fiscal year

Resolution	Type of shares	Source of dividends	Total dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Annual Shareholders' Meeting held on March 25, 2022	Common stock	Retained earnings	6,865	31.00	December 31, 2021	March 28, 2022

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

FY2022 (January 1, 2022–December 31, 2022)

1. Shares issued and outstanding

Type of shares	At the beginning of the period	Increase	Decrease	At the end of the period
Common stock (shares)	229,136,156	—	—	229,136,156

2. Treasury stock

Type of shares	At the beginning of the period	Increase	Decrease	At the end of the period
Common stock (shares)	7,906,761	—	2,248	7,904,513

Notes: 1. The number of shares of treasury stock at the beginning and end of the period includes 242,460 shares of the Company's shares held by the officer compensation BIP trust.

2. (Summary of reasons for change)

The decrease in the number of shares of treasury stock was due to a decrease of 2,248 shares delivered to directors under the stock delivery trust for directors.

3. Subscription rights to shares, etc.

Company name	Breakdown of subscription rights	Type of shares to be offered for subscription	Number of shares to be offered (shares)				Balance at the end of the period (millions of yen)
			At the beginning of the period	Increase	Decrease	At the end of the period	
POLA ORBIS HOLDINGS INC.	Subscription rights as stock options	—	—	—	—	—	243
Total			—	—	—	—	243

4. Dividends

(1) Dividends paid

Resolution	Type of shares	Total dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Annual Shareholders' Meeting held on March 25, 2022	Common stock	6,865	31.00	December 31, 2021	March 28, 2022
Board of Directors' Meeting held on July 29, 2022	Common stock	4,650	21.00	June 30, 2022	September 6, 2022

Note: Total dividends resolved at the Annual Shareholders' Meeting held on March 25, 2022 include dividends of ¥7 million on the Company's shares held by the officer compensation BIP trust.

Total dividends resolved at the Board of Directors' Meeting held on July 29, 2022 include dividends of ¥5 million on the Company's shares held by the officer compensation BIP trust.

(2) Dividends with a record date in the current fiscal year and an effective date in the following fiscal year

Resolution	Type of shares	Source of dividends	Total dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
Annual Shareholders' Meeting held on March 28, 2023	Common stock	Retained earnings	6,865	31.00	December 31, 2022	March 29, 2023

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

■ (Consolidated Statements of Cash Flows)

*1. Reconciliation of cash and cash equivalents at the end of the period and accounting items reported in the consolidated balance sheets consists of the following:

(Millions of yen)

	FY2021 (January 1, 2021–December 31, 2021)	FY2022 (January 1, 2022–December 31, 2022)
Cash and deposits	72,425	63,318
Short-term investments in securities	20,146	17,993
Total	92,571	81,311
Time deposits with deposit periods of more than three months	(731)	(755)
Stocks and bonds, etc., with maturities of more than three months	(20,146)	(17,993)
Cash and cash equivalents	71,693	62,562

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

FY2021 (January 1, 2021–December 31, 2021)

	(Millions of yen)
Current assets	731
Non-current assets	1,324
Goodwill	2,650
Current liabilities	(125)
Non-current liabilities	(866)
Acquisition cost of shares acquired prior to the previous period	(95)
Marginal gain on step acquisitions	(297)
Acquisition cost of tricot shares	3,323
Cash and cash equivalents of tricot, Inc.	(90)
Net: Payment for acquisition of tricot, Inc.	3,231

3. Significant non-cash transactions

(Millions of yen)

	FY2021 (January 1, 2021–December 31, 2021)	FY2022 (January 1, 2022–December 31, 2022)
Assets and liabilities related to finance leases	939	857
Significant asset retirement obligations	994	1,119

Note: Subsidiaries that had prepared their financial statements in accordance with IFRS adopted IFRS 16, and lease transactions entered into by such companies are included in amounts of assets and liabilities related to finance leases above.

■ (Leases)

1. Finance leases

(As a lessee)

(1) Finance leases that do not transfer ownership

1) Description of leased assets

Property, plant and equipment: Primarily consist of interior furniture, fixtures and warehouse equipment (“buildings and structures” and “other property, plants and equipment”)

2) Depreciation method for leased assets

The straight-line method is used where the lease term is deemed the useful life of the asset and the residual value is zero.

Subsidiaries that had prepared their financial statements in accordance with IFRS adopted IFRS 16, and the right-of-use assets included in assets and the depreciation method are included in the above description.

2. Operating lease transactions

(As a lessee)

Future lease payments under non-cancellable operating lease arrangements

(Millions of yen)

	FY2021 December 31, 2021	FY2022 December 31, 2022
Due within 1 year	59	4
Due after 1 year	75	—
Total	135	4

■ (Financial Instruments)

1. Overview of financial instruments

(1) Policies on financial instruments

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

(2) Description of financial instruments, risks and risk management systems

Trade receivables such as notes and accounts receivable – trade are exposed to customers' credit risk. To handle such risk, the Group manages payment dates and outstanding balances by individual customer and regularly reviews major customers' credit status in accordance with the Group's 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 has a management system in place to quarterly monitor market value and other information in order to manage such risk.

Trade payables such as 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 cash management schedules monthly.

(3) Supplementary information on the fair value of financial instruments

The 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.

2. Fair value of financial instruments

FY2021 (December 31, 2021)

The carrying amount on the consolidated balance sheets and the fair value of financial instruments, and the difference between them consist of the following:

(Millions of yen)

	Carrying amount on the consolidated balance sheets	Fair value	Difference
(1) Cash and deposits	72,425	72,425	—
(2) Notes and accounts receivable – trade (*1)	17,504	17,504	—
(3) Investments in securities (*2)			
Available-for-sale securities	29,232	29,232	—
Total assets	119,161	119,161	—
(1) Notes and accounts payable – trade	2,513	2,513	—
(2) Accounts payable – other	11,507	11,507	—
Total liabilities	14,020	14,020	—

(*1) The allowance for doubtful accounts recorded for notes and accounts receivable – trade is excluded.

(*2) The following financial instruments are not included in "(3) Investments in securities" as their market prices are unavailable and determining their fair value is extremely difficult. The carrying amounts on the consolidated balance sheets for such financial instruments are as follows:

(Millions of yen)

Classification	FY2021
Unlisted stock	1,011
Capital contribution to investment in a limited partnership	2,008
Total	3,019

FY2022 (December 31, 2022)

(Millions of yen)

	Carrying amount on the consolidated balance sheets	Fair value	Difference
Investments in securities (*2)			
Available-for-sale securities	29,870	29,870	—

(*1) "Cash and deposits," "Notes and accounts receivable – trade," "Notes and accounts payable – trade" and "Accounts payable – other" are settled in the short term, their fair value approximates their carrying amount and therefore they are not stated.

(*2) Shares, etc., without a market price are not included in "Investments in securities." The carrying amounts on the consolidated balance sheets for such financial instruments are as follows:

(Millions of yen)

Classification	FY2022
Unlisted stock	1,349
Capital contribution to investment in a limited partnership	2,927
Total	4,277

(Note 1) Redemption schedules of monetary receivables and investments in securities with maturities after the consolidated closing date

FY2021 (December 31, 2021)

(Millions of yen)

	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

FY2022 (December 31, 2022)

(Millions of yen)

	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	63,101	—	—	—
Notes and accounts receivable – trade	17,758	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	3,096	30	—	—
Available-for-sale securities with maturities (other)	14,896	11,847	2,927	—
Total	98,853	11,877	2,927	—

(Note 2) Repayment schedules for long-term borrowings and other interest-bearing liabilities after the consolidated closing date

FY2021 (December 31, 2021)

(Millions of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years through 6 years
Long-term borrowings	12	12	12	8	7	30

FY2022 (December 31, 2022)

(Millions of yen)

	Due within 1 year	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years through 6 years
Long-term borrowings	12	12	8	7	7	22

3. Breakdown of the fair value of financial instruments by level

The fair value of financial instruments is classified into the following three levels based on the observability and significance of inputs used for valuation.

Level 1: Of the observable inputs for fair value measurement, fair value is measured using quoted prices for assets or liabilities subject to fair value measurements that are formed in active markets.

Level 2: Of the observable inputs for fair value measurement, fair value is measured using inputs other than Level 1 inputs.

Level 3: Fair value is measured using unobservable inputs.

If multiple inputs that have a significant impact on fair value measurement are used, of the levels to which each input belongs, the fair value is classified into the lowest priority level in the fair value measurement.

(1) Financial instruments recorded at fair value on the consolidated balance sheets

FY2022 (December 31, 2022)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Available-for-sale securities				
Corporate bonds	—	3,126	—	3,126
Other	—	26,744	—	26,744
Total assets	—	29,870	—	29,870

Note: Explanation of valuation techniques used to measure fair value and inputs related to the measurement of fair value

Available-for-sale securities

The Company’s holdings of bonds and other securities are classified as Level 2 fair value as they are infrequently traded in the market and their fair values cannot be considered as market prices in active markets.

■ (Securities)

1. Available-for-sale securities

FY2021 (December 31, 2021)

(Millions of yen)

Classification	Type	Carrying amounts on the consolidated balance sheets	Acquisition cost	Difference
Securities whose carrying amount on the consolidated balance sheets exceeds acquisition cost	(1) Government and municipal bonds	—	—	—
	(2) Corporate bonds	1,002	1,000	1
	(3) Other	5,845	5,799	46
	Subtotal	6,847	6,799	47
Securities whose carrying amount on the consolidated balance sheets does not exceed acquisition cost	(1) Government and municipal bonds	—	—	—
	(2) Corporate bonds	2,496	2,505	(8)
	(3) Other	19,887	20,000	(113)
	Subtotal	22,384	22,505	(121)
Total		29,232	29,305	(73)

FY2022 (December 31, 2022)

(Millions of yen)

Classification	Type	Carrying amounts on the consolidated balance sheets	Acquisition cost	Difference
Securities whose carrying amount on the consolidated balance sheets exceeds acquisition cost	(1) Government and municipal bonds	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	1,013	1,000	13
	Subtotal	1,013	1,000	13
Securities whose carrying amount on the consolidated balance sheets does not exceed acquisition cost	(1) Government and municipal bonds	—	—	—
	(2) Corporate bonds	3,126	3,130	(3)
	(3) Other	25,730	26,000	(269)
	Subtotal	28,857	29,130	(272)
Total		29,870	30,130	(259)

2. Held-to-maturity debt securities sold during the fiscal year

FY2021 (January 1, 2021–December 31, 2021)

None

FY2022 (January 1, 2022–December 31, 2022)

None

3. Available-for-sale securities sold during the fiscal year

FY2021 (January 1, 2021–December 31, 2021)

None

FY2022 (January 1, 2022–December 31, 2022)

None

4. Securities for which the holding purpose was changed

FY2021 (January 1, 2021–December 31, 2021)

None

FY2022 (January 1, 2022–December 31, 2022)

None

5. Securities for which an impairment loss was recognized

FY2021 (January 1, 2021–December 31, 2021)

In fiscal 2021, loss on valuation of investment securities was recognized in the amount of ¥31 million.

FY2022 (January 1, 2022–December 31, 2022)

In fiscal 2022, loss on valuation of investment securities was recognized in the amount of ¥165 million.

■ (Retirement Benefits)

1. Summary of retirement benefit plans adopted

The Company and its domestic consolidated subsidiaries have defined benefit pension plans (cash balance plans) and lump-sum retirement payment plans. Certain foreign consolidated subsidiaries have lump-sum retirement payment plans and defined contribution plans.

When employees retire, premium retirement payments, etc., which are treated as retirement benefit expenses at the time of payment, may be paid.

Certain consolidated subsidiaries use the simplified accounting method to calculate retirement benefit obligations.

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

(1) Movement in retirement benefit obligations

(Millions of yen)

	FY2021 (January 1, 2021– December 31, 2021)	FY2022 (January 1, 2022– December 31, 2022)
Balance at the beginning of the period	9,522	9,743
Service cost	659	707
Interest cost	30	29
Actuarial loss (gain)	38	(661)
Benefits paid	(573)	(838)
Other	64	10
Balance at the end of the period	9,743	8,991

(2) Movement in pension assets

(Millions of yen)

	FY2021 (January 1, 2021– December 31, 2021)	FY2022 (January 1, 2022– December 31, 2022)
Balance at the beginning of the period	5,585	6,309
Expected return on pension assets	83	94
Actuarial gain (loss)	(8)	(198)
Contribution paid by the employer	1,022	1,538
Benefits paid	(373)	(656)
Balance at the end of the period	6,309	7,087

(3) Reconciliation of balance at the end of the period of retirement benefit obligations and pension assets to net defined benefit liability recognized on the consolidated balance sheets

(Millions of yen)

	FY2021 December 31, 2021	FY2022 December 31, 2022
Funded retirement benefit obligations	8,781	8,050
Pension assets	(6,309)	(7,087)
	2,472	963
Unfunded retirement benefit obligations	961	921
Net liabilities and assets recognized on the consolidated balance sheets	3,434	1,884
Net defined benefit liability	3,434	1,884
Net liabilities and assets recognized on the consolidated balance sheets	3,434	1,884

(4) Amount of retirement benefit expenses and breakdown of items

(Millions of yen)

	FY2021 (January 1, 2021– December 31, 2021)	FY2022 (January 1, 2022– December 31, 2022)
Service cost	659	707
Interest cost	30	29
Expected return on pension assets	(83)	(94)
Amortization of actuarial loss	117	102
Other	62	102
Retirement benefit expenses related to defined benefit plans	786	847

Notes: 1. Retirement benefit expenses for consolidated subsidiaries that use the simplified accounting method were included in “Service cost.”

2. Premium retirement payments paid on a one-off basis were recorded under “Other” and amounted to ¥78 million in fiscal 2021 and ¥117 million in fiscal 2022.

(5) Remeasurements of defined benefit plans

The details of remeasurements of defined benefit plans (before tax effect) are as follows:

(Millions of yen)

	FY2021 (January 1, 2021– December 31, 2021)	FY2022 (January 1, 2022– December 31, 2022)
Actuarial loss	69	565
Total	69	565

(6) Accumulated remeasurements of defined benefit plans

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

(Millions of yen)

	FY2021 December 31, 2021	FY2022 December 31, 2022
Unrecognized actuarial loss (gain)	315	(249)
Total	315	(249)

(7) Particulars for pension assets

1) Major components of pension assets

The percentages for major classifications to total pension assets are as follows:

	FY2021 December 31, 2021	FY2022 December 31, 2022
Life insurance general accounts	76.8%	67.9%
Life insurance special accounts	14.6%	21.9%
Other	8.6%	10.2%
Total	100.0%	100.0%

2) Method of setting the long-term expected rate of return on pension assets

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

(8) Particulars for actuarial calculation assumptions

Principal actuarial assumptions (represented as a weighted average)

	FY2021 (January 1, 2021– December 31, 2021)	FY2022 (January 1, 2022– December 31, 2022)
Discount rate	0.5%	1.3%
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, 2022.

3. Defined contribution pension plans

Consolidated subsidiaries' required contributions to defined contribution pension plans were ¥10 million in fiscal 2021 and ¥8 million in fiscal 2022.

■ (Stock Options)

1. Details of, number of and changes to stock options

(1) Details of stock options

	Subscription rights to shares issued in fiscal 2012	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2014
Date of approval	March 30, 2012	March 29, 2013	March 28, 2014
Classification and number of grantees	7 directors of the Company and 7 directors of subsidiaries	7 directors of the Company and 6 directors of subsidiaries	7 directors of the Company and 7 directors of subsidiaries
Type and number of shares granted (shares)	Common stock: 118,800	Common stock: 78,800	Common stock: 62,680
Grant date	April 16, 2012	April 15, 2013	April 14, 2014
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	From April 17, 2012 through April 16, 2042	From April 16, 2013 through April 15, 2043	From April 15, 2014 through April 14, 2044

	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2016	Subscription rights to shares issued in fiscal 2017
Date of approval	March 27, 2015	March 31, 2016	April 3, 2017
Classification and number of grantees	6 directors of the Company and 7 directors of subsidiaries	6 directors of the Company and 5 directors of subsidiaries	6 directors of the Company and 7 directors of subsidiaries
Type and number of shares granted (shares)	Common stock: 38,560	Common stock: 25,000	Common stock: 23,920
Grant date	April 13, 2015	April 15, 2016	April 18, 2017
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	From April 14, 2015 through April 13, 2045	From April 16, 2016 through April 15, 2046	From April 19, 2017 through April 18, 2047

	Subscription rights to shares issued in fiscal 2018
Date of approval	March 28, 2018
Classification and number of grantees	4 directors of the Company and 7 directors of subsidiaries
Type and number of shares granted (shares)	Common stock: 10,960
Grant date	April 12, 2018
Preconditions to exercising rights	Resignation of the positions as directors in both the Company and the subsidiaries
Service period required	Not specified
Exercisable period	From April 13, 2018 through April 12, 2048

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

(2) Information on number of and changes to stock options

The number of existing stock options translated into shares at the end of fiscal 2022 (December 31, 2022) is presented below.

1) Number of stock options

	Subscription rights to shares issued in fiscal 2012	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2014
Date of approval	March 30, 2012	March 29, 2013	March 28, 2014
Non-vested (shares)			
Outstanding at beginning of period	52,760	42,400	35,760
Granted	—	—	—
Forfeited	—	—	—
Vested	6,560	4,560	3,360
Balance of non-vested (shares)	46,200	37,840	32,400
Vested (shares)			
Outstanding at beginning of period	12,720	8,840	6,480
Vested	6,560	4,560	3,360
Exercised	—	—	—
Forfeited	—	—	—
Balance of non-exercised (shares)	19,280	13,400	9,840

	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2016	Subscription rights to shares issued in fiscal 2017
Date of approval	March 27, 2015	March 31, 2016	April 3, 2017
Non-vested (shares)			
Outstanding at beginning of period	23,440	20,320	20,200
Granted	—	—	—
Forfeited	—	—	—
Vested	2,320	1,680	1,320
Balance of non-vested (shares)	21,120	18,640	18,880
Vested (shares)			
Outstanding at beginning of period	4,440	—	—
Vested	2,320	1,680	1,320
Exercised	—	—	—
Forfeited	—	—	—
Balance of non-exercised (shares)	6,760	1,680	1,320

	Subscription rights to shares issued in fiscal 2018
Date of approval	March 28, 2018
Non-vested (shares)	
Outstanding at beginning of period	8,400
Granted	—
Forfeited	—
Vested	600
Balance of non-vested (shares)	7,800
Vested (shares)	
Outstanding at beginning of period	—
Vested	600
Exercised	—
Forfeited	—
Balance of non-exercised (shares)	600

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

2) Price information

	Subscription rights to shares issued in fiscal 2012	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2014
Date of approval	March 30, 2012	March 29, 2013	March 28, 2014
Exercise price (yen)	1	1	1
Average stock price at the time of exercise (yen)	—	—	—
Fair value of stock options on the grant date (yen)	458	641	750

	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2016	Subscription rights to shares issued in fiscal 2017
Date of approval	March 27, 2015	March 31, 2016	April 3, 2017
Exercise price (yen)	1	1	1
Average stock price at the time of exercise (yen)	—	—	—
Fair value of stock options on the grant date (yen)	1,462	1,831	1,909

	Subscription rights to shares issued in fiscal 2018
Date of approval	March 28, 2018
Exercise price (yen)	1
Average stock price at the time of exercise (yen)	—
Fair value of stock options on the grant date (yen)	3,838

Note: The Company carried out a four-for-one stock split of its common stock effective on April 1, 2017. Price information was recalculated based on the prices post stock split.

2. Method for estimating the fair value of stock options vested during the current fiscal year

None

3. Method for estimating the number of stock options vested

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

■ (Tax Effect Accounting)

1. Significant components of deferred tax assets and liabilities

(Millions of yen)

	FY2021 December 31, 2021	FY2022 December 31, 2022
Deferred tax assets		
Provision for bonuses	458	440
Net defined benefit liability	1,040	587
Loss on valuation of inventories	777	696
Impairment loss	1,947	1,464
Provision for points	609	—
Contract liabilities	—	1,000
Unrealized inter-company profit	1,529	1,675
Tax loss carry-forwards (Note)	12,377	14,126
Retained losses of subsidiaries	—	4,457
Enterprise tax payable	214	191
Asset retirement obligations	1,080	1,092
Other	1,799	2,177
Subtotal deferred tax assets	21,834	27,907
Valuation allowance for tax loss carry-forwards (Note)	(12,324)	(14,030)
Valuation allowance for total deductible temporary differences	(2,678)	(2,491)
Subtotal valuation allowance	(15,003)	(16,522)
Total deferred tax assets	6,831	11,384
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(37)	(143)
Translation differences of long-term foreign currency-denominated receivables and payables	(42)	(66)
Restoration cost for asset retirement obligations	(315)	(328)
Fair value at acquisition of subsidiaries	(402)	(338)
Other	(4)	(11)
Total deferred tax liabilities	(803)	(888)
Deferred tax assets, net	6,028	10,495

Note: Tax loss carry-forwards and the corresponding deferred tax assets for each carry-forward period

FY2021 (December 31, 2021)

(Millions of yen)

	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
Valuation allowance	(178)	(1,787)	(180)	(976)	(191)	(9,010)	(12,324)
Deferred tax assets	9	42	—	—	—	—	52

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

FY2022 (December 31, 2022)

(Millions of yen)

	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)	1,814	190	945	279	683	10,212	14,126
Valuation allowance	(1,718)	(190)	(945)	(279)	(683)	(10,212)	(14,030)
Deferred tax assets	95	—	—	—	—	—	95

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

2. Reconciliation between the statutory tax rate and the effective income tax rate after the application of tax effect accounting

	FY2021 December 31, 2021	FY2022 December 31, 2022
Statutory income tax rate	30.6%	30.6%
(Convocation)		
Expenditure not allowable for income tax purposes (entertainment expense, etc.)	0.3	0.6
Per capita inhabitants' tax	0.3	0.4
Increase (decrease) in valuation allowance	4.1	(28.3)
Amortization of goodwill	0.5	1.0
Impairment loss on goodwill	—	4.9
Gain on step acquisitions	(0.5)	—
Tax credits for research and development costs	(2.2)	(1.7)
Other	0.0	(1.0)
Effective income tax rate after application of tax effect accounting	33.1	6.5

■ (Asset Retirement Obligations)

Asset retirement obligations recorded on the consolidated balance sheets

(1) Summary of asset retirement obligations

These include restoration costs associated with lease contracts for stores, etc., and asbestos removal costs incurred during dismantling of buildings.

(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 determined using the yield of the government bond corresponding to the period to calculate the amount of asset retirement obligations.

(3) Increase/decrease in total amount

(Millions of yen)

	FY2021 (January 1, 2021– December 31, 2021)	FY2022 (January 1, 2022– December 31, 2022)
Balance at the beginning of the period	2,181	2,896
Increase due to acquisition of property, plant and equipment	994	1,119
Adjustment amount over time	12	9
Decrease due to fulfillment of asset retirement obligations	(342)	(273)
Other increase (decrease)	51	16
Balance at the end of the period	2,896	3,768

■ (Investment and Rental Property)

The Group owns office buildings and residential properties for lease in Tokyo and other areas.

In fiscal 2021, net rental income from investment and rental properties was ¥613 million (in which rental income is recorded under net sales and non-operating income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and non-operating expenses).

In fiscal 2022, net rental income from investment and rental properties is ¥752 million (in which rental income is recorded under net sales and non-operating income, while rental expenses are recorded under cost of sales, selling, general and administrative expenses, and non-operating expenses).

The carrying amounts on the consolidated balance sheets, net change during fiscal 2021 and fiscal 2022 and the fair value of those properties are stated below.

(Millions of yen)

		FY2021 (January 1, 2021–December 31, 2021)	FY2022 (January 1, 2022–December 31, 2022)
Carrying amounts on the consolidated balance sheets	Balance at the beginning of the period	17,777	17,790
	Change	13	1,659
	Balance at the end of the period	17,790	19,450
Fair Value at the end of the period		65,970	69,355

Notes: 1. The carrying amounts present acquisition cost less accumulated depreciation and accumulated impairment loss.

2. Main change

(Fiscal 2021)

Increase: Refurbishment of office buildings for lease: ¥420 million

Decrease: Depreciation on office buildings and residential properties and other properties for lease: ¥401 million

(Fiscal 2022)

Increase: Refurbishment of office buildings for lease: ¥2,270 million

Decrease: Depreciation on office buildings and residential properties and other properties for lease: ¥404 million

3. Method for calculating fair values

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

■ (Revenue Recognition)

1. Information analyzing revenue from contracts with customers

FY2022 (January 1, 2022–December 31, 2022)

(Millions of yen)

	Japan	Asia	Other areas	Total
Beauty Care	132,729	24,635	4,289	161,654
Real Estate	0	—	—	0
Others	2,569	—	—	2,569
Revenue from contracts with customers	135,298	24,635	4,289	164,224
Other revenue	2,083	—	—	2,083
Segment sales to external customers	137,382	24,635	4,289	166,307

Note: “Others” comprises business operations that are not categorized as reportable segments and includes the building maintenance businesses.

2. Information forming the basis for understanding revenue from contracts with customers

It is as stated in “Basis for Preparation of Consolidated Financial Statements, 4. Particulars for accounting policies, (5) Basis for recording significant revenues and expenses.”

3. Information about the relationship between the satisfaction of performance obligations under contracts with customers and cash flows from such contracts, and the amount and timing of revenue from contracts with customers that existed at the end of the current fiscal year that is expected to be recognized in subsequent fiscal years

(1) Outstanding contract liabilities

(Millions of yen)

	FY2022
Contract liabilities (balance at the beginning of the period)	3,925
Contract liabilities (balance at the end of the period)	5,437

The amount of revenue recognized in the current fiscal year that was included in the contract liability balance at the beginning of the period was ¥3,925 million. The total transaction price allocated to remaining performance obligations at the end of the current fiscal year was ¥5,437 million. This was mainly due to the point programs and related to advance payments received from customers for aesthetic treatments. Points expected to be exercised by customers in the future are recorded under contract liabilities as performance obligations when the points provide customers with significant rights, and are recognized as revenue when the points are used.

The residual performance obligation for aesthetic treatments provided in stores is recognized as revenue based on the number of times that customers are provided treatments.

(2) Transaction price allocated to remaining performance obligations

Since there are no significant contracts with an initial expected contract period exceeding one year, the practical expedient is applied and information on remaining performance obligations is omitted.

■ (Segment Information, etc.)

[Segment information]

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

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

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

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

The accounting method for the Group’s reportable business segments is generally the same as described in “Basis for Preparation of Consolidated Financial Statements.”

Segment income is based on operating income. The amounts of intersegment unrealized profits and transfers are calculated based on prevailing market prices.

As described in “Notes, (Changes in Accounting Policies), (1) Application of Accounting Standard for Revenue Recognition,” at the beginning of the current fiscal year, the Company adopted the Accounting Standard for Revenue Recognition and changed its accounting method for revenue recognition. As a result, the Company made similar changes to the method of calculating income or loss in its business segments.

Because of this change, compared with the previous method of calculation, Beauty Care sales are ¥1,109 million lower and segment income is ¥34 million lower. Other business sales are ¥148 million lower and there is no impact on segment income. Additionally, the sales of Reconciliations are ¥68 million higher and there is no impact on segment income.

3. Information about net sales, profit (loss), assets and other items by reportable segment

FY2021 (January 1, 2021–December 31, 2021)

(Millions of yen)

	Reportable segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount shown on the consolidated financial statements (Note 3)
	Beauty Care	Real Estate	Subtotal				
Net sales							
Sales to external customers	174,150	2,112	176,262	2,379	178,642	—	178,642
Intersegment 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 includes intersegment transaction eliminations of ¥3,684 million and corporate expenses of ¥(4,416) million not allocated to each segment. Corporate expenses are primarily the Company’s administrative expenses not allocated to reportable segments.

(2) The segment assets reconciliation of ¥11,949 million includes intersegment eliminations of ¥(86,540) million and corporate assets of ¥98,489 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 intersegment eliminations.

3. Segment income is adjusted for operating income reported on 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.

FY2022 (January 1, 2022–December 31, 2022)

(Millions of yen)

	Reportable segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount shown on the consolidated financial statements (Note 3)
	Beauty Care	Real Estate	Subtotal				
Net sales							
Sales to external customers	161,654	2,083	163,737	2,569	166,307	—	166,307
Intersegment sales or transfers	72	484	556	1,789	2,346	(2,346)	—
Total	161,726	2,568	164,294	4,358	168,653	(2,346)	166,307
Segment income	13,793	491	14,284	96	14,381	(1,800)	12,581
Segment assets	168,558	25,490	194,049	2,798	196,848	9,086	205,935
Other items							
Depreciation and Amortization	7,364	452	7,816	12	7,829	653	8,482
Amortization of goodwill	378	—	378	—	378	—	378
Increase in property, plant and equipment and intangible assets	8,909	2,624	11,534	2	11,537	995	12,532

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 ¥(1,800) million includes intersegment transaction eliminations of ¥6,086 million and corporate expenses of ¥(7,886) 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 ¥9,086 million includes intersegment eliminations of ¥(85,274) million and corporate assets of ¥94,361 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 intersegment eliminations.

3. Segment income is adjusted for operating income reported on 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.

■ (Related Information)

FY2021 (January 1, 2021–December 31, 2021)

1. Information by product and service

Information by product and service is omitted as sales to external customers in a single product or service category exceed 90% of net sales on the consolidated statements of income.

2. Information by geographical area

(1) Net sales

(Millions of yen)

Japan	Asia	Other areas	Total
146,254	28,607	3,780	178,642

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

(2) Property, plant and equipment

(Millions of yen)

Japan	Overseas	Total
36,242	4,206	40,449

3. Information by key customer

Information by key customer is omitted as there are no external customers for which sales account for more than 10% of net sales presented on the consolidated statements of income.

FY2022 (January 1, 2022–December 31, 2022)

1. Information by product and service

Information by product and service is omitted as sales to external customers in a single product or service category exceed 90% of net sales on the consolidated statements of income.

2. Information by geographical area

(1) Net sales

(Millions of yen)

Japan	Asia	Other areas	Total
137,382	24,635	4,289	166,307

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

(2) Property, plant and equipment

Information about property, plant and equipment is omitted as the amount of property, plant and equipment located in Japan exceeds 90% of the property, plant and equipment on the consolidated balance sheets.

3. Information by key customer

Information by key customer is omitted as there are no external customers for which sales account for more than 10% of net sales presented on the consolidated statements of income.

■ (Information about Impairment Loss on Non-current Assets by Reportable Segment)

FY2021 (January 1, 2021–December 31, 2021)

(Millions of yen)

	Reportable segments			Others	Reconciliations	Total
	Beauty Care	Real Estate	Subtotal			
Impairment loss	853	—	853	—	—	853

FY2022 (January 1, 2022–December 31, 2022)

(Millions of yen)

	Reportable segments			Others	Reconciliations	Total
	Beauty Care	Real Estate	Subtotal			
Impairment loss	2,539	—	2,539	—	—	2,539

[Information about Amortization and Unamortized Balance of Goodwill by Reportable Segment]

FY2021 (January 1, 2021–December 31, 2021)

(Millions of yen)

	Reportable segments			Others	Reconciliations	Total
	Beauty Care	Real Estate	Subtotal			
Amortization during the period	283	—	283	—	—	283
Balance at the end of the period	2,366	—	2,366	—	—	2,366

FY2022 (January 1, 2022–December 31, 2022)

(Millions of yen)

	Reportable segments			Others	Reconciliations	Total
	Beauty Care	Real Estate	Subtotal			
Amortization during the period	378	—	378	—	—	378
Balance at the end of the period	—	—	—	—	—	—

Note: In the Beauty Care segment, an impairment loss on goodwill of ¥1,987 million was recorded.

[Information about Gain on Bargain Purchase by Reportable Segment]

None

[Related-party Information]

1. Transactions with related parties

None

2. Notes related to the parent company and significant affiliates

None

■ (Per Share Information)

Item	FY2021 (January 1, 2021– December 31, 2021)	FY2022 (January 1, 2022– December 31, 2022)
Net assets per share	¥781.11	¥772.60
Net income per share	¥53.04	¥51.74
Diluted net income per share	¥52.99	¥51.69

Notes: 1. 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 the end of the period 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, 2022 is 242,460 and the average number of shares of such stock is 243,582 during the period. The number of shares of deducted treasury stock at December 31, 2021 was 244,708 and the average number of shares of such stock is 206,798 during the period.

2. Basis for calculation of net income per share and diluted net income per share is stated below:

Item	FY2021 (January 1, 2021– December 31, 2021)	FY2022 (January 1, 2022– December 31, 2022)
Net income per share		
Profit attributable to owners of parent (millions of yen)	11,734	11,446
Amount not attributable to shareholders of common stock (millions of yen)	—	—
Profit attributable to owners of parent associated with common stock (millions of yen)	11,734	11,446
Average number of shares of common stock during the period	221,226,689	221,230,520
Diluted net income per share		
Adjustment of profit attributable to owners of parent (millions of yen)	—	—
Number of shares of common stock increased	236,266	235,617
[Of which, subscription rights to shares]	[236,266]	[235,617]
Outline of the dilutive shares not included in the calculation of diluted net income per share due to their anti-dilutive effects	—	

3. Basis for calculation of net assets per share is stated below:

Item	FY2021 (At December 31, 2021)	FY2022 (At December 31, 2022)
Total net assets (millions of yen)	173,267	171,459
Amount deducted from total net assets (millions of yen)	463	534
[Of which, subscription rights to shares (millions of yen)]	(243)	(243)
[Of which, non-controlling interests (millions of yen)]	(220)	(291)
Net assets associated with common stock (millions of yen)	172,803	170,924
Number of shares of common stock used in the calculation of net assets per share	221,229,395	221,231,643

(Subsequent Event)

None

■ Annexed Consolidated Detailed Schedules

[Annexed Consolidated Detailed Schedule of Corporate Bonds]

None

[Annexed Consolidated Detailed Schedule of Borrowings]

Classification	Balance at the beginning of the period (millions of yen)	Balance at the end of the period (millions of yen)	Average interest rate (%)	Maturity
Short-term loans payable	—	—	—	—
Current portion of long-term loans payable	11	12	1.59	—
Current portion of lease obligations	840	739	4.09	—
Long-term borrowings (excluding that due within a year)	72	59	1.59	2024-2030
Lease obligations (excluding that due within a year)	1,354	1,067	5.40	2024-2032
Other interest-bearing liabilities	—	—	—	—
Total	2,280	1,878	—	—

Notes: 1. "Average interest rate" is the weighted average interest rate on the end-of-period balance of loans.

2. Total amount of expected repayment of long-term borrowings and lease obligations (excluding that due within a year) for the subsequent five years from the consolidated closing date

(Millions of yen)

Classification	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years
Long-term borrowings	12	8	7	7
Lease obligations	445	262	178	59

[Annexed Consolidated Detailed Schedule of Asset Retirement Obligations]

The details of asset retirement obligations that should be stated are omitted as they are described as notes stipulated in Article 15-23 of the Regulations on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

(2) Others

Quarterly information during FY2022

(Cumulative period)		Three months ended March 31, 2022	Six months ended June 30, 2022	Nine months ended September 30, 2022	Fiscal year ended December 31, 2022
Net sales	(millions of yen)	37,662	78,748	119,654	166,307
Income before income taxes	(millions of yen)	3,908	8,254	11,341	12,311
Profit attributable to owners of parent	(millions of yen)	7,180	10,904	13,035	11,446
Net income per share	(yen)	32.46	49.29	58.92	51.74

(Accounting period)		1st quarter	2nd quarter	3rd quarter	4th quarter
Net income (loss) per share	(yen)	32.46	16.83	9.63	(7.18)

■ Independent Auditor’s Report and Internal Control Audit Report

March 28, 2023

The Board of Directors
Pola Orbis Holdings Inc.

Ernst & Young ShinNihon LLC
Tokyo, Japan

Tatsuya Yokouchi
Designated Engagement Partner
Certified Public Accountant

Seizaburo Oya
Designated Engagement Partner
Certified Public Accountant

<Audit of Financial Statements>

Opinion

We have audited the consolidated financial statements for the consolidated fiscal year from January 1, 2022 through December 31, 2022 of Pola Orbis Holdings Inc. referred to in the Financial Information section, which comprise the consolidated balance sheets, consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets, consolidated statements of cash flows, basis for preparation of consolidated financial statements, other notes and annexed consolidated detailed schedules, to certify the audit pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pola Orbis Holdings Inc. and its consolidated subsidiaries (the Group) as at December 31, 2022, 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.

Impairment loss on non-current assets related to individual stores	
Description and Reason for Determination of Key Audit Matter	Auditor's Response
As described in the notes to the consolidated financial statements (Significant Accounting Estimates), the Company recognized an impairment loss of ¥212 million on property, plant and equipment of ¥2,850 million for non-current assets related to individual stores during the year ended December 31, 2022. 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 of each store are based on the medium-term management plan approved by the Board of Directors. The main assumption in formulating a medium-term management plan is the sales plans by customer base. The sales plan for each customer segment estimates and reflects market trends in consideration of 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. Given that the significant assumptions stated above used to estimate future cash flows are subject to uncertainty and require management's judgment, we determined impairment loss on non-current assets related to individual stores to be a key audit matter.	The audit procedures we performed to assess impairment loss on non-current assets related to individual stores include the following, among others: - We compared the future 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 COVID-19 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 outcomes of trend analyses based on past performance. Also, we made inquiries about sales metrics reflected in the sales plan.

Valuation of intangible assets including goodwill related to tricot, Inc.	
Description and Reason for Determination of Key Audit Matter	Auditor’s Response
As described in the notes to the consolidated financial statements (Significant Accounting Estimates), the Company recognized ¥979 million of trademark rights and other intangible assets as of December 31, 2022 for tricot, Inc. (hereinafter “tricot”), a consolidated subsidiary. In addition, the Company recorded an impairment loss of ¥1,987 million on goodwill due to tricot’s operating losses in the previous and current fiscal years, a significant discrepancy between the rational medium-term management plan initially formulated and actual results, and the total amount of undiscounted future cash flows being less than the carrying amount. When there is an indication of impairment, the Company should assess whether an impairment loss should be recognized for goodwill, trademark rights and other intangible assets (hereinafter “intangible assets, etc.”) by comparing the total undiscounted future cash flows from the business to which the intangible assets, etc., are attributable with the carrying amount. If the assessment indicates that an impairment loss should be recognized, the carrying amount is reduced to the recoverable amount and the impairment loss is measured as the amount of such reduction. Estimates of future cash flows are based on tricot’s medium-term management plan approved by the Board of Directors, taking into account future uncertainties for subsequent periods. The main assumptions in estimating future cash flows are the sales plan and the customer retention rate by customer base. Given that the significant assumptions stated above used to estimate the future cash flows are subject to uncertainty and require management’s judgment, we determined valuation of intangible assets, etc., related to tricot to be a key audit matter.	The audit procedures we performed to assess intangible assets, etc., related to tricot include the following, among others: - We made inquiries to tricot’s management to gain an understanding of the state of tricot’s business. - We reviewed the minutes of the Board of Directors’ meetings to confirm that the medium-term management plan used to estimate future cash flows was tricot’s medium-term management plan that was discussed and approved by the Company’s Board of Directors. - In addition to making inquiries of management about the medium-term management plan, we viewed the materials that formed the assumptions for preparing the sales plan and customer retention rate by customer base and examined the materials in light of tricot’s business and past performance. - On the basis of our assessment of the appropriateness of the sales plan and forecast for the customer retention rate by customer base, which are the main assumptions, and the results of studying the state of achievement of past medium-term management plans and the causes of differences from the plans, we independently estimated future cash flows when certain uncertainties are incorporated in the medium-term management plans. We then compared the estimates made by management and considered the impact on the amount of impairment loss recorded.

Other Information

Other information comprises the information that is included in the annual securities report but does not include the consolidated financial statements, financial statements or our auditor’s reports thereon. Management is responsible for preparing and disclosing other information. In addition, the Corporate Auditors and the Board of Corporate Auditors are responsible for overseeing the execution of duties by Directors in the design and operation of the reporting process for other information.

Other information is not included in the scope of our opinion on the consolidated financial statements, and we express no opinion on such other information.

Our responsibility for the audit of the consolidated financial statements is to read other information carefully and, in the course of that reading, to consider whether there are any material differences between such other information and the consolidated financial statements or our knowledge obtained during the audit, and to ascertain whether there are any indications of material errors in other information other than such material differences.

If, on the basis of the work we have performed, we conclude that there are material errors in other information, we are required to report those facts.

We have nothing to report regarding other information.

Responsibilities of Management, the Corporate Auditors 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 the design and operation of such internal controls as management determines is necessary to enable the preparation and fair presentation 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 the going concern.

The Corporate Auditors and the Board of Corporate Auditors are responsible for overseeing the execution of duties by Directors in the design and operation of the financial reporting process.

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

Our responsibilities are to obtain reasonable assurance, based on the audit we perform, 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 on the consolidated financial statements from an independent standpoint. 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 made 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. In addition:

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. The selection and application of audit procedures are based on our judgment. Furthermore, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- We consider internal controls 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.
- We evaluate the appropriateness of accounting policies used, the application method, the reasonableness of accounting estimates and related disclosures made by management.
- We conclude whether, on the appropriateness of management's use of the going concern basis of accounting and on the basis of the audit evidence obtained, 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.
- We 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.
- We obtain sufficient and 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 Auditors and the Board of Corporate Auditors regarding the planned scope and timing of the audit, significant audit findings including any significant deficiencies in internal controls that we have identified during our audit and other matters required by the audit standards.

We also provide the Corporate Auditors 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 communicate with them regarding all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards established to remove or mitigate disincentives.

From the matters communicated to the Corporate Auditors and the Board of Corporate Auditors, we determine those matters that are 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.

<Audit of Internal Controls>

Opinion

We have audited the internal control report of Pola Orbis Holdings Inc. as at December 31, 2022 to certify the audit pursuant to Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act of Japan.

In our opinion, the internal control report referred to above, in which Pola Orbis Holdings Inc. indicated that its internal controls over financial reporting as at December 31, 2022 are effective, presents fairly, in all material respects, the results of its assessment of internal controls over financial reporting in conformity with criteria for assessment of internal controls over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of internal controls in accordance with auditing standards for internal controls over financial reporting generally accepted in Japan. Our responsibilities under the auditing standards for internal controls over financial reporting are further described in the Auditor's Responsibilities for the Audit of Internal Controls section of our report. We are independent of the Group in accordance with professional ethical requirements in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditors and the Board of Corporate Auditors for the Internal Control Report

Management is responsible for designing and operating internal controls over financial reporting, and for preparing and presenting fairly an internal control report in conformity with criteria for assessment of internal controls over financial reporting generally accepted in Japan.

The Corporate Auditors and the Board of Corporate Auditors are responsible for overseeing and verifying the design and operation of internal controls over financial reporting.

It is possible that internal controls over financial reporting will not completely prevent or detect misstatements in financial reporting.

Auditor's Responsibilities for the Audit of Internal Controls

Our responsibilities are to obtain reasonable assurance, based on the audit of internal controls we performed, about whether the internal control report is free from material misstatement and to issue an internal control audit report that includes our opinion on the internal control report from an independent standpoint.

As part of an audit in accordance with auditing standards for internal controls over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. In addition

- We conduct audit procedures to obtain audit evidence regarding the results of the assessment of internal controls over financial reporting in the internal control report. Audit procedures for internal control audits are selected and applied based on our judgment, depending on the materiality of the effect on the reliability of financial reporting.
- We consider the overall presentation of the internal control report, including statements made by management regarding the scope of assessment of internal controls over financial reporting, assessment procedures and results.
- We obtain sufficient and appropriate audit evidence regarding the results of the assessment of internal controls over financial reporting in the internal control report. We are responsible for the direction, supervision and implementation of the audit of the internal control report. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditors and the Board of Corporate Auditors regarding the planned scope and timing of the internal control audit and the findings of the audit, any material deficiencies in internal controls that we have identified that should be disclosed, the outcome of corrections and other matters required by the auditing standards for internal controls.

We also provide the Corporate Auditors and the Board of Corporate Auditors with a statement that we have complied with professional ethical requirements regarding independence in Japan and communicate with them regarding all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards established to remove or mitigate disincentives.

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 that is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Notes:	1. The original of the independent auditor's report is kept separately by the Company, which filed an annual securities report.
	2. XBRL data is excluded from the scope of the audit.