POLA ORBIS HOLDINGS

FINANCIAL INFORMATION REPORT 2023

For the Fiscal Year Ended December 31, 2023

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, 2023) and financial statements for the fiscal year (January 1 through December 31, 2023) 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.

Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

1) Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Assets			
Current assets			
Cash and deposits	**¥ 47,200**	¥ 63,318	**$ 332,799**
Notes and accounts receivable – trade	**17,820**	17,817	**125,648**
Short-term investments in securities	**17,944**	17,993	**126,519**
Merchandise and finished goods	**12,198**	11,149	**86,007**
Work in process	**683**	661	**4,817**
Raw materials and supplies	**3,534**	3,337	**24,992**
Other	**8,388**	4,055	**59,144**
Allowance for doubtful accounts	**(72)**	(59)	**(513)**
Total current assets	**107,697**	118,273	**759,343**
Property, plant and equipment			
Buildings and structures	**53,186**	51,892	**374,999**
Accumulated depreciation	**(36,657)**	(35,639)	**(258,463)**
Buildings and structures, net	**16,528**	16,253	**116,536**
Machinery, equipment and vehicles	**9,938**	9,585	**70,075**
Accumulated depreciation	**(8,084)**	(7,867)	**(57,004)**
Machinery, equipment and vehicles, net	**1,853**	1,718	**13,072**
Land	**14,247**	14,226	**100,455**
Leased assets	**6,844**	7,503	**48,527**
Accumulated depreciation	**(6,176)**	(6,628)	**(43,545)**
Leased assets, net	**668**	874	**4,711**
Construction in progress	**14,450**	5,313	**101,884**
Other	**18,865**	19,318	**133,015**
Accumulated depreciation	**(12,917)**	(13,257)	**(91,075)**
Other, net	**5,948**	6,060	**41,940**
Net property, plant and equipment	**53,696**	44,446	**378,599**
Intangible assets			
Right of trademark	**21**	797	**150**
Software	**11,813**	11,510	**83,293**
Other intangible assets	**91**	296	**648**
Net intangible assets	**11,926**	12,604	**84,091**
Investments and other assets			
Investments in securities	*1 **17,361**	*1 16,154	**122,410**
Long-term loans receivable	**163**	139	**1,151**
Deferred tax assets	**6,264**	10,606	**44,170**
Other	**4,419**	3,881	**31,162**
Allowance for doubtful accounts	**(321)**	(172)	**(2,270)**
Total investments and other assets	**27,886**	30,610	**196,622**
Total non-current assets	**93,510**	87,661	**659,312**
Total assets	**¥ 201,207**	¥ 205,935	**$ 1,418,655**

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Liabilities			
Current liabilities			
Notes and accounts payable – trade	**¥ 2,751**	¥ 2,745	**$ 19,402**
Current portion of long-term borrowings	**12**	12	**87**
Lease obligations	**674**	739	**4,754**
Accounts payable – other	**11,231**	9,965	**79,191**
Income taxes payable	**875**	1,252	**6,173**
Contract liabilities	**5,226**	5,437	**36,851**
Provision for bonuses	**1,807**	1,749	**12,741**
Provision for directors' bonuses	**161**	157	**1,142**
Other provisions	**54**	16	**385**
Other	**2,848**	3,879	**20,084**
Total current liabilities	**25,644**	25,954	**180,809**
Non-current liabilities			
Long-term borrowings	**46**	59	**330**
Lease obligations	**962**	1,067	**6,790**
Net defined benefit liability	**811**	1,884	**5,720**
Provision for share benefits for directors	**123**	115	**871**
Provision for environmental measures	**52**	52	**367**
Asset retirement obligations	**3,534**	3,744	**24,919**
Other	**1,634**	1,598	**11,523**
Total non-current liabilities	**7,165**	8,521	**50,520**
Total liabilities	**32,809**	34,476	**231,329**
Net assets			
Shareholders' equity			
Common stock	**10,000**	10,000	**70,507**
Capital surplus	**81,025**	81,025	**571,288**
Retained earnings	**80,907**	82,759	**570,457**
Treasury stock, at cost	**(2,839)**	(2,860)	**(20,022)**
Total shareholders' equity	**169,093**	170,924	**1,192,229**
Accumulated other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	**229**	120	**1,620**
Foreign currency translation adjustments	**(1,772)**	(303)	**(12,494)**
Remeasurements of defined benefit plans	**255**	182	**1,799**
Total accumulated other comprehensive income	**(1,287)**	(0)	**(9,075)**
Subscription rights to shares	**243**	243	**1,715**
Non-controlling interests	**348**	291	**2,457**
Total net assets	**168,398**	171,459	**1,187,326**
Total liabilities and net assets	**¥201,207**	¥205,935	**$1,418,655**

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

[Consolidated Statements of Income]

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Net sales	¥ *1 **173,304**	¥ *1 166,307	$ **1,221,914**
Cost of sales	*2 **31,227**	*2 31,037	**220,174**
Gross profit	**142,076**	135,270	**1,001,740**
Selling, general and administrative expenses			
Sales commission	**34,976**	34,870	**246,610**
Promotion expenses	**11,032**	11,283	**77,784**
Packing and transportation expenses	**5,709**	5,492	**40,257**
Advertising expenses	**12,556**	11,026	**88,531**
Salaries, allowances and bonuses	**21,732**	21,481	**153,230**
Welfare expenses	**4,432**	4,219	**31,252**
Retirement benefit expenses	**692**	768	**4,884**
Provision for bonuses	**1,644**	1,591	**11,593**
Depreciation and amortization	**6,311**	6,774	**44,498**
Amortization of Goodwill	—	378	—
Other	**26,908**	24,801	**189,722**
Total selling, general and administrative expenses	*2 **125,996**	*2 122,688	**888,360**
Operating income	**16,080**	12,581	**113,380**
Non-operating income			
Interest income	**237**	164	**1,678**
Foreign exchange gains	**2,122**	2,355	**14,965**
Other	**330**	252	**2,333**
Total non-operating income	**2,691**	2,773	**18,976**
Non-operating expenses			
Interest expense	**103**	91	**733**
Commission expenses	**127**	102	**900**
Loss related to COVID-19	—	75	—
Information security expenses	—	121	—
Other	**70**	35	**497**
Total non-operating expenses	**302**	427	**2,130**
Ordinary income	¥ **18,469**	¥ 14,928	$ **130,226**

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Extraordinary income			
Compensation income	**¥ 376**	¥ —	**$ 2,658**
Foreign currency translation adjustments	**297**	—	**2,095**
Gain on sales of fixed assets	*3 **—**	*3 762	**—**
Total extraordinary income	**674**	762	**4,753**
Extraordinary losses			
Loss on disposal of non-current assets	*3 **697**	*3 496	**4,917**
Impairment loss	*4 **1,813**	*4 2,539	**12,785**
Loss on valuation of investment securities	**361**	165	**2,548**
Loss on liquidation of business	*5 **770**	165	**5,436**
Other	**140**	12	**989**
Total extraordinary losses	**3,783**	3,379	**26,674**
Income before income taxes	**15,360**	12,311	**108,305**
Income taxes – current	**1,300**	5,233	**9,167**
Income taxes – deferred	**4,327**	(4,429)	**30,514**
Total income taxes	**5,627**	804	**39,681**
Net income	**9,732**	11,507	**68,624**
Profit attributable to non-controlling interests	**67**	61	**477**
Profit attributable to owners of parent	**¥ 9,665**	¥ 11,446	**$ 68,147**

[Consolidated Statements of Comprehensive Income]

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Net income	**¥ 9,732**	¥ 11,507	**$ 68,624**
Other comprehensive income			
Unrealized gain (loss) on available-for-sale securities	**109**	114	**770**
Foreign currency translation adjustments	**(1,455)**	(1,300)	**(10,264)**
Remeasurements of defined benefit plans	**72**	397	**514**
Total other comprehensive income	*1 **(1,273)**	*1 (788)	**(8,981)**
Comprehensive income	**¥ 8,459**	¥ 10,719	**$ 59,643**
Comprehensive income attributable to:			
Owners of parent	**¥ 8,378**	¥ 10,656	**$ 59,074**
Non-controlling interests	**¥ 80**	¥ 63	**$ 570**

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, 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
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 January 1, 2023	**229,136**	**10,000**	**81,025**	**82,759**	**(2,860)**	**(0)**	**243**	**291**	**171,459**
Dividends from retained earnings				**(11,516)**					**(11,516)**
Net income attributable to owners of parent				**9,665**					**9,665**
Disposal of treasury stock					**20**				**20**
Change in unrealized gain (loss) on available-for-sale securities						**109**			**109**
Foreign currency translation adjustments						**(1,468)**			**(1,468)**
Remeasurements of defined benefit plans						**72**			**72**
Subscription rights to shares							—		—
Non-controlling interests								**57**	**57**
Balance at December 31, 2023	**229,136**	¥ **10,000**	¥ **81,025**	¥ **80,907**	¥ **(2,839)**	¥ **(1,287)**	¥ **243**	¥ **348**	¥ **168,398**

	Thousands of U.S. dollars							
	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, 2023	**$ 70,507**	**$ 571,288**	**$ 583,510**	**$ (20,165)**	**$ (2)**	**$ 1,715**	**$ 2,053**	**$ 1,208,905**
Dividends from retained earnings			**(81,200)**					**(81,200)**
Net income attributable to owners of parent			**68,147**					**68,147**
Disposal of treasury stock				**144**				**144**
Change in unrealized gain (loss) on available-for-sale securities					**770**			**770**
Foreign currency translation adjustments					**(10,357)**			**(10,357)**
Remeasurements of defined benefit plans					**514**			**514**
Subscription rights to shares								**-**
Non-controlling interests							**404**	**404**
Balance at December 31, 2023	**$ 70,507**	**$ 571,288**	**$ 570,457**	**$ (20,022)**	**$ (9,075)**	**$ 1,715**	**$ 2,457**	**$ 1,187,326**

4) Consolidated Statements of Cash Flows

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Cash flows from operating activities			
Income before income taxes	**¥ 15,360**	¥ 12,311	**$ 108,303**
Adjustments to reconcile income before income taxes to net cash flows from operating activities:			
Depreciation and amortization	**7,712**	8,482	**54,377**
Impairment loss	**1,813**	2,539	**12,785**
Amortization of goodwill	**—**	378	**—**
Increase (decrease) in allowance for doubtful accounts	**159**	(45)	**1,124**
Increase (decrease) in provision for bonus	**31**	(121)	**220**
Increase (decrease) in other provisions	**13**	33	**92**
Increase (decrease) in net defined benefit liability	**(971)**	(986)	**(6,852)**
Interest and dividend income	**(237)**	(164)	**(1,678)**
Interest expenses	**103**	91	**733**
Foreign exchange loss (gain)	**(2,176)**	(2,174)	**(15,344)**
Loss (gain) on valuation of investment securities	**361**	165	**2,548**
Loss (gain) on sales of non-current assets	**—**	(762)	**—**
Loss on disposal of non-current assets	**697**	496	**4,917**
Foreign currency translation adjustments	**(297)**	—	**(2,095)**
Loss on liquidation of business	**770**	165	**5,436**
Compensation income	**(376)**	—	**(2,658)**
Decrease (increase) in notes and accounts receivable – trade	**175**	(7)	**1,239**
Decrease (increase) in inventories	**(1,464)**	1,042	**(10,328)**
Increase (decrease) in notes and accounts payable – trade	**(135)**	43	**(956)**
Increase (decrease) in contract liabilities	**(244)**	1,487	**(1,727)**
Increase (decrease) in consumption taxes payable	**193**	(397)	**1,363**
Decrease (increase) in other assets	**(317)**	109	**(2,236)**
Increase (decrease) in other liabilities	**(249)**	(1,584)	**(1,757)**
Other	**(109)**	175	**(775)**
Subtotal	**20,810**	21,277	**146,731**
Interest and dividends received	**232**	201	**1,638**
Interest paid	**(104)**	(92)	**(740)**
Payment for liquidation of business	**(305)**	(143)	**(2,153)**
Compensation income received	**376**	—	**2,658**
Income taxes paid	**(6,586)**	(5,695)	**(46,436)**
Net cash provided by operating activities	**¥ 14,423**	¥ 15,548	**$ 101,697**

	Millions of yen		Thousands of U.S. dollars
	2023	2022	**2023**
Cash flows from investing activities			
Payments into time deposits	¥ **(286)**	¥ (245)	$ **(2,017)**
Proceeds from withdrawal of time deposits	**245**	245	**1,732**
Purchase of short-term investments in securities	**(1,000)**	(2,000)	**(7,051)**
Proceeds from sales and redemption of short-term investments in securities	**11,100**	10,200	**78,263**
Purchase of property, plant and equipment	**(12,146)**	(7,482)	**(85,644)**
Proceeds from sales of property, plant and equipment	**0**	1,010	**0**
Purchase of intangible assets	**(4,088)**	(3,917)	**(28,826)**
Payments for disposal of non-current assets	**(215)**	(232)	**(1,519)**
Purchase of investments in securities	**(11,403)**	(9,907)	**(80,405)**
Payments for asset retirement obligations	**(345)**	(339)	**(2,438)**
Purchase of long-term prepaid expenses	**(254)**	(134)	**(1,792)**
Payments for lease and guarantee deposits	**(144)**	(131)	**(1,017)**
Proceeds from collection of lease and guarantee deposits	**416**	466	**2,939**
Other	**(612)**	97	**(4,320)**
Net cash used in investing activities	**(18,734)**	(12,370)	**(132,094)**
Cash flows from financing activities			
Repayments of borrowings	**(12)**	(12)	**(87)**
Repayments of lease obligations	**(815)**	(1,136)	**(5,751)**
Cash dividends paid	**(11,547)**	(11,518)	**(81,420)**
Purchase of treasury shares	**(20)**	(6)	**(144)**
Proceeds from sales of treasury shares	**20**	6	**144**
Net cash used in financing activities	**(12,375)**	(12,668)	**(87,257)**
Effect of exchange rate changes on cash and cash equivalents	**501**	358	**3,533**
Net increase (decrease) in cash and cash equivalents	**(16,185)**	(9,131)	**(114,121)**
Cash and cash equivalents at beginning of year	**62,562**	71,693	**441,109**
Cash and cash equivalents at end of year	¥ *1 **46,376**	¥ *1 62,562	$ **326,988**

[Notes]

■ (Basis for Preparation of Consolidated Financial Statements)

1. The scope of consolidation

(1) Number of consolidated subsidiaries: 31

Names of major consolidated subsidiaries

POLA INC.

ORBIS Inc.

POLA CHEMICAL INDUSTRIES INC.

P.O. REAL ESTATE INC.

and 27 other companies

(One new company)

In the current fiscal year, POLA MEDICAL INC. was newly established and is included in the scope of consolidation.

(Two excluded companies)

In the current fiscal year, H2O PLUS HOLDINGS, INC., and H2O PLUS, LLC are excluded from the scope of consolidation due to the completion of liquidation procedures.

(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 14 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., PraCheer Co., Ltd., REVER Flor Co., Ltd., WELLHAPI, Inc., PO-ZE Co., Ltd., ei. Co., Ltd., Pribbon 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 non-controlling 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 group tax sharing system

The group tax sharing system is applied.

2) Application of practical solution on the accounting and disclosure under the group tax sharing system

The group tax sharing system has been introduced for the current fiscal year, replacing the consolidated tax system, for the Company and its domestic consolidated subsidiaries. The accounting treatment and the disclosure of corporate taxes, local taxes and tax effect accounting are performed in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021). On the basis of Paragraph 32 (1) of the ASBJ PITF No. 42, there is no impact from the change of accounting policies accompanying the application of ASBJ PITF No. 42.

■ (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)

	FY2022 December 31, 2022	FY2023 December 31, 2023
Non-current assets related to individual stores	2,850	2,619
Impairment loss	212	538

(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 by customer base is estimated from changes in sales performance over the past years.

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

Any changes to the assumptions used in the estimates for the current fiscal year due to 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.

■ (Changes in Accounting Policies)

Adoption of “Implementation Guidance on Accounting Standard for Fair Value Measurement”

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021) was adopted at the beginning of the current fiscal year. In accordance with the transitional measures stipulated in Paragraph 27-2 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement,” the new accounting policies stipulated in this implementation guidance will also be adopted in the future. This will have no impact on the consolidated financial statements.

■ (Consolidated Balance Sheets)

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

(Millions of yen)

FY2022 December 31, 2022		FY2023 December 31, 2023	
Investment securities	44	Investment securities	52

2. Contingent liabilities

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

(Millions of yen)

FY2022 December 31, 2022		FY2023 December 31, 2023	
Employees' mortgages	1	Employees' mortgages	0

■ (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. 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)

FY2022 (January 1, 2022–December 31, 2022)	FY2023 (January 1, 2023–December 31, 2023)
4,686	4,625

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

(Millions of yen)

	FY2022 (January 1, 2022–December 31, 2022)	FY2023 (January 1, 2023–December 31, 2023)
Buildings and structures	235	—
Land	527	—
Other	0	—
Total	762	—

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

(Millions of yen)

	FY2022 (January 1, 2022–December 31, 2022)	FY2023 (January 1, 2023–December 31, 2023)
Buildings and structures	142	91
Machinery, equipment and vehicles	0	1
Leased assets	46	5
Removal and demolition costs	230	219
Software	44	358
Other	31	20
Total	496	697

*4. Impairment loss

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

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.

FY2023 (January 1, 2023–December 31, 2023)

(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	385
Asia	Stores	Buildings and structures, Property, plant and equipment (Other), Software	331
Oceania	Stores	Buildings and structures, Property, plant and equipment (Other)	92
Japan	Assets for lease	Buildings and structures	76
Japan	Business assets	Right of trademark, Buildings and structures, Property, plant and equipment (Other), Software, Intangible assets (Other)	928
Total			1,813

(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.

With regard to assets for lease, the Group wrote down the carrying amount of the asset group relating to the subject property to the recoverable amount due to a decrease in profitability following a resolution to rebuild the subject property and recorded the difference as an impairment loss.

The Group wrote down the carrying amount of business assets 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 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 and assets for lease are mostly grouped by individual store and office and asset for lease, 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.

*5. Loss on liquidation of business

FY2023 (January 1, 2023–December 31, 2023)

The loss on liquidation of business was due to the withdrawal of the *Amplitude* and *ITRIM* brands of ACRO INC., a consolidated subsidiary. It consists of loss on valuation and abandonment of inventories of ¥664 million and other related expenses of ¥106 million.

■ (Consolidated Statements of Comprehensive Income)

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

(Millions of yen)

	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Valuation difference on available-for-sale securities		
Amount arising during the period	85	40
Reclassification adjustment	98	108
Amount before tax effect	183	148
Tax effect	(68)	(39)
Valuation difference on available-for-sale securities	114	109
Foreign currency translation adjustments		
Amount arising during the period	(1,134)	(1,324)
Reclassification adjustment	—	(297)
Amount before tax effect	(1,134)	(1,621)
Tax effect	(165)	165
Foreign currency translation adjustments	(1,300)	(1,455)
Remeasurements of defined benefit plans		
Amount arising during the period	463	63
Reclassification adjustment	102	42
Amount before tax effect	565	105
Tax effect	(168)	(32)
Remeasurements of defined benefit plans	397	72
Total other comprehensive income	(788)	(1,273)

■ (Consolidated Statements of Changes in Net Assets)

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 common stock held in treasury stock includes the Company's shares (244,708 shares at the beginning of the period and 242,460 shares at the end of the period) held by the officer compensation Board Incentive Plan (BIP) trust.

2. (Summary of reasons for changes)

The reduction 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.

FY2023 (January 1, 2023–December 31, 2023)

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)	7,904,513	—	6,550	7,897,963

Notes: 1. The number of shares of common stock held in treasury stock includes the Company's shares (242,460 shares at the beginning of the period and 235,910 shares at the end of the period) held by the officer compensation Board Incentive Plan (BIP) trust.

2. (Summary of reasons for change)

The reduction in the number of shares of treasury stock was due to a decrease of 6,550 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 28, 2023	Common stock	6,865	31.00	December 31, 2022	March 29, 2023
Board of Directors' Meeting held on July 31, 2023	Common stock	4,650	21.00	June 30, 2023	September 8, 2023

Note: Total dividends resolved at the Annual Shareholders' Meeting held on March 28, 2023 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 31, 2023 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 28, 2024	Common stock	Retained earnings	6,865	31.00	December 31, 2023	March 29, 2024

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)

	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Cash and deposits	63,318	47,200
Short-term investments in securities	17,993	17,944
Total	81,311	65,145
Time deposits with deposit periods of more than three months	(755)	(824)
Stocks and bonds, etc., with maturities of more than three months	(17,993)	(17,944)
Cash and cash equivalents	62,562	46,376

2. Significant non-cash transactions

(Millions of yen)

	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Assets and liabilities related to finance leases	857	698
Significant asset retirement obligations	1,119	57

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)

	FY2022 December 31, 2022	FY2023 December 31, 2023
Due within 1 year	4	—
Due after 1 year	—	—
Total	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

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

FY2023 (December 31, 2023)

(Millions of yen)

	Carrying amount on the consolidated balance sheets	Fair value	Difference
Investments in securities (*2)			
Available-for-sale securities	29,878	29,878	—

(*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	FY2023
Unlisted stock	1,172
Capital contribution to investment in a limited partnership	4,254
Total	5,427

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

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	—

FY2023 (December 31, 2023)

(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	47,200	—	—	—
Notes and accounts receivable – trade	17,747	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	30	1,001	—	—
Available-for-sale securities with maturities (other)	17,944	10,930	3,738	488
Total	82,922	11,931	3,738	488

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

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
Long-term borrowings	12	12	8	7	7	22

FY2023 (December 31, 2023)

(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
Long-term borrowings	12	8	7	7	7	14

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

FY2023 (December 31, 2023)

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Available-for-sale securities				
Corporate bonds	—	1,031	—	1,031
Other	—	28,846	—	28,846
Total assets	—	29,878	—	29,878

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

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)

FY2023 (December 31, 2023)

(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	1,001	1,000	1
	(3) Other	9,023	9,000	23
	Subtotal	10,025	10,000	25
Securities whose carrying amount on the consolidated balance sheets does not exceed acquisition cost	(1) Government and municipal bonds	—	—	—
	(2) Corporate bonds	30	30	—
	(3) Other	19,823	20,000	(176)
	Subtotal	19,853	20,030	(176)
Total		29,878	30,030	(151)

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

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

None

FY2023 (January 1, 2023–December 31, 2023)

None

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

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

None

FY2023 (January 1, 2023–December 31, 2023)

(Millions of yen)

Type	Amount of sale	Total gain on sales	Total loss on sales
Stocks	0	0	—

4. Securities for which the holding purpose was changed

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

None

FY2023 (January 1, 2023–December 31, 2023)

None

5. Securities for which an impairment loss was recognized

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

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

FY2023 (January 1, 2023–December 31, 2023)

In fiscal 2023, loss on valuation of investment securities was recognized in the amount of ¥361 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)

	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Balance at the beginning of the period	9,743	8,991
Service cost	707	669
Interest cost	29	69
Actuarial loss (gain)	(661)	(134)
Benefits paid	(838)	(672)
Other	10	3
Balance at the end of the period	8,991	8,927

(2) Movement in pension assets

(Millions of yen)

	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Balance at the beginning of the period	6,309	7,087
Expected return on pension assets	94	106
Actuarial gain (loss)	(198)	(70)
Contribution paid by the employer	1,538	1,518
Benefits paid	(656)	(526)
Balance at the end of the period	7,087	8,115

(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)

	FY2022 December 31, 2022	FY2023 December 31, 2023
Funded retirement benefit obligations	8,050	7,957
Pension assets	(7,087)	(8,115)
	963	(158)
Unfunded retirement benefit obligations	921	969
Net liabilities and assets recognized on the consolidated balance sheets	1,884	811
Net defined benefit liability	1,884	811
Net liabilities and assets recognized on the consolidated balance sheets	1,884	811

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

(Millions of yen)

	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Service cost	707	669
Interest cost	29	69
Expected return on pension assets	(94)	(106)
Amortization of actuarial loss	102	42
Other	102	65
Retirement benefit expenses related to defined benefit plans	847	740

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 ¥117 million in fiscal 2022 and ¥74 million in fiscal 2023.

(5) Remeasurements of defined benefit plans

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

(Millions of yen)

	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Actuarial loss	565	105
Total	565	105

(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)

	FY2022 December 31, 2022	FY2023 December 31, 2023
Unrecognized actuarial loss (gain)	(249)	(354)
Total	(249)	(354)

(7) Particulars for pension assets

1) Major components of pension assets

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

	FY2022 December 31, 2022	FY2023 December 31, 2023
Life insurance general accounts	67.9%	59.5%
Life insurance special accounts	21.9%	28.5%
Other	10.2%	12.0%
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)

	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Discount rate	1.3%	1.4%
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, 2023.

3. Defined contribution pension plans

Consolidated subsidiaries' required contributions to defined contribution pension plans were ¥8 million in fiscal 2022 and ¥2 million in fiscal 2023.

■ (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 2023 (December 31, 2023) 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	46,200	37,840	32,400
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Balance of non-vested (shares)	46,200	37,840	32,400
Vested (shares)			
Outstanding at beginning of period	19,280	13,400	9,840
Vested	—	—	—
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	21,120	18,640	18,880
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	1,560
Balance of non-vested (shares)	21,120	18,640	17,320
Vested (shares)			
Outstanding at beginning of period	6,760	1,680	1,320
Vested	—	—	1,560
Exercised	—	—	—
Forfeited	—	—	—
Balance of non-exercised (shares)	6,760	1,680	2,880

	Subscription rights to shares issued in fiscal 2018
Date of approval	March 28, 2018
Non-vested (shares)	
Outstanding at beginning of period	7,800
Granted	—
Forfeited	—
Vested	680
Balance of non-vested (shares)	7,120
Vested (shares)	
Outstanding at beginning of period	600
Vested	680
Exercised	—
Forfeited	—
Balance of non-exercised (shares)	1,280

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)

	FY2022 December 31, 2022	FY2023 December 31, 2023
Deferred tax assets		
Provision for bonuses	440	467
Net defined benefit liability	587	258
Loss on valuation of inventories	696	522
Impairment loss	1,464	898
Contract liabilities	1,000	471
Unrealized inter-company profit	1,675	1,615
Tax loss carry-forwards (Note 2)	14,126	11,339
Retained losses of subsidiaries	4,457	—
Enterprise tax payable	191	156
Asset retirement obligations	1,092	1,170
Other	2,177	2,066
Subtotal deferred tax assets	27,907	18,967
Valuation allowance for tax loss carry-forwards (Note 2)	(14,030)	(10,349)
Valuation allowance for total deductible temporary differences	(2,491)	(1,898)
Subtotal valuation allowance (Note 1)	(16,522)	(12,247)
Total deferred tax assets	11,384	6,719
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(143)	(160)
Translation differences of long-term foreign currency-denominated receivables and payables	(66)	(33)
Restoration cost for asset retirement obligations	(328)	(261)
Fair value at acquisition of subsidiaries	(338)	—
Other	(11)	(0)
Total deferred tax liabilities	(888)	(455)
Deferred tax assets, net	10,495	6,264

Notes: 1. Valuation allowance decreased ¥4,274 million. The decrease is mainly attributable to a reduction in valuation allowance for loss due to the liquidation of H2O PLUS, LLC, a former consolidated subsidiary.

2. Tax loss carry-forwards and the corresponding deferred tax assets for each carry-forward period

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.

FY2023 (December 31, 2023)

(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)	160	923	229	556	1,225	8,244	11,339
Valuation allowance	(160)	(839)	(229)	(556)	(1,150)	(7,412)	(10,349)
Deferred tax assets (b)	—	83	—	—	74	831	990

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

(b) Deferred tax assets for tax loss carry-forwards are determined to be recoverable after the estimated taxable income based on the future earnings power of each company with tax loss carry-forwards is taken into account.

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

	FY2022 December 31, 2022	FY2023 December 31, 2023
Statutory income tax rate	30.6%	30.6%
(Convocation)		
Expenditure not allowable for income tax purposes (entertainment expense, etc.)	0.6	0.7
Per capita inhabitants' tax	0.4	0.2
Increase (decrease) in valuation allowance	(28.3)	4.7
Amortization of goodwill	1.0	—
Impairment loss on goodwill	4.9	—
Tax credits for research and development costs	(1.7)	—
Other	(1.0)	0.4
Effective income tax rate after application of tax effect accounting	6.5	36.6

3. Accounting for corporate and local income taxes or tax effect accounting related thereto

The Company and some of its domestic consolidated subsidiaries adopted the group tax sharing system for the current fiscal year. In addition, accounting for and disclosure of corporate and local income taxes or tax effect accounting related thereto are performed in accordance with the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ PITF No. 42, August 12, 2021).

■ (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)

	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Balance at the beginning of the period	2,896	3,768
Increase due to acquisition of property, plant and equipment	1,119	57
Adjustment amount over time	9	15
Decrease due to fulfillment of asset retirement obligations	(273)	(284)
Other increase (decrease)	16	6
Balance at the end of the period	3,768	3,563

■ (Investment and Rental Property)

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

In fiscal 2022, net rental income from investment and rental properties was ¥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).

In fiscal 2023, net rental income from investment and rental properties is ¥686 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 2022 and fiscal 2023 and the fair value of those properties are stated below.

(Millions of yen)

		FY2022 (January 1, 2022–December 31, 2022)	FY2023 (January 1, 2023–December 31, 2023)
Carrying amounts on the consolidated balance sheets	Balance at the beginning of the period	17,790	19,450
	Change	1,659	3,112
	Balance at the end of the period	19,450	22,563
Fair value at the end of the period		69,355	75,193

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

2. Main change

(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

(Fiscal 2023)

Increase: Refurbishment of office buildings for lease: ¥3,295 million

Decrease: Depreciation on office buildings and residential properties and other properties for lease: ¥463 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 business.

FY2023 (January 1, 2023–December 31, 2023)

(Millions of yen)

	Japan	Asia	Other areas	Total
Beauty Care	140,045	24,638	3,793	168,447
Real Estate	0	—	—	0
Others	2,748	—	—	2,748
Revenue from contracts with customers	142,793	24,638	3,793	171,226
Other revenue	2,077	—	—	2,077
Segment sales to external customers	144,871	24,638	3,793	173,304

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

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	FY2023
Contract liabilities (balance at the beginning of the period)	3,925	5,437
Contract liabilities (balance at the end of the period)	5,437	5,226

Contract liabilities were 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.

The amount of revenue recognized in fiscal 2022 that was included in the contract liability balance at the beginning of the period was ¥3,925 million.

The amount of revenue recognized in fiscal 2023 that was included in the contract liability balance at the beginning of the period was ¥5,437 million.

(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.

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

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.

FY2023 (January 1, 2023–December 31, 2023)

(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	168,477	2,078	170,555	2,748	173,304	—	173,304
Intersegment sales or transfers	109	444	553	2,301	2,855	(2,855)	—
Total	168,586	2,522	171,109	5,050	176,159	(2,855)	173,304
Segment income	16,354	440	16,794	149	16,944	(863)	16,080
Segment assets	160,573	28,071	188,645	3,083	191,728	9,479	201,207
Other items							
Depreciation and amortization	6,686	424	7,110	12	7,123	589	7,712
Amortization of goodwill	—	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	14,042	3,347	17,389	3	17,393	85	17,478

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 ¥(863) million includes intersegment transaction eliminations of ¥8,796 million and corporate expenses of ¥(9,659) 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 ¥9,479 million includes intersegment eliminations of ¥(64,754) million and corporate assets of ¥74,234 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]

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.

FY2023 (January 1, 2023–December 31, 2023)

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
144,871	24,638	3,793	173,304

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]

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

FY2023 (January 1, 2023–December 31, 2023)

(Millions of yen)

	Reportable segments			Others	Reconciliations	Total
	Beauty Care	Real Estate	Subtotal			
Impairment loss	1,736	76	1,813	—	—	1,813

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

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.

FY2023 (January 1, 2023–December 31, 2023)

None

[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	FY2022 (January 1, 2022–December 31, 2022)	FY2023 (January 1, 2023–December 31, 2023)
Net assets per share	¥772.60	¥758.49
Net income per share	¥51.74	¥43.69
Diluted net income per share	¥51.69	¥43.64

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, 2023 is 235,910 and the average number of shares of such stock is 237,129 during the period. The number of shares of deducted treasury stock at December 31, 2022 was 242,460 and the average number of shares of such stock was 243,582 during the period.

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

Item	FY2022 (January 1, 2022–December 31, 2022)	FY2023 (January 1, 2023–December 31, 2023)
Net income per share		
Profit attributable to owners of parent (millions of yen)	11,446	9,665
Amount not attributable to shareholders of common stock (millions of yen)	—	—
Profit attributable to owners of parent associated with common stock (millions of yen)	11,446	9,665
Average number of shares of common stock during the period	221,230,520	221,236,973
Diluted net income per share		
Adjustment of profit attributable to owners of parent (millions of yen)	—	—
Number of shares of common stock increased	235,617	235,630
[Of which, subscription rights to shares]	[235,617]	[235,630]
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	FY2022 (December 31, 2022)	FY2023 (December 31, 2023)
Total net assets (millions of yen)	171,459	168,398
Amount deducted from total net assets (millions of yen)	534	591
[Of which, subscription rights to shares (millions of yen)]	(243)	(243)
[Of which, non-controlling interests (millions of yen)]	(291)	(348)
Net assets associated with common stock (millions of yen)	170,924	167,806
Number of shares of common stock used in the calculation of net assets per share	221,231,643	221,238,193

■ (Subsequent Event)

[Establishment of Subsidiary]

The Company resolved to establish a subsidiary at a meeting of the Board of Directors held on November 20, 2023. The subsidiary was established on January 2, 2024.

(1) Purpose of establishment of subsidiary

From 2024 onward, we aim to further accelerate the Group's continuing global expansion by using local leadership to directly grasp market changes in each business region. This will enable us to fully apply the strengths of the Group's multi-brand portfolio, quickly implementing optimal regional strategies while aligning with market and customer changes. We will transition to a locally-led Groupwide structure, an organizational system that will maximize business performance in each region.

As a part of this effort, we established a regional headquarter in China to consolidate common operations at our existing local subsidiaries with the aim of upgrading our operations and improving efficiency.

(2) Overview of the subsidiary

a. Company name: POLA ORBIS (Shanghai) Enterprise Management CO., LTD.

b. Address: Shanghai, People's Republic of China

c. Name of representative: Seiichi Takaya

d. Description of business: Business management, supervision and support of business strategy formulation, etc. for local subsidiaries in China

e. Amount of capital: USD 7,000 thousand

f. Date of establishment: January 2, 2024

g. Shareholding ratio: POLA ORBIS HOLDINGS INC. 100%

5) 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	12	12	0.76	—
Current portion of lease obligations	739	674	4.71	—
Long-term borrowings (excluding that due within a year)	59	46	1.80	2025–2030
Lease obligations (excluding that due within a year)	1,067	962	6.18	2025–2032
Other interest-bearing liabilities	—	—	—	—
Total	1,878	1,696	—	—

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	8	7	7	7
Lease obligations	426	292	187	42

[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 FY2023

(Cumulative period)	Three months ended March 31, 2023	Six months ended June 30, 2023	Nine months ended September 30, 2023	Fiscal year ended December 31, 2023
Net sales (millions of yen)	42,136	85,836	126,739	173,304
Income before income taxes (millions of yen)	4,211	10,720	13,817	15,360
Profit attributable to owners of parent (millions of yen)	2,743	7,404	9,284	9,665
Net income per share (yen)	12.40	33.47	41.97	43.69

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Net income (loss) per share (yen)	12.40	21.07	8.50	1.72

■ Independent Auditor’s Report and Internal Control Audit Report

March 28, 2024

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 Consolidated Financial Statements>

Opinion

We have audited the consolidated financial statements for the consolidated fiscal year from January 1, 2023 through December 31, 2023 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, 2023, 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.

<table>
<tr><td colspan="2">Impairment loss on non-current assets related to individual stores</td></tr>
<tr><th>Description and Reason for Determination of Key Audit Matter</th><th>Auditor's Response</th></tr>
<tr><td>As described in the notes to the consolidated financial statements (Significant Accounting Estimates), the Company recognized an impairment loss of ¥538 million on property, plant and equipment of ¥2,619 million for non-current assets related to individual stores during the year ended December 31, 2023.
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 plan by customer base. The sales plan by customer base is estimated from changes in sales performance over the past years.
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.</td><td>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.
- We compared the estimated sales plan 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 plan 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 plans.</td></tr>
</table>

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 saying 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 to measures taken to remove disincentives or safeguards to reduce disincentives to an acceptable level.

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, 2023 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, 2023 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 saying 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 to measures taken to remove disincentives or safeguards to reduce disincentives to an acceptable level.

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.