



Consolidated Financial Statements of Hulic Co., Ltd.

for the fiscal years ended on December 31, 2023 and 2022

Hulic Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
As of December 31, 2023 and 2022

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 1)</i>
	2023	2022	2023
ASSETS			
Current assets:			
Cash and deposits (<i>Notes 8, 18 and 20</i>)	¥ 82,878	¥ 138,400	\$ 584,351
Trade accounts receivable and contract assets (<i>Notes 8 and 18</i>)	8,992	7,097	63,404
Inventories (<i>Notes 3, 4 and 8</i>)	266,398	95,540	1,878,297
Other	14,707	9,870	103,698
Allowance for doubtful accounts	(4)	(7)	(29)
Total current assets	372,973	250,901	2,629,722
Property, plant and equipment (<i>Notes 3, 5, 8, 10, 13 and 22</i>):			
Buildings and structures	305,967	303,251	2,157,284
Machinery, equipment and vehicles	14,894	11,373	105,013
Land	1,316,801	1,374,904	9,284,364
Construction in progress	42,755	16,207	301,454
Other	16,228	15,669	114,419
	1,696,646	1,721,406	11,962,536
Accumulated depreciation	(79,241)	(76,956)	(558,706)
Total property, plant and equipment	1,617,405	1,644,449	11,403,830
Investments and other assets:			
Investment securities (<i>Notes 18 and 19</i>)	328,463	284,706	2,315,899
Goodwill	4,164	4,795	29,360
Leasehold interests in land (<i>Note 5</i>)	70,695	81,233	498,449
Guarantee deposits (<i>Note 8</i>)	47,384	37,545	334,096
Deferred tax assets (<i>Note 14</i>)	947	856	6,683
Net defined benefit asset (<i>Note 9</i>)	752	493	5,305
Business commencement expenses	15	22	109
Share issuance costs	210	404	1,480
Bond issuance costs	1,542	1,895	10,876
Other (<i>Note 5</i>)	35,918	13,064	253,247
Allowance for doubtful accounts	(0)	(31)	(5)
Total investments and other assets	490,094	424,986	3,455,503
Total assets	¥ 2,480,472	¥ 2,320,337	\$ 17,489,057

(Continued)

See notes to consolidated financial statements.

Hulic Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
As of December 31, 2023 and 2022

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 1)</i>
	2023	2022	2023
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Notes 8 and 18)	¥ 1,774	¥ 660	\$ 12,507
Current portion of long-term borrowings (Notes 8, 18 and 21)	103,109	161,577	726,996
Current portion of bonds payable (Notes 8 and 18)	30,000	50,000	211,520
Income taxes payable	18,760	11,531	132,271
Accrued expenses	4,523	3,843	31,891
Other (Notes 8 and 18)	27,139	18,144	191,354
Total current liabilities	185,306	245,757	1,306,542
Non-current liabilities:			
Long-term borrowings (Notes 8, 18 and 21)	929,145	857,748	6,551,122
Bonds payable (Notes 8 and 18)	381,000	371,000	2,686,314
Long-term guarantee deposits	93,307	88,287	657,880
Deferred tax liabilities (Note 14)	73,210	53,532	516,182
Net defined benefit liability (Note 9)	1,706	1,634	12,033
Provision for share awards	3,238	2,846	22,833
Other (Notes 8 and 10)	44,257	12,376	312,046
Total non-current liabilities	1,525,865	1,387,426	10,758,413
Net assets (Note 11):			
Shareholders' equity:			
Share capital,			
Authorized, 1,800,000,000 shares in 2023 and 2022; issued, 767,907,735 shares in 2023 and 2022	111,609	111,609	786,926
Capital surplus	137,731	137,741	971,101
Retained earnings	461,214	401,090	3,251,880
Treasury shares			
6,966,030 shares in 2023 and 7,164,236 shares in 2022	(3,760)	(3,971)	(26,516)
Total shareholders' equity	706,794	646,469	4,983,392
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	58,943	40,267	415,592
Deferred losses on hedges	(436)	(261)	(3,076)
Foreign currency translation adjustment	-	0	-
Remeasurements of defined benefit plans	355	252	2,503
Total accumulated other comprehensive income	58,862	40,258	415,019
Non-controlling interests	3,643	424	25,689
Total net assets	769,300	687,153	5,424,101
Total liabilities and net assets	¥ 2,480,472	¥ 2,320,337	\$ 17,489,057

See notes to consolidated financial statements.

Hulic Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended December 31, 2023 and 2022

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 1)</i>
	2023	2022	2023
Operating revenue (Notes 16, 22, 24 and 25)	¥ 446,383	¥ 523,424	\$ 3,147,312
Operating costs	249,875	350,854	1,761,793
Selling, general and administrative expenses (Notes 9, 12, 16 and 22)	50,329	46,422	354,858
Operating profit (Note 25)	<u>146,178</u>	<u>126,147</u>	<u>1,030,660</u>
Other income (expenses):			
Interest and dividend income	3,583	3,141	25,269
Share of (loss) profit of entities accounted for using equity method	(136)	1,033	(962)
Interest expenses	(11,576)	(10,415)	(81,619)
Compensation income	3,351	10	23,628
Impairment losses (Note 13)	(1,693)	(430)	(11,941)
Other (Note 13)	(3,009)	(2,008)	(21,215)
	<u>(9,480)</u>	<u>(8,668)</u>	<u>(66,842)</u>
Profit before income taxes	<u>136,698</u>	<u>117,478</u>	<u>963,818</u>
Income taxes (Note 14):			
Current	30,753	26,666	216,833
Deferred	11,224	11,661	79,143
	<u>41,978</u>	<u>38,328</u>	<u>295,977</u>
Profit	<u>94,719</u>	<u>79,150</u>	<u>667,840</u>
Profit attributable to non-controlling interests	<u>94</u>	<u>0</u>	<u>666</u>
Profit attributable to owners of parent (Note 17)	<u>¥ 94,625</u>	<u>¥ 79,150</u>	<u>\$ 667,174</u>

See notes to consolidated financial statements.

Hulic Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 1)</i>
	2023	2022	2023
Net income before non-controlling interests	¥ 94,719	¥ 79,150	\$ 667,840
Other comprehensive income (Note 15):			
Valuation difference on available-for-sale securities	18,510	2,963	130,511
Deferred losses on hedges	(175)	(206)	(1,234)
Remeasurements of defined benefit plans, net of tax	120	64	852
Share of other comprehensive income of entities accounted for using equity method	147	(1,105)	1,038
Total other comprehensive income	<u>18,603</u>	<u>1,715</u>	<u>131,167</u>
Comprehensive income	<u>¥ 113,323</u>	<u>¥ 80,866</u>	<u>\$ 799,008</u>
Total comprehensive income attributable to:			
Owners of parent	¥ 113,228	¥ 80,866	\$ 798,342
Non-controlling interests	94	0	666

See notes to consolidated financial statements.

Hulic Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended December 31, 2023 and 2022

	<i>Millions of Yen</i>				
	Shareholders' Equity				Total Shareholders' Equity
	Share Capital	Capital Surplus	Retained Earnings	Treasury Shares	
Balance as of January 1, 2022	¥ 111,609	¥ 137,759	¥ 352,351	¥ (2,464)	¥ 599,256
Cumulative effects of changes in accounting policies	-	-	254	-	254
Restated balance	¥ 111,609	¥ 137,759	¥ 352,606	¥ (2,464)	¥ 599,511
Profit attributable to owners of parent	-	-	79,150	-	79,150
Dividends of surplus	-	-	(30,666)	-	(30,666)
Purchase of treasury shares	-	-	-	(1,530)	(1,530)
Disposal of treasury shares	-	0	-	23	23
Change in treasury shares arising from change in equity in entities accounted for using equity method	-	-	-	0	0
Change in ownership interest of parent due to transactions with non-controlling interests	-	(18)	-	-	(18)
Net changes in items other than shareholders' equity	-	-	-	-	-
Total changes during period	-	(18)	48,484	(1,507)	46,958
Balance as of December 31, 2022	¥ 111,609	¥ 137,741	¥ 401,090	¥ (3,971)	¥ 646,469
Profit attributable to owners of parent	-	-	94,625	-	94,625
Dividends of surplus	-	-	(34,499)	-	(34,499)
Change in scope of consolidation of entities accounted for using equity method	-	-	(1)	-	(1)
Purchase of treasury shares	-	-	-	(0)	(0)
Disposal of treasury shares	-	-	-	211	211
Change in treasury shares arising from change in equity in entities accounted for using equity method	-	-	-	(0)	(0)
Change in ownership interest of parent due to transactions with non-controlling interests	-	(9)	-	-	(9)
Net changes in items other than shareholders' equity	-	-	-	-	-
Total changes during period	-	(9)	60,123	210	60,324
Balance as of December 31, 2023	¥ 111,609	¥ 137,731	¥ 461,214	¥ (3,760)	¥ 706,794
	<i>Thousands of U.S. Dollars (Note 1)</i>				
	Shareholders' Equity				
	Share Capital	Capital Surplus	Retained Earnings	Treasury Shares	Total Shareholders' Equity
Balance as of December 31, 2022	\$ 786,926	\$ 971,170	\$ 2,827,965	\$ (28,002)	\$ 4,558,061
Profit attributable to owners of parent	-	-	667,174	-	667,174
Dividends of surplus	-	-	(243,246)	-	(243,246)
Change in scope of consolidation of entities accounted for using equity method	-	-	(12)	-	(12)
Purchase of treasury shares	-	-	-	(6)	(6)
Disposal of treasury shares	-	-	-	1,492	1,492
Change in treasury shares arising from change in equity in entities accounted for using equity method	-	-	-	(0)	(0)
Change in ownership interest of parent due to transactions with non-controlling interests	-	(69)	-	-	(69)
Net changes in items other than shareholders' equity	-	-	-	-	-
Total changes during period	-	(69)	423,914	1,485	425,331
Balance as of December 31, 2023	\$ 786,926	\$ 971,101	\$ 3,251,880	\$ (26,516)	\$ 4,983,392

See notes to consolidated financial statements.

Hulic Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended December 31, 2023 and 2022

	<i>Millions of Yen</i>						
	Accumulated Other Comprehensive Income				Total Accumulated Other Comprehensive Income	Non- controlling Interests	Total Net Assets
	Valuation Difference on Available-for- Sale Securities	Deferred Losses on Hedges	Foreign Currency Translation Adjustment	Remeasure- ments of Defined Benefit Plans			
Balance as of January 1, 2022	¥ 38,401	¥ (54)	¥ -	¥ 195	¥ 38,542	¥ 533	¥ 638,332
Cumulative effects of changes in accounting policies	-	-	-	-	-	-	254
Restated balance	¥ 38,401	¥ (54)	¥ -	¥ 195	¥ 38,542	¥ 533	¥ 638,587
Profit attributable to owners of parent	-	-	-	-	-	-	79,150
Dividends of surplus	-	-	-	-	-	-	(30,666)
Purchase of treasury shares	-	-	-	-	-	-	(1,530)
Disposal of treasury shares	-	-	-	-	-	-	23
Change in treasury shares arising from change in equity in entities accounted for using equity method	-	-	-	-	-	-	0
Change in ownership interest of parent due to transactions with non-controlling interests	-	-	-	-	-	-	(18)
Net changes in items other than shareholders' equity	1,866	(206)	0	56	1,715	(108)	1,607
Total changes during period	1,866	(206)	0	56	1,715	(108)	48,566
Balance as of December 31, 2022	¥ 40,267	¥ (261)	¥ 0	¥ 252	¥ 40,258	¥ 424	¥ 687,153
Profit attributable to owners of parent	-	-	-	-	-	-	94,625
Dividends of surplus	-	-	-	-	-	-	(34,499)
Change in scope of consolidation of entities accounted for using equity method	-	-	-	-	-	-	(1)
Purchase of treasury shares	-	-	-	-	-	-	(0)
Disposal of treasury shares	-	-	-	-	-	-	211
Change in treasury shares arising from change in equity in entities accounted for using equity method	-	-	-	-	-	-	(0)
Change in ownership interest of parent due to transactions with non-controlling interests	-	-	-	-	-	-	(9)
Net changes in items other than shareholders' equity	18,675	(175)	(0)	102	18,603	3,218	21,822
Total changes during period	18,675	(175)	(0)	102	18,603	3,218	82,146
Balance as of December 31, 2023	¥ 58,943	¥ (436)	¥ -	¥ 355	¥ 58,862	¥ 3,643	¥ 769,300

See notes to consolidated financial statements.

Thousands of U.S. Dollars (Note 1)

	Accumulated Other Comprehensive Income				Total Accumulated Other Comprehensive Income	Non- controlling Interests	Total Net Assets
	Valuation Difference on Available-for- Sale Securities	Deferred Losses on Hedges	Foreign Currency Translation Adjustment	Remeasure- ments of Defined Benefit Plans			
Balance as of December 31, 2022	\$ 283,915	\$ (1,842)	\$ 1	\$ 1,777	\$ 283,851	\$ 2,996	\$4,844,909
Profit attributable to owners of parent	-	-	-	-	-	-	667,174
Dividends of surplus	-	-	-	-	-	-	(243,246)
Change in scope of consolidation of entities accounted for using equity method	-	-	-	-	-	-	(12)
Purchase of treasury shares	-	-	-	-	-	-	(6)
Disposal of treasury shares	-	-	-	-	-	-	1,492
Change in treasury shares arising from change in equity in entities accounted for using equity method	-	-	-	-	-	-	(0)
Change in ownership interest of parent due to transactions with non-controlling interests	-	-	-	-	-	-	(69)
Net changes in items other than shareholders' equity	131,677	(1,234)	(1)	726	131,167	22,693	153,861
Total changes during period	131,677	(1,234)	(1)	726	131,167	22,693	579,192
Balance as of December 31, 2023	\$ 415,592	\$ (3,076)	\$ -	\$ 2,503	\$ 415,019	\$ 25,689	\$5,424,101

See notes to consolidated financial statements.

Hulic Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 1)</i>
	2023	2022	2023
Cash flows from operating activities:			
Profit before income taxes	¥ 136,698	¥ 117,478	\$ 963,818
Depreciation	16,307	16,253	114,979
Interest and dividend income	(3,583)	(3,141)	(25,269)
Interest expenses	11,576	10,415	81,619
Share of loss (profit) of entities accounted for using equity method	136	(1,033)	962
Gain on sale of non-current assets	(127)	(2)	(900)
Loss on retirement of non-current assets	1,880	3,387	13,259
Gain on sale of investment securities	(21)	(2,368)	(155)
Gain on investments in silent partnership, etc.	(58)	(132)	(413)
Increase in trade receivables	(1,869)	(1,203)	(13,177)
Decrease in inventories	145,984	166,066	1,029,292
Increase in guarantee deposits	(8,585)	(8,651)	(60,535)
Increase in guarantee deposits received	4,662	5,714	32,874
Other, net	(2,105)	(4,602)	(14,847)
Subtotal	300,893	298,178	2,121,506
Interest and dividends received	5,323	4,053	37,531
Interest paid	(11,613)	(10,195)	(81,880)
Income taxes paid	(23,864)	(26,020)	(168,258)
Income taxes refund	80	92	565
Net cash provided by operating activities	270,819	266,108	1,909,464
Cash flows from investing activities:			
Payments into time deposits	(115)	(100)	(810)
Proceeds from withdrawal of time deposits	100	120	705
Purchase of property, plant and equipment	(257,237)	(291,108)	(1,813,700)
Purchase of intangible assets	(7,397)	(2,125)	(52,155)
Proceeds from sale of non-current assets	1,034	16	7,295
Purchase of investment securities	(17,025)	(71,594)	(120,042)
Proceeds from sale of investment securities	169	5,943	1,193
Proceeds from redemption of investment securities	602	13,289	4,248
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	-	574	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,228)	-	(8,660)
Proceeds from collection of loans receivable	4	4	30
Loan advances	(104)	(3)	(735)
Other, net	(17,133)	(350)	(120,802)
Net cash used in investing activities	¥ (298,330)	¥ (345,335)	\$ (2,103,435)

(Continued)

Hulic Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 1)</i>
	2023	2022	2023
Cash flows from financing activities:			
Net increase in short-term borrowings	¥ 1,114	¥ -	\$ 7,854
Net (decrease) increase in short-term bonds payable	(63)	7	(446)
Proceeds from long-term borrowings	174,500	42,000	1,230,346
Repayments of long-term borrowings	(161,570)	(73,076)	(1,139,184)
Proceeds from issuance of bonds	39,855	75,346	281,008
Redemption of bonds	(50,000)	-	(352,534)
Dividends paid	(34,499)	(30,666)	(243,246)
Proceeds from share issuance to non-controlling shareholders	3,125	-	22,034
Dividends paid to non-controlling interests	-	(4)	-
Other, net	(485)	(2,165)	(3,420)
	<u>(28,024)</u>	<u>11,441</u>	<u>(197,590)</u>
Net decrease in cash and cash equivalents	(55,535)	(67,785)	(391,561)
Cash and cash equivalents at beginning of period	138,300	206,086	975,113
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(1)	-	(11)
	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at end of period <i>(Note 20)</i>	¥ 82,763	¥ 138,300	\$ 583,540

See notes to consolidated financial statements.

Hulic Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Years Ended December 31, 2023 and 2022

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of Hulic Co., Ltd. (the “Company”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥141.83 to \$1, the approximate rate of exchange as of December 31, 2023. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The accompanying consolidated financial statements as of December 31, 2023 include the accounts of the Company and its 18 significant subsidiaries (collectively, the “Group”).

Under the control or influence concept, those companies in which the Company is directly or indirectly able to exercise control over their operations are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method.

Consolidated subsidiaries as of December 31, 2023 were as follows:

- Hulic Building Management Co., Ltd.
- Hulic Reit Management Co., Ltd.
- Hulic Private Reit Management Co., Ltd.
- Hulic Property Solution Co., Ltd.
- HULIC Biz Frontier Co., Ltd.
- Shibuya 1-chome Development Co., Ltd.
- Porte Kanazawa Co., Ltd.
- Shinjuku Sanchome Property Godo Kaisha
- Ginza Rokuchoe Property Godo Kaisha
- Godo Kaisha Shobu Property
- Hulic Insurance Service Co., Ltd.
- Hulic Hotel Management Co., Ltd.
- NIPPON VIEW HOTEL BUSINESS Co., Ltd.
- HULIC FUFU Co., Ltd.
- Hulic Build Co., Ltd.
- HULIC Agri Co., Ltd.
- Hulic Advance Energy Co., Ltd.
- Hulic Proserve Co., Ltd.

Note:

Shibuya 1-chome Development Co., Ltd., Godo Kaisha Shobu Property and CROSSCOOP Co., Ltd. (which changed its corporate name to HULIC Biz Frontier Co., Ltd.) were included in the scope of consolidation during the year ended December 31, 2023 due to the establishment, investment in Tokumei Kumiai, and acquisition of shares, respectively.

Surugadai Asset Godo Kaisha, a former subsidiary, was excluded from the scope of consolidation during the year ended December 31, 2023 due to redemption of all equity interests.

Hulic Hotel Management Kyoto Co., Ltd., NIPPON VIEW HOTEL Co., Ltd., Tokyo Bay Maihama Hotel Co., Ltd. and MOS CO., LTD. were dissolved on October 1, 2023 due to an absorption-type merger with Hulic Hotel Management Co., Ltd. as the surviving company.

Investments in 15 affiliates are accounted for by the equity method.

Affiliates accounted for by the equity method as of December 31, 2023 were as follows:

- Heiwa Kanzai Co., Ltd.
- Tokyo Fudousan Kanri Co., Ltd.
- Godo Kaisha Kinokunibashi Investment
- GODOKAISHA HOIKUEN MIRAI FUND
- Miharabashi Investment TMK
- GK Shibaguchibashi Investment
- Godo Kaisha Yokohama Kanazawa Logi
- Sakurabashi Tokutei Mokuteki Kaisha
- Godo Kaisha Yokohama Shinsugita Logi
- Godo Kaisha ATLAS
- Agri-sight Co., Ltd.
- Agrivision Co., Ltd.
- DEH1 K.K.
- Yamato Credit & Finance Co., Ltd.
- Riso Kyoiku Co., Ltd.

Note:

DEH1 K.K. was included in the scope of equity-method accounting during the year ended December 31, 2023 due to acquisition of shares .

Godo Kaisha Yokohama Shinsugita Logi and Godo Kaisha ATLAS were included in the scope of equity-method accounting during the year ended December 31, 2023 due to investments in Tokumei Kumiai.

The investment in non-consolidated subsidiaries such as Yugen Kaisha Kiyukai and affiliates excluded from the scope of equity-method accounting such as FUJIMI CONSULTANTS Inc., were stated at cost as of December 31, 2023. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The Company, with a calendar year end (i.e., December 31), consolidates certain subsidiaries with different fiscal year ends. The fiscal year of Hulic Hotel Management Co., Ltd. had only nine months from January 1, 2023 to September 30, 2023 due to the change in its fiscal year-end. The financial statements as of the fiscal year-end were used for the purpose of consolidation. The fiscal year-ends of Hulic Hotel Management Kyoto Co., Ltd., Tokyo Bay Maihama Hotel Co., Ltd. and MOS CO., LTD., and NIPPON VIEW HOTEL Co., Ltd. were December 31, March 31 and April 30, respectively. Their fiscal year-ends were changed to September 30 due to an absorption-type merger on October 1, 2023 with Hulic Hotel Management Co., Ltd. as the surviving company. Accordingly, the financial statements included nine months for Hulic Hotel Management Kyoto Co., Ltd., 12 months for Tokyo Bay Maihama Hotel Co., Ltd. and MOS CO., LTD., and 11 months for NIPPON VIEW HOTEL Co., Ltd., respectively, and their financial statements were used for the purpose of consolidation. The fiscal year-end of Porte Kanazawa Co., Ltd., is March 31. For the consolidation purpose, it prepares the financial statements which are prepared solely for consolidation purposes in accordance with the procedures similar to those followed in previous years. The fiscal year-end of HULIC FUFU Co., Ltd. and Godo Kaisha Shobu Property is September 30, that of HULIC Biz Frontier Co., Ltd., Shibuya 1-chome Development Co., Ltd. and HULIC Agri Co., Ltd. is October 31, and that of Shinjuku Sanhome Property Godo Kaisha and Ginza Rokuchome Property Godo Kaisha is November 30. Their financial statements as of their respective fiscal year-ends were used for the purpose of consolidation.

Appropriate adjustments are made for significant transactions that occur during the period from their respective year-end to the consolidated balance sheet date. The fiscal year-ends of other consolidated subsidiaries are the same as that of the Company.

The financial statements of affiliates accounted for by the equity method are used for consolidation even if their fiscal year-ends are different from that of the Company. Appropriate adjustments are made for significant transactions that occur during the period from their respective year-end to the consolidated balance sheet date.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date. The foreign exchange gains and losses from translations are recognized in the consolidated statements of income.

c. Cash and Cash Equivalents

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

d. Inventories

Real estate for sale, real estate for sale in process, and cost on construction contracts in progress are stated at the lower of cost, determined by the specific identification method, or market. Supplies are mainly stated at the lower of cost, determined by the moving-average method, or market.

e. Investment Securities

Investment securities are classified and accounted for as available-for-sale securities. Those other than shares without market value are stated at fair market value. Unrealized gains and losses, net of applicable taxes, are reported in a separate component of net assets and cost of securities sold is determined using the moving-average method. Shares without market value which are classified as available-for-sale security are stated at cost determined using the moving-average method.

f. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is principally computed using the straight-line method over their estimated useful lives. The range of useful lives is principally from 2 to 60 years for buildings and structures.

g. Intangible Assets

Intangible assets, which are included in "Other" under "Investments and other assets" in the consolidated balance sheets, are amortized using the straight-line method over their estimated useful lives. Computer software for internal use is capitalized as an asset and is amortized using the straight-line method over the useful life of five years.

h. Goodwill

Goodwill is carried at cost less accumulated amortization, which is computed using the straight-line method mainly over 20 years.

i. Deferred Assets

Business commencement expenses are amortized using the straight-line method over five years. Share issuance costs are amortized using the straight-line method over three years. Bond issuance costs are amortized using the straight-line method over the redemption period.

j. Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the actual rate of historical bad debts and an evaluation of potential losses on outstanding receivables.

k. Accrued Bonuses

Accrued bonuses are recorded at the estimated amount attributable to the current fiscal year to provide for the future bonus payments to employees and executive officers.

l. Accrued Directors' Bonuses

Accrued directors' bonuses are recorded at the estimated amount attributable to the current fiscal year to provide for the future bonus payments to directors and audit & supervisory board members.

m. Retirement Benefit Accounting

The benefit formula basis is principally used as the method of attributing expected benefits to the current period in calculating retirement benefit obligations. Unrecognized prior service cost is amortized by the straight-line method over a five-year period, which is shorter than the average remaining years of service of the eligible employees. Unrecognized actuarial differences are amortized from the following year using the straight-line method mainly over a five-year period, which is shorter than the average remaining years of service of the eligible employees. The Company's certain consolidated subsidiaries use the simplified method in calculating net defined benefit liability and retirement benefit expenses. Under this method, the severance payment amount to be required at the year-end for voluntary termination is deemed as retirement benefit obligations.

n. Provision for Share Distribution

Provision for share distribution is provided to prepare for future distribution of the Company's shares to directors and executive officers based on the internal regulations on the distribution of shares to directors. The provision is recorded based on the estimated amount of share distribution obligations at the balance sheet date.

o. Timing of Revenue Recognition

The main performance obligations in the Company and its consolidated subsidiaries' principal businesses relating to revenue from contracts with customers and the usual time at which such performance obligations are satisfied (the usual time at which revenue is recognized) are as follows.

In addition, the consideration for contracts with customers in the principal businesses is usually paid within one year from the time the performance obligation is satisfied, and the amount of consideration does not include a significant financing component.

(1) Real Estate business

In the real estate business, the Group is engaged in the real estate leasing business, which leases income-producing real estate, the real estate development and reconstruction business, which reconstructs owned properties and develops properties in favorable locations in city center, and the asset management business, which manages J-REITs, private REITs and other assets.

The Group enhances its rental portfolio by acquiring, reconstructing, and developing properties to increase its real estate rental revenue, and sells income-producing properties held for sale to external customers to generate real estate sales revenue. The details of the main performance obligations and others by type of revenue are as follows.

-Real estate rental revenue

The Group recognizes revenues from real estate rentals in accordance with the "Accounting Standard for Lease Transactions" (Accounting Standards Board of Japan ("ASBJ") Statement No. 13, issued on March 30, 2007) and others.

- Real estate sale revenue

For revenues from the sale of real estate, the Group is obligated to deliver the property to the customer and revenue is recognized at the time of delivery.

- Asset management revenue

For asset management fees received from J-REITs and others, revenue is recognized over the period of a contract with the customer, since the Group is obligated to manage the assets based on the service agreement with the customer and the customer receives benefits as the Group provides services. However, for fees for the acquisition or transfer of assets under management, revenue is recognized at the time of acceptance or delivery, since the performance obligation is satisfied in a single transaction.

(2) Insurance business

In the insurance business, revenue is recognized at the time the services are provided, since the Group provides solicitation services and related collection agency services based on insurance agency consignment contracts with insurance companies and the Group is obligated to perform a series of services over the term of the insurance contract.

(3) Hotels and Inns business

In the hotel and inn business, revenue is recognized at the time the services are provided, since the Group operates hotels and inns and is obligated to provide customers with principally lodging, restaurants, and related services.

(4) Other business

In the other business, the Group engages in construction and others. In this business, revenue is recognized based on the percentage of completion of construction based on the cost incurred, since the Group is obligated to perform construction work based on the construction contract with the customer, and the customer controls the asset as the work progresses. However, if the period is very short, revenue is recognized at the time of delivery.

p. Income Taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

q. Derivatives and Hedging Activities

The Group enters into certain derivative transactions in order to manage risks mainly arising from adverse fluctuations in interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gains or losses charged or credited to operations, except for those meeting the deferral hedge accounting exception where unrealized gains or losses are deferred as a component of net assets.

The interest rate swaps which qualify for hedge accounting and meet specific criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expenses or income (referred to as an exceptional treatment to the basic deferral method).

The Group evaluates hedge effectiveness by comparing total cash flow of hedging instruments and hedged items. Hedge effectiveness is omitted if the exceptional treatment is applied to the hedging instruments.

r. Impairment Loss

The Group reviews its non-current assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

s. Asset Retirement Obligations

An asset retirement obligation is recorded at the time of acquisition or construction of non-current asset and when there is statutory or similar obligation associated with the removal of such asset. The asset retirement obligation is measured at the discounted value of the liability at the time the non-current asset is acquired or constructed, and the amount of the liability is added to the book value of the non-current asset depreciated over the useful life of the non-current asset.

t. Per Share Information

Basic earnings per share is computed by dividing profit attributable to owners of parent by the weighted-average number of common shares outstanding for the period.

u. Reclassifications

Certain reclassifications have been made in the prior years' consolidated financial statements to conform to the presentation used for the year ended December 31, 2023.

v. Rounded Amounts Presented in Financial Statements

Japanese yen amounts have been rounded down to the nearest millions in the accompanying consolidated financial statements as the financial statements were originally prepared in Japanese and filed with regulatory authorities. U.S. dollar amount have been rounded down to the nearest thousands. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

w. Significant Accounting Estimates

Valuation of Inventories

(1) Amounts recorded in the consolidated financial statements for the years ended December 31, 2023 and 2022

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Real estate for sale	¥ 263,089	¥ 90,770	\$ 1,854,962
Real estate for sale in process	2,871	4,355	20,248
Loss on valuation of inventories	-	Information is omitted due to immateriality.	-

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

(i) Method of calculation

Inventories consist mainly of real estate held for sale. If the estimated net selling price at the end of the fiscal year is lower than the acquisition cost due to a decline in profitability, the estimated net selling price is used as the carrying amount, and the difference is recorded as a loss on valuation of inventories.

The estimated net selling price is calculated by deducting the estimated sales expenses, estimated cost of development and construction work to be incurred in the future from the estimated sales price.

(ii) Key assumptions

The key assumptions used in calculating net selling price are the estimated sales price or the rent level and discount rate that are the calculation factors and are estimated based on the location and size of the property, comparables of transactions and rentals in the surrounding area, and land price trends in the surrounding area.

(iii) Impact on the consolidated financial statements in the fiscal year ending December 31, 2024

The key assumption in (ii) above are the best estimates based on the information available as of the end of the current fiscal year. However, if the assumptions and premises for the estimated amounts change due to changes in the business environment or other factors, it may be necessary to record a loss on valuation of inventories due to the write-down of the carrying amount.

Impairment losses on non-current assets

(1) Amounts recorded in the consolidated financial statements for the years ended December 31, 2023 and 2022

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Property, plant and equipment	¥ 1,617,405	¥ 1,644,449	\$ 11,403,830
Intangible assets	77,938	88,228	549,520
Impairment losses	1,693	430	11,941

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

(i) Method of calculation

When an indication exists that an asset or asset group may be impaired (impairment indicators), and the sum of the undiscounted future cash flows attributable to the asset or asset group is lower than the carrying value, the Group values the asset or asset group based on the recoverable amount, and such reduction is recognized as impairment losses.

The recoverable amount is the higher of net selling price or value in use. Net selling price is calculated by deducting the estimated cost of disposal from the appraisal value by a real estate appraiser. Value in use is calculated by discounting to present value the future cash flows expected to result from the continued use and eventual disposition of the asset or asset group.

(ii) Key assumptions

The key assumptions used in the calculation of undiscounted future cash flows and recoverable amount are rent levels and discount rates, which are estimated based on the location and size of the property, transactions and lease comparables in the surrounding area, and land price trends in the surrounding area.

(iii) Impact on the consolidated financial statements in the fiscal year ending December 31, 2024

The key assumption in (ii) above are the best estimates based on the information available as of the end of the current fiscal year. However, if the assumptions and premises for the estimated amounts change due to changes in the business environment or other factors, it may be necessary to record impairment losses.

3. ADDITIONAL INFORMATION

a. Reclassification of real estate in property, plant and equipment

Of property, plant and equipment, ¥316,645 million (\$2,232,569 thousand) and ¥151,251 million were reclassified to inventories due to the change in use during the years ended December 31, 2023 and 2022, respectively.

b. Transactions of delivering the company's own stock to employees and others through trusts

The Company has introduced a Board Benefit Trust as a performance-linked stock compensation program for directors of the Company (excluding non-executive directors) and executive officers (the "Directors, and others") to motivate them to contribute to improving the Company's mid- to long-term business performance and to increasing corporate value. The Company accounted for the transactions under the trust agreement with the gross method in accordance with the "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees and others through Trusts" (ASBJ PITF No. 30, revised on March 26, 2015).

(1) Overview

The Company's shares will be acquired through a trust using money entrusted by the Company and the Company's shares and the cash equivalent of the market value of the Company's shares (the "Company's shares, and others") will be delivered and paid to Directors, and others through the trust, which is determined using points allocated to each Director, and others, based on the degree of accomplishment of business performance in accordance with the internal regulations on the distribution of shares to directors, which was prescribed by the Board of Directors of the Company. Directors, and others, are eligible to receive the Company's shares, and others, in principle, after retiring from the position of Directors, and others, and when he or she is no longer in a position as a director or an executive officer.

(2) The Company's shares in the trust

The Company recorded its own shares in the trust as treasury shares in the net assets section of the consolidated balance sheets at the carrying value in the trust (excluding associated expenses). The carrying value and number of such treasury shares were ¥3,527 million (\$24,871 thousand) and 3,316 thousand shares as of December 31, 2023 and ¥3,739 million and 3,515 thousand shares as of December 31, 2022, respectively.

4. INVENTORIES

Inventories as of December 31, 2023 and 2022 consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Merchandise	¥ 24	¥ 21	\$ 171
Real estate for sale	263,089	90,770	1,854,962
Real estate for sale in process	2,871	4,355	20,248
Expenditure on contracts in progress	39	21	278
Supplies	373	371	2,636
Total	¥ 266,398	¥ 95,540	\$ 1,878,297

5. PROPERTY, PLANT AND EQUIPMENT

The following table summarizes amounts of reduction entry deducted from acquisition costs of property, plant and equipment, as a result of conversion of ownership based on the Urban Renewal Act, as of December 31, 2023 and 2022:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Buildings and structures	¥ 2,392	¥ 2,657	\$ 16,867
Machinery, equipment and vehicles	1,088	32	7,677
Land	2,490	3,055	17,562
Construction in progress	14,362	56	101,267
Leasehold interests in land	233	-	1,646
Other (intangible assets)	6	-	45
Total	¥ 20,574	¥ 5,802	\$ 145,066

6. OBLIGATIONS FOR ADDITIONAL INVESTMENT

The Group had additional investment and other obligations to DEH1 K.K. and Godo Kaisha Zest Leasing under certain conditions as of December 31, 2023 and 2022, respectively.

7. GUARANTEED LIABILITIES

The Group jointly guaranteed ¥150 million of First Resort Co., Ltd.'s borrowings from financial institutions as of December 31, 2022.

8. SHORT-TERM AND LONG-TERM DEBT

Short-term debt and the current portion of long-term debt as of December 31, 2023 and 2022 consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Short-term borrowings	¥ 630	¥ 660	\$ 4,441
Short-term borrowings(non-recourse loans)	1,144	-	8,065
Current portion of long-term borrowings	103,109	149,832	726,996
Current portion of long-term borrowings (non-recourse loans)	-	11,745	-
Current portion of bonds payable	30,000	50,000	211,520
Current portion of lease obligations	531	510	3,744
Total	¥ 135,414	¥ 212,748	\$ 954,769

Long-term debt as of December 31, 2023 and 2022 consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Long-term borrowings from financial institutions due through 2063	¥ 1,002,255	¥ 1,007,581	\$ 7,066,597
Long-term borrowings from financial institutions due through 2029 (non-recourse loans)	30,000	11,745	211,520
Unsecured bonds payable due through October 2062 at rates ranging from 0.2% to 1.8%	411,000	421,000	2,897,835
Lease obligations	8,604	8,994	60,668
	<u>1,451,860</u>	<u>1,449,320</u>	<u>10,236,622</u>
Less current portion			
Long-term borrowings	(103,109)	(161,577)	(726,996)
Bonds payable	(30,000)	(50,000)	(211,520)
Lease obligations	(531)	(510)	(3,744)
Total	<u>¥ 1,318,219</u>	<u>¥ 1,237,232</u>	<u>\$ 9,294,361</u>

The annual maturities of long-term debt as of December 31, 2023 and 2022 were as follows:
<As of December 31, 2023>

Years ending December 31	Long-Term Borrowings		Long-Term Borrowings (non-recourse loans)		Bonds Payable		Lease Obligations	
	<i>Thousands of U.S. Dollars</i>		<i>Thousands of U.S. Dollars</i>		<i>Thousands of U.S. Dollars</i>		<i>Thousands of U.S. Dollars</i>	
	<i>Millions of Yen</i>	<i>Millions of Yen</i>	<i>Millions of Yen</i>	<i>Millions of Yen</i>	<i>Millions of Yen</i>	<i>Millions of Yen</i>	<i>Millions of Yen</i>	<i>Millions of Yen</i>
2024	¥ 103,109	\$ 726,996	¥ -	\$ -	¥ 30,000	\$ 211,520	¥ 531	\$ 3,744
2025	190,157	1,340,743	-	-	-	-	521	3,674
2026	170,415	1,201,545	-	-	60,000	423,041	523	3,692
2027	142,701	1,006,143	-	-	-	-	522	3,686
2028	80,264	565,916	-	-	20,000	141,013	525	3,705
2029 and thereafter	315,607	2,225,252	30,000	211,520	301,000	2,122,259	5,980	42,166
Total	<u>¥1,002,255</u>	<u>\$7,066,597</u>	<u>¥ 30,000</u>	<u>\$ 211,520</u>	<u>¥411,000</u>	<u>\$ 2,897,835</u>	<u>¥8,604</u>	<u>\$ 60,668</u>

<As of December 31, 2022>

Years ending December 31	Long-Term Borrowings		Long-Term Borrowings (non-recourse loans)		Bonds Payable		Lease Obligations	
	<i>Millions of Yen</i>		<i>Millions of Yen</i>		<i>Millions of Yen</i>		<i>Millions of Yen</i>	
2023	¥	149,832	¥	11,745	¥	50,000	¥	510
2024		103,102		-		30,000		515
2025		188,657		-		-		505
2026		166,267		-		20,000		510
2027		138,031		-		-		509
2028 and thereafter		261,689		-		321,000		6,442
Total	<u>¥</u>	<u>1,007,581</u>	<u>¥</u>	<u>11,745</u>	<u>¥</u>	<u>421,000</u>	<u>¥</u>	<u>8,994</u>

The carrying amount of assets pledged as collateral and the secured liabilities as of December 31, 2023 and 2022 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Assets pledged:			
Cash and deposits	¥ 118	¥ -	\$ 833
Real estate for sale	42,281	-	298,113
Buildings and structures	-	274	-
Land	-	29,176	-
Total	¥ 42,399	¥ 29,450	\$ 298,946
Secured liabilities:			
Short-term borrowings	¥ 1,144	¥ -	\$ 8,065
Current portion of long-term borrowings	-	11,745	-
Long-term borrowings	30,000	-	211,520
Total	¥ 31,144	¥ 11,745	\$ 219,586
Of which non-recourse loans	¥ 31,144	¥ 11,745	\$ 219,586

Non-recourse loans and the carrying amount of assets pledged as collateral for such loans as of December 31, 2023 and 2022 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Non-recourse loans:			
Short-term borrowings	¥ 1,144	¥ -	\$ 8,065
Current portion of long-term borrowings	-	11,745	-
Long-term borrowings	30,000	-	211,520
Total	¥ 31,144	¥ 11,745	\$ 219,586
Assets pledged:			
Cash and deposits	¥ 599	¥ 1,091	\$ 4,226
Trade accounts receivable and contract assets	429	0	3,031
Real estate for sale	42,281	-	298,113
Buildings and structures	-	274	-
Land	-	29,176	-
Guarantee deposits	62	-	444
Other	2,683	39	18,921
Total	¥ 46,057	¥ 30,581	\$ 324,737

9. RETIREMENT BENEFIT PLANS

The Company and its certain consolidated subsidiaries maintain defined benefit plans; the Company, Hulic Building Management Co., Ltd., Hulic Reit Management Co., Ltd., Hulic Private Reit Management Co., Ltd., Hulic Property Solution Co., Ltd., Hulic Insurance Service Co., Ltd., Hulic Hotel Management Co., Ltd., NIPPON VIEW HOTEL Co., Ltd., NIPPON VIEW HOTEL BUSINESS Co., Ltd., Hulic Build Co., Ltd., and Hulic Proserve Co., Ltd. have defined benefit corporate pension plans and lump-sum retirement plans (excluding certain consolidated subsidiaries). The other certain subsidiaries have lump-sum retirement plans, and use the simplified method for their defined benefit plans in calculating net defined benefit liability, net defined benefit assets and retirement benefit expenses.

(1) Changes in retirement benefit obligation, excluding plans accounted for under the simplified method, for the years ended December 31, 2023 and 2022:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Retirement benefit obligation at beginning of year	¥ 2,742	¥ 3,233	\$ 19,338
Service costs	291	309	2,052
Interest costs	19	21	137
Actuarial differences	(147)	(96)	(1,037)
Benefits paid	(465)	(724)	(3,285)
Retirement benefit obligation at end of year	<u>¥ 2,440</u>	<u>¥ 2,742</u>	<u>\$ 17,206</u>

(2) Changes in plan assets, excluding plans accounted for under the simplified method, for the years ended December 31, 2023 and 2022:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Fair value of plan assets at beginning of year	¥ 1,826	¥ 2,313	\$ 12,876
Expected return on plan assets	16	18	114
Actuarial differences	89	34	627
Employer contribution	63	89	447
Benefits paid	(256)	(630)	(1,807)
Fair value of plan assets at end of year	<u>¥ 1,738</u>	<u>¥ 1,826</u>	<u>\$ 12,258</u>

(3) Changes in net defined benefit liability under the simplified method for the years ended December 31, 2023 and 2022:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Net defined benefit liability at beginning of year	¥ 224	¥ 211	\$ 1,581
Retirement benefit expenses	77	57	545
Benefits paid	(34)	(30)	(246)
Contribution to the plan	(14)	(13)	(100)
Net defined benefit liability at end of year	<u>¥ 252</u>	<u>¥ 224</u>	<u>\$ 1,780</u>

- (4) Reconciliation between net defined benefit liability recorded on the consolidated balance sheets and balance of retirement benefit obligation and plan assets, including plans accounted for under the simplified method, as of December 31, 2023 and 2022:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Funded retirement benefit obligation	¥ 1,123	¥ 1,467	\$ 7,921
Plan assets	(1,875)	(1,960)	(13,226)
	(752)	(493)	(5,305)
Unfunded retirement benefit obligation	1,706	1,634	12,033
Net liability for retirement benefit obligation on the consolidated balance sheets	¥ 954	¥ 1,140	\$ 6,728
Net defined benefit liability	¥ 1,706	¥ 1,634	\$ 12,033
Net defined benefit asset	(752)	(493)	(5,305)
Net retirement benefit liability on the consolidated balance sheets	¥ 954	¥ 1,140	\$ 6,728

- (5) Components of retirement benefit expenses for the years ended December 31, 2023 and 2022:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Service costs	¥ 291	¥ 309	\$ 2,052
Interest costs	19	21	137
Expected return on plan assets	(16)	(18)	(114)
Amortization of actuarial differences	(38)	(26)	(269)
Retirement benefit expenses under the simplified method	77	57	545
Retirement benefit expenses for defined benefit plans	¥ 333	¥ 343	\$ 2,351

- (6) Components of retirement benefits liability adjustments (before income tax effect) in other comprehensive income for the years ended December 31, 2023 and 2022:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Actuarial differences	¥ (197)	¥ (104)	\$ (1,395)

- (7) Components of retirement benefits liability adjustments (before income tax effect) in accumulated other comprehensive income as of December 31, 2023 and 2022:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Unrecognized actuarial differences	¥ (510)	¥ (312)	\$ (3,600)

- (8) Components of plan assets as of December 31, 2023 and 2022:

	2023	2022
Equity securities	37%	39%
Receivables	23	25
Life insurance company general accounts	35	30
Other	5	6
Total	100%	100%

The expected long-term rate of return on plan assets is determined considering current and expected distribution of plan assets and the long-term rate of return, which are expected currently and in the future, from various components of the plan assets.

(9) Basis for actuarial calculation for the years ended December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Discount rate	0.5 – 1.0%	0.5 – 1.0%
Expected long-term rate of return on plan assets	0.8 – 1.25%	0.8 – 1.25%

10. ASSET RETIREMENT OBLIGATIONS

For the years ended December 31, 2023 and 2022, asset retirement obligations include obligations to remove asbestos from assets for business use and obligations for future restoration related to long-term land lease contracts and leasehold and rental contracts.

(1) Assumptions mainly used in calculation of asset retirement obligations

	<u>2023</u>	<u>2022</u>
Expected useful life	13 – 70 years	13 – 70 years
Discount rate	0.2 – 2.2%	0.2 – 2.2%

(2) Changes in gross asset retirement obligations

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Balance at beginning of year	¥ 2,839	¥ 2,858	\$ 20,022
Increase due to the acquisition of property, plant and equipment	256	-	1,808
Increase due to the acquisition of newly consolidated subsidiaries	549	-	3,877
Increase due to the change in estimates	510	-	3,602
Accretion expense	33	31	237
Others	(320)	(50)	(2,260)
Balance at end of year	<u>¥ 3,870</u>	<u>¥ 2,839</u>	<u>\$ 27,287</u>

(3) Change in the estimate of the asset retirement obligations

For the asset retirement obligations recorded as obligations for future restoration related to long-term land lease contracts, the Company changed its estimate for the restoration cost in the year ended December 31, 2023 as the Company obtained new information such as a rise in the cost of restoration works.

An increase of ¥510 million (\$3,602 thousand) resulting from this change in the estimate has been added to the balance of asset retirement obligations before the change.

The effect of this change in the estimate on operating profit and profit before income taxes for the year ended December 31, 2023 is not material.

11. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The Companies Act provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions. The Companies Act also provides for companies to purchase treasury shares and to dispose of such treasury shares by resolution of the Board of Directors. The amount of treasury shares purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula.

a. Dividends

(1) Dividends paid

<For the year ended December 31, 2023>

Resolution	Type of Shares	Millions of	Thousands	U.S.		Cut-off Date	Effective Date
		Yen	of U.S. Dollars	Yen	Dollars		
		Total Dividends (*1)		Dividends per Share			
Annual general meeting of the shareholders on March 23, 2023	Common shares	¥ 16,866	\$ 118,920	¥ 22.0	\$ 0.16	December 31, 2022	March 24, 2023
Meeting of Board of Directors on July 28, 2023	Common shares	¥ 17,633	\$ 124,326	¥ 23.0	\$ 0.16	June 30, 2023	September 4, 2023

Note:

- (*1) Dividends to the Board Benefit Trust of ¥77 million (\$545 thousand) and ¥76 million (\$537 thousand) are included in the amount of total dividends resolved at the annual general meeting of the shareholders on March 23, 2023 and the meeting of Board of Directors on July 28, 2023, respectively.

<For the year ended December 31, 2022>

Resolution	Type of Shares	Millions of	Yen	Cut-off Date	Effective Date
		Total Dividends (*1)	Dividends per Share		
Annual general meeting of the shareholders on March 23, 2022	Common shares	¥ 15,333	¥ 20.0	December 31, 2021	March 24, 2022
Meeting of Board of Directors on July 28, 2022	Common shares	¥ 15,333	¥ 20.0	June 30, 2022	September 2, 2022

Note:

- (*1) Dividends to the Board Benefit Trust of ¥43 million and ¥70 million are included in the amount of total dividends resolved at the annual general meeting of the shareholders on March 23, 2022 and the meeting of Board of Directors on July 28, 2022, respectively.

- (2) Dividends with the cut-off date in the year ended December 31, 2023 and the effective date in the year ending December 31, 2024

Resolution	Type of Shares	Millions of	Thousands	Source of Dividends	U.S.		Cut-off Date	Effective Date
		of Yen	of U.S. Dollars		Yen	Dollars		
		Total Dividends (*1)			Dividends per Share			
Annual general meeting of the shareholders on March 26, 2024	Common shares	¥ 20,699	\$ 145,947	Retained earnings	¥ 27.0	\$ 0.19	December 31, 2023	March 27, 2024

Note:

- (*1) Dividends to the Board Benefit Trust of ¥89 million (\$631 thousand) are included in the amount of total dividends.

b. Shares Issued and Outstanding / Treasury Shares

Changes in number of shares issued and outstanding during the years ended December 31, 2023 and 2022 were as follows:

	<i>Number of Shares</i>	
	Issued	Treasury shares
	Common shares	Common shares
Numbers of shares as of January 1, 2022 (*3)	767,907,735	5,802,693
Increase (*1)	-	1,383,819
Decrease (*2)	-	(22,276)
Numbers of shares as of December 31, 2022 (*3)	767,907,735	7,164,236
Increase (*1)	-	794
Decrease (*2)	-	(199,000)
Numbers of shares as of December 31, 2023 (*3)	767,907,735	6,966,030

Notes:

(*1) Details of the increase in treasury shares were as follows:

	<i>Number of Shares</i>	
	2023	2022
Increase due to the purchase of shares constituting less than one unit	794	619
Increase due to the purchase of shares by the Board Benefit Trust	-	1,383,200

(*2) Details of the decrease in treasury shares were as follows:

	<i>Number of Shares</i>	
	2023	2022
Decrease due to payment of shares to retired directors by the Board Benefit Trust	199,000	22,200
Decrease due to the sale of shares constituting less than one unit	-	69
Decrease due to the Company's equity interest attributable to changes in the ownership interest in affiliates accounted for by the equity method	-	7

(*3) 3,316,400 shares and 3,515,400 shares of the Company's shares held by the Board Benefit Trust were included in the number of treasury shares as of December 31, 2023 and 2022, respectively.

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The components of "Selling, general and administrative expenses" for the years ended December 31, 2023 and 2022 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Salaries and allowances	¥ 7,810	¥ 8,118	\$ 55,066
Provision for employees' bonuses	532	377	3,751
Provision for directors' bonuses	382	340	2,696
Provision for share distribution	694	647	4,899
Retirement benefit expenses	333	343	2,351
Taxes and dues	4,249	4,020	29,959
Commissions paid	5,614	3,979	39,582
Outsourcing expenses	10,174	9,110	71,734
Other	20,539	19,484	144,817
Total	¥ 50,329	¥ 46,422	\$ 354,858

13. OTHER INCOME (EXPENSES)

a. Impairment losses

The Group recognized impairment losses on the following asset groups. The Group reviews its non-current assets, which are categorized into an asset group based on individual properties, in principle, for impairment.

Year ended December 31, 2023

Location	Use	Category	Thousands of	
			Millions of Yen	U.S. Dollars
			2023	2023
Kanazawa-shi, Ishikawa, etc.	Rental assets, etc.	Land	¥ (678)	\$ (4,784)
		Buildings and structures	(935)	(6,598)
		Other	(79)	(559)
		Total	¥ (1,693)	\$ (11,941)

In the year ended December 31, 2023, the carrying amount of assets with lower profitability was reduced to the recoverable amount, and such reduction was recognized as impairment losses. The recoverable amount of the asset group was measured based on the net selling price, which was calculated by using the appraisal value by a real estate appraiser.

Information about impairment losses for the year ended December 31, 2022 is omitted due to its immateriality.

b. Other, net

The components of "Other, net" in "Other income (expenses)" for the years ended December 31, 2023 and 2022 were as follows:

	Millions of Yen		Thousands of
	2023	2022	U.S. Dollars
			2023
Gain on sales of investment securities	¥ 21	¥ 2,380	\$ 155
Gain on investments in silent partnership, etc.	58	132	413
Contribution for construction	-	6	-
Gain on cancellation of rental contracts	446	4,303	3,147
Subsidies for employment adjustment	12	366	89
Loss on retirement of non-current assets (*)	(1,880)	(3,387)	(13,259)
Loss on building reconstruction	(803)	(4,080)	(5,666)
Loss on sales of investment securities	-	(12)	-
Other, net	(864)	(1,718)	(6,095)
Total	¥ (3,009)	¥ (2,008)	\$ (21,215)

Note:

(*) Loss on retirement of non-current assets for the year ended December 31, 2023 primarily resulted from the retirement of buildings and structures of ¥1,870 million (\$13,190 thousand), machinery, equipment and vehicles of ¥3 million (\$26 thousand), and others of ¥5 million (\$36 thousand), respectively. Loss on retirement of non-current assets for the year ended December 31, 2022 primarily resulted from the retirement of buildings and structures of ¥3,377 million, machinery, equipment and vehicles of ¥1 million, and others of ¥7 million, respectively.

14. INCOME TAXES

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities as of December 31, 2023 and 2022 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>	
	2023	2022	2023	
Deferred tax assets:				
Tax loss carried forward (*1)	¥ 10,534	¥ 10,473	\$	74,278
Loss on valuation of inventories	43	71		303
Loss on valuation of investment securities	1,530	1,703		10,793
Impairment losses	2,640	2,345		18,618
Loss on valuation of non-current assets	373	858		2,632
Other	6,320	5,195		44,563
Total gross deferred tax assets	21,443	20,648		151,190
Valuation allowance for tax loss carried forward (*1)	(10,534)	(10,473)		(74,278)
Valuation allowance for the total of deductible temporary difference	(980)	(1,055)		(6,910)
Subtotal valuation allowance	(11,514)	(11,529)		(81,188)
Total deferred tax assets	¥ 9,928	¥ 9,119	\$	70,002
Deferred tax liabilities:				
Gain on valuation of investment securities	¥ (1,529)	¥ (1,530)	\$	(10,787)
Gain on valuation of non-current assets	(14,112)	(15,600)		(99,503)
Reserve for reduction entry of non-current assets	(34,733)	(21,973)		(244,897)
Valuation difference on available-for-sale securities	(24,763)	(16,768)		(174,597)
Other	(7,051)	(5,922)		(49,716)
Total deferred tax liabilities	¥ (82,190)	¥ (61,795)	\$	(579,501)
Net deferred tax liabilities	¥ (72,262)	¥ (52,675)	\$	(509,499)

(*1) The breakdown of tax loss carried forward and related deferred tax assets by expiry period

<As of December 31, 2023>

Years ending December 31	Tax loss carried forward (*)		Valuation allowance		Deferred tax assets	
	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
2024	¥ -	\$ -	¥ -	\$ -	¥ -	\$ -
2025	-	-	-	-	-	-
2026	34	246	(34)	(246)	-	-
2027	104	739	(104)	(739)	-	-
2028	-	-	-	-	-	-
2029 and thereafter	10,395	73,292	(10,395)	(73,292)	-	-
Total	¥ 10,534	\$ 74,278	¥ (10,534)	\$ (74,278)	¥ -	\$ -

<As of December 31, 2022>

	Tax loss carried forward (*)	Valuation allowance	Deferred tax assets
Years ending December 31	<i>Millions of Yen</i>	<i>Millions of Yen</i>	<i>Millions of Yen</i>
2023	¥ -	¥ -	¥ -
2024	-	-	-
2025	-	-	-
2026	0	(0)	-
2027	155	(155)	-
2028 and thereafter	10,317	(10,317)	-
Total	¥ 10,473	¥ (10,473)	¥ -

(*) The tax loss carried forward is the amount multiplied by the normal effective statutory tax rate.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended December 31, 2023 is not presented because the difference between the normal effective statutory tax rate and the actual effective tax rate is less than 5%.

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended December 31, 2022 was as follows:

	2022
Statutory tax rate	30.6%
Expenses not deductible for income tax purposes	0.4
Dividend and other income not taxable for income tax purposes	(0.2)
Valuation allowance	1.2
Share of profit of entities accounted for using equity methods	(0.2)
Other, net	0.8
Effective tax rate	32.6%

15. OTHER COMPREHENSIVE INCOME

The components of "Other comprehensive income" for the years ended December 31, 2023 and 2022 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Valuation difference on available-for-sale securities:			
Unrealized gain (loss) arising during the year	¥ 26,701	¥ 6,296	\$ 188,265
Reclassification adjustments to profit or loss	(21)	(2,025)	(155)
Amount before income tax effect	26,679	4,271	188,110
Income tax effect	(8,169)	(1,307)	(57,599)
Total	¥ 18,510	¥ 2,963	\$ 130,511
Deferred losses on hedges:			
Unrealized gain (loss) arising during the year	¥ (257)	¥ (304)	\$ (1,815)
Reclassification adjustments to profit or loss	5	6	35
Amount before income tax effect	(252)	(297)	(1,779)
Income tax effect	77	91	544
Total	¥ (175)	¥ (206)	\$ (1,234)
Remeasurements of defined benefit plans, net of tax:			
Unrealized gain (loss) arising during the year	¥ 236	¥ 131	\$ 1,665
Reclassification adjustments to profit or loss	(38)	(26)	(269)
Amount before income tax effect	197	104	1,395
Income tax effect	(77)	(40)	(543)
Total	¥ 120	¥ 64	\$ 852
Share of other comprehensive income of entities accounted for equity method:			
Unrealized gain (loss) arising during the year	¥ 139	¥ (417)	\$ 986
Reclassification adjustments to profit or loss	7	(688)	52
Total	¥ 147	¥ (1,105)	\$ 1,038
Total other comprehensive income	¥ 18,603	¥ 1,715	\$ 131,167

16. LEASES

Operating Leases - Lessee

The future minimum lease payments under noncancelable operating leases as of December 31, 2023 and 2022 were as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Due within one year	¥ 5,592	¥ 3,666	\$ 39,430
Due after one year	212,992	124,504	1,501,744
Total	¥ 218,584	¥ 128,170	\$ 1,541,174

Operating Leases - Lessor

The future minimum lease income under noncancelable operating leases as of December 31, 2023 and 2022 was as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Due within one year	¥ 27,610	¥ 34,455	\$ 194,672
Due after one year	181,069	188,690	1,276,664
Total	¥ 208,679	¥ 223,145	\$ 1,471,336

17. EARNINGS PER SHARE

The basis of computing basic earnings per share for the years ended December 31, 2023 and 2022 was as follows:

	<i>Millions of Yen</i>	<i>Thousands of Shares</i>	<i>Yen</i>	<i>U.S. Dollars</i>
	Profit Attributable to Owners of Parent	Weighted-Average Shares	Profit per Share	
<u>Year ended December 31, 2023</u>				
Basic earnings per share - Profit available to common shareholders	¥ 94,625	760,879	¥ 124.36	\$ 0.87
Effect of dilutive securities - Adjustment due to latent shares of affiliates accounted for by the equity method	(26)	0	-	-
Diluted earnings per share - Profit for computation	¥ 94,599	760,879	¥ 124.32	\$ 0.87
<u>Year ended December 31, 2022</u>				
Basic earnings per share - Profit available to common shareholders	¥ 79,150	761,061	¥ 104.00	
Effect of dilutive securities - Adjustment due to latent shares of affiliates accounted for by the equity method	(23)	0	-	
Diluted earnings per share - Profit for computation	¥ 79,127	761,061	¥ 103.96	

Note:

The Company's shares in the Board Benefit Trust recorded as treasury shares in the net assets section of the consolidated balance sheets are included in the number of treasury shares deductible for the purpose of calculating the weighted-average number of shares during the year when calculating earnings per share, and included in the number of treasury shares deductible for the purpose of calculating the outstanding number of shares at end of the year when calculating net assets per share.

The numbers of treasury shares deducted for the calculation of earnings per share were 3,378 thousand shares and 3,197 thousand shares for the years ended December 31, 2023 and 2022, respectively. The numbers of such shares deducted for the calculation of net assets per share were 3,316 thousand shares and 3,515 thousand shares as of December 31, 2023 and 2022, respectively.

Net assets and cash dividends per share as of December 31, 2023 and 2022 and for the years then ended were as follows:

	<i>Yen</i>		<i>U.S. Dollars</i>
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Net assets per share	¥ 1,006.19	¥ 902.70	\$ 7.09
Cash dividends per share	50.00	42.00	\$ 0.35

18. FINANCIAL INSTRUMENTS

Overview

(1) Group policy for financial instruments

The Group mainly raises necessary funds through loans from banks and issuance of bonds and short-term bonds (i.e., commercial paper). Temporary surplus funds are invested in highly liquid financial instruments. The Group utilizes derivative financial instruments only to manage risks described later and does not enter into such transactions for speculative trading purposes.

(2) Nature and extent of risks arising from financial instruments as well as risk management for financial instruments

Trade receivables, such as trade accounts receivable, are exposed to customer credit risk. The Group manages the due dates and balances for each customer in order to reduce credit risk by timely identifying risk of default caused.

Investment securities are mainly composed of equity securities of companies with which the Group has a business relationship, investments in silent partnerships for tokubetsu-mokuteki-kaisha, or special purpose companies, and preferred equity investments in tokutei-mokuteki-kaisha, or specific purpose companies under the Act on Securitization of Assets. They are exposed to market price fluctuation risk and/or issuer credit risk. The Group periodically reviews the fair value and issuers' financial condition.

Borrowings and bonds are intended mainly to raise necessary funds for operating capital and capital investments. The longest periods for redemption date from the balance sheet dates as of December 31, 2023 and 2022 are due within 39 years. Certain borrowings with variable interest rates are exposed to interest rate fluctuation risk. The Group utilizes derivative transactions such as interest rate swap contracts to hedge fluctuation risk.

Interest rate swap contracts are used to hedge fluctuation risk in interest payments of borrowings. Please see Note 2 for hedge accounting policies, hedging policies and method to evaluate hedge effectiveness.

Liquidity risk related to financing is managed mainly by timely preparing cash management plans.

(3) Fair values of financial instruments

Fair values of financial instruments may vary if different assumptions are used. The contract amounts of derivative transactions described in Note 21 do not indicate market risk related to derivative transactions.

Fair Value of Financial Instruments

	<i>Millions of Yen</i>		
	2023		
	Carrying Amount	Fair Value	Unrealized Gains/Losses
Investment securities (Available-for-sale securities) (*2) (*3)	¥ 204,306	¥ 210,855	¥ (6,549)
Total	¥ 204,306	¥ 210,855	¥ (6,549)
Long-term borrowings (including current portion)	¥ 1,032,255	¥ 1,036,059	¥ 3,804
Bonds payable (including current portion)	411,000	408,964	(2,035)
Total	¥ 1,443,255	¥ 1,445,024	¥ 1,768
Derivative transactions (*4)	¥ (5)	¥ (5)	¥ -
	<i>Millions of Yen</i>		
	2022		
	Carrying Amount	Fair Value	Unrealized Gains/Losses
Investment securities (Available-for-sale securities) (*2) (*3)	¥ 172,313	¥ 171,496	¥ (817)
Total	¥ 172,313	¥ 171,496	¥ (817)
Long-term borrowings (including current portion)	¥ 1,019,326	¥ 1,017,593	¥ (1,733)
Bonds payable (including current portion)	421,000	415,113	(5,886)
Total	¥ 1,440,326	¥ 1,432,706	¥ (7,619)
Derivative transactions (*4)	¥ (10)	¥ (10)	¥ -
	<i>Thousands of U.S. Dollars</i>		
	2023		
	Carrying Amount	Fair Value	Unrealized Gains/Losses
Investment securities (Available-for-sale securities) (*2) (*3)	\$ 1,440,500	\$ 1,486,675	\$ 46,175
Total	\$ 1,440,500	\$ 1,486,675	\$ 46,175
Long-term borrowings (including current portion)	\$ 7,278,118	\$ 7,304,941	\$ 26,822
Bonds payable (including current portion)	2,897,835	2,883,483	(14,351)
Total	\$ 10,175,954	\$ 10,188,425	\$ 12,470
Derivative transactions (*4)	\$ (41)	\$ (41)	\$ -

Notes:

(*1) Notes on cash are omitted. The fair values of deposits, trade accounts receivable, and short-term borrowings are deemed to approximate the carrying value since the instruments are scheduled to be settled in a short period of time.

(*2) Shares without market value are not included in "Investment securities (Available-for-sale securities)." The carrying amounts of these financial instruments in the consolidated balance sheets are as follows:

	<i>Millions of Yen</i>				<i>Thousands of</i>
	2023		2022		<i>U.S. Dollars</i>
			Carrying Amount		2023
Investments in unconsolidated subsidiaries and affiliates	¥	12,786	¥	12,072	\$ 90,155
Available-for-sale securities:					
Unlisted equity securities		18,133		12,572	127,850
Other (investments in silent partnerships and preferred equity investments and other)		56		56	395

(*3) Investments in partnerships and others, in which the Group's equity interest is recorded on the balance sheet at a net amount, are not subject to fair value disclosure based on the treatment prescribed in paragraph 24-16 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, revised on June 17, 2021). The total consolidated balance sheet amounts of these financial instruments as of December 31, 2023 and 2022 were ¥93,181 million (\$656,997 thousand) and ¥87,691 million, respectively.

(*4) Receivables and payables arising from derivative transactions are presented on a net basis and numbers in parenthesis denote net payables.

Maturity analysis for financial assets and securities with contractual maturities as of December 31, 2023 and 2022 was as follows:

	<i>Millions of Yen</i>			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
December 31, 2023				
Cash and deposits	¥ 82,790	¥ -	¥ -	¥ -
Trade accounts receivable	8,299	-	-	-
Investment securities				
Available-for-sale securities with maturities – Debt securities (corporate bond)	-	-	-	3,000
Total	¥ 91,089	¥ -	¥ -	¥ 3,000

	<i>Millions of Yen</i>			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
December 31, 2022				
Cash and deposits	¥ 138,310	¥ -	¥ -	¥ -
Trade accounts receivable	6,365	-	-	-
Investment securities				
Available-for-sale securities with maturities – Debt securities (corporate bond)	-	-	-	3,000
Total	¥ 144,675	¥ -	¥ -	¥ 3,000

	<i>Thousands of U.S. Dollars</i>			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
December 31, 2023				
Cash and deposits	\$ 583,728	\$ -	\$ -	\$ -
Trade accounts receivable	58,514	-	-	-
Investment securities				
Available-for-sale securities with maturities – Debt securities (corporate bond)	-	-	-	21,152
Total	<u>\$ 642,242</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,152</u>

Please see Note 8 for annual maturities of long-term debt.

Breakdown of fair value of financial instruments by level

The fair values of financial instruments are classified into the following three levels according to the observability and significance of the inputs used in the fair value measurement.

Level 1 fair value:

Of observable inputs used in fair value measurement, fair values measured at quoted prices in active markets for identical assets or liabilities

Level 2 fair value:

Of observable inputs used in fair value measurement, fair values measured using inputs other than the level 1 inputs

Level 3 fair value:

Fair values measured using unobservable inputs used in fair value measurement

When using more than one input that is significant to fair value measurement, the fair values are classified into the lowest priority level in the fair value measurement among the levels to which those inputs belong.

(1) Financial instruments measured at fair value in the consolidated balance sheets

December 31, 2023	<i>Millions of Yen</i>			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Listed stocks	¥ 109,259	¥ -	¥ -	¥ 109,259
Public and corporate bonds	-	3,035	-	3,035
Other	26,856	-	-	26,856
Total	<u>¥ 136,115</u>	<u>¥ 3,035</u>	<u>¥ -</u>	<u>¥ 139,150</u>
Derivative transactions (*1)	<u>¥ -</u>	<u>¥ (5)</u>	<u>¥ -</u>	<u>¥ (5)</u>

December 31, 2022	<i>Millions of Yen</i>			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Listed stocks	¥ 79,177	¥ -	¥ -	¥ 79,177
Public and corporate bonds	-	2,978	-	2,978
Other	24,989	-	-	24,989
Total	<u>¥ 104,167</u>	<u>¥ 2,978</u>	<u>¥ -</u>	<u>¥ 107,145</u>
Derivative transactions (*1)	<u>¥ -</u>	<u>¥ (10)</u>	<u>¥ -</u>	<u>¥ (10)</u>

December 31, 2023	<i>Thousands of U.S. Dollars</i>			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Listed stocks	\$ 770,356	\$ -	\$ -	\$ 770,356
Public and corporate bonds	-	21,399	-	21,399
Other	189,353	-	-	189,353
Total	<u>\$ 959,709</u>	<u>\$ 21,399</u>	<u>\$ -</u>	<u>\$ 981,109</u>
Derivative transactions (*1)	<u>\$ -</u>	<u>\$ (41)</u>	<u>\$ -</u>	<u>\$ (41)</u>

Notes:

(*1) Net receivables and payables arising from derivative transactions are shown in net amounts, and items that are net liabilities in total are shown in ().

(*2) Investment trusts whose investment trust assets are real estate, to which the treatment in paragraph 24-9 of the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, revised on June 17, 2021) is applied, are not included in the investment securities in the table above. The consolidated balance sheet amounts of these investment trusts as of December 31, 2023 and 2022 were ¥4,022 million (\$28,361 thousand) and ¥3,967 million, respectively.

(2) Financial instruments other than those measured at fair value in the consolidated balance sheets

December 31, 2023	<i>Millions of Yen</i>			
	Level 1	Level 2	Level 3	Total
Investment securities				
Investments in unconsolidated subsidiaries and affiliates				
Listed stocks	¥ 7,228	¥ -	¥ -	¥ 7,228
Other	-	-	60,453	60,453
Total	<u>¥ 7,228</u>	<u>¥ -</u>	<u>¥ 60,453</u>	<u>¥ 67,682</u>
Long-term borrowings (including current portion)	¥ -	¥ 1,036,059	¥ -	¥ 1,036,059
Bonds payable (including current portion)	-	408,964	-	408,964
Total	<u>¥ -</u>	<u>¥ 1,445,024</u>	<u>¥ -</u>	<u>¥ 1,445,024</u>

December 31, 2022	<i>Millions of Yen</i>			
	Level 1	Level 2	Level 3	Total
Investment securities				
Investments in unconsolidated subsidiaries and affiliates				
Listed stocks	¥ 11,654	¥ -	¥ -	¥ 11,654
Other	-	-	48,729	48,729
Total	<u>¥ 11,654</u>	<u>¥ -</u>	<u>¥ 48,729</u>	<u>¥ 60,383</u>
Long-term borrowings (including current portion)	¥ -	¥ 1,017,593	¥ -	¥ 1,017,593
Bonds payable (including current portion)	-	415,113	-	415,113
Total	<u>¥ -</u>	<u>¥ 1,432,706</u>	<u>¥ -</u>	<u>¥ 1,432,706</u>

December 31, 2023	<i>Thousands of U.S. Dollars</i>			
	Level 1	Level 2	Level 3	Total
Investment securities				
Investments in unconsolidated subsidiaries and affiliates				
Listed stocks	\$ 50,963	\$ -	\$ -	\$ 50,963
Other	-	-	426,241	426,241
Total	<u>\$ 50,963</u>	<u>\$ -</u>	<u>\$ 426,241</u>	<u>\$ 477,205</u>
Long-term borrowings (including current portion)	\$ -	\$ 7,304,941	\$ -	\$ 7,304,941
Bonds payable (including current portion)	-	2,883,483	-	2,883,483
Total	<u>\$ -</u>	<u>\$ 10,188,425</u>	<u>\$ -</u>	<u>\$ 10,188,425</u>

Note:

(*1) Explanation of valuation techniques used to measure fair value and inputs used in fair value measurement

Investment securities

Listed stocks are valued using exchange prices and are classified as Level 1 fair value since they are traded in an active market.

Public and corporate bonds are valued using market prices and are classified as Level 2 fair value since they are not traded in active markets.

Investment trusts are valued using exchange prices if traded in an active market and are classified as Level 1 fair value.

Preferred equity investments are classified as Level 3 fair value since unobservable inputs are used in part to measure fair value.

Long-term borrowings (including current portion)

The fair value of those with fixed interest rates is calculated by discounting the sum of principal and interest with the rate which would be applied if a similar new borrowing were entered into. For those with variable interest rates, the carrying value is deemed to approximate the fair value because such borrowings reflect current market interest rates in a short period of time. The fair value of those with variable interest rates hedged with interest rate swaps which qualify for hedge accounting and meet specific matching criteria is calculated by discounting the sum of principal and interest, including the difference paid or received under the swap agreements, with the rate which would be applied if a similar new borrowing were entered into. These are classified as Level 2 fair value.

Bonds payable (including current portion)

The fair value of bonds issued by the Company is based on market prices. However, these are classified as Level 2 fair value since they are not traded in an active market.

Derivative transactions

These are valued based on prices and others provided by counterparty financial institutions and classified as Level 2 fair value. In addition, the fair value of interest rate swaps which qualify for hedge accounting and meet specific matching criteria is included in the fair value of corresponding long-term borrowings.

19. INVESTMENT SECURITIES

The cost and carrying amount of available-for-sale securities as of December 31, 2023 and 2022 were as follows:

	<i>Millions of Yen</i>		
December 31, 2023	Carrying Amount	Cost	Unrealized Gains/Losses
Available-for-sale securities whose carrying amount exceeds their cost:			
Equity securities	¥ 107,398	¥ 25,946	¥ 81,451
Debt securities – Corporate bonds	3,035	3,000	35
Other	30,878	28,775	2,102
Subtotal	141,311	57,722	83,588
Available-for-sale securities whose cost exceeds their carrying amount:			
Equity securities	1,861	2,042	(180)
Subtotal	1,861	2,042	(180)
Total	¥ 143,173	¥ 59,765	¥ 83,408

	<i>Millions of Yen</i>		
December 31, 2022	Carrying Amount	Cost	Unrealized Gains/Losses
Available-for-sale securities whose carrying amount exceeds their cost:			
Equity securities	¥ 75,052	¥ 22,517	¥ 52,534
Other	28,957	24,307	4,649
Subtotal	104,009	46,825	57,184
Available-for-sale securities whose cost exceeds their carrying amount:			
Equity securities	4,125	4,622	(496)
Debt securities – Corporate bonds	2,978	3,000	(21)
Subtotal	7,103	7,622	(518)
Total	¥ 111,113	¥ 54,447	¥ 56,665

	<i>Thousands of U.S. Dollars</i>		
December 31, 2023	Carrying Amount	Cost	Unrealized Gains/Losses
Available-for-sale securities whose carrying amount exceeds their cost:			
Equity securities	\$ 757,231	\$ 182,943	\$ 574,287
Debt securities – Corporate bonds	21,399	21,152	247
Other	217,714	202,889	14,825
Subtotal	996,345	406,985	589,360
Available-for-sale securities whose cost exceeds their carrying amount:			
Equity securities	13,125	14,400	(1,275)
Subtotal	13,125	14,400	(1,275)
Total	\$ 1,009,470	\$ 421,385	\$ 588,084

Information on available-for-sale securities sold during the years ended December 31, 2023 and 2022 was as follows:

	<i>Millions of Yen</i>		
December 31, 2023	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 29	¥ 21	¥ -
Total	¥ 29	¥ 21	¥ -

December 31, 2022	<i>Millions of Yen</i>		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 3,572	¥ 2,027	¥ 12
Other	0	-	-
Total	¥ 3,572	¥ 2,027	¥ 12

December 31, 2023	<i>Thousands of U.S. Dollars</i>		
	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	\$ 205	\$ 155	\$ -
Total	\$ 205	\$ 155	\$ -

Investments in and advances to unconsolidated subsidiaries and affiliates as of December 31, 2023 and 2022 consisted of the following:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Investment securities (common shares)	¥ 23,511	¥ 23,390	\$ 165,770
Investment securities (preferred equity and other)	120,724	115,780	851,191

20. SUPPLEMENTAL CASH FLOW INFORMATION

The following table represents a reconciliation of cash and deposits with cash and cash equivalents as of December 31, 2023 and 2022:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	2023	2022	2023
Cash and deposits	¥ 82,878	¥ 138,400	\$ 584,351
Time deposits with maturities of more than three months	(115)	(100)	(810)
Cash and cash equivalents	¥ 82,763	¥ 138,300	\$ 583,540

21. DERIVATIVES AND HEDGING ACTIVITIES

The Group enters into interest rate swap contracts to hedge its risk of interest rate exposures on borrowings.

Derivative transactions to which hedge accounting is applied as of December 31, 2023 and 2022:

As of December 31, 2023	Method of Accounting	Hedged Item	<i>Millions of Yen</i>		
			Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Deferral method	Long-term borrowings	¥ 187	¥ 112	¥ (5)
Interest rate swaps: (fixed rate payment, floating rate receipt)	Exceptional treatment (*1)	Long-term borrowings	452,320	423,465	(*1)
Total			¥ 452,507	¥ 423,577	¥ (5)

As of December 31, 2022	Method of Accounting	Hedged Item	Millions of Yen		
			Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Deferral method	Long-term borrowings	¥ 262	¥ 187	¥ (10)
Interest rate swaps: (fixed rate payment, floating rate receipt)	Exceptional treatment (*1)	Long-term borrowings	445,675	418,320	(*1)
Total			<u>¥ 445,937</u>	<u>¥ 418,507</u>	<u>¥ (10)</u>

As of December 31, 2023	Method of Accounting	Hedged Item	Thousands of U.S. Dollars		
			Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Deferral method	Long-term borrowings	\$ 1,322	\$ 793	\$ (41)
Interest rate swaps: (fixed rate payment, floating rate receipt)	Exceptional treatment (*1)	Long-term borrowings	3,189,170	2,985,722	(*1)
Total			<u>\$ 3,190,492</u>	<u>\$ 2,986,515</u>	<u>\$ (41)</u>

Note:

(*1) The fair value of interest rate swaps which qualify for hedge accounting and meet specific matching criteria is included in the fair value of corresponding long-term borrowings.

22. INVESTMENT AND RENTAL PROPERTIES

The Company and certain of its consolidated subsidiaries own rental properties such as office buildings, residential houses and commercial facilities in Tokyo and other areas to earn lease income. Some office buildings and other rental properties for lease are regarded as real estate including space used as rental properties since they are used by the Company and certain of its consolidated subsidiaries.

The carrying amounts, changes in such balances, and fair values of such rental properties and real estate including office space used as rental properties during the years ended December 31, 2023 and 2022 were as follows:

	Millions of Yen			
	Carrying Amount (*1)			Fair Value (*3)
	January 1, 2023	Net Increase/ Decrease (*2)	December 31, 2023	December 31, 2023
Rental properties	¥ 1,448,145	¥ (57,689)	¥ 1,390,455	¥ 1,705,239
Real estate including space used as rental properties	134,571	15,012	149,583	219,746

<i>Millions of Yen</i>				
	Carrying Amount (*1)			Fair Value (*3)
	January 1, 2022	Net Increase (*2)	December 31, 2022	December 31, 2022
Rental properties	¥ 1,376,282	¥ 71,863	¥ 1,448,145	¥ 1,753,289
Real estate including space used as rental properties	131,821	2,749	134,571	205,259

<i>Thousands of U.S. Dollars</i>				
	Carrying Amount (*1)			Fair Value (*3)
	January 1, 2023	Net Increase/ Decrease (*2)	December 31, 2023	December 31, 2023
Rental properties	\$ 10,210,431	\$ (406,751)	\$ 9,803,680	\$ 12,023,125
Real estate including space used as rental properties	948,822	105,846	1,054,669	1,549,365

Notes:

- (*1) Carrying amounts recognized in the balance sheets are net of accumulated depreciation and accumulated impairment losses, if any.
- (*2) The increase during the years ended December 31, 2023 and 2022 principally represents the acquisition of certain real estate of ¥284,909 million (\$2,008,808 thousand) and ¥275,842 million, respectively. The decrease during the years ended December 31, 2023 and 2022 principally represents transfers to real estate for sale of ¥313,494 million (\$2,210,354 thousand) and ¥151,075 million, respectively.
- (*3) The Group measured the fair value of principal properties as of December 31, 2023 and 2022 in accordance with the Real Estate Appraisal Standards. The fair value of other properties is measured using the index which is deemed to reflect the market value properly. The fair value of certain other properties is the appraisal value based on the real estate appraisal report prepared by the external real estate appraiser. The fair value is based on the adjusted value using the value measured or index used upon acquisition from the third party or recent valuation if there are no significant changes in such value or index. As of December 31, 2023 and 2022, the carrying value of the newly acquired properties (including properties acquired by the merger) is deemed to approximate the fair value since the fluctuations in the fair value are considered to be minimal.

Lease income and expenses for the years ended December 31, 2023 and 2022 related to the rental properties and real estate including office space used as rental properties were as follows:

<i>Millions of Yen</i>				
2023				
	Lease Income (*1)	Lease Expenses (*1)	Lease Income, Net	Other, Net (*2)
Rental properties	¥ 66,414	¥ 29,475	¥ 36,939	¥ 2,150
Real estate including space used as rental properties	4,609	5,058	(448)	(2,148)

<i>Millions of Yen</i>				
2022				
	Lease Income (*1)	Lease Expenses (*1)	Lease Income, Net	Other, Net (*2)
Rental properties	¥ 67,710	¥ 29,772	¥ 37,937	¥ (3,285)
Real estate including space used as rental properties	4,065	5,015	(950)	(1,286)

	<i>Thousands of U.S. Dollars</i>			
	2023			
	Lease Income (*1)	Lease Expenses (*1)	Lease Income, Net	Other, Net (*2)
Rental properties	\$ 468,271	\$ 207,823	\$ 260,448	\$ 15,159
Real estate including space used as rental properties	32,502	35,664	(3,161)	(15,146)

Notes:

(*1) "Real estate including office space used as rental properties" includes office space used by the Company and certain of its consolidated subsidiaries for service provision and operations management. No amount from such office space is reported as lease income. Depreciation and other expenses incurred from such office space are included in lease expenses.

(*2) "Other, net" primarily includes compensation income, impairment losses and loss on retirement of non-current assets for the year ended December 31, 2023, and loss on building reconstruction and loss on retirement of non-current assets for the year ended December 31, 2022.

23. RELATED PARTY TRANSACTIONS

There were no transactions with related parties for the year ended December 31, 2023.

Transactions with related parties for the year ended December 31, 2022 were as follows:

Type	Description	<i>Millions of Yen</i>	
		2022	
Affiliate	Godo Kaisha Zest Leasing (*1): Acquisition of real estate for sale from affiliate to the Company	¥	103,010
Affiliate	Sakurabashi Tokutei Mokuteki Kaisha (*2): Execution of preferred equity from the Company to affiliate	¥	45,833

Notes:

(*1) The transaction price of real estate for sale is determined by mutual consultation between the parties concerned, taking into consideration the real estate appraisal value.

(*2) The Company has made an investment based on a preferred equity subscription agreement.

24. REVENUE RECOGNITION

(1) Disaggregation of revenue from contracts with customers

	<i>Millions of Yen</i>					
	2023					
	Reportable Segment					
	Real Estate	Insurance	Hotels and Inns	Total	Other	Total
Proceeds from sales of properties	¥ 307,052	¥ -	¥ -	¥ 307,052	¥ -	¥ 307,052
Others	94,375	3,646	37,127	135,149	4,182	139,331
Sales to external customers	¥ 401,428	¥ 3,646	¥ 37,127	¥ 442,201	¥ 4,182	¥ 446,383
(Breakdown)						
Revenue from contracts with customers	¥ 217,711	¥ 3,646	¥ 37,127	¥ 258,484	¥ 4,182	¥ 262,666
Revenue from other sources (*1)	183,716	-	-	183,716	-	183,716

<i>Millions of Yen</i>						
2022						
Reportable Segment						
	Real Estate	Insurance	Hotels and Inns	Total	Other	Total
Proceeds from sales of properties	¥ 397,634	¥ -	¥ -	¥ 397,634	¥ -	¥ 397,634
Others	89,993	3,616	27,332	120,942	4,847	125,790
Sales to external customers	¥ 487,627	¥ 3,616	¥ 27,332	¥ 518,576	¥ 4,847	¥ 523,424
(Breakdown)						
Revenue from contracts with customers	¥ 163,603	¥ 3,616	¥ 27,332	¥ 194,552	¥ 4,847	¥ 199,400
Revenue from other sources (*1)	324,024	-	-	324,024	-	324,024

<i>Thousands of U.S. Dollars</i>						
2023						
Reportable Segment						
	Real Estate	Insurance	Hotels and Inns	Total	Other	Total
Proceeds from sales of properties	\$ 2,164,931	\$ -	\$ -	\$ 2,164,931	\$ -	\$ 2,164,931
Others	665,415	25,707	261,771	952,894	29,486	982,381
Sales to external customers	\$ 2,830,347	\$ 25,707	\$ 261,771	\$ 3,117,826	\$ 29,486	\$ 3,147,312
(Breakdown)						
Revenue from contracts with customers	\$ 1,535,017	\$ 25,707	\$ 261,771	\$ 1,822,496	\$ 29,486	\$ 1,851,982
Revenue from other sources (*1)	1,295,330	-	-	1,295,330	-	1,295,330

Note: Revenue from other sources includes rental income based on the "Accounting Standard for Lease Transactions" and proceeds from sales of properties based on the "Practical Guidelines on Accounting for Transferees in Real Estate Securitization Using Special Purpose Companies."

(2) Information that is the basis of understanding the revenue from contracts with customers
Please see Note 2 "o. Timing of Revenue Recognition."

(3) Information to understand the amount of revenue for the year ended December 31, 2023 and in following years

(i) Balance of contract assets and liabilities and others

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>	
	January 1, 2023	December 31, 2023	January 1, 2023	December 31, 2023
Claims from contracts with customers	¥ 4,111	¥ 5,052	\$ 28,988	\$ 35,625
Contract assets	732	693	5,163	4,889
Contract liabilities	748	639	5,279	4,507

	<i>Millions of Yen</i>	
	January 1, 2022	December 31, 2022
Claims from contracts with customers	¥ 3,211	¥ 4,111
Contract assets	1,054	732
Contract liabilities	402	748

Contract assets consist of unbilled revenue consideration recognized for the satisfaction of performance obligations and arise primarily from asset management fees in the asset management business and construction contracts in the building construction contracting business. Contract assets are reclassified

to claims from contracts with customers when the Group's rights to the consideration become unconditional.

Contract liabilities consist primarily of advances received in the hotel and inn business and deposits received on sales of income-producing properties. Contract liabilities are reversed upon recognition of revenue.

(ii) Transaction price allocated to remaining performance obligations

The practical expedient method is applied, and the information is omitted since the Group does not have any significant contracts with an initial expected term of more than one year. There are no material amounts of consideration arising from contracts with customers that are not included in the transaction price.

25. SEGMENT INFORMATION

Under "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17, revised on June 30, 2010), and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008), an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meets specific criteria. Operating segments are components of an entity for which separate financial information is available, and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. The Group has its business divisions identified by service lines. Each business division develops its strategy for services, and operates its business. Therefore, the Company considers each business division a reportable segment.

The Group consists of three segments: "Real Estate," "Insurance" and "Hotels and Inns."

The businesses of these reportable segments for the year ended December 31, 2023 were as follows:

- i) Real Estate segment - real estate rental, real estate development and sale, and asset management businesses
- ii) Insurance segment - the insurance agency business
- iii) Hotels and Inns segment - management of hotels and inns

(2) Methods of measurement for the amounts of sales, profit, assets, and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies." Segment profit is based on operating profit. Intersegment transactions are based on prevailing market price.

(3) Information about sales, profit, assets, and other items by reportable segment as of and for the years ended December 31, 2023 and 2022 was as follows:

<i>Millions of Yen</i>								
2023								
Reportable Segment								
	Real Estate	Insurance	Hotels and Inns	Total	Other	Total	Recon-ciliations	Consolidated
Operating revenue:								
Sales to external customers	¥ 401,428	¥ 3,646	¥ 37,127	¥ 442,201	¥ 4,182	¥446,383	¥ -	¥ 446,383
Intersegment sales or transfers	7,171	-	224	7,396	2,368	9,765	(9,765)	-
Total	¥ 408,599	¥ 3,646	¥ 37,351	¥ 449,597	¥ 6,550	¥456,148	¥ (9,765)	¥ 446,383
Segment profit	¥ 154,432	¥ 1,087	¥ 1,026	¥ 156,546	¥ 511	¥157,057	¥ (10,878)	¥ 146,178
Segment assets	2,201,031	7,041	29,977	2,238,050	19,856	2,257,907	222,565	2,480,472
Other:								
Depreciation	13,904	30	1,209	15,144	0	15,145	1,162	16,307
Investments in unconsolidated subsidiaries and affiliates	124,567	-	-	124,567	16,129	140,696	-	140,696
Increase in property, plant and equipment and intangible assets	291,566	1	724	292,292	0	292,292	9,322	301,615
<i>Millions of Yen</i>								
2022								
Reportable Segment								
	Real Estate	Insurance	Hotels and Inns	Total	Other	Total	Recon-ciliations	Consolidated
Operating revenue:								
Sales to external customers	¥ 487,627	¥ 3,616	¥ 27,332	¥ 518,576	¥ 4,847	¥523,424	¥ -	¥ 523,424
Intersegment sales or transfers	5,515	-	302	5,818	2,779	8,597	(8,597)	-
Total	¥ 493,143	¥ 3,616	¥ 27,635	¥ 524,394	¥ 7,627	¥532,022	¥ (8,597)	¥ 523,424
Segment profit or (loss)	¥ 139,779	¥ 1,040	¥ (5,099)	¥ 135,720	¥ 607	¥136,328	¥ (10,180)	¥ 126,147
Segment assets	2,012,784	6,602	28,623	2,048,010	19,698	2,067,709	252,628	2,320,337
Other:								
Depreciation	13,984	44	1,389	15,418	0	15,418	835	16,253
Investments in unconsolidated subsidiaries and affiliates	119,956	-	-	119,956	16,980	136,936	-	136,936
Increase in property, plant and equipment and intangible assets	279,224	16	692	279,933	6	279,940	13,704	293,644

Thousands of U.S. Dollars

	2023							Recon- ciliations	Consolidated
	Reportable Segment				Other	Total			
	Real Estate	Insurance	Hotels and Inns	Total					
Operating revenue:									
Sales to external customers	\$ 2,830,347	\$ 25,707	\$ 261,771	\$ 3,117,826	\$ 29,486	\$ 3,147,312	\$ -	\$ 3,147,312	
Intersegment sales or transfers	50,563	-	1,585	52,149	16,702	68,851	(68,851)	-	
Total	<u>\$ 2,880,911</u>	<u>\$ 25,707</u>	<u>\$ 263,356</u>	<u>\$ 3,169,975</u>	<u>\$ 46,188</u>	<u>\$ 3,216,164</u>	<u>\$ (68,851)</u>	<u>\$ 3,147,312</u>	
Segment profit	\$ 1,088,853	\$ 7,669	\$ 7,237	\$ 1,103,759	\$ 3,603	\$ 1,107,363	\$ (76,702)	\$ 1,030,660	
Segment assets	15,518,800	49,649	211,363	15,779,813	140,004	15,919,817	1,569,239	17,489,057	
Other:									
Depreciation	98,034	218	8,528	106,780	3	106,784	8,195	114,979	
Investments in unconsolidated subsidiaries and affiliates	878,285	-	-	878,285	113,721	992,006	-	992,006	
Increase in property, plant and equipment and intangible assets	2,055,743	9	5,109	2,060,863	2	2,060,866	65,728	2,126,595	

Notes:

1. "Other" is a segment not included in any other reportable segments, such as contract work, design, and project management.
2. The reconciled amount of ¥(10,878) million (\$(76,702) thousand) recorded for segment profit for the year ended December 31, 2023 includes elimination of intersegment transactions of ¥891 million (\$6,283 thousand) and corporate expenses of ¥(11,769) million (\$(82,986) thousand) that are not allocated to any reportable segment. The reconciled amount of ¥(10,180) million recorded for segment profit or (loss) for the year ended December 31, 2022 includes elimination of intersegment transactions of ¥650 million and corporate expenses of ¥(10,831) million that are not allocated to any reportable segment.
3. The reconciled amount of ¥222,565 million (\$1,569,239 thousand) recorded for segment assets as of December 31, 2023 includes elimination of intersegment transactions of ¥(6,155) million (\$(43,399) thousand) and corporate assets of ¥228,720 million (\$1,612,638 thousand) that are not allocated to any reportable segment. The reconciled amount of ¥252,628 million recorded for segment assets as of December 31, 2022 includes elimination of intersegment transactions of ¥(15,481) million and corporate assets of ¥268,110 million that are not allocated to any reportable segment.
4. Segment profit is adjusted for operating profit in the accompanying consolidated statements of income.

(4) Information about geographical areas

(a) Sales

Information on sales by geographic area is omitted since sales to external customers in Japan exceed 90% of the Group's operating revenue in the accompanying consolidated statements of income.

(b) Property, plant and equipment

Not applicable.

(5) Information about major customers

<For the years ended December 31, 2023 and 2022>

Name of Customer	Segment	Millions of Yen		Thousands of U.S. Dollars
		2023	2022	2023
		Net Sales		
Fuyo General Lease Co.,Ltd.	Real Estate	¥ 52,979	¥ -	\$ 373,543
Asia 5 special-purpose company	Real Estate	-	112,080	-

(6) Information about impairment losses

<For the year ended December 31, 2023>

	Millions of Yen					
	2023					
	Real Estate	Insurance	Hotels and Inns	Other	Reconciliations	Consolidated
Impairment losses	¥ 1,693	¥ -	¥ -	¥ -	¥ -	¥ 1,693

<For the year ended December 31, 2022>

	Millions of Yen					
	2022					
	Real Estate	Insurance	Hotels and Inns	Other	Reconciliations	Consolidated
Impairment losses	¥ 430	¥ -	¥ -	¥ -	¥ -	¥ 430

	Thousands of U.S. Dollars					
	2023					
	Real Estate	Insurance	Hotels and Inns	Other	Reconciliations	Consolidated
Impairment losses	\$ 11,941	\$ -	\$ -	\$ -	\$ -	\$ 11,941

(7) Information about amortization and unamortized balance of goodwill

<For the year ended December 31, 2023>

	Millions of Yen					
	2023					
	Real Estate	Insurance	Hotels and Inns	Other	Reconciliations	Consolidated
Amortization of goodwill	¥ 357	¥ 204	¥ 118	¥ -	¥ -	¥ 680
Unamortized balance as of December 31, 2023	964	1,180	2,020	-	-	4,164

<For the year ended December 31, 2022>

		<i>Millions of Yen</i>										
		2022										
		Real Estate	Insurance	Hotels and Inns	Other	Reconciliations	Consolidated					
Amortization of goodwill	¥	100	¥	202	¥	81	¥	-	¥	-	¥	384
Unamortized balance as of December 31, 2022		1,284		1,372		2,138		-		-		4,795

		<i>Thousands of U.S. Dollars</i>										
		2023										
		Real Estate	Insurance	Hotels and Inns	Other	Reconciliations	Consolidated					
Amortization of goodwill	\$	2,520	\$	1,440	\$	834	\$	-	\$	-	\$	4,795
Unamortized balance as of December 31, 2023		6,797		8,320		14,243		-		-		29,360

(8) Information about gain on negative goodwill

<For the years ended December 31, 2023 and 2022>

Not applicable.

Independent Auditor’s Report

The Board of Directors
Hulic Co., Ltd.

The Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Hulic Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2023, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

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

Sales of real estate to funds and others that the Company or its subsidiaries were involved in forming	
Description of Key Audit Matter	Auditor’s Response
Hulic Co., Ltd. (the “Company”) and its consolidated subsidiaries recorded revenues from operations, which includes real estate sales, of 446,383 million yen on the consolidated statements of income for the fiscal year ended December 31, 2023.	We performed the following procedures to test determinations made with respect to the transfer of control or transfer of the risks and rewards of ownership in the sale of real estate in transactions where real estate was sold to funds and others that the Company or its subsidiaries were involved in forming.

<p>Generally, the terms of sales transactions involving real estate are highly individual in nature and each transaction involves a significant amount.</p> <p>When real estate is sold to funds and others that the Company or its subsidiaries were involved in forming, there are cases where, depending upon the individual circumstances of the parties to a transaction, the Company or its subsidiaries continue to be involved with such real estate through leaseback after transfer, entrustment of management, partial ownership of an equity interest in the transferee by the transferor, or other contract riders and the like, thus making it difficult to determine whether control has been transferred or whether substantially all the risks and rewards of ownership have been transferred. As a result, there is a possibility that a portion of sales of real estate for which control has not been transferred or substantially all the risks and rewards of ownership have not been transferred is recorded as revenues from operations.</p> <p>Therefore, in view of the significance of these risks, we have determined that the sale of real estate to funds and others that the Company or its subsidiaries were involved in forming constitutes a key audit matter.</p>	<ul style="list-style-type: none"> • We inspected materials such as minutes of meetings of the board of directors and approved documents and made inquiries of the responsible departments to obtain an understanding of the structures of and details relating to the continued involvement in all transactions including sales of real estate and other related transactions subject to our test. • We inspected contracts such as sales agreements to understand the terms of transactions and consider whether there are any details that would effectively grant the Company or its subsidiaries the ability to repurchase properties. <p>We compared sales prices with appraisals of the real estate to consider whether sales prices are appropriate.</p>
<p>Assessment of real estate for lease for impairment loss</p>	
<p>Description of Key Audit Matter</p>	<p>Auditor’s Response</p>
<p>The Company and its consolidated subsidiaries recorded property, plant and equipment of 1,617,405 million yen and intangible assets of 77,938 million yen on the consolidated balance sheets as of December 31, 2023, and these assets are mainly composed of real estate held for rental operations (hereinafter, “real estate for lease”). Additionally, as presented in the consolidated statements of income, the Company and its consolidated subsidiaries recorded impairment loss of 1,693 million yen.</p> <p>Real estate for lease is exposed to risks such as deterioration in real estate market conditions and it is necessary to determine whether impairment loss should be recognized when</p>	<p>We performed the following procedures to consider whether real estate for lease is properly assessed for impairment loss.</p> <ul style="list-style-type: none"> • We obtained the materials for identifying indications of impairment prepared by the Company and its consolidated subsidiaries, and reconciled the operating income (loss) and balance sheet amount of each asset group with the amounts in the books of accounts, and also matched year-end real estate values with real estate valuation documents such as real estate appraisals. • We performed the following procedures for asset groups that meet certain criteria established in view of audit risk.

<p>indications of impairment are identified as a result of reduced profitability from a decline in rents or rise in vacancy rates.</p> <p>Further, estimates of future cash flows and discount rates used in evaluating appraisals are affected by various factors such as economic trends, financial trends, and the inflation rate, and are thus subject to uncertainty. Accordingly, given that rent levels and discounts rates, which are key assumptions underlying valuations of real estate for lease, are heavily dependent upon the subjective judgment of management, there is a possibility that significant impairment loss has not been recognized in the consolidated financial statements.</p> <p>Therefore, in view of the significance of these risks, we have determined that the assessment of real estate for lease for impairment loss constitutes a key audit matter.</p>	<ul style="list-style-type: none"> • To consider whether future cash flows, which are used in determining whether to recognize impairment, are based on decisions made by the Company and its consolidated subsidiaries, we reconciled these future cash flows to data such as revenue plans for individual asset groups on which the medium-term management plan is based, inspected related documents, and made inquiries of the responsible departments. • In order to evaluate rent levels and discounts rates, which are significant assumptions used in estimating appraisals in real estate valuation documents, we compared the rent levels and discount rates with market information such as rents and the cap rate, and made inquiries of the appraisers that performed the valuations.
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Other Information

The other information comprises the information included in a disclosure document that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

Responsibilities of Management, the Audit and Supervisory Board Member and the Audit and Supervisory Board for the Consolidated Financial Statements

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

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

the Audit and Supervisory Board Member and the Audit and Supervisory Board are responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

We also provide the Audit and Supervisory Board Member and the Audit and Supervisory Board with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied to reduce threats to an acceptable level.

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2023 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Fee-related Information

The fees for the audits of the financial statements of Hulic Co., Ltd. and its subsidiaries and other services provided by us and other EY member firms for the year ended December 31, 2023 are 110 million yen and 6 million yen, respectively.

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

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

Ernst & Young ShinNihon LLC
Tokyo, Japan

May 21, 2024

福 田 慶 久

Hirohisa Fukuda
Designated Engagement Partner
Certified Public Accountant

安 部 里 史

Satoshi Abe
Designated Engagement Partner
Certified Public Accountant