



FINANCIAL
INFORMATION
REPORT 2022

For the Fiscal Year Ended December 31, 2022

Contents

Financial Information.....	3
Consolidated Financial Statements.....	4
Consolidated Balance Sheets.....	4
Consolidated Statements of Income.....	6
Consolidated Statements of Comprehensive Income.....	8
Consolidated Statements of Changes in Net Assets.....	9
Consolidated Statements of Cash Flows.....	11
Notes.....	13
Independent Auditor’s Report and Internal Control Audit Report.....	57

Financial Information

1. Consolidated Financial Statements Preparation Methods

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

2. Audit Certification

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

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

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

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

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

1) Consolidated Balance Sheets

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

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

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

[Consolidated Statements of Income]

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

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

Consolidated Statements of Comprehensive Income
POLA ORBIS HOLDINGS INC. and Consolidated Subsidiaries
Years ended December 31

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

3) Consolidated Statements of Changes in Net Assets

	Millions of yen								
	Common shares (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income	Subscription rights to shares	Non- controlling interests	Total net assets
Balance at January 1, 2021	229,136 ¥	10,000 ¥	80,785 ¥	79,868 ¥	(2,652) ¥	1,465 ¥	243 ¥	144 ¥	169,854
Dividends from retained earnings				(7,750)					(7,750)
Net income attributable to owners of parent				11,734					11,734
Purchase of treasury stock									□
Disposal of treasury stock			242		(214)				27
Change in unrealized gain (loss) on available-for-sale securities						65			65
Foreign currency translation adjustments						(795)			(795)
Remeasurements of defined benefit plans						54			54
Subscription rights to shares							(0)		(0)
Non-controlling interests								75	75
Balance at January 1, 2022	229,136	10,000	81,027	83,853	(2,867)	790	243	220	173,267
Cumulative effects of changes in accounting policies				(1,023)					(1,023)
Restated balance		10,000	81,027	82,829	(2,867)	790	243	220	172,243
Dividends from retained earnings				(11,516)					(11,516)
Net income attributable to owners of parent				11,446					11,446
Purchase of treasury stock									□
Disposal of treasury stock			(1)		6				5
Change in unrealized gain (loss) on available-for-sale securities						114			114
Foreign currency translation adjustments						(1,302)			(1,302)
Remeasurements of defined benefit plans						397			397
Subscription rights to shares							□		□
Non-controlling interests								70	70
Balance at December 31, 2022	229,136 ¥	10,000 ¥	81,025 ¥	82,759 ¥	(2,860) ¥	(0) ¥	243 ¥	291 ¥	171,459

	Thousands of U.S. dollars (Note 3)							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Accumulated other comprehensive income	Subscription rights to shares	Non- controlling interests	Total net assets
Balance at January 1, 2022	\$ 86,941	\$ 702,358	\$ 694,390	\$ (23,063)	\$ 12,740	\$ 2,118	\$ 1,258	\$ 1,476,742
Cumulative effects of changes in accounting policies								
Restated balance	86,941	702,358	694,390	(23,063)	12,740	2,118	1,258	1,476,742
Dividends from retained earnings			(67,380)					(67,380)
Net income attributable to owners of parent			102,020					102,020
Purchase of treasury stock								-
Disposal of treasury stock		2,105		(1,863)				242
Change in unrealized gain (loss) on available-for-sale securities					567			567
Foreign currency translation adjustments					(6,914)			(6,914)
Remeasurements of defined benefit plans					476			476
Subscription rights to shares						(3)		(3)
Non-controlling interests							658	658
Balance at December 31, 2022	\$ 86,941	\$ 704,464	\$ 729,030	\$ (24,927)	\$ 6,869	\$ 2,115	\$ 1,916	\$ 1,506,409

4) Consolidated Statements of Cash Flows

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

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

[Notes]

■ (Basis for Preparation of Consolidated Financial Statements)

1. The scope of consolidation

(1) Number of consolidated subsidiaries: 32

Names of major consolidated subsidiaries

POLA INC.

ORBIS Inc.

POLA CHEMICAL INDUSTRIES INC.

P.O. REAL ESTATE INC.

and 28 other companies

(2) Number of non-consolidated subsidiaries: 1

Name of major non-consolidated subsidiaries

encyclo.INC

Reason for exclusion from scope of consolidation

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

2. Application of the equity method

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

None

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

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

3. Fiscal year, etc., at consolidated subsidiaries

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

4. Accounting policies

(1) Valuation standards and method for material assets

1) Securities

Available-for-sale securities

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

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

Shares, etc., without a market price

Cost method according to the moving-average method

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

2) Inventories

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

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

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

The Company and its domestic consolidated subsidiaries:

Declining balance method

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

The primary useful lives are as follows:

Buildings and structures.....8-50 years

Machinery, equipment and vehicles.....7-15 years

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

Overseas consolidated subsidiaries:

Straight-line method based on local accounting standards

2) Intangible assets (excluding leased assets)

Straight-line method

Right of trademark.....10 years

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

3) Leased assets

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

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

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

(3) Basis for recording significant allowances and provisions

1) Allowance for doubtful accounts

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

2) Provision for bonuses

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

3) Provision for directors' bonuses

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

4) Provision for directors' share benefits

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

5) Provision for environmental measures

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

(4) Accounting method for retirement benefits

1) Periodic allocation method for estimated retirement benefits

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

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

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

(5) Basis for recording significant revenues and expenses

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

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

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

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

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

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

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

(7) Amortization method and period of goodwill

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

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

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

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

1) Application of consolidated tax system

The consolidated tax system is applied.

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

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

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

■ (Significant Accounting Estimates)

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

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

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

(Millions of yen)

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

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

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

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

2) Key assumptions

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

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

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

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

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

(Millions of yen)

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

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

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

If there is an indication of impairment in an asset group including goodwill, the Group assesses whether an impairment loss should be recognized, and if the total undiscounted future cash flows from the asset group are less than the carrying amount,

the carrying amount will be reduced to the recoverable amount and an impairment loss will be recorded. Estimates of future cash flows are based on the medium-term management plan approved by the Board of Directors.

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

2) Key assumptions

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

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

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

■ (Accounting Standards To Be Applied)

Accounting standards for fair value measurement, etc.

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

(1) Overview

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

(2) Effective date

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

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

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

■ (Changes in Presentation Method)

(Consolidated balance sheets)

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

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

(Consolidated Statements of Income)

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

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

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

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

(Consolidated Statements of Cash Flows)

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

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

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

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

■ (Consolidated Balance Sheets)

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

(Millions of yen)

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

2. Contingent liabilities

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

(Millions of yen)

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

■ (Consolidated Statements of Income)

*1. Revenue from contracts with customers

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

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

(Millions of yen)

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

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

(Millions of yen)

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

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

(Millions of yen)

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

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

(Millions of yen)

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

*5. Impairment loss

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

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

(1) Asset groups and amounts of impairment losses recognized

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

(2) Background leading to the recognition of impairment losses

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

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

with the reorganization of business offices.

(3) Asset grouping method

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

Business assets are grouped by company.

(4) Calculation method for recoverable amounts

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

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

(1) Asset groups and amounts of impairment losses recognized

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

(2) Background leading to the recognition of impairment losses

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

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

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

(3) Asset grouping method

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

Business assets and goodwill are grouped by company.

(4) Calculation method for recoverable amounts

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

■ (Consolidated Statements of Comprehensive Income)

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

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

■ (Consolidated Statements of Changes in Net Assets)

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

1. Shares issued and outstanding

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

2. Treasury stock

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

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

2. (Summary of reasons for changes)

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

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

3. Subscription rights to shares, etc.

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

4. Dividends

(1) Dividends paid

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

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

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

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

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

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

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

1. Shares issued and outstanding

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

2. Treasury stock

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

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

2. (Summary of reasons for change)

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

3. Subscription rights to shares, etc.

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

4. Dividends

(1) Dividends paid

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

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

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

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

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

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

■ (Consolidated Statements of Cash Flows)

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

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

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

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

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

3. Significant non-cash transactions

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

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

■ (Leases)

1. Finance leases

(As a lessee)

(1) Finance leases that do not transfer ownership

1) Description of leased assets

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

2) Depreciation method for leased assets

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

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

2. Operating lease transactions

(As a lessee)

Future lease payments under non-cancellable operating lease arrangements

(Millions of yen)

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

■ (Financial Instruments)

1. Overview of financial instruments

(1) Policies on financial instruments

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

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

Trade receivables such as notes and accounts receivable – trade are exposed to customers' credit risk. To handle such risk, the Group manages payment dates and outstanding balances by individual customer and regularly reviews major customers' credit status in accordance with the Group's credit management policy.

Investments in securities mainly consist of financial instruments with low risk such as held-to-maturity debt securities, but they are exposed to the risk of fluctuations in market price. The Group has a management system in place to quarterly monitor market value and other information in order to manage such risk.

Trade payables such as notes and accounts payable – trade and accounts payable – other are due within one year.

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

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

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

2. Fair value of financial instruments

FY2021 (December 31, 2021)

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

(Millions of yen)

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

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

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

financial instruments are as follows:

(Millions of yen)

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

FY2022 (December 31, 2022)

(Millions of yen)

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

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

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

(Millions of yen)

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

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

FY2021 (December 31, 2021)

(Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	72,425	—	—	—
Notes and accounts receivable – trade	17,504	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	2,199	1,299	—	—
Available-for-sale securities with maturities (other)	17,947	7,786	—	2,008
Total	110,075	9,085	—	2,008

FY2022 (December 31, 2022)

(Millions of yen)

	Due within 1 year	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	63,101	—	—	—
Notes and accounts receivable – trade	17,758	—	—	—
Investments in securities				
Held-to-maturity debt securities (corporate bonds)	—	—	—	—
Held-to-maturity debt securities (other)	—	—	—	—
Available-for-sale securities with maturities (corporate bonds)	3,096	30	—	—
Available-for-sale securities with maturities (other)	14,896	11,847	2,927	—
Total	98,853	11,877	2,927	—

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

FY2021 (December 31, 2021)

(Millions of yen)

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

FY2022 (December 31, 2022)

(Millions of yen)

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

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

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

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

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

Level 3: Fair value is measured using unobservable inputs.

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

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

FY2022 (December 31, 2022)

(Millions of yen)

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

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

Available-for-sale securities

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

■ (Securities)

1. Available-for-sale securities

FY2021 (December 31, 2021)

(Millions of yen)

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

FY2022 (December 31, 2022)

(Millions of yen)

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

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

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

None

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

None

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

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

None

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

None

4. Securities for which the holding purpose was changed

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

None

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

None

5. Securities for which an impairment loss was recognized

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

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

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

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

■ (Retirement Benefits)

1. Summary of retirement benefit plans adopted

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

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

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

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

(1) Movement in retirement benefit obligations

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

(2) Movement in pension assets

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

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

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

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

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

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

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

(5) Remeasurements of defined benefit plans

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

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

(6) Accumulated remeasurements of defined benefit plans

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

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

(7) Particulars for pension assets

1) Major components of pension assets

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

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

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

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

(8) Particulars for actuarial calculation assumptions

Principal actuarial assumptions (represented as a weighted average)

	FY2021	FY2022
	(January 1, 2021– December 31, 2021)	(January 1, 2022– December 31, 2022)
Discount rate	0.5 %	1.3 %
Long-term expected rate of return	1.5 %	1.5 %

The expected rate of salary increase is calculated by using the salary increase index by age as of December 31, 2022.

3. Defined contribution pension plans

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

■ (Stock Options)

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

(1) Details of stock options

	Subscription rights to shares issued in fiscal 2012	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2014
Date of approval	March 30, 2012	March 29, 2013	March 28, 2014
Classification and number of grantees	7 directors of the Company and 7 directors of subsidiaries	7 directors of the Company and 6 directors of subsidiaries	7 directors of the Company and 7 directors of subsidiaries
Type and number of shares granted (shares)	Common stock: 118,800	Common stock: 78,800	Common stock: 62,680
Grant date	April 16, 2012	April 15, 2013	April 14, 2014
Preconditions to exercising rights	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries
Service period required	Not specified	Not specified	Not specified
Exercisable period	From April 17, 2012 through April 16, 2042	From April 16, 2013 through April 15, 2043	From April 15, 2014 through April 14, 2044

	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2016	Subscription rights to shares issued in fiscal 2017
Date of approval	March 27, 2015	March 31, 2016	April 3, 2017
Classification and number of grantees	6 directors of the Company and 7 directors of subsidiaries	6 directors of the Company and 5 directors of subsidiaries	6 directors of the Company and 7 directors of subsidiaries
Type and number of shares granted (shares)	Common stock: 38,560	Common stock: 25,000	Common stock: 23,920
Grant date	April 13, 2015	April 15, 2016	April 18, 2017
Preconditions to exercising rights	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries	Resignation of the positions as directors in both the Company and the subsidiaries
Service period required	Not specified	Not specified	Not specified
Exercisable period	From April 14, 2015 through April 13, 2045	From April 16, 2016 through April 15, 2046	From April 19, 2017 through April 18, 2047

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

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

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

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

1) Number of stock options

	Subscription rights to shares issued in fiscal 2012	Subscription rights to shares issued in fiscal 2013	Subscription rights to shares issued in fiscal 2014
Date of approval	March 30, 2012	March 29, 2013	March 28, 2014
Non-vested (shares)			
Outstanding at beginning of period	52,760	42,400	35,760
Granted	—	—	—
Forfeited	—	—	—
Vested	6,560	4,560	3,360
Balance of non-vested (shares)	46,200	37,840	32,400
Vested (shares)			
Outstanding at beginning of period	12,720	8,840	6,480
Vested	6,560	4,560	3,360
Exercised	—	—	—
Forfeited	—	—	—
Balance of non-exercised (shares)	19,280	13,400	9,840
	Subscription rights to shares issued in fiscal 2015	Subscription rights to shares issued in fiscal 2016	Subscription rights to shares issued in fiscal 2017
Date of approval	March 27, 2015	March 31, 2016	April 3, 2017
Non-vested (shares)			
Outstanding at beginning of period	23,440	20,320	20,200
Granted	—	—	—
Forfeited	—	—	—
Vested	2,320	1,680	1,320
Balance of non-vested (shares)	21,120	18,640	18,880
Vested (shares)			
Outstanding at beginning of period	4,440	—	—
Vested	2,320	1,680	1,320
Exercised	—	—	—
Forfeited	—	—	—
Balance of non-exercised (shares)	6,760	1,680	1,320

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

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

2) Price information

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

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

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

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

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

None

3. Method for estimating the number of stock options vested

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

■ (Tax Effect Accounting)

1. Significant components of deferred tax assets and liabilities

(Millions of yen)

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

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

FY2021 (December 31, 2021)

(Millions of yen)

	1 year or less	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
Tax loss carry-forwards (a)	188	1,829	180	976	191	9,010	12,377
Valuation allowance	(178)	(1,787)	(180)	(976)	(191)	(9,010)	(12,324)
Deferred tax assets	9	42	—	—	—	—	52

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

FY2022 (December 31, 2022)

(Millions of yen)

	1 year or less	After 1 year through 2 years	After 2 years through 3 years	After 3 years through 4 years	After 4 years through 5 years	After 5 years	Total
Tax loss carry-forwards (a)	1,814	190	945	279	683	10,212	14,126
Valuation allowance	(1,718)	(190)	(945)	(279)	(683)	(10,212)	(14,030)
Deferred tax assets	95	—	—	—	—	—	95

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

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

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

■ (Asset Retirement Obligations)

Asset retirement obligations recorded on the consolidated balance sheets

(1) Summary of asset retirement obligations

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

(2) Calculation method of asset retirement obligations

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

(3) Increase/decrease in total amount

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

■ (Investment and Rental Property)

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

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

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

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

(Millions of yen)

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

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

2. Main change

(Fiscal 2021)

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

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

(Fiscal 2022)

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

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

3. Method for calculating fair values

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

■ (Revenue Recognition)

1. Information analyzing revenue from contracts with customers

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

(Millions of yen)

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

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

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

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

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

(1) Outstanding contract liabilities

(Millions of yen)

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

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

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

(2) Transaction price allocated to remaining performance obligations

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

■ (Segment Information, etc.)

[Segment information]

1. General information about reportable segments

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

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

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

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

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

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

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

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

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

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

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

(Millions of yen)

	Reportable segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount shown on the consolidated financial statements (Note 3)
	Beauty Care	Real Estate	Subtotal				
Net sales							
Sales to external customers	174,150	2,112	176,262	2,379	178,642	—	178,642
Intersegment sales or transfers	78	468	547	1,968	2,515	(2,515)	—
Total	174,228	2,581	176,810	4,347	181,157	(2,515)	178,642
Segment income	17,060	488	17,549	70	17,619	(731)	16,888
Segment assets	170,722	22,717	193,440	2,649	196,089	11,949	208,039
Other items							
Depreciation and Amortization	6,480	453	6,933	12	6,945	164	7,110
Amortization of goodwill	283	—	283	—	283	—	283
Increase in property, plant and equipment and intangible assets	7,163	528	7,692	12	7,704	1,241	8,945

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

2. Reconciliations consist of the following:

(1) The segment income reconciliation of ¥(731) million includes intersegment transaction eliminations of ¥3,684 million and corporate expenses of ¥(4,416) million not allocated to each segment. Corporate expenses are primarily the Company’s administrative expenses not allocated to reportable segments.

(2) The segment assets reconciliation of ¥11,949 million includes intersegment eliminations of ¥(86,540) million and corporate assets of ¥98,489 million not allocated to each segment. Corporate assets are primarily the Company’s financial assets and assets in the administrative division not allocated to reportable segments.

(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment and intangible assets are those related to corporate assets and intersegment eliminations.

3. Segment income is adjusted for operating income reported on the consolidated statements of income.

4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment and intangible assets, respectively.

(Millions of yen)

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

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

2. Reconciliations consist of the following:

(1) The segment income reconciliation of ¥(1,800) million includes intersegment transaction eliminations of ¥6,086 million and corporate expenses of ¥(7,886) million not allocated to each segment. Corporate expenses are primarily the Company’s administrative expenses not allocated to reportable segments.

(2) The segment assets reconciliation of ¥9,086 million includes intersegment eliminations of ¥(85,274) million and corporate assets of ¥94,361 million not allocated to each segment. Corporate assets are primarily the Company’s financial assets and assets in the administrative division not allocated to reportable segments.

(3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment and intangible assets are those related to corporate assets and intersegment eliminations.

3. Segment income is adjusted for operating income reported on the consolidated statements of income.

4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment and intangible assets, respectively.

■ (Related Information)

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

1. Information by product and service

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

2. Information by geographical area

(1) Net sales

(Millions of yen)

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

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

(2) Property, plant and equipment

(Millions of yen)

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

3. Information by key customer

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

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

1. Information by product and service

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

2. Information by geographical area

(1) Net sales

(Millions of yen)

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

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

(2) Property, plant and equipment

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

3. Information by key customer

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

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

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

(Millions of yen)

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

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

(Millions of yen)

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

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

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

(Millions of yen)

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

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

(Millions of yen)

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

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

[Information about Gain on Bargain Purchase by Reportable Segment]

None

[Related-party Information]

1. Transactions with related parties

None

2. Notes related to the parent company and significant affiliates

None

■ (Per Share Information)

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

Notes: 1. The Company's shares held by the officer compensation BIP trust are included in shares of treasury stock that are deducted from the number of shares issued and outstanding at the end of the period in the calculation of net assets per share and are included in shares of treasury stock that are deducted in the calculation of the average number of shares of treasury stock during the period for calculating net income per share and diluted net income per share. The number of shares of deducted treasury stock at December 31, 2022 is 242,460 and the average number of shares of such stock is 243,582 during the period. The number of shares of deducted treasury stock at December 31, 2021 was 244,708 and the average number of shares of such stock is 206,798 during the period.

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

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

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

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

(Subsequent Event)

None

■ Annexed Consolidated Detailed Schedules

[Annexed Consolidated Detailed Schedule of Corporate Bonds]

None

[Annexed Consolidated Detailed Schedule of Borrowings]

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

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

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

(Millions of yen)

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

[Annexed Consolidated Detailed Schedule of Asset Retirement Obligations]

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

(2) Others

Quarterly information during FY2022

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

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

■ Independent Auditor's Report and Internal Control Audit Report

March 28, 2023

The Board of Directors
Pola Orbis Holdings Inc.

Ernst & Young ShinNihon LLC
Tokyo, Japan

Tatsuya Yokouchi
Designated Engagement Partner
Certified Public Accountant

Seizaburo Oya
Designated Engagement Partner
Certified Public Accountant

<Audit of Financial Statements>

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pola Orbis Holdings Inc. and its consolidated subsidiaries (the Group) as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Impairment loss on non-current assets related to individual stores	
Description and Reason for Determination of Key Audit Matter	Auditor's Response
<p>As described in the notes to the consolidated financial statements (Significant Accounting Estimates), the Company recognized an impairment loss of ¥212 million on property, plant and equipment of ¥2,850 million for non-current assets related to individual stores during the year ended December 31, 2022.</p> <p>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.</p> <p>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.</p> <p>The main assumption in formulating a medium-term management plan is the sales plans by customer base. The sales plan for each customer segment estimates and reflects market trends in consideration of COVID-19 based on changes in sales performance over the past years, and it is assumed that the impact will continue until the end of 2023.</p> <p>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.</p>	<p>The audit procedures we performed to assess impairment loss on non-current assets related to individual stores include the following, among others:</p> <ul style="list-style-type: none"> - We compared the future cash flow projection period with the remaining economic lives of the major assets. - We made inquiries of management about the medium-term management plan, which is the basis for estimating future cash flows at each store, including the impact of COVID-19 on business performance and the prospect of economic recovery. - We compared the estimated sales plans by store base with the medium-term management plan approved by the Board of Directors. - We compared the estimated future cash flows of each store with sales plans by store base. - We compared the medium-term management plan for prior years with actual results to evaluate the effectiveness of management's estimation process. - For the sales plan by customer base, which is the basis of the medium-term management plan, we compared the outcomes of trend analyses based on past performance. Also, we made inquiries about sales metrics reflected in the sales plan.

Valuation of intangible assets including goodwill related to tricot, Inc.	
Description and Reason for Determination of Key Audit Matter	Auditor's Response
<p>As described in the notes to the consolidated financial statements (Significant Accounting Estimates), the Company recognized ¥979 million of trademark rights and other intangible assets as of December 31, 2022 for tricot, Inc. (hereinafter "tricot"), a consolidated subsidiary. In addition, the Company recorded an impairment loss of ¥1,987 million on goodwill due to tricot's operating losses in the previous and current fiscal years, a significant discrepancy between the rational medium-term management plan initially formulated and actual results, and the total amount of undiscounted future cash flows being less than the carrying amount.</p> <p>When there is an indication of impairment, the Company should assess whether an impairment loss should be recognized for goodwill, trademark rights and other intangible assets (hereinafter "intangible assets, etc.") by comparing the total undiscounted future cash flows from the business to which the intangible assets, etc., are attributable with the carrying amount. If the assessment indicates that an impairment loss should be recognized, the carrying amount is reduced to the recoverable amount and the impairment loss is measured as the amount of such reduction.</p> <p>Estimates of future cash flows are based on tricot's medium-term management plan approved by the Board of Directors, taking into account future uncertainties for subsequent periods. The main assumptions in estimating future cash flows are the sales plan and the customer retention rate by customer base.</p> <p>Given that the significant assumptions stated above used to estimate the future cash flows are subject to uncertainty and require management's judgment, we determined valuation of intangible assets, etc., related to tricot to be a key audit matter.</p>	<p>The audit procedures we performed to assess intangible assets, etc., related to tricot include the following, among others:</p> <ul style="list-style-type: none"> - We made inquiries to tricot's management to gain an understanding of the state of tricot's business. - We reviewed the minutes of the Board of Directors' meetings to confirm that the medium-term management plan used to estimate future cash flows was tricot's medium-term management plan that was discussed and approved by the Company's Board of Directors. - In addition to making inquiries of management about the medium-term management plan, we viewed the materials that formed the assumptions for preparing the sales plan and customer retention rate by customer base and examined the materials in light of tricot's business and past performance. - On the basis of our assessment of the appropriateness of the sales plan and forecast for the customer retention rate by customer base, which are the main assumptions, and the results of studying the state of achievement of past medium-term management plans and the causes of differences from the plans, we independently estimated future cash flows when certain uncertainties are incorporated in the medium-term management plans. We then compared the estimates made by management and considered the impact on the amount of impairment loss recorded.

Other Information

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

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

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

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

We have nothing to report regarding other information.

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

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

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

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

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

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

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

- We identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. The selection and application of audit procedures are based on our judgment. Furthermore, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- We consider internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used, the application method, the reasonableness of accounting estimates and related disclosures made by management.
- We conclude whether, on the appropriateness of management's use of the going concern basis of accounting and on the basis of the audit evidence obtained, a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- We evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- We obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditors and the Board of Corporate Auditors regarding the planned scope and timing of the audit, significant audit findings including any significant deficiencies in internal controls that we have identified during our audit and other matters required by the audit standards.

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

From the matters communicated to the Corporate Auditors and the Board of Corporate Auditors, we determine those matters that are of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

<Audit of Internal Controls>

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of Internal Controls

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

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

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

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

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

disincentives.

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

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

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