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April 7, 2023

Consolidated Financial Results for the Three Months Ended February 28, 2023 (Under Japanese GAAP)

Company name: SALA Corporation
 Listing: Tokyo Stock Exchange / Nagoya Stock Exchange
 Securities code: 2734
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 Scheduled date to file quarterly securities report: April 11, 2023
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: None
 Holding of quarterly financial results briefing: None

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the three months ended February 28, 2023 (from December 1, 2022 to February 28, 2023)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended February 28, 2023	64,154	9.7	3,004	(0.6)	2,892	(10.2)	1,951	(13.0)
February 28, 2022	58,455	11.4	3,021	5.1	3,220	15.7	2,243	13.5

Note: Comprehensive income For the three months ended February 28, 2023:¥1,977 million [(17.4)%]
 For the three months ended February 28, 2022:¥2,394 million [17.8%]

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
February 28, 2023	30.59	–
February 28, 2022	35.23	–

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
As of	Millions of yen	Millions of yen	%
February 28, 2023	189,082	74,330	38.6
November 30, 2022	188,417	73,355	38.2

Reference: Equity

As of February 28, 2023: ¥72,969 million
 As of November 30, 2022: ¥72,012 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
Fiscal year ended November 30, 2022	Yen —	Yen 11.00	Yen —	Yen 15.00	Yen 26.00
Fiscal year ending November 30, 2023	—				
Fiscal year ending November 30, 2023 (Forecast)		13.00	—	13.00	26.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending November 30, 2023 (from December 1, 2022 to November 30, 2023)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending May 31, 2023	130,000	9.9	5,800	(7.1)	6,200	(11.8)	4,400	(8.4)	68.96
Fiscal year ending November 30, 2023	250,000	6.5	7,000	1.6	7,800	(9.3)	5,400	(5.0)	84.64

Note: Revisions to the earnings forecasts most recently announced: None

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes
- (ii) Changes in accounting policies due to other reasons: None
- (iii) Changes in accounting estimates: None
- (iv) Restatement: None

Note: For details, please refer to “(3) Notes to quarterly consolidated financial statements (Changes in accounting policies)” of “2. Quarterly consolidated financial statements and significant notes thereto” on page 9 of the attachment.

- (4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of February 28, 2023	66,041,147 shares
As of November 30, 2022	66,041,147 shares

- (ii) Number of treasury shares at the end of the period

As of February 28, 2023	2,239,706 shares
As of November 30, 2022	2,239,289 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Three months ended February 28, 2023	63,801,715 shares
Three months ended February 28, 2022	63,674,616 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

(Caution concerning forward-looking statements)

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable by the Company. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual business and other results may differ significantly due to various unforeseen factors.

○ **Attachment Index**

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1. Qualitative information on quarterly consolidated financial results

(1) Explanation of operating results

During the first three months of the fiscal year ending November 30, 2023, while the Japanese economy saw a continued move toward normalization of socioeconomic activities with the gradual easing of restrictions associated with the novel coronavirus disease (COVID-19), the economic outlook remained uncertain due to the impact of rising prices, depreciation of the yen, etc. caused by the prolonged uncertainty over the situation in Ukraine.

Under these conditions, the SALA Group has established the fifth medium-term management plan with the fiscal year ending November 30, 2023 as the first fiscal year, and focuses on collaboration and co-creation for further growth, setting the basic policy of “going beyond the framework.” The plan sets forth five key strategies: “service and business development in the Life Creative Business Unit* and transformation of the business format,” “enhancing brand value through ‘customer experience’ that exceeds expectations,” “business creation through ‘co-creation’ with parties inside and outside the Group,” “improving profitability in existing business fields,” and “transforming into an organizational culture that attracts people who ‘think and act on their own initiative.’” Through proactive collaboration and co-creation with parties inside and outside the Group, the Company aims to enhance SALA’s brand value by solving local community and customer issues. During the first three months of the current fiscal year, in January 2023, SALA CARS JAPAN Co., Ltd., which is the Car Life Support business, through collaboration and co-creation efforts with Energy & Solutions business SALA ENERGY CO., LTD. and SALA e ENERGY CO., LTD., began operating a carbon neutral store that uses electricity and gas with virtually zero CO₂ emissions at the Audi Hamamatsu store in Hamamatsu City, Shizuoka Prefecture. In addition, SALA ENERGY CO., LTD. proceeded with the restructuring of its core system to improve the efficiency of operations traditionally divided by gas type (city gas and LP gas) through the use of digital technology and to provide high quality services tailored to each individual customer. In addition, ASCO Co., Ltd., which is the Animal Health Care business, integrated its subsidiaries A.M.I. Co., Ltd. and Daiwa Pharmaceutical Co., Ltd. in December 2022 to streamline business.

As for operating results for the first three months of the current fiscal year, net sales increased by 9.7% year on year to ¥64,154 million due to a significant increase in revenue in the Energy & Solutions business. As for profit, operating profit decreased by 0.6% year on year to ¥3,004 million due to decreases in profit in the Housing business, the Car Life Support business and the Animal Health Care business. As loss on valuation of derivatives on forward exchange contracts expanded, ordinary profit decreased by 10.2% year on year to ¥2,892 million. As a result, profit attributable to owners of parent decreased by 13.0% year on year to ¥1,951 million.

* “Life Creative Business Unit” refers to business areas for daily living other than the energy business.

Operating results of each segment are as follows.

Energy & Solutions business

Net sales ¥39,127 million (up 26.9% year on year)

Operating profit ¥2,855 million (up 8.7% year on year)

Gas sales volume for both city gas and LP gas declined as customers and business partners became increasingly cost-conscious and continued to cut back on gas use in response to soaring energy prices. Due to upward adjustment of city gas selling prices based on the raw material cost adjustment system, both net sales and operating profit increased, as the sales increase factor due to selling price revisions outweighed the sales decrease factor due to a decline in city gas sales volume.

Engineering & Maintenance business

Net sales ¥7,014 million (down 3.0% year on year)

Operating profit ¥565 million (up 37.3% year on year)

Although the equipment work department and the construction department performed well, net sales declined due to a decrease in completed projects in the civil engineering department and the maintenance department. As for profit, operating profit increased due to the increased gross profit by efforts of each department to reduce cost of sales by thorough process management.

Housing business

Net sales ¥6,367 million (down 28.0% year on year)

Operating loss ¥342 million (operating profit of ¥39 million for the same period of the previous fiscal year)

In the housing sales department, the number of houses sold decreased in both custom-built and lot houses, mainly due to fewer orders carried over from the previous period compared to the same period of the previous fiscal year. On the other hand, in the housing components and materials processing and sales department, orders increased as a result of efforts to cultivate new customers in addition to strengthening relationships with existing business partners. Overall segment sales declined, and operating loss was recorded due to the decrease in the number of houses sold.

Car Life Support business

Net sales ¥4,298 million (up 15.6% year on year)

Operating loss ¥86 million (operating profit of ¥9 million for the same period of the previous fiscal year)

For Volkswagen, in addition to focusing on sales of new vehicles in a higher price range, used car sales prices remained high, resulting in sales price per vehicle rising. In addition, while Audi continued to be affected by the decline in new car production volume due to the shortage of semiconductors and other factors, sales increased due to an increase in used car sales volume as a result of strengthened used car sales. As for profit, operating loss was recorded due to an increase in selling, general and administrative expenses, such as promotion expenses.

Animal Health Care business

Net sales ¥5,850 million (down 7.9% year on year)

Operating profit ¥109 million (down 44.9% year on year)

In the livestock farming department, orders for veterinary medical products, etc. received decreased due to the impact of high feed prices, outbreak of avian influenza, etc. In the pet-related department, sales decreased due to last-minute surge in demand before the price hike of veterinary medical products, etc. in the same period of the previous year. Consequently, net sales and operating profit both decreased.

Properties business

Net sales ¥1,028 million (up 15.4% year on year)

Operating loss ¥43 million (operating loss of ¥136 million for the same period of the previous fiscal year)

Transactions for corporate clients such as for offices and stores remained strong, mainly in the asset management department managing real estate properties, etc. In the hospitality department, the number of guests for banquets, bridal services, and hotel overnight stays, etc. increased due to the easing of restrictions associated with COVID-19. As a result, net sales increased, and operating loss declined.

(2) Explanation of financial position**Assets**

Assets amounted to ¥189,082 million, up ¥665 million from November 30, 2022. This was mainly due to increases in “notes and accounts receivable - trade, and contract assets” by ¥2,610 million, “merchandise and finished goods” by ¥1,600 million, and “other” under current assets by ¥1,487 million, despite decreases in “cash and deposits” by ¥4,125 million, “property, plant and equipment” by ¥841 million, and “deferred tax assets” by ¥587 million.

Liabilities

Liabilities were ¥114,752 million, down ¥309 million from November 30, 2022. This was mainly due to decreases in “income taxes payable” by ¥1,436 million, “long-term borrowings (including current portion)” by ¥1,176 million, “other” under current liabilities by ¥1,119 million and “provision for bonuses” by ¥1,096 million, despite an increase in “short-term borrowings” by ¥4,268 million.

Net assets

Net assets were ¥74,330 million, up ¥975 million from November 30, 2022. This was mainly due to an increase in “retained earnings” of ¥961 million (increased by ¥1,951 million due to recording of profit attributable to owners of parent and decreased by ¥990 million due to payment of dividends).

(3) Explanation of consolidated earnings forecasts and other forward-looking statements

There is no change to the consolidated earnings forecasts for the first six months of the fiscal year ending November 30, 2023, nor to the full-year earnings forecasts, both of which were announced on January 12, 2023.

2. Quarterly consolidated financial statements and significant notes thereto

(1) Quarterly consolidated balance sheet

(Millions of yen)

	As of November 30, 2022	As of February 28, 2023
Assets		
Current assets		
Cash and deposits	24,191	20,065
Notes and accounts receivable - trade, and contract assets	33,077	35,688
Electronically recorded monetary claims - operating	2,010	2,039
Merchandise and finished goods	12,520	14,121
Work in process	7,656	8,282
Raw materials and supplies	267	347
Other	4,886	6,374
Allowance for doubtful accounts	(206)	(212)
Total current assets	84,404	86,708
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	20,205	20,557
Machinery, equipment and vehicles, net	7,737	7,934
Gas pipe, net	16,347	15,971
Land	33,287	32,850
Construction in progress	1,572	1,000
Other, net	1,348	1,341
Total property, plant and equipment	80,498	79,657
Intangible assets		
Goodwill	274	304
Other	1,731	1,841
Total intangible assets	2,006	2,145
Investments and other assets		
Investment securities	7,913	8,208
Long-term loans receivable	3,204	3,014
Deferred tax assets	4,492	3,905
Other	6,358	5,902
Allowance for doubtful accounts	(460)	(459)
Total investments and other assets	21,507	20,571
Total non-current assets	104,012	102,374
Total assets	188,417	189,082

(Millions of yen)

	As of November 30, 2022	As of February 28, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	27,827	27,959
Electronically recorded obligations - operating	4,592	4,775
Short-term borrowings	5,944	10,213
Current portion of long-term borrowings	7,411	7,404
Income taxes payable	1,695	258
Provision for bonuses	2,621	1,525
Provision for bonuses for directors (and other officers)	11	3
Provision for warranties for completed construction	56	50
Provision for loss on construction contracts	82	58
Provision for point card certificates	233	233
Other	11,609	10,489
Total current liabilities	62,085	62,971
Non-current liabilities		
Long-term borrowings	38,862	37,693
Deferred tax liabilities	423	568
Provision for retirement benefits for directors (and other officers)	190	160
Provision for share-based compensation	470	503
Provision for repairs	104	109
Retirement benefit liability	9,535	9,361
Other	3,389	3,383
Total non-current liabilities	52,976	51,781
Total liabilities	115,062	114,752
Net assets		
Shareholders' equity		
Share capital	8,025	8,025
Capital surplus	25,281	25,293
Retained earnings	38,076	39,037
Treasury shares	(1,480)	(1,480)
Total shareholders' equity	69,902	70,875
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	518	647
Deferred gains or losses on hedges	587	494
Remeasurements of defined benefit plans	1,003	951
Total accumulated other comprehensive income	2,109	2,094
Non-controlling interests	1,342	1,360
Total net assets	73,355	74,330
Total liabilities and net assets	188,417	189,082

(2) Quarterly consolidated statement of income and quarterly consolidated statement of comprehensive income**Quarterly consolidated statement of income (cumulative)**

(Millions of yen)

	Three months ended February 28, 2022	Three months ended February 28, 2023
Net sales	58,455	64,154
Cost of sales	43,081	48,704
Gross profit	15,374	15,450
Selling, general and administrative expenses	12,352	12,445
Operating profit	3,021	3,004
Non-operating income		
Interest income	17	29
Dividend income	29	31
Share of profit of entities accounted for using equity method	97	24
Subsidy income	105	–
Other	171	148
Total non-operating income	420	233
Non-operating expenses		
Interest expenses	35	49
Loss on valuation of derivatives	162	280
Other	24	14
Total non-operating expenses	221	344
Ordinary profit	3,220	2,892
Extraordinary income		
Gain on sale of non-current assets	15	9
Gain on sale of investment securities	8	–
Reversal of provision for loss on guarantees	22	–
Total extraordinary income	45	9
Extraordinary losses		
Loss on sale and retirement of non-current assets	4	26
Total extraordinary losses	4	26
Profit before income taxes	3,261	2,875
Income taxes - current	241	159
Income taxes - deferred	715	728
Total income taxes	956	887
Profit	2,305	1,987
Profit attributable to non-controlling interests	62	36
Profit attributable to owners of parent	2,243	1,951

Quarterly consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Three months ended February 28, 2022	Three months ended February 28, 2023
Profit	2,305	1,987
Other comprehensive income		
Valuation difference on available-for-sale securities	111	135
Deferred gains or losses on hedges	(16)	(93)
Remeasurements of defined benefit plans, net of tax	(6)	(52)
Total other comprehensive income	88	(10)
Comprehensive income	2,394	1,977
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,332	1,941
Comprehensive income attributable to non-controlling interests	62	36

(3) Notes to quarterly consolidated financial statements

Uncertainties of entity's ability to continue as going concern

Not applicable.

Notes on significant changes in the amount of shareholders' equity

Not applicable.

Changes in accounting policies

Application of Implementation Guidance on Accounting Standard for Fair Value Measurement

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the first quarter of the current fiscal year, and it has applied the new accounting policy provided for by the Implementation Guidance on Accounting Standard for Fair Value Measurement in accordance with the transitional measures provided for in paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement. There is no impact on the quarterly consolidated financial statements.

Additional information

Impact of the spread of COVID-19

There has been no material change in the assumptions regarding the impact of the spread of COVID-19 described in Impairment loss on non-current assets in Significant accounting estimates in the annual securities report for the previous fiscal year.

Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System

The Company and some consolidated subsidiaries transitioned from consolidated taxation system to group tax sharing system from the first quarter of the current fiscal year. In accordance with this, the accounting treatment and disclosure of corporate and local income taxes and tax-effect accounting are based on "Accounting Treatment and Disclosure when Applying the Group Tax Sharing System" (ASBJ Practical Solution No. 42, August 12, 2021, hereinafter Practical Solution No. 42). In accordance with Paragraph 32 (1) of Practical Solution No. 42, the Company has assumed that there is no impact from the change in accounting policy resulting from the application of Practical Solution No. 42.

Segment information

I For the three months ended February 28, 2022

1. Disclosure of sales and profit (loss) for each reportable segment and disaggregation of revenue

(Millions of yen)

	Reportable segments				
	Energy & Solutions business	Engineering & Maintenance business	Housing business	Car Life Support business	Animal Health Care business
Net sales					
City gas	11,708	–	–	–	–
LP gas	7,670	–	–	–	–
Electric power	3,739	–	–	–	–
Civil engineering work, construction work, equipment work	–	7,234	–	–	–
Housing, construction materials	–	–	8,843	–	–
Automotive sales and maintenance	–	–	–	3,718	–
Veterinary medical products	–	–	–	–	6,351
Lease, sale and purchase, and brokerage of real estate, hotel	–	–	–	–	–
Other	7,706	–	–	–	–
Revenue from contracts with customers	30,824	7,234	8,843	3,718	6,351
Other revenue (Note 4)	–	–	–	–	–
Revenues from external customers	30,824	7,234	8,843	3,718	6,351
Intersegment sales or transfers	483	1,022	1	2	0
Total	31,308	8,256	8,845	3,720	6,351
Segment profit (loss)	2,627	412	39	9	199

	Reportable segments		Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Properties business	Total				
Net sales						
City gas	–	11,708	–	11,708	–	11,708
LP gas	–	7,670	–	7,670	–	7,670
Electric power	–	3,739	–	3,739	–	3,739
Civil engineering work, construction work, equipment work	–	7,234	–	7,234	–	7,234
Housing, construction materials	–	8,843	–	8,843	–	8,843
Automotive sales and maintenance	–	3,718	–	3,718	–	3,718
Veterinary medical products	–	6,351	–	6,351	–	6,351
Lease, sale and purchase, and brokerage of real estate, hotel	891	891	–	891	–	891
Other	–	7,706	505	8,212	27	8,239
Revenue from contracts with customers	891	57,863	505	58,369	27	58,397
Other revenue (Note 4)	–	–	58	58	–	58
Revenues from external customers	891	57,863	564	58,427	27	58,455
Intersegment sales or transfers	124	1,633	445	2,079	(2,079)	–
Total	1,015	59,497	1,009	60,506	(2,051)	58,455
Segment profit (loss)	(136)	3,151	21	3,172	(150)	3,021

- (Notes) 1. The “other” category represents operating segments that are not included in reportable segments, and includes manufacturing auto parts, installment sale and lease.
2. Adjustment to segment profit (loss) of ¥(150) million includes intersegment eliminations of ¥309 million and corporate expenses of ¥(460) million. Corporate expenses are mainly general and administrative expenses, which are not attributable to the reportable segments.
3. Segment profit (loss) was adjusted with operating profit in the quarterly consolidated statement of income.
4. “Other revenue” includes revenue on lease, etc.

2. Disclosure of impairment losses on non-current assets or goodwill for each reportable segment

Not applicable.

II For the three months ended February 28, 2023

1. Disclosure of sales and profit (loss) for each reportable segment and disaggregation of revenue

(Millions of yen)

	Reportable segments				
	Energy & Solutions business	Engineering & Maintenance business	Housing business	Car Life Support business	Animal Health Care business
Net sales					
City gas	17,375	–	–	–	–
LP gas	8,631	–	–	–	–
Electric power	5,143	–	–	–	–
Civil engineering work, construction work, equipment work	–	7,014	–	–	–
Housing, construction materials	–	–	6,367	–	–
Automotive sales and maintenance	–	–	–	4,298	–
Veterinary medical products	–	–	–	–	5,850
Lease, sale and purchase, and brokerage of real estate, hotel	–	–	–	–	–
Other	7,977	–	–	–	–
Revenue from contracts with customers	39,127	7,014	6,367	4,298	5,850
Other revenue (Note 4)	–	–	–	–	–
Revenues from external customers	39,127	7,014	6,367	4,298	5,850
Intersegment sales or transfers	484	1,168	2	2	0
Total	39,611	8,182	6,369	4,301	5,850
Segment profit (loss)	2,855	565	(342)	(86)	109

	Reportable segments		Other (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Properties business	Total				
Net sales						
City gas	–	17,375	–	17,375	–	17,375
LP gas	–	8,631	–	8,631	–	8,631
Electric power	–	5,143	–	5,143	–	5,143
Civil engineering work, construction work, equipment work	–	7,014	–	7,014	–	7,014
Housing, construction materials	–	6,367	–	6,367	–	6,367
Automotive sales and maintenance	–	4,298	–	4,298	–	4,298
Veterinary medical products	–	5,850	–	5,850	–	5,850
Lease, sale and purchase, and brokerage of real estate, hotel	1,028	1,028	–	1,028	–	1,028
Other	–	7,977	377	8,355	27	8,382
Revenue from contracts with customers	1,028	63,686	377	64,064	27	64,091
Other revenue (Note 4)	–	–	63	63	–	63
Revenues from external customers	1,028	63,686	441	64,127	27	64,154
Intersegment sales or transfers	125	1,782	446	2,228	(2,228)	–
Total	1,153	65,469	887	66,356	(2,201)	64,154
Segment profit (loss)	(43)	3,057	22	3,080	(75)	3,004

- (Notes) 1. The “other” category represents operating segments that are not included in reportable segments, and includes manufacturing auto parts, installment sale and lease.
2. Adjustment to segment profit (loss) of ¥(75) million includes intersegment eliminations of ¥281 million and corporate expenses of ¥(357) million. Corporate expenses are mainly general and administrative expenses, which are not attributable to the reportable segments.
3. Segment profit (loss) was adjusted with operating profit in the quarterly consolidated statement of income.
4. “Other revenue” includes revenue on lease, etc.

2. Disclosure of impairment losses on non-current assets or goodwill for each reportable segment

Not applicable.

Significant events after reporting period

The Company revised its retirement benefit plan effective April 1, 2023. The revision of the plan is mainly to extend the retirement age from 60 to 65, thereby extending the age at which retirement benefits are paid and the age at which old-age benefits under the defined benefit corporate pension plan begin to accrue from 60 to 65. As of the date of the filing of the quarterly financial results report, the re-measurement of the retirement benefit obligation at the time of transition is in progress, and the impact on the consolidated financial statements is being calculated.