

Summary of Financial Results

For the Fiscal Year Ended December 31, 2023 (Consolidated)

These financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan. The following English translation is based on the original Japanese-language document.

February 14, 2024

POLA ORBIS HOLDINGS INC.

Listing: Tokyo Stock Exchange, Prime Market (Code No.: 4927)
 URL: <https://www.po-holdings.co.jp/>
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 Annual Shareholders' Meeting: March 28, 2024
 Filing Date of Securities Report: March 28, 2024
 Start of Cash Dividend Payment: March 29, 2024
 Supplemental Materials Prepared for Yearly Financial Results: Yes
 Conference Presentation for Yearly Financial Results: Yes (for analysts)

(Amounts less than one million yen have been truncated)

1. Consolidated Performance for the Fiscal Year Ended December 31, 2023

(January 1, 2023–December 31, 2023)

(1) Consolidated Operating Results

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2023	173,304	4.2	16,080	27.8	18,469	23.7	9,665	(15.6)
FY2022	166,307	(6.9)	12,581	(25.5)	14,928	(21.3)	11,446	(2.5)

Note: Comprehensive income: FY2023: ¥8,459million (-21.1%); FY2022: ¥10,719 million (-3.7 %)

	Net Income Per Share	Diluted Net Income Per Share	Return on Shareholders' Equity	Ordinary Income to Total Assets	Operating Income to Net Sales
	Yen	Yen	%	%	%
FY2023	43.69	43.64	5.7	9.1	9.3
FY2022	51.74	51.69	6.7	7.2	7.6

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	Millions of yen	Millions of yen	%	Yen
At December 31				
FY2023	201,207	168,398	83.4	758.49
FY2022	205,935	171,459	83.0	772.60

Reference: Equity capital: At December 31, 2023: ¥167,806million; At December 31, 2022: ¥170,924 million

(3) Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash and Cash Equivalents at End of Period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2023	14,423	(18,734)	(12,375)	46,376
FY2022	15,548	(12,370)	(12,668)	62,562

2. Dividends

	Annual Cash Dividends Per Share					Total Dividends Paid (Annual)	Payout Ratio (Consolidated)	Dividends to Net Assets (Consolidated)
	Q1-end	Q2-end	Q3-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2022	-	21.00	-	31.00	52.00	11,516	100.5	6.7
FY2023	-	21.00	-	31.00	52.00	11,516	119.0	6.8
FY2024(Forecast)	-	21.00	-	31.00	52.00		99.2	

3. Consolidated Performance Forecast for the Fiscal Year Ending December 31, 2024

(January 1, 2024–December 31, 2024)

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Profit Attributable to Owners of Parent		Net Income Per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	179,000	3.3	17,900	11.3	17,900	(3.1)	11,600	20.0	52.43

Notes to Summary Information

(1) Changes in significant subsidiaries during the current year

(Changes in specific subsidiaries resulting in changes in the scope of consolidation)

Newly Included: -

Excluded: 2 H2O PLUS HOLDINGS, INC.
H2O PLUS, LLC

: Yes

(2) Changes in accounting policies, accounting estimates, and restatement

1) Changes in accounting policies associated with revision of accounting standards

2) Changes other than (2)-1)

3) Changes in accounting estimates

4) Restatement

: Yes

: None

: None

: None

Note: For details, please refer to page 16, “Changes in Accounting Policies” in “Notes to Consolidated Financial Statements”.

(3) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding at the end of each period (including treasury stock)

At December 31, 2023 229,136,156 shares

At December 31, 2022 229,136,156 shares

2) Number of shares of treasury stock at the end of each period

At December 31, 2023 7,897,963 shares

At December 31, 2022 7,904,513 shares

3) Average number of shares issued and outstanding in each period

Fiscal year ended December 31, 2023 221,236,973 shares

Fiscal year ended December 31, 2022 221,230,520 shares

Note: The number of shares of treasury stock at December 31 includes the Company’s shares held by the officer compensation Board Incentive Plan (BIP) trust (FY2023: 235,910 shares, FY2022: 242,460 shares).

The Company’s shares held by the officer compensation BIP trust (FY2023: 237,129 shares, FY2022: 243,582 shares) are included in the shares of treasury stock that are deducted in the calculation of the average number of shares during the period.

(Reference) Summary of Non-consolidated Financial Performance**1. Non-consolidated Financial Performance for the Fiscal Year Ended December 31, 2023**

(January 1, 2023–December 31, 2023)

(1) Operating Results

(Percentage figures indicate year-on-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2023	24,570	11.0	14,604	4.5	16,155	5.4	11,100	(7.3)
FY2022	22,141	19.8	13,973	1.3	15,327	2.0	11,972	26.9

	Net Income Per Share	Diluted Net Income Per Share
	Yen	Yen
FY2023	50.17	50.12
FY2022	54.12	54.06

(2) Financial Position

At December 31	Total Assets	Net Assets	Equity Ratio	Net Assets Per Share
	Millions of yen	Millions of yen	%	Yen
FY2023	165,988	98,381	59.1	443.59
FY2022	183,877	98,668	53.5	444.90

Reference: Equity capital: At December 31, 2023: ¥98,138 million; At December 31, 2022: ¥98,424 million

Information Regarding Annual Audit Procedures

The annual financial results report is exempt from annual audit by certified public accountants or accounting firms.

Explanation of Appropriate Use of Performance Forecast and Other Special Items

This report contains projections of performance and other projections based on information currently available and certain assumptions judged to be reasonable. Actual performance may differ materially from these projections resulting from changes in the economic environment and other risks and uncertainties. For performance projections, please refer to “1. Overview of Consolidated Operating Results (4) Performance Forecast” on page 6.

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1. Overview of Consolidated Operating Results

(1) Overview of Consolidated Operating Results for Fiscal 2023

During the fiscal year ended December 31, 2023 (January 1–December 31, 2023), the Japanese economy showed signs of moderate recovery, supported by the normalization of economic and social activities after COVID-19 was moved to Class V under the Infectious Diseases Control Law, despite the presence of some stagnation. Meanwhile, there was a stagnation in the recovery of consumer sentiment against a backdrop of factors such as price hikes that exceeded wage increases.

In the domestic cosmetics market, personal consumption has recovered thanks to the increase in opportunities to go out due to the normalization of economic activities. Moreover, the weak yen attracted foreign visitors to Japan, and increased inbound demand bolstered sales. Meanwhile, situations such as changes in consumer behavior and the composition of consumption due to the transformation of people’s lifestyles, structural changes in sales channels, and soaring advertising costs in the EC market are being observed, and more ingenuity is required to cope with these changes.

In the overseas cosmetics market, although there are signs of weakness in some regions, business confidence is generally recovering. In the Chinese market, the lifting of the zero-COVID policy has brought economic activity toward normalization, and although there are signs of recovery particularly in service consumption as the flow of people increases, the recovery of the economy is experiencing stagnation due to employment uncertainty and other factors. In addition, there is a move to avoid Japanese products, triggered by the release of ALPS treated water from a nuclear power plant into the ocean.

Within this market environment, the POLA ORBIS Group (the “Group”) has worked to achieve the key objectives—“evolving domestic direct sales,” “growing overseas businesses profitably,” “profit contribution from brands under development,” “strengthening operations,” and “expanding new brands and domains of ‘beauty’.” These objectives are in line with the medium-term management plan (from 2021 to 2023) that started in 2021.

As a result of the above, consolidated net sales for fiscal 2023 increased 4.2% year on year to ¥173,304 million, reflecting a recovery from the turmoil caused by the COVID-19 pandemic. Operating income increased 27.8% year on year to ¥16,080 million due to an increase in gross profit from higher net sales, and ordinary income increased 23.7% year on year to ¥18,469 million. As a result of the impact of decrease in income taxes – deferred recorded in the previous year, profit attributable to owners of parent decreased 15.6% year on year to ¥9,665 million.

Operating Results Overview

(Millions of yen)

	Twelve Months Ended December 31			
	2022	2023	Year-on-Year	
			Amount Change	Percent Change (%)
Net Sales	¥166,307	¥173,304	¥6,996	4.2
Operating Income	12,581	16,080	3,499	27.8
Ordinary Income	14,928	18,469	3,541	23.7
Profit Attributable to Owners of Parent	¥11,446	¥9,665	¥(1,781)	(15.6)

Operating Results by Segment

Net Sales (Segment Sales to External Customers)

(Millions of yen)

	Twelve Months Ended December 31			
	2022	2023	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥161,654	¥168,477	¥6,822	4.2
Real Estate	2,083	2,078	(5)	(0.2)
Others	2,569	2,748	178	7.0
Total	¥166,307	¥173,304	¥6,996	4.2

Segment Income (Loss), Operating Income (Loss)

(Millions of yen)

	Twelve Months Ended December 31			
	2022	2023	Year-on-Year	
			Amount Change	Percent Change (%)
Beauty Care	¥13,793	¥16,354	¥2,561	18.6
Real Estate	491	440	(51)	(10.5)
Others	96	149	52	54.7
Reconciliations of Segment Income (Note)	(1,800)	(863)	936	-
Total	¥12,581	¥16,080	¥3,499	27.8

Note: Reconciliations of segment income refer to elimination of profits arising from inter-company transactions and expenses not allocated to reportable segments. Please see note 2 in “3. Information about Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment” on page 20 for the details of reconciliations of segment income in fiscal 2023.

Beauty Care

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

POLA is working to further improve the value of its brand and build a medium- to long-term customer base by launching highly functional products mainly in the field of anti-aging and skin-brightening. In the domestic business, we are promoting the integration of online and offline channels (OMO: Online Merges with Offline) to realize a high lifetime-value business that leverages the features and strengths of each channel. With our new membership program launched in April 2023, POLA Premium Pass, we have integrated customer IDs from all sales channels and started delivering a common service experience to all customers in Japan. In addition to the resumption of the flow of people due to the normalization of economic activities and the return of foreign visitors to Japan, domestic businesses as a whole recorded year-on-year growth thanks to new products such as B.A MILK FOAM, the renewed B.A GRANDLUXE IV, and strong sales of esthetic treatment. In the overseas business, we are continually working to expand customer contact points for establishing a brand presence in China, a top priority market. Although there was the impact of an economic slowdown in China and some parts of Asia, the overall performance of the overseas business exceeded that of the previous year. As a result, POLA brand net sales increased year on year. However, operating income decreased year on year, due to factors such as the impact of the slowdown in the overseas business that occurred in the second half of the year.

ORBIS strives to regrow into a highly profitable business by enhancing its presence through creation of brand differentiation, improvement of customer loyalty, and acquisition of users of skincare products such as the ORBIS U series. In the domestic business, we are making efforts to further boost the number of customers, which has begun to increase, and to maximize customer lifetime value by providing close communication that accompanies customers throughout their lives in our one-stop app, a cornerstone of the brand experience and by continuing to introduce new products. In the direct selling channel, both the number of customers and customer unit price exceeded year on year due to a renewal of ORBIS U., which drives the growth, and the extension of the special care line for UV that have won numerous best cosmetics awards. The external channels grew significantly year on year as long-selling hair care products received the Grand Prize in the Best Cosmetics Awards, contributed to the development of new customer contact points, and expanded sales channels. In the overseas business, we are working to accelerate growth and return to profitability particularly in China, a priority market. In China, despite the impact from deteriorating economic conditions and the discharge of ALPS treated water into the sea, efforts to strengthen investments for expanding customer contact points and raising brand recognition have led to results that exceed those of the previous year. As a result of the above, ORBIS brand net sales and operating income exceeded those of the previous year.

The Jurlique brand continues to work toward business growth in Australia, China, and other Asian markets. Jurlique achieved the result exceeding from last year due to recovery under offline channel in Australia, a priority market. In China, despite the impact of the slowdown in the pace of economic recovery, results exceeded those of the previous year due to such factors as the enhancement of brand value through the launch of new products and a focus on strategic products. As a result of the above, Jurlique brand net sales exceeded those of the previous year. Meanwhile, operating losses expanded due to the impact of factors such as a slowdown in the duty-free business.

For brands under development, the THREE brand is carrying out structural reforms targeting profitability. Thanks to the revitalization of stores through the efforts, including the renewal of the core skincare series and the launch of the brand's first fragrance, the domestic business outperformed the previous year. In the DECENCIA brand, the renewal of our main product, a wrinkle-improving serum was launched in September 2023. The implementation of purchase promotion measures tailored to customer attributes led to an increase in the number of customers, and the domestic business outperformed the previous year. In the FUJIMI brand, a new brand message was established in January 2023, and rebranding is underway. Overall net sales for the brands under development were higher year on year. In addition, operating loss improved due to strict cost controls implemented for each brand. Furthermore, in order to make a reformation on the brand portfolio on the Beauty Care segment as a part of enhancement on its profitability, on March 6, 2023, the Group has decided to exit from two brands, Amplitude and ITRIM. The withdrawal was completed within the current fiscal year.

As a result of the factors noted above, the Beauty Care segment's net sales—sales to external customers—were ¥168,477 million, up 4.2% year on year, and operating income was ¥16,354 million, up 18.6% year on year.

Real Estate

The Real Estate segment concentrates on the leasing of office buildings in urban areas. Efforts are currently directed at sustaining and improving rental income by creating attractive office environments. Another area of emphasis is the residential properties rental business. This business highlights condominiums perfect for families with young children. During fiscal 2023, net sales and operating income fell below those of the previous year mainly due to the impact of the sales of some office buildings in the previous year.

As a result of the above, net sales—sales to external customers—generated by the Real Estate segment totaled ¥2,078 million, down 0.2% year on year, and operating income was ¥440 million, down 10.5% year on year.

Others

The Others segment is the building maintenance business.

The building maintenance business is mainly engaged in the operation and management of buildings. During fiscal 2023, both net sales and operating income increased year on year due to an increase in the number of contracts.

As a result of the above, net sales—sales to external customers—generated by the Others segment totaled ¥2,748 million, up 7.0% year on year, and operating income was ¥149 million, up 54.7% year on year.

(2) Overview of Consolidated Financial Position at End of Fiscal 2023

As of December 31, 2023, total assets stood at ¥201,207 million, down 2.3%, or ¥4,727 million, from December 31, 2022. Factors related to this change included increases of ¥9,136 million in construction in progress, ¥4,333 million in other under current assets, and ¥1,206 million in investments in securities, as well as decreases of ¥16,117 million in cash and deposits, ¥4,342 million in deferred tax assets.

Total liabilities amounted to ¥32,809 million, down 4.8%, or ¥1,666 million, from December 31, 2022. Factors related to this change included an increase of ¥1,266 million in accounts payable - other, as well as decreases of ¥1,073 million in net defined benefit liability, ¥1,031 million in other under current liabilities.

Net assets amounted to ¥168,398 million, down 1.8%, or ¥3,060 million, from December 31, 2022. Factors related to this change included a recording of ¥9,665 million in profit attributable to owners of parent, as well as decreases of ¥11,516 million in dividends from retained earnings and ¥1,468 million in foreign currency translation adjustments.

(3) Overview of Consolidated Cash Flows for Fiscal 2023

The balance of cash and cash equivalents as of December 31, 2023 was ¥46,376 million, down ¥16,185 million from the end of the previous fiscal year.

The status of cash flows from operating activities, investing activities, and financing activities for fiscal 2023, and noteworthy increases and decreases to these cash flows, are described below.

Cash flows from operating activities

Net cash provided by operating activities decreased 7.2% from a year ago, to ¥14,423 million.

The primary components contributing to an increase in net cash were ¥15,360 million in profit before income taxes, ¥7,712 million in depreciation and amortization, ¥1,813 million in impairment loss. Major components leading to a decrease in net cash were ¥971 million of decrease in net defined benefit liability, ¥2,176 million of gain on foreign exchange, ¥1,464 million of increase in inventories, and ¥6,586 million of decrease in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities increased 51.5% from a year ago, to ¥18,734 million. The main factors were an increase in net cash resulting from ¥11,100 million in proceeds from sales and redemption of short-term investments in securities, and a decrease in net cash resulting from outflows of ¥1,000 million in purchase of short-term investments in securities, ¥12,146 million in purchase of property, plant and equipment, ¥4,088 million in purchase of intangible assets, and ¥11,403 million in purchase of investments in securities.

Cash flows from financing activities

Net cash used in financing activities decreased 2.3% from a year ago, to ¥12,375 million. The decrease was primarily attributable to the application of ¥815 million in repayments of lease obligations and ¥11,547 million in cash dividends paid.

(Reference) Cash flow related indicators

	FY2019	FY2020	FY2021	FY2022	FY2023
Equity ratio (%)	83.9	83.2	83.1	83.0	83.4
Equity ratio based on market value (%)	254.5	227.4	203.9	199.8	174.2
Cash flow/Interest-bearing debt ratio (years)	0.1	0.1	0.1	0.1	0.1
Interest coverage ratio (times)	251.1	264.6	264.1	168.6	137.4

Equity ratio = Shareholders' equity/Total assets

Equity ratio based on market value = Market capitalization/Total assets

Cash flow/Interest-bearing debt ratio = Interest-bearing debt/Cash flow

Interest coverage ratio = Cash flow/Interest payments

Notes: 1. All indicators were calculated using consolidated financial figures.

2. Market capitalization was calculated based on the number of shares issued and outstanding, excluding treasury stock.

3. Cash flow refers to cash flows from operating activities.

4. Interest-bearing debt includes all debts on which we pay interest among the debts shown on the consolidated balance sheets.

(4) Consolidated Performance Forecast for Fiscal 2024

The Japanese economy is expected to continue a gradual recovery, against a backdrop of improvements in the employment and income environment. However, sufficient attention must be paid to risks such as downward pressure on the Japanese economy due to the downturn in overseas economies, including the impact of global monetary tightening and concerns regarding the future of the Chinese economy, price hikes, the situation in the Middle East, as well as fluctuations in financial and capital markets.

Against this backdrop, as the second stage towards achieving our long-term management plan, VISION 2029, the Group will be implementing the key strategies of the new medium-term management plan starting in 2024, namely, "Strengthen the customer base in the domestic business to achieve sustainable growth and improve profitability," "Further grow the overseas business and establish business bases in new markets," "Achieve profitability through growth in brands under development, contributing to sustainable earnings" "Enhance the brand portfolio and expand business domains," "Strengthen R&D capabilities for new value creation," and "Strengthen sustainability combining the resolution of social issues with uniqueness" with the aim of accelerating business growth.

For the fiscal year ending December 31, 2024, the Group forecasts net sales of ¥179,000 million, up 3.3% year on year, operating income of ¥17,900 million, up 11.3%, ordinary income of ¥17,900 million, down 3.1%, and profit attributable to owners of parent of ¥11,600 million, up 20.0%, considering the steady execution of key strategies and downward pressure on the economy due to factors such as the downturn in overseas economies.

2. Basic Approach to the Selection of Accounting Standards

Over the near term, the Group will prepare its consolidated financial statements based on Japanese GAAP, taking into account the inter-period comparability of the consolidated financial statements and comparability between companies.

With regard to the application of International Financial Reporting Standards (IFRS), the Group's policy is to take appropriate measures in light of the situation in Japan and abroad while considering.

3. Consolidated Financial Statements and Notes

(1) Consolidated Balance Sheets

(Millions of yen)

	FY2022 December 31, 2022	FY2023 December 31, 2023
Assets		
Current assets		
Cash and deposits	¥ 63,318	¥47,200
Notes and accounts receivable – trade	17,817	17,820
Short-term investments in securities	17,993	17,944
Merchandise and finished goods	11,149	12,198
Work in process	661	683
Raw materials and supplies	3,337	3,534
Other	4,055	8,388
Allowance for doubtful accounts	(59)	(72)
Total current assets	118,273	107,697
Non-current assets		
Property, plant and equipment		
Buildings and structures	51,892	53,186
Accumulated depreciation	(35,639)	(36,657)
Buildings and structures, net	16,253	16,528
Machinery, equipment and vehicles	9,585	9,938
Accumulated depreciation	(7,867)	(8,084)
Machinery, equipment and vehicles, net	1,718	1,853
Land	14,226	14,247
Leased assets	7,503	6,844
Accumulated depreciation	(6,628)	(6,176)
Leased assets, net	874	668
Construction in progress	5,313	14,450
Other	19,318	18,865
Accumulated depreciation	(13,257)	(12,917)
Other, net	6,060	5,948
Total property, plant and equipment	44,446	53,696
Intangible assets		
Right of trademark	797	21
Software	11,510	11,813
Other	296	91
Total intangible assets	12,604	11,926
Investments and other assets		
Investments in securities	16,154	17,361
Long-term loans receivable	139	163
Deferred tax assets	10,606	6,264
Other	3,881	4,419
Allowance for doubtful accounts	(172)	(321)
Total investments and other assets	30,610	27,886
Total non-current assets	87,661	93,510
Total assets	¥205,935	¥201,207

(Millions of yen)

	FY2022 December 31, 2022	FY2023 December 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable – trade	¥ 2,745	¥ 2,751
Current portion of long-term loans payable	12	12
Lease obligations	739	674
Accounts payable – other	9,965	11,231
Income taxes payable	1,252	875
Contract liabilities	5,437	5,226
Provision for bonuses	1,749	1,807
Provision for directors' bonuses	157	161
Other provisions	16	54
Other	3,879	2,848
Total current liabilities	25,954	25,644
Non-current liabilities		
Long-term borrowings	59	46
Lease obligations	1,067	962
Net defined benefit liability	1,884	811
Provision for share benefits for directors	115	123
Provision for environmental measures	52	52
Asset retirement obligations	3,744	3,534
Other	1,598	1,634
Total non-current liabilities	8,521	7,165
Total liabilities	34,476	32,809
Net assets		
Shareholders' equity		
Common stock	10,000	10,000
Capital surplus	81,025	81,025
Retained earnings	82,759	80,907
Treasury stock	(2,860)	(2,839)
Total shareholders' equity	170,924	169,093
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	120	229
Foreign currency translation adjustments	(303)	(1,772)
Remeasurements of defined benefit plans	182	255
Total accumulated other comprehensive income	(0)	(1,287)
Subscription rights to shares	243	243
Minority interests	291	348
Total net assets	171,459	168,398
Total liabilities and net assets	¥205,935	¥201,207

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

Consolidated Statements of Income

(Millions of yen)

	Twelve Months Ended December 31	
	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Net sales	¥166,307	¥173,304
Cost of sales	31,037	31,227
Gross profit	135,270	142,076
Selling, general and administrative expenses		
Sales commission	34,870	34,976
Promotion expenses	11,283	11,032
Packing and transportation expenses	5,492	5,709
Advertising expenses	11,026	12,556
Salaries, allowances and bonuses	21,481	21,732
Welfare expenses	4,219	4,432
Retirement benefit expenses	768	692
Provision for bonuses	1,591	1,644
Depreciation and amortization	6,774	6,311
Amortization of Goodwill	378	-
Other	24,801	26,908
Total selling, general and administrative expenses	122,688	125,996
Operating income	12,581	16,080
Non-operating income		
Interest income	164	237
Foreign exchange gains	2,355	2,122
Other	252	330
Total non-operating income	2,773	2,691
Non-operating expenses		
Interest expense	91	103
Commission expenses	102	127
Loss related to COVID-19	75	-
Information security expenses	121	-
Other	35	70
Total non-operating expenses	427	302
Ordinary income	¥ 14,928	¥18,469

(Millions of yen)

	Twelve Months Ended December 31	
	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Extraordinary income		
Compensation income	-	¥376
Foreign currency translation adjustments	-	297
Gain on sales of fixed assets	762	-
Total extraordinary income	762	674
Extraordinary losses		
Loss on disposal of non-current assets	496	697
Impairment loss	2,539	1,813
Loss on valuation of investment securities	165	361
Loss on liquidation of business	165	770
Other	12	140
Total extraordinary losses	3,379	3,783
Income before income taxes	12,311	15,360
Income taxes – current	5,233	1,300
Income taxes – deferred	(4,429)	4,327
Total income taxes	804	5,627
Net income	11,507	9,732
Profit attributable to non-controlling interests	61	67
Profit attributable to owners of parent	¥11,446	¥9,665

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Twelve Months Ended December 31	
	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Net income	¥11,507	¥9,732
Other comprehensive income		
Valuation difference on available-for-sale securities	114	109
Foreign currency translation adjustments	(1,300)	(1,455)
Remeasurements of defined benefit plans	397	72
Total other comprehensive income	(788)	(1,273)
Comprehensive income	10,719	8,459
Comprehensive income attributable to owners of the parent	10,656	8,378
Comprehensive income attributable to non-controlling interests	¥63	¥80

(3) Consolidated Statements of Changes in Net Assets

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

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	¥10,000	¥81,027	¥83,853	¥(2,867)	¥172,013
Cumulative effects of changes in accounting policies			(1,023)		(1,023)
Restated balance	10,000	81,027	82,829	(2,867)	170,989
Changes of items during the period					
Dividends from retained earnings			(11,516)		(11,516)
Net income attributable to owners of parent			11,446		11,446
Disposal of treasury stock		(1)		6	5
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	(1)	(70)	6	(64)
Balance at the end of the period	¥10,000	¥81,025	¥82,759	¥(2,860)	¥170,924

(Millions of yen)

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	¥5	¥999	¥(215)	¥790	¥243	¥220	¥173,267
Cumulative effects of changes in accounting policies							(1,023)
Restated balance	5	999	(215)	790	243	220	172,243
Changes of items during the period							
Dividends from retained earnings							(11,516)
Net income attributable to owners of parent							11,446
Disposal of treasury stock							5
Net changes of items other than shareholders' equity	114	(1,302)	397	(790)	-	70	(719)
Total changes of items during the period	114	(1,302)	397	(790)	-	70	(784)
Balance at the end of the period	¥120	(303)	¥182	(0)	¥243	¥291	¥171,459

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

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of the period	¥10,000	¥81,025	¥82,759	¥(2,860)	¥170,924
Changes of items during the period					
Dividends from retained earnings			(11,516)		(11,516)
Net income attributable to owners of parent			9,665		9,665
Disposal of treasury stock				20	20
Net changes of items other than shareholders' equity					
Total changes of items during the period	-	-	(1,851)	20	(1,831)
Balance at the end of the period	¥10,000	¥81,025	¥80,907	¥(2,839)	¥169,093

(Millions of yen)

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	¥120	¥(303)	¥182	¥(0)	¥243	¥291	¥171,459
Changes of items during the period							
Dividends from retained earnings							(11,516)
Net income attributable to owners of parent							9,665
Disposal of treasury stock							20
Net changes of items other than shareholders' equity	109	(1,468)	72	(1,286)	-	57	(1,229)
Total changes of items during the period	109	(1,468)	72	(1,286)	-	57	(3,060)
Balance at the end of the period	¥229	¥(1,772)	¥255	¥(1,287)	¥243	¥348	¥168,398

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Twelve Months Ended December 31	
	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Cash flows from operating activities		
Income before income taxes	¥12,311	¥15,360
Depreciation and amortization	8,482	7,712
Impairment loss	2,539	1,813
Amortization of Goodwill	378	-
Decrease in allowance for doubtful accounts	(45)	159
Increase (decrease) in provision for bonuses	(121)	31
Increase (decrease) in other provision	33	13
Increase (decrease) in net defined benefit liability	(986)	(971)
Interest and dividend income	(164)	(237)
Interest expense	91	103
Foreign exchange gain	(2,174)	(2,176)
Gain (loss) on valuation of investment securities	165	361
Gain (loss) on sales of non-current assets	(762)	-
Loss on disposal of non-current assets	496	697
Foreign currency translation adjustments	-	(297)
Loss on liquidation of business	165	770
Compensation income	-	(376)
Decrease (increase) in notes and accounts receivable – trade	(7)	175
Decrease (increase) in inventories	1,042	(1,464)
Increase (decrease) in notes and accounts payable – trade	43	(135)
Increase (decrease) in contract liabilities	1,487	(244)
Increase (decrease) in consumption taxes payable	(397)	193
Decrease (increase) in other assets	109	(317)
Increase (decrease) in other liabilities	(1,584)	(249)
Other	175	(109)
Subtotal	21,277	20,810
Interest and dividends received	201	232
Interest paid	(92)	(104)
Payment for liquidation of business	(143)	(305)
Compensation income received	-	376
Income taxes paid	(5,695)	(6,586)
Net cash provided by operating activities	¥15,548	¥14,423

(Millions of yen)

	Twelve Months Ended December 31	
	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Cash flows from investing activities		
Payments into time deposits	¥(245)	¥(286)
Proceeds from withdrawal of time deposits	245	245
Purchase of short-term investments in securities	(2,000)	(1,000)
Proceeds from sales and redemption of short-term investments in securities	10,200	11,100
Purchase of property, plant and equipment	(7,482)	(12,146)
Proceeds from sales of property, plant and equipment	1,010	0
Purchase of intangible assets	(3,917)	(4,088)
Payments for disposal of non-current assets	(232)	(215)
Purchase of investments in securities	(9,907)	(11,403)
Payment for Asset retirement obligations	(339)	(345)
Purchase of long-term prepaid expenses	(134)	(254)
Payments for lease and guarantee deposits	(131)	(144)
Proceeds from collection of lease and guarantee deposits	466	416
Other	97	(612)
Net cash used in investing activities	(12,370)	(18,734)
Cash flows from financing activities		
Repayment of loan payable	(12)	(12)
Repayments of lease obligations	(1,136)	(815)
Cash dividends paid	(11,518)	(11,547)
Purchase of treasury stock	(6)	(20)
Proceeds from sales of treasury stock	6	20
Net cash used in financing activities	(12,668)	(12,375)
Effect of exchange rate change on cash and cash equivalents	358	501
Net decrease in cash and cash equivalents	(9,131)	(16,185)
Cash and cash equivalents at beginning of period	71,693	62,562
Cash and cash equivalents at end of period	¥62,562	¥46,376

(5) Notes to Consolidated Financial Statements

(Going Concern Assumptions)

None

(Changes in Accounting Policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 31, June 17, 2021) was applied from the beginning of the current consolidated fiscal year. In accordance with the transitional measures stipulated in Paragraph 27-2 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement", the new accounting policies stipulated in this "Implementation Guidance" will also be applied in the future.

This will have no impact on the consolidated financial statements.

(Additional Information)

(Application of Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System)

The group tax sharing system has been introduced for the current consolidated fiscal year, replacing the consolidated tax return system, for the company and its domestic consolidated subsidiaries. The accounting treatment and the disclosure of corporate taxes, local taxes, and tax effect accounting are being referred to the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ Practical Solution No.42, August 12, 2021). Based on Paragraph 32(1) of the "Practical Solution No.42", this will have no impact from the change of accounting policies accompanying with the application of Practical Solution No.42.

(Investment and Rental Property)

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

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

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

(Millions of yen)

		FY2022 (January 1, 2022–December 31, 2022)	FY2023 (January 1, 2023–December 31, 2023)
Carrying Amounts on the Consolidated Balance Sheet	Balance at Beginning of Period	¥17,790	¥19,450
	Change	¥1,659	¥3,112
	Balance at End of Period	¥19,450	¥22,563
Fair Value at End of Period		¥69,355	¥75,193

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

2. Main change

(Fiscal 2022)

Increase:	Refurbishment of office buildings for lease:	¥2,270 million
Decrease:	Depreciation on office buildings and residential properties and other properties for lease:	¥404 million

(Fiscal 2023)

Increase:	Refurbishment of office buildings for lease:	¥3,295 million
Decrease:	Depreciation on office buildings and residential properties and other properties for lease:	¥463 million

3. Method for calculating fair values

The fair values of the major properties are determined at the amounts using appraisal certificates provided by outside real estate assessors. For the 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.

(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 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 based on their values. Comprehensive strategies are planned and products are marketed by each brand name in Japan and overseas. In addition to its cosmetics business, a variety of businesses is conducted to contribute to the Group's 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" disclosed in the most recent securities report (submitted on March 28, 2023).

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

3. Information about Net Sales, Profit (Loss), Assets and Other Items by Reportable Segment
Fiscal Year Ended December 31, 2022 (January 1, 2022–December 31, 2022)

	Reportable Segments			Others (Note 1)	Subtotal	Reconciliations (Note 2)	(Millions of yen)
	Beauty Care	Real Estate	Subtotal				Amount Shown on the Consolidated Financial Statements (Note 3)
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:
- “Others” comprises business operations that are not categorized as reportable segments and include the building maintenance businesses.
 - Reconciliations consist of the following:
 - The segment income reconciliation of ¥(1,800) million includes intersegment transaction eliminations of ¥6,086 million and less 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.
 - The segment assets reconciliation of ¥9,086 million includes less 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.
 - Reconciliations of depreciation and amortization, and increases in property, plant and equipment, and intangible assets are those related to corporate assets and intersegment eliminations.
 - Segment income is adjusted for operating income reported in the consolidated statements of income.
 - 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.

(Significant Impairment Loss of Non-current Assets)

Impairment loss of ¥2,539 million is recognized on Beauty Care segment.

Fiscal Year Ended December 31, 2023 (January 1, 2023–December 31, 2023)

	Reportable Segments					(Millions of yen)	
	Beauty Care	Real Estate	Subtotal	Others (Note 1)	Subtotal	Reconciliations (Note 2)	Amount Shown on the Consolidated Financial Statements (Note 3)
Net Sales							
Sales to External Customers	¥ 168,477	¥ 2,078	¥ 170,555	¥ 2,748	¥ 173,304	-	¥ 173,304
Intersegment Sales or Transfers	109	444	553	2,301	2,855	¥ (2,855)	-
Total	168,586	2,522	171,109	5,050	176,159	(2,855)	173,304
Segment Income	16,354	440	16,794	149	16,944	(863)	16,080
Segment Assets	160,573	28,071	188,645	3,083	191,728	9,479	201,207
Other Items							
Depreciation and Amortization	6,686	424	7,110	12	7,123	589	7,712
Amortization of Goodwill	-	-	-	-	-	-	-
Increase in property, plant and equipment and intangible assets	¥ 14,042	¥ 3,347	¥ 17,389	¥ 3	¥ 17,393	¥ 85	¥ 17,478

- Notes: 1. "Others" comprises business operations that are not categorized as reportable segments and include the building maintenance business.
2. Reconciliations consist of the following:
- (1) The segment income reconciliation of ¥(863) million includes intersegment transaction eliminations of ¥8,796 million less corporate expenses of ¥(9,659) million, not allocated to each segment. Corporate expenses are primarily the Company's administrative expenses not allocated to reportable segments.
 - (2) The segment assets reconciliation of ¥9,479 million includes less intersegment eliminations of ¥(64,754) million and corporate assets of ¥74,234 million, not allocated to each segment. Corporate assets are primarily the Company's financial assets and assets in the administrative division not allocated to reportable segments.
 - (3) Reconciliations of depreciation and amortization, and increases in property, plant and equipment, and intangible assets are those related to corporate assets and intersegment eliminations.
3. Segment income is adjusted for operating income reported in the consolidated statements of income.
4. Amortization and increase in long-term prepaid expenses are included in depreciation and amortization, and increases in property, plant and equipment, and intangible assets, respectively.

(Significant Impairment Loss of Non-current Assets)

Impairment loss of ¥1,736 million is recognized on Beauty Care segment.

(Per Share Information)

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

Note 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 December 31 in the calculation of net assets per share and are included in shares of treasury stock that are deducted in the calculation of the average number of shares of treasury stock during the period for calculating net income per share and diluted net income per share. The number of shares of deducted treasury stock at December 31, 2023 is 235,910 and the average number of shares is 237,129 during the period. The number of shares of deducted treasury stock at December 31, 2022 was 242,460 and the average number of shares is 243,582 during the period.

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

Item	FY2022 (January 1, 2022– December 31, 2022)	FY2023 (January 1, 2023– December 31, 2023)
Net income per share		
Profit attributable to owners of parent (millions of yen)	¥11,446	¥9,665
Amounts not attributable to shareholders of common stock (millions of yen)	-	-
Profit attributable to owners of parent associated with common stock (millions of yen)	¥11,446	¥9,665
Weighted average number of shares of common stock during the fiscal year	221,230,520	221,236,973
Diluted net income per share		
Adjustment of profit attributable to owners of parent (millions of yen)	-	-
Number of shares of common stock increased	235,617	235,630
[Of which, subscription rights to shares]	(235,617)	(235,630)
Outline of the dilutive shares not included in the calculation of diluted net income per share due to their antidilutive effects	-	-

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

Item	FY2022 (At December 31, 2022)	FY2023 (At December 31, 2023)
Total net assets (millions of yen)	¥171,459	¥168,398
Amount deducted from total net assets (millions of yen)	¥534	¥591
[Of which, subscription rights to shares (millions of yen)]	¥(243)	¥(243)
[Of which, non-controlling interests (millions of yen)]	¥(291)	¥(348)
Net assets associated with common stock (millions of yen)	¥170,924	¥167,806
Number of shares of common stock used in the calculation of net assets per share	221,231,643	221,238,193

(Subsequent Event)**(Establishment of Subsidiary)**

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

(1) Purpose of establishment of subsidiary

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

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

(2) Overview of the subsidiary

- a. Company Name: POLA ORBIS (Shanghai) Enterprise Management CO., LTD.
- b. Address: Shanghai, People's Republic of China
- c. Name of Representative: Seiichi Takaya
- d. Description of Business: Business management, supervision and support of business strategy formulation, etc. for local subsidiaries in China
- e. Amount of Capital: USD 7,000 thousand
- f. Date of Establishment: January 2, 2024
- g. Shareholding Ratio: POLA ORBIS HOLDINGS INC. 100%