TRANSLATION
Following is an English translation of the Report pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act. This Report is presented merely as supplemental information.

Annual Securities Report

(For the 63rd fiscal year,
from January 1, 2022 to December 31, 2022)

Unicharm Corporation

(E00678)

The 63rd Fiscal Year (from January 1, 2022 to December 31, 2022)

Annual Securities Report

This report is the Annual Securities Report submitted pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act via the Electronic Disclosure for Investors' Network ("EDINET") as set forth in Article 27-30-2 of the same Act, generated and printed with a Table of Contents and page numbers added.

Unicharm Corporation

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【Document Submitted】	Annual Securities Report (*"Yukashoken-Houkokusho"*)
【Article of the Applicable Law Requiring Submission of This Document】	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
【Filed to】	Director-General of the Kanto Local Finance Bureau
【Date of Filing】	March 27, 2023
【Business Year】	The 63rd Fiscal Year (from January 1, 2022 to December 31, 2022)
【Company Name】	Unicharm Kabushiki-Kaisha
【Company Name (in English)】	Unicharm Corporation
【Position and Name of Representative】	Takahisa Takahara, Representative Director, President and Chief Executive Officer
【Location of Head Office】	182, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime, Japan (The above address is the official registered location of the head office. Actual operations are based as follows.) Sumitomo Fudosan Mita Twin Bldg., West Wing, 3-5-27, Mita, Minato-ku, Tokyo, Japan
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Part 1. Information on the Company

I. Overview of the Company

1. Key financial data and trends

(1) Consolidated financial data

Fiscal year		59th	60th	61st	62nd	63rd
Year ended		December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022
Net sales	Millions of Yen	688,290	714,233	727,475	782,723	898,022
Profit before tax	Millions of Yen	91,561	69,538	95,849	121,977	115,708
Profit attributable to owners of parent	Millions of Yen	61,353	46,116	52,344	72,745	67,608
Comprehensive income attributable to owners of parent	Millions of Yen	43,016	52,458	36,248	97,670	98,094
Equity attributable to owners of parent	Millions of Yen	441,456	473,073	493,002	557,639	618,883
Total assets	Millions of Yen	795,483	864,003	893,413	987,655	1,049,218
Equity attributable to owners of parent per share	Yen	736.39	791.25	822.19	935.03	1,043.17
Basic earnings per share	Yen	103.73	77.53	87.60	121.78	113.61
Diluted earnings per share	Yen	101.44	77.05	87.46	121.69	113.59
Ratio of equity attributable to owners of parent	%	55.5	54.8	55.2	56.5	59.0
Return on equity attributable to owners of parent	%	14.8	10.1	10.8	13.8	11.5
Price earnings ratio	Times	34.3	47.7	55.8	41.0	44.6
Cash flows from operating activities	Millions of Yen	110,867	84,936	150,254	105,253	92,216
Cash flows from investing activities	Millions of Yen	(113,400)	(69,235)	(41,698)	(79,837)	(7,145)
Cash flows from financing activities	Millions of Yen	(27,723)	(23,062)	(35,239)	(45,180)	(61,652)
Cash and cash equivalents at end of fiscal period	Millions of Yen	135,065	128,787	199,522	187,547	217,153
Employees ( ) represents the average number of part-time employees not included in the above numbers	Persons	16,207 (1,794)	16,304 (1,781)	16,665 (1,776)	16,308 (1,786)	16,206 (1,775)

Notes: 1. The number of employees represents the number of full-time employees.

2. The Group's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS").

(2) Non-consolidated financial data

Fiscal year		59th	60th	61st	62nd	63rd
Year ended		December 31, 2018	December 31, 2019	December 31, 2020	December 31, 2021	December 31, 2022
Net sales	Millions of Yen	359,961	355,721	366,203	382,210	344,281
Ordinary income	Millions of Yen	61,545	40,217	46,149	81,353	67,915
Profit	Millions of Yen	43,774	35,119	8,292	59,625	6,876
Capital stock	Millions of Yen	15,993	15,993	15,993	15,993	15,993
Number of shares issued	Shares	620,834,319	620,834,319	620,834,319	620,834,319	620,834,319
Net assets	Millions of Yen	302,824	316,040	312,113	333,849	301,907
Total assets	Millions of Yen	435,350	443,842	455,280	474,130	414,114
Net assets per share	Yen	505.41	527.99	519.99	559.44	508.88
Cash dividends per share (Interim cash dividends included herein)	Yen (Yen)	24 (12)	28 (14)	32 (16)	36 (18)	38 (19)
Earnings per share	Yen	74.01	59.04	13.88	99.82	11.55
Diluted earnings per share	Yen	71.52	58.43	13.84	99.74	11.55
Ratio of shareholders' equity	%	69.3	70.9	68.4	70.3	72.9
Earnings to shareholders' equity	%	15.9	11.4	2.6	18.5	2.2
Price earnings ratio	Times	48.1	62.7	352.5	50.1	438.6
Dividend payout ratio	%	32.4	47.4	230.6	36.1	328.9
Employees (represents the average number of part-time employees not included in the above numbers)	Persons	1,443 (269)	1,443 (286)	1,466 (323)	1,465 (345)	1,433 (364)
Total shareholder return (Comparative indicator: TOPIX Total Return Index)	% (%)	122.3 (84.0)	128.1 (99.2)	169.8 (106.6)	174.7 (120.2)	178.4 (117.2)
Highest share price	Yen	3,892	3,787	5,316	5,208	5,323
Lowest share price	Yen	2,767.5	2,905	3,031	4,122	3,901

Notes: 1. The number of employees represents the number of full-time employees.

2. The highest and lowest share prices are those quoted on the Tokyo Stock Exchange (First Section) on or before April 3, 2022, and on the Tokyo Stock Exchange (Prime Market) on or after April 4, 2022.

3. The Company has adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations from the beginning of the 63rd fiscal year, and the key financial data, etc. for the 63rd fiscal year is presented as data, etc. after applying the accounting standard, etc.

2. History

February 1961	Keiichiro Takahara established Taisei Kako Co., Ltd. Commenced the manufacture and sale of building materials
August 1963	Commenced manufacture and sale of feminine napkins
March 1974	The feminine napkin manufacturing business was transferred to Unicharm Industries Co., Ltd.
September 1974	Due to a change in the par value of shares, Okada Industries Co., Ltd. merged Taisei Kako Co., Ltd. by absorption, and changed the corporate name to Unicharm Corporation as surviving entity
August 1976	Listed stocks on the Second Section of the Tokyo Stock Exchange
August 1981	Launched disposable baby diapers
October 1984	Established United Charm Co., Ltd. (former United Charm Industries Co., Ltd.) in Taiwan - Greater China
March 1985	Company stock designated to be listed on the First Section of the Tokyo Stock Exchange
July 1987	Established Uni-Charm (Thailand) Co., Ltd.
June 1993	Established Unicharm East Japan Corp.
November 1993	Established Uni.Charm Mölnlycke B.V.
December 1995	Established Shanghai Unicharm Co., Ltd.
June 1997	Established PT UNI-CHARM INDONESIA Tbk (PT Uni-Charm Indonesia at time of establishment)
October 1998	Transferred the pet businesses to Uni-Taisei Corp.
February 1999	Uni-Taisei Corp. changed its company name to Uni Heartous Corporation
May 1999	Established Unicharm Central Japan Corporation
October 1999	Transferred Central Japan Production Department to Unicharm Central Japan Corporation
November 2001	Established Unicharm Consumer Products (China) Co., Ltd.
January 2002	Unicharm East Japan Corp. and Unicharm Central Japan Corporation were merged by absorption, with Unicharm Industries Co., Ltd. as the surviving entity. The corporate name was changed to Unicharm Products Co., Ltd.
February 2002	Established Unicharm Consumer Products and Services (Shanghai) Co., Ltd.
October 2002	Uni Heartous Corporation changed its corporate name to Unicharm PetCare Corporation
October 2004	Unicharm PetCare Corporation stock listed on the Second Section of the Tokyo Stock Exchange
September 2005	Unicharm PetCare Corporation stock designated to be listed on the First Section of Tokyo Stock Exchange
December 2005	Acquired Unicharm Gulf Hygienic Industries Ltd.
February 2006	Launched joint venture business in South Korea at LG Unicharm Co., Ltd. (former Uni-Charm Co., Ltd.) with LG Household & Health Care Ltd.
July 2008	Established Unicharm India Private Ltd. (Unicharm India Hygienic Private Ltd. at time of establishment)
September 2008	After acquisition of all shares in APPP Parent Pty Ltd., corporate name was changed to Unicharm Australasia Holding Pty Ltd.
January 2009	Shanghai Unicharm Co., Ltd., Unicharm Consumer Products (China) Co., Ltd. and Unicharm Consumer Products and Services (Shanghai) Co., Ltd. merged to form Unicharm Consumer Products (China) Co., Ltd. as surviving entity
September 2010	Merged Unicharm PetCare Corporation by absorption
September 2011	Established Unicharm (China) Co., Ltd.
September 2011	Acquired 95% of the shares of Diana Unicharm Joint Stock Company (Diana Joint Stock Company at time of establishment)
December 2011	Acquired 51% of shares of The Hartz Mountain Corporation
July 2012	Established Unicharm Consumer Products (Jiangsu) Co., Ltd.
April 2013	Acquired all shares of CFA International Paper Products Pte. Ltd., holder of 88% of the shares of Myanmar Care Products Ltd.
August 2013	Acquired additional 10% of shares Myanmar Care Products Ltd. and the corporate name was changed to MYCARE Unicharm Co., Ltd.
September 2018	Acquired all shares of DSG (Cayman) Ltd.
December 2019	PT UNI-CHARM INDONESIA Tbk stock listed on the Main Board of the Indonesia Stock Exchange
November 2020	MYCARE Unicharm Co., Ltd. changed its corporate name to Unicharm Myanmar Company Limited
April 2022	Moved stock listing from the First Section to the Prime Market of the Tokyo Stock Exchange due to the restructuring of market segments by the Tokyo Stock Exchange

3. Description of business

Unicharm Corporation (the "Company"), 51 subsidiaries and 7 affiliates (collectively, the "Group") is engaged chiefly in the manufacture and sale of wellness care products, feminine care products, baby care products, kirei care products, and pet care products.

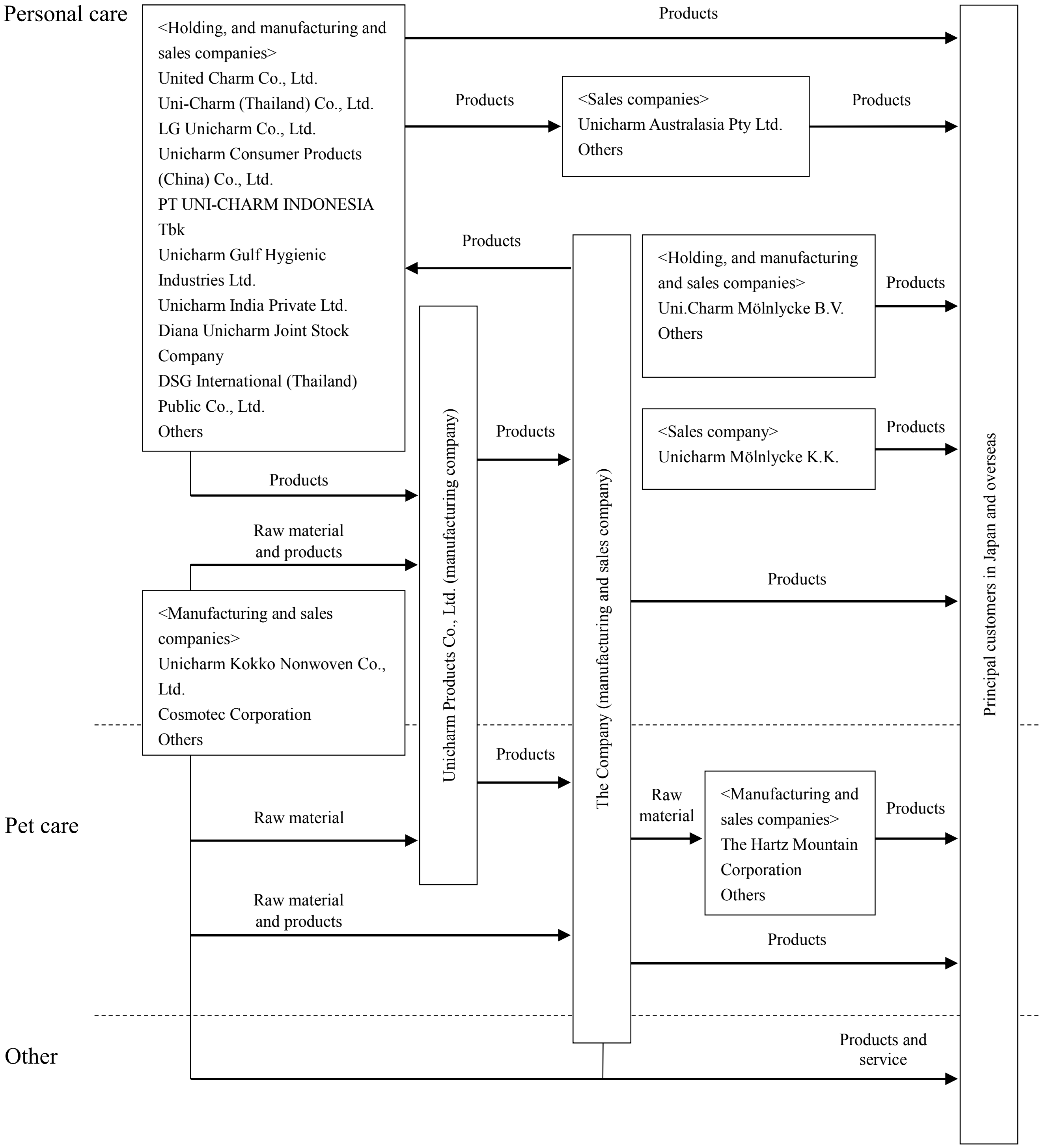
Organizational positioning and segment information of Group businesses are as follows.

The following business segmentation is harmonized with "V. Financial Information, 1. Consolidated Financial Statements (1) Consolidated Financial Statements, Notes to Consolidated Financial Statements."

Business category	Description of principal business	Principal companies
Personal care	Wellness care business Feminine care business Baby care business Kirei care business	The Company Unicharm Products Co., Ltd. Unicharm Kokko Nonwoven Co., Ltd. Cosmotec Corporation Unicharm Mölnlycke K.K. United Charm Co., Ltd. Uni-Charm (Thailand) Co., Ltd. Uni.Charm Mölnlycke B.V. LG Unicharm Co., Ltd. Unicharm Consumer Products (China) Co., Ltd. PT UNI-CHARM INDONESIA Tbk Unicharm Gulf Hygienic Industries Ltd. Unicharm India Private Ltd. Unicharm Australasia Holding Pty Ltd. Diana Unicharm Joint Stock Company DSG International (Thailand) Public Co., Ltd. Other 31 companies Total 47 companies
Pet care	Pet care business	The Company Unicharm Products Co., Ltd. Unicharm Kokko Nonwoven Co., Ltd. Cosmotec Corporation The Hartz Mountain Corporation Other 7 companies Total 12 companies
Other		Unicharm Kokko Nonwoven Co., Ltd. Cosmotec Corporation Other 6 companies Total 8 companies

Note: In case a company operates several businesses, the company is included in each respective business category.

The organization chart of principal businesses is as follows.



4. Information on subsidiaries and affiliates

Name of company	Location	Capital	Principal businesses (Note 1)	Percentage of voting rights held (%)	Business relationship
(Consolidated subsidiaries)					
Unicharm Products Co., Ltd. (Note 2)	Shikokuchuo-shi, Ehime, Japan	Millions of JPY 200	Personal care	100.0	Sells products to Group companies Interlocking executives: 2 Cash loan relations: Yes
United Charm Co., Ltd. (Note 2)	Taiwan - Greater China	Thousands of TWD 588,800	Personal care	52.6	Sells products to Group companies Interlocking executive: 1
Uni-Charm (Thailand) Co., Ltd. (Note 2)	Kingdom of Thailand	Thousands of THB 718,843	Personal care	94.2	Sells products to Group companies Cash loan relations: Yes
LG Unicharm Co., Ltd. (Note 2)	Republic of Korea	Millions of KRW 30,000	Personal care	51.0	Sells products to Group companies
Unicharm Consumer Products (China) Co., Ltd. (Notes 2, 3, 4)	People’s Republic of China	Thousands of USD 117,127	Personal care	75.0 (75.0)	Sells products to Group companies
PT UNI-CHARM INDONESIA Tbk (Note 2)	Republic of Indonesia	Millions of IDR 415,657	Personal care	59.4	Sells products to Group companies
Unicharm Gulf Hygienic Industries Ltd. (Note 2)	Kingdom of Saudi Arabia	Thousands of SAR 447,059	Personal care	85.0	Sells products to Group companies Interlocking executive: 1
Unicharm India Private Ltd. (Note 2)	Republic of India	Millions of INR 35,573	Personal care	100.0	
Unicharm Australasia Holding Pty Ltd. (Note 2)	Commonwealth of Australia	Thousands of AUD 60,000	Personal care	100.0	Financial assistance: Yes
Unicharm Middle East & North Africa Hygienic Industries Company S.A.E. (Note 2)	Arab Republic of Egypt	Thousands of EGP 884,265	Personal care	95.0	Sells products to Group companies Interlocking executive: 1 Financial assistance: Yes
The Hartz Mountain Corporation (Note 2)	United States of America	Thousands of USD 197,398	Pet care	51.0	Sells products to Group companies
Unicharm (China) Co., Ltd. (Note 2)	People’s Republic of China	Thousands of USD 280,346	Personal care	100.0	
UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA. (Note 2)	Federative Republic of Brazil	Thousands of BRL 873,783	Personal care	80.1	

Name of company	Location	Capital	Principal businesses (Note 1)	Percentage of voting rights held (%)	Business relationship
DSG International (Thailand) Public Co., Ltd. (Notes 2, 3)	Kingdom of Thailand	Thousands of THB 1,260,000	Personal care	99.3 (99.3)	Sells products to Group companies
Uni-Charm Corporation Sdn. Bhd. (Note 2)	Malaysia	Thousands of MYR 132,230	Personal care	100.0	Sells products to Group companies
Diana Unicharm Joint Stock Company (Notes 2, 3)	Socialist Republic of Vietnam	Thousands of VND 360,000,000	Personal care	89.4 (89.4)	Sells products to Group companies Interlocking executive: 1
Other 35 companies	–	–	–	–	–
(Affiliates accounted for by the equity method) UBS Corporation	Minato-ku, Tokyo	Millions of JPY 30	Shared services	20.0	
Other 6 companies	–	–	–	–	–

Notes: 1. The “Principal businesses” column states the name of the segment in the segment information.

2. Companies indicated are specified subsidiaries.

3. The figures in parentheses in the “Percentage of voting rights held” column show the percentage of indirect voting interests, which is a part of the total voting interest.

4. Net sales (excluding intercompany sales within the Group) of Unicharm Consumer Products (China) Co., Ltd. exceeded 10% of consolidated net sales.

Principal financial data:

1) Net sales	¥124,524 million
2) Profit before tax	15,181 million
3) Profit for the period	11,290 million
4) Total equity	57,249 million
5) Total assets	88,275 million

5. There is one other affiliate company.

5. Employees

(1) Consolidated companies

(As of December 31, 2022)

Reportable segment	Number of employees (Persons)
Personal care	14,979 (1,505)
Pet care	583 (85)
Other	516 (156)
Corporate (common)	128 (29)
Total	16,206 (1,775)

Notes: 1. The number of employees represents the number of full-time employees.

2. The figures in parentheses represent the average number of part-time employees during a year, and are not included in the number of full-time employees.

3. The figures in parentheses include the number of contract and part-time employees.

(2) The Company

(As of December 31, 2022)

Number of employees (Persons)	Average age (Years)	Average years of service (Years)	Average annual salary (Thousands of Yen)
1,433 (364)	41.5	16.2	8,433

Reportable segment	Number of employees (Persons)
Personal care	1,134 (313)
Pet care	171 (22)
Other	– (–)
Corporate (common)	128 (29)
Total	1,433 (364)

Notes: 1. The number of employees represents the number of full-time employees.

2. The figures in parentheses represent the average number of part-time employees during a year, and are not included in the number of full-time employees.

3. The figures in parentheses include the number of contract and part-time employees.

(3) Trade union

Trade unions have been established at the Company and certain consolidated subsidiaries. There are no particular items concerning labor-management relations which require mentioning.

II. Business Overview

1. Management policies, management environment, and issues facing the Group

In the following, statements relating to the future are based on the judgment of the Group at the end of the fiscal year under review.

(1) Basic management policies

It is the Group's basic policy to conduct business activities with the aim of fulfilling its social responsibility and constantly striving for the creation of new value for stakeholders (customers, shareholders, clients, company employees and society). To achieve the aim, the Group has set forth a management philosophy "to contribute to creating a better quality of life for everyone by offering only the finest products and services to the market and customers, both at home in Japan and abroad."

(2) Target management indicators

The Group aims to create a foundation for sustainable growth and build a highly capital-efficient management structure that can beat the global competition, by advancing the continuous growth of sales, profit and ROE.

(3) Medium- to long-term management strategy

The Group is now implementing the 11th Medium-term Management Plan, which covers the three-year period from January 2021 to December 2023. The details of the plan are described in the Presentation Materials for the Fiscal Year Ended December 2020, which was released on February 15, 2021.

Said Presentation Materials can be viewed at the following URL.

The Company's website:
https://www.unicharm.co.jp/english/ir/library/investors/index.html

(4) Issues facing the Group

The COVID-19 pandemic has had a significant impact on economic activities both in Japan and overseas, and has brought about various changes in the way people behave, and uncertainty toward the future has not yet been resolved. As for overseas operations, there is still uncertainty about the impact on the world economy of the prolonged conflicts in Ukraine, soaring prices of raw materials and other resources, etc. This uncertainty, in addition to the impact of COVID-19, may affect geopolitical risks, economy, finance and fluctuations of exchange rates in some countries and regions where we are rolling out business; this may considerably impact business in these countries and regions, and cause stagnant sales, price fluctuations in imported raw materials and products.

Meanwhile in Japan, although there is a strong demand for the wellness care and pet care products, in addition to a sense of uncertainty about the direction of the economy, the rising prices of imported raw materials resulting from exchange rates and the price of crude oil are causing anxiety in the fiercely competitive sales environment. The personal care business is also forecast to see a decline going forward in the target population for baby care and feminine care products.

In the midst of such issues, in accordance with the management philosophy of the Company and its group companies, the Group will strive to consistently create new markets and new value, and speedily promote the expansion of product line-ups in relation to infection prevention and meet customer insights by such means as maximizing demand for Japanese-made goods as well as responding to rapid aging in Asia. As for overseas operations, the Group will enhance its risk management while aggressively developing business areas and establishing a position as a category leader in growth markets; and in Japan, the Group will aim to realize a "Cohesive Society" and also expand total industrial assets by revitalizing the market. In these ways, the Group is striving to improve its business performance.

In order to further promote corporate reform in the future, in all businesses the Company will place greater emphasis on increasing value through continuous product innovation, and thoroughly pursue cost reduction and the efficient use of management resources.

Meanwhile, on the non-financial front, positioning environment (E), society (S), and governance (G) as important foundations for medium- to long-term sustainable improvement of corporate value, the Group will continue to promote policies, among other things, for environmental concerns and strengthening its governance system. Furthermore, to boost corporate management soundness and transparency, the Group will press forward with the improvement of procedures to verify the appropriateness of operation process concerning subsidiaries' internal controls in an effort to strengthen governance.

2. Business and other risks

The Group (hereinafter referred to collectively as the Company in this section) has positioned the prevention of risks and the minimization of their impact and prevention of recurrence as an important management issue by appropriately identifying various risks that may affect the performance and achievement of corporate activities as stated in the Company's basic management policy (please refer to "1. Management policies, management environment, and issues facing the Group (1) Basic management policies"). Based on this, we have established a risk management system for the Company as a whole and are implementing this system, as well as continuously reviewing and improving our business risk management.

The Board of Directors oversees the code of conduct and the code of ethics, and at the same time, deliberates and decides on improvement measures by analyzing and evaluating risks reported by the heads of each department. The Audit and Supervisory Committee Members fulfill their responsibilities by conducting various audits and other activities during their term of office as stipulated by law.

As of the end of the fiscal year under review, the ESG Committee has identified 12 main items that are considered to be potential business risks, and it discusses and takes appropriate action as necessary. In the event that urgent risks that do not fall under these items are identified, the ESG Committee will promptly discuss and take action. Furthermore, in the event that a material business risk arises, the Company will establish the Crisis Management Response Committee in accordance with the Crisis Communication Manual, which was established as rules for crisis management, and strive to take swift and appropriate action and achieve early recovery.

While the following 12 major risks are important business risks that we recognize as having the potential to affect our financial position and business performance as of the date of submission of this Annual Securities Report (March 27, 2023), due to the effectiveness of various countermeasures, none of these risks have materialized to the point of having a significant impact on our business. The degree and timing of the possibility of such risks materializing in the future are yet to be determined. In addition to the major risks listed below, there are other risks that may affect the Company in the future, and these risks are not limited to those listed here.

Risks	Details of risks and impact on the Company	Main measures taken by the Company
Risks regarding the competitive sales environment	Competition in markets for the Company's core products both in Japan and overseas may possibly become even more severe in both price and product line, depending on the economy and market environment. Given the nature of consumer products, the Company's core products are constantly exposed to fierce competition and successive new product releases by competitors. The selling environment depends on changes in customer consumption activity and responses from competitors, in spite of the Company's efforts in marketing or reducing production costs and expenses, etc. In the event that the Company cannot respond suitably to this sales environment, there is a possibility that sales and profits and losses will be negatively affected.	We conduct thorough research on the actual living and consumption conditions in each country and region, develop products that match the culture and living environment, and strive to provide products that are not easily affected by the economy. We are also utilizing these research and market analysis methods to expand the areas, countries and regions in which we operate, and achieve a stable business expansion. In addition to reducing the costs through reduction in the procurement costs and improving production efficiencies, in terms of production, as well as expanding our sales outlets, including online channels, in terms of sales, we are striving to strengthen our sales capabilities and maintain and improve our competitiveness by proposing to retailers ways to sell and buy products from the customer's perspective utilizing digital technology. Furthermore, we are delegating authority to our overseas subsidiaries to create a framework that can respond quickly to changes in customer consumption behavior.

Risks	Details of risks and impact on the Company	Main measures taken by the Company
Risks regarding changes in demographics	Due to Japan's declining birth-rate which has been continuing for an extended period of time, the percentage of babies and menstruating women in the domestic population has been continuing to decrease. Such decrease is also seen in some overseas countries and regions in which the Company operates. Due to these kinds of demographic changes, there is a possibility that demand will decrease in such countries and regions for baby care related products and feminine care related products, which are the Company's core business. In addition, the Company believes it necessary to continuously strive to secure and develop indispensable human resources for business execution. On the other hand, following the trend of aging population and a decreasing birthrate in society, it is becoming increasingly difficult to secure human resources. If human resources are not secured or developed as planned, there is a possibility that our business activities will be affected.	Our mission is to contribute to the realization of a "Cohesive Society," a society in which all people around the world can live together as equals, without inconvenience, respecting each other's individuality, and supporting each other with kindness, and we aim to conduct corporate activities that are less susceptible to the effects of demographics by developing products and services that contribute to the satisfaction of all people, from babies to the elderly, and their partner animals (pets), by freeing them from the various burdens they face and enabling them to enjoy life in a balanced manner in all countries and regions of the world. In addition, we are striving to maintain and expand demand by diversifying our product lineup and promoting product value even when the target population decreases through product strategies that match the growth stage of the market. As a countermeasure to the decline in the working population, we are promoting the creation of a work environment where diverse human resources, regardless of nationality, gender, age, or disability, can utilize their strengths to play an active role and feel a sense of purpose in work. Specifically, we aim to produce human resources who can set and solve their own problems by providing opportunities for growth through development plans based on individual career visions and career plans, the allocation of the right personnel to the right jobs, and the implementation of quarterly evaluations and training by job level. In addition, to encourage employees to decide for themselves how and why they want to work, we are introducing remote work and eliminating core hours, increasing the number of options for where and when to work, and promoting flexible work styles that increase creativity and productivity. Furthermore, we are actively working to revitalize our senior human resources and promote the activities of women.
Risks regarding overseas business	The Company manufactures products in China, Indonesia, Thailand, India, the Middle East, Brazil, etc. Expanding business overseas brings the possibility that raw material prices and equipment expenses will be considerably affected by changes in exchange rates. Depending on the regulations, economic environment, and situation for both society and politics in these countries and regions, there is a possibility that the markets will change greatly and the Company's business activity and values of assets held will be affected. In addition, the financial statements of overseas consolidated subsidiaries denominated in the currency of each country or region are translated into Japanese yen in the consolidated financial statements; as such, the financial standing and business performance of the Company will be negatively affected at the time of stronger yen.	In trade transactions, the Company strives to secure stable imports and exports and profits by changing the shipping bases in some cases from the viewpoint of profitability due to the operating status of manufacturing bases and exchange rates. As for foreign exchange fluctuations, we strive to minimize risk by hedging foreign currency transactions, including raw material purchases, and by comprehensively taking into account the receivables and payables we hold. In addition, in order to contribute to the stable return of profits to shareholders and the internal circulation of funds, we have established a system to control the negative impact of the appreciation of the yen on overseas assets by proactively paying dividends from overseas consolidated subsidiaries that hold funds in excess of their planned investments.

Risks	Details of risks and impact on the Company	Main measures taken by the Company
Risks regarding raw material price fluctuations	As a manufacturer, the Company directly faces fluctuation risks in the price of raw materials. The Company currently purchases raw materials from numerous outside suppliers on a cross-border basis, and especially procures pulp and certain other raw materials predominantly from overseas sources. These transactions with overseas sources are generally conducted on a U.S. dollar basis. Depending on the extent of the exchange rate fluctuation, there is a risk that the Company's raw materials-related costs could significantly increase. Fluctuations in the market prices of crude materials such as oil, naphtha, and pulp can also have an impact on material prices.	We analyze trends in the prices of major raw materials and forecast future prices, and make adjustments to our purchases and revise our cost forecasts on a regular basis to reflect them in our earnings management. In order to prepare for unforeseen circumstances where imports are interrupted and to control the risk of exchange rate fluctuations in import prices, we constantly develop local and preferential tariff country suppliers and strive to purchase raw materials in a stable manner from a comprehensive perspective. In addition, we are prepared for an increase in raw material costs due to foreign exchange by currency hedges as described in the section on overseas business risks. We are also conducting research to reduce the amount of raw materials used and enhance the functionality of materials.
Environmental risks	Environmental concerns are increasing on a global scale, such as concerns about the depletion of resources, marine pollution caused by ocean plastics, etc., and the destruction of ecosystems, and efforts to protect the environment and reduce environmental impact are being promoted worldwide. For the Company, which manufactures disposable products such as disposable diapers and sanitary products, manufacturing in consideration of the global environment is an important issue that cannot be ignored. Although we strive to comply with environmental laws and regulations in Japan and overseas, inappropriate management of waste and other materials that violate laws, regulations, and rules may result in legal action such as production restrictions or affect our social credibility.	As a recycling model, we have been working on a project to recycle used disposable diapers since 2015, and have succeeded in recycling pulp and SAP (polymer absorbent material) and in a demonstration experiment of disposable diapers and other products using recycled pulp. The Company has also set numerical targets for environmental issues as to the key initiatives of "Safeguarding the well-being of our planet" specified in the "Kyo-sei Life Vision 2030," which is a set of mid-to-long term ESG goals announced in October 2020, along with those targets in "Eco Plan 2030," and formulated and implemented specific measures to achieve these targets. In addition, we have established the Basic Environmental Policy and Environmental Action Guidelines in the Company's charter of action and had all employees read through them, thereby strengthening our environmental activities and raising the environmental awareness of all employees, which will lead to compliance with environmental laws and regulations.

Risks	Details of risks and impact on the Company	Main measures taken by the Company
Risks regarding climate change	With the increasing severity of the effects of climate change, an agreement has been reached under the Paris Agreement to limit the rise in global average temperatures. The 26th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 26), which was held in November 2021, set the 1.5°C target. In addition, the Task Force on Climate-related Financial Disclosures (TCFD) established by the Financial Stability Board (FSB) has made recommendations to encourage companies to disclose climate-related financial information. In Japan, when a company moves to the Prime Market, it must meet certain information disclosure requirements, including disclosure in line with the TCFD recommendations. In the event that mitigation and adaptation measures against climate change, such as curbing the rise in average temperatures, are not taken globally, it is predicted that the price of forest-derived raw materials, which are the main raw materials for the Company's products, will soar and energy prices will fluctuate significantly, and there is a possibility that Asia, which the Company is focusing on, will be considerably affected. In addition, if the Company's efforts to reduce CO_2 emissions, etc., which will lead to the curbing of temperature rise, and its disclosure of such efforts are insufficient, it may lead to a decline in the Company's social credibility.	In order to contribute to the 2°C scenario of the Paris Agreement, in June 2018, the Company received certification from the SBT (Science-Based Targets) Initiative for its reduction plan by 2050. We have also expressed our support for the TCFD (Task Force on Climate-related Financial Disclosures) and are reporting in accordance with this framework. Meanwhile, the Representative Director, President & CEO will take the initiative in setting targets and managing progress toward the realization of a "Net Zero CO_2 Emission Society by 2050," and the Company aims to achieve a 100% ratio of renewable electricity to all electricity used for business development, as set forth in the "Kyo-sei Life Vision 2030," our mid-to-long term ESG goals. In addition, the Company is actively encouraging all related persons in the supply chain to reduce emissions throughout the product life cycle.
Risks regarding product reliability	As a manufacturer and distributor of consumer products, ever since the Company was founded, it has not experienced any substantial compensation claims which would greatly affect the Company's business in terms of product quality and safety. However, in the event that an unforeseen, serious problem occurs regarding quality or safety at the time of product manufacture or sale, there is a possibility that the reliability of the Company's products will decline significantly.	Because many of our products come into direct contact with the skin, we work on improving the quality and safety of our products and strive to properly describe them, in order to convey correct information so that our customers can use them with peace of mind. In addition, we not only comply with relevant laws and regulations but also set our own strict standards to check the quality and safety of our products in all processes from the procurement of raw materials to development, manufacturing, distribution, sales, and disposal of products after use. The Company has set up a framework to promptly investigate the cause of complaints on its products and address the problems, if any, regardless of its impact, to ensure reliability of its products are not affected.

Risks	Details of risks and impact on the Company	Main measures taken by the Company
Risks regarding failure to comply with laws and regulations	In the event that the Company or any of its employees violates domestic or overseas anti-monopoly laws, unfair competition prevention laws, tax laws, or other laws and regulations, and, for example, makes improper demand in carrying out a transaction or offers bribe to facilitate administrative procedures and receives punishment, etc. from a competent authority, it may affect business performance and/or social credibility of the Company.	The Company's charter of action describes compliance with the laws and regulations that apply to the actions to be taken in order to realize the pledge to each stakeholder, and raises awareness of compliance such as prevention of misconduct. We also monitor these issues through annual employee awareness surveys. In addition, for the purpose of raising awareness of compliance with laws and regulations and preventing the occurrence of problems, we have incorporated compliance-related themes into the curriculums of training for new employees and employees posted overseas. We also provide compliance workshops for directors and executive officers, along with e-learning compliance-related courses for all employees, in order to ensure thorough compliance with laws and regulations.
Risks regarding intellectual property rights such as patents and trademarks	Regarding the intellectual property rights in the Company's possession, in the event that it receives some sort of infringement by a third party, there is a possibility that it will suffer large damages such as losing expected income. At the same time, there is also the possibility that the Company may be unknowingly infringing upon the intellectual property rights of a third party, which may lead to large compensation claims or limitations imposed on the Company's business.	We take a firm stance against infringement or unfair exercise of rights by third parties, through lawsuits and other means, and we work closely within the Company as well as with the governments of other countries to eliminate infringing or counterfeit products. On the other hand, we have been promoting the protection of and respect for the intellectual property of the Company and other companies through a combination of off-the-job training, on-the-job training, and e-learning in our internal compliance education regarding patents, trademarks, and the Premiums and Representations Act.
Disaster and accident risk	To minimize losses due to interruption of production or marketing following a major earthquake or large-scale natural disaster, fire or accident, the Company lays out a system based on its business continuity plan (BCP) for coordinating manufacturing and distribution bases and for rapid recovery of information systems and administration functions. In the case of the fire at our plant in India in June 2020, the BCP functioned and we were able to minimize the drop in sales due to the fire by quickly establishing a supply system not only from our domestic plant in India but also from plants in other countries. However, unexpectedly severe disasters or accidents could jeopardize continued production, securing of raw materials or a stable supply of products.	A business continuity plan (BCP) consists of (1) basic requirements, (2) securing the safety and confirming the safety of employees and their families, (3) specific measures to continue business, (4) important matters to be addressed along with business continuity, and (5) necessary measures for operation. As part of the drills specified in (5), we continuously conduct evacuation drills assuming emergency situations based on scenarios. In addition, in Japan, the Company has newly constructed the Kyushu Plant as a risk diversification and alternative base, which has been in operation since the fiscal year ended December 31, 2019.
Risks related to business acquisitions, tie-ups, divestitures, integrations, and other measures	The Company continuously aims to maximize corporate value through the effective use of management resources. Based on this goal, there is the possibility that in the course of its corporate activities, the Company will engage in business acquisitions and capital subscriptions, tie-ups with other companies, business divestitures and integrations, and/or rationalizations and spin-offs. However, after execution, there is a risk of losses, etc., caused by falling values of risk assets held such as goodwill due to market changes or policy outcomes falling short of expectations.	When considering acquisitions, alliances, and business integrations, the Board of Directors makes decisions after gathering sufficient information, carefully planning for future recovery, and thoroughly confirming with the relevant departments that the possibility of future impairment of goodwill and other fixed assets to be recorded is small. After implementation, the Company assesses the risk of impairment by determining the signs of impairment in a timely manner, analyzes the causes for business companies underperforming with regards to the plan and, if necessary, revises the business plan to ensure that the planned earnings can be recovered.

Risks	Details of risks and impact on the Company	Main measures taken by the Company
Risks related to leakage of confidential information and knowhow	The Company is in possession of a variety of information that includes not only data generated within the Company but personal and other information gained through confidentiality agreements or with the consent of customers and clients. In the event of information leakage that calls into question the Company's legal responsibility with regard to information management, the Company may lose credibility.	We have established the Information Security Policy and Information Management Security Rules, and for the personal information we have obtained, we have established Personal Information Protection Rules and Specific Personal Information Handling Rules to strictly manage and prevent leakage. In order to strictly enforce these rules, we have established the Information Security Committee, which plans cross-company information management and security measures, provides employee education, and conducts ongoing monitoring. On the other hand, as a physical measure to prevent information leakage due to the loss or theft of terminals, we have adopted personal computers that cannot store data, and we are fully equipped with a cloud environment where data and systems can only be used on servers. To prevent external cyber-attacks on public websites, we have taken various security measures in cooperation with outside experts, including appropriate server construction, anti-phishing measures, anti-virus measures, password and ID management, and introduction and monitoring of security devices. In addition, we have prepared for incidents such as information leaks by incorporating them into the company-wide crisis communication manual so that we can quickly identify the actual situation and respond to minimize the impact.

3. Management's analysis of financial position, operating results and cash flows

(1) Overview of operating results, etc.

The Group has adopted IFRS, replacing the previous Japanese accounting standards, in the fiscal year ended December 31, 2017, in order to improve the international comparability of financial information and the quality of business management.

Core operating income comprises gross profit less selling, general and administrative expenses. While this is not an indicator defined in IFRS, the Company voluntarily discloses this as it is believed to be a valuable benchmark for measuring the Group's recurring business performance.

1) Financial position and operating results

	Fiscal Year Ended Dec. 31, 2021 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2022 (Millions of Yen)	Difference (Millions of Yen)	Rate of difference (%)
Net sales	782,723	898,022	115,299	14.7
Core operating income	122,482	119,566	(2,917)	(2.4)
Profit before tax	121,977	115,708	(6,268)	(5.1)
Profit attributable to owners of parent	72,745	67,608	(5,137)	(7.1)
Basic earnings per share (Yen)	121.78	113.61	(8.17)	(6.7)

The Company's net sales, core operating income, profit before tax, profit for the period, and profit attributable to owners of parent in the fiscal year under review reached ¥898,022 million (up 14.7% year on year), ¥119,566 million (down 2.4% year on year), ¥115,708 million (down 5.1% year on year), ¥78,375 million (down 6.3% year on year), and ¥67,608 million (down 7.1% year on year), respectively.

Operating results by segment are as follows.

(a) Personal Care Business

	Fiscal Year Ended Dec. 31, 2021 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2022 (Millions of Yen)	Difference (Millions of Yen)	Rate of difference (%)
Net sales (Note)	672,039	764,908	92,869	13.8
Core operating income	107,322	100,863	(6,458)	(6.0)

Note: Net sales represent those to external customers.

● Wellness Care Business

In the overseas markets, the Company developed new products to meet local needs in China, where the population is aging even faster than in Japan and there is a large target market for adult excretion care products. The Company has engaged in expanding recognition and promoting the spread of its adult excretion care products through these new products and active investment in marketing. In the Southeast Asian region, including Thailand, Indonesia, Vietnam, and Malaysia, where demand is increasing for adult excretion care products, the Company has striven to expand its product lineup and promote the spread of the care model it has established in Japan, thereby achieving continued high growth.

The Japanese market, which continues to grow as the elderly population increases, was back on course for recovery partly as people have become accustomed to the living environment under the COVID-19 pandemic and activity restrictions have been relaxed in line with an increased vaccination rate. Amid such circumstances, the Company made efforts to enhance its proposed value for pants-type disposable diapers targeted at moderate-level users by bolstering the "Pelvic Support Fit" function that alleviates the burden on legs and lower back, thereby achieving stable growth.

The Company also endeavored to revitalize the market by enhancing the lineup with a stable supply of the *Cho-kaiteki* and *Cho-rittai* brands and with new products that meet consumers' need, amid rising demand for masks from Japanese manufacturers from the perspectives of safety and security as wearing a mask has become part of consumers' daily practice.

During this time when masks have become indispensable as an infection preventive measure, we released see-through face masks, *clear face mask*, that allow a user's mouth and facial expressions to be seen, while blocking droplets. This product was designed for those who feel uneasy about communication as typical masks hinder their ability to read lips and see facial expressions. Through this release, the Company worked to create a "Cohesive Society" with social inclusion, as a society where all people are equal and can live without inconvenience.

While growth of the mask market is predicted to slow down as consumers adapt to coexistence with COVID-19, the Company will keep striving to activate the market and expand market share, including through the launch of new products.

● Feminine Care Business

In China, the Company expands its sales areas and number of stores handling its products and bolsters sales through utilizing new e-commerce platforms mainly in coastal cities. Intermittent COVID-19 lockdowns were imposed under a continued zero-COVID policy, which affected supply. However, as a result of continuous new value proposals targeting younger consumers, the Company continued to grow, mainly in shorts-shaped napkins, its high value-added product.

In the Southeast Asian region, including Thailand, Indonesia, and Vietnam, the Company also recorded steady sales of cooling sanitary napkins, or its new concept, which give a feeling of freshness, and other high value-added products. Moreover, in the Middle East, the Company achieved stable growth as a result of exports from Saudi Arabia to neighboring Middle Eastern countries, as well as the launch of new products that contain olive oil tailored to local customs and domestic sales in Saudi Arabia, thanks to aggressive investment in marketing.

In Japan, where the market is shrinking due to a decrease in the target population, the Company strived to improve brand value by offering high value-added products to cater to different lifestyles of women and utilizing social media and other forums to communicate with consumers, amid an increasing emphasis on health and peace of mind. As a result, it expanded its market share and achieved high growth.

● Baby Care Business

In Thailand, where market polarization was advancing due to the impact of the spread of COVID-19, the Company has responded to a wide range of customers' needs by utilizing synergies with DSG (Cayman) Ltd, a subsidiary the Company acquired in 2018. In India, the use of disposable diapers is still low, even compared to other emerging countries. The Company recommenced operations at its factory in northern India, strengthened production at its existing factories, and imported products from neighboring countries, striving to expand its sales area and recover its market share while promoting the use of pants-type disposable diapers. As a result, it achieved high growth. In China, where local companies are emerging and the birth rate continues to decline, the supply side was affected by lockdowns under the Zero-COVID policy, resulting in a slowdown in net sales. The Company adjusted its inventory for premium products made in Japan to accelerate a shift to the *moony* brand, a series of highly profitable premium products made in China.

In Japan, where the market is shrinking with lower birth rates, the Company passed increasing costs on prices of its new and high-value added product lineups for *moony* and *Mamy Poko* series, and worked to give parents more enjoyment as they raise their babies.

● Kirei Care Business

The Company has merged the wipes and cosmetic cotton from its Wellness Care Business and Baby Care Business to form the Kirei Care Business. The name "Kirei," a phonetic representation of the Japanese word meaning "nice and clean," refers not only to physical beauty and cleanliness but also to the beauty that people contain inside themselves. Launched worldwide as a broad concept and common expression, this new business embodies the Company's aspiration to create environments where all people can enjoy safe and secure Kirei lifestyles.

In Japan, the Company ensured the stable supply of *Silcot* brand wet tissues while endeavoring to expand its market share. As a result, it achieved stable growth. A similar increase in hygiene consciousness and the regular use of the product are anticipated in the future, not only in Japan but also worldwide, and the Company aims to create environments where people from all around the world can enjoy safe and secure Kirei lifestyles.

As a result, net sales and segment profit (core operating income) for the personal care business for the fiscal year under review were ¥764,908 million (up 13.8% year on year) and ¥100,863 million (down 6.0% year on year), respectively.

(b) Pet Care Business

	Fiscal Year Ended Dec. 31, 2021 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2022 (Millions of Yen)	Difference (Millions of Yen)	Rate of difference (%)
Net sales (Note)	104,541	125,312	20,771	19.9
Core operating income	14,619	18,352	3,733	25.5

Note: Net sales represent those to external customers.

In Japan, the number of hours people spend at home has increased since the spread of COVID-19 starting from 2020, leading to more opportunities to interact with pets. Amid such circumstances, the Company strengthened its lineup by launching new and renewed products and turned to pass-through for some products leveraging their added value. In the pet food business, the Company worked to improve consumer satisfaction by providing products for cats meeting the demand for increased health consciousness. Moreover, the Company bolstered the sale of products for dogs tailored to the physical characteristics and ages of each breed, food products for building bodies with a new concept of maintaining muscle health, and other products. In the pet toiletry business, the Company achieved stable growth as a result of steady sales of pet sheets for dogs, toilet systems for cats, etc.

In the North American market, the spread of COVID-19 led to a larger number of pets living with humans and more opportunities for consumers to have contact with pets. In this environment, the Company had to set selling prices that covered recent rapidly rising costs for some of its products. Nevertheless, sales remained strong for products equipped with Japanese technology such as wet-type snacks for cats and high-quality toiletry sheets for dogs, which embody new concepts. As a result, the Company achieved high growth and improved profitability.

In China, the second largest regional market after North America, the Company entered into a capital alliance with Jiangsu Jijia Pet Products Co., Ltd. (hereinafter "JIA PETS"). By combining the Group's product technology and know-how on production management with JIA PETS' production and R&D capacities, as well as sales capabilities in its e-commerce channel, the Company aims to significantly expand its pet care business in the Chinese market.

As a result, net sales and segment profit (core operating income) for the pet care business for the fiscal year under review were ¥125,312 million (up 19.9% year on year) and ¥18,352 million (up 25.5% year on year), respectively.

(c) Other Businesses

	Fiscal Year Ended Dec. 31, 2021 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2022 (Millions of Yen)	Difference (Millions of Yen)	Rate of difference (%)
Net sales (Note)	6,143	7,802	1,659	27.0
Core operating income	542	351	(191)	(35.2)

Note: Net sales represent those to external customers.

In the category of business-use products utilizing its core non-woven fabric and absorber processing and forming technology, the Company focused on promoting the sales of industrial materials.

As a result, net sales and segment profit (core operating income) in other businesses for the fiscal year under review were ¥7,802 million (up 27.0% year on year) and ¥351 million (down 35.2% year on year), respectively.

The overview of the financial position for the fiscal year under review is as follows.

	As of December 31, 2021 (Millions of Yen)	As of December 31, 2022 (Millions of Yen)	Difference (Millions of Yen)
Total assets	987,655	1,049,218	61,563
Total liabilities	352,217	340,605	(11,612)
Total equity	635,438	708,613	73,175
Ratio of equity attributable to owners of parent (%)	56.5	59.0	–

Total assets as of the end of the fiscal year under review amounted to ¥1,049,218 million, up ¥61,563 million over the end of the previous fiscal year. The major increases were ¥29,606 million in cash and cash equivalents, ¥27,780 million in inventories, and ¥23,604 million in trade and other receivables. The major decrease was ¥29,339 million in other current and non-current financial assets mainly due to time deposits with deposit terms exceeding three months. Total liabilities were ¥340,605 million, down ¥11,612 million from the end of the previous fiscal year. The major increase was ¥3,794 million in trade and other payables, and the major decreases were ¥11,292 million in borrowings and ¥6,603 million in other current and non-current financial liabilities mainly due to lease liabilities. Total equity amounted to ¥708,613 million, up ¥73,175 million over the end of the previous fiscal year. The major increases were ¥67,608 million in profit attributable to owners of parent and ¥30,975 million in other components of equity mainly due to exchange differences on translation in foreign operations, and the major decrease was ¥22,059 million in dividends paid to owners of parent.

Consequently, the ratio of equity attributable to owners of parent increased from 56.5% as of the end of the previous fiscal year to 59.0% as of the end of the fiscal year under review.

2) Cash flows

	Fiscal Year Ended Dec. 31, 2021 (Millions of Yen)	Fiscal Year Ended Dec. 31, 2022 (Millions of Yen)	Difference (Millions of Yen)
Cash flows from operating activities	105,253	92,216	(13,037)
Cash flows from investing activities	(79,837)	(7,145)	72,692
Cash flows from financing activities	(45,180)	(61,652)	(16,472)
Cash and cash equivalents at end of period	187,547	217,153	29,606

Cash and cash equivalents as of the end of the fiscal year under review were ¥217,153 million, an increase of ¥29,606 million from the end of the previous fiscal year. The respective cash flow positions for the fiscal year under review were as follows:

(Cash flows from operating activities)

Net cash provided by operating activities was ¥92,216 million (¥105,253 million was provided in the previous fiscal year). The main inflows were due to profit before tax and depreciation and amortization expenses, and the main outflows were due to income taxes paid and an increase in trade and other receivables.

(Cash flows from investing activities)

Net cash used in investing activities was ¥7,145 million (¥79,837 million was used in the previous fiscal year). The main inflows were due to proceeds from withdrawal of time deposits and proceeds from sale and redemption of financial assets measured at fair value through profit or loss. Meanwhile, the main outflows were due to payments into time deposits, purchase of property, plant and equipment, and intangible assets, purchase of financial assets measured at fair value through profit or loss, and purchase of financial assets measured at amortized cost.

(Cash flows from financing activities)

Net cash used in financing activities was ¥61,652 million (¥45,180 million was used in the previous fiscal year). The main outflows were due to dividends paid to owners of parent, repayments of long-term borrowings, and payments for purchase of treasury shares.

3) Actual production, orders received and sales

(a) Actual production

Reportable segment	Production amount (Millions of Yen)	Year-on-year change (%)
Personal care	793,311	12.2
Pet care	131,818	13.9
Other	8,266	28.4
Total	933,395	12.5

Notes: 1. Intersegment transactions have been eliminated.
2. Production amount is based on selling prices.

(b) Actual orders received

Make-to-order-based production is not undertaken, so this item does not apply.

(c) Actual sales

Reportable segment	Sales amount (Millions of Yen)	Year-on-year change (%)
Personal care	764,908	13.8
Pet care	125,312	19.9
Other	7,802	27.0
Total	898,022	14.7

Note:Intersegment transactions have been eliminated.

(2) Analysis and assessment of operating results, etc. from a management’s perspective

Recognition, analysis and assessment of the Group’s operating results, etc. from a management’s perspective are as follows.

In the following, statements relating to the future are based on the judgment at the end of the fiscal year under review.

1) Recognition, analysis and assessment of operating results, etc.

(a) Analysis of operating results

In the fiscal year under review, the operating environment of the Group remained unpredictable due to a steep rise in resource prices, as well as the impact of foreign exchange fluctuations, caused by rising geopolitical risk, with factors including the deterioration of the situation in Ukraine, which has caused growing concern about the acceleration of inflation. Moreover, the pace of economic recovery varied by country and region as a result of different responses to the novel coronavirus disease (COVID-19).

In the overseas markets, each key target country such as Thailand, India, and Indonesia shows signs of recovery from economic deterioration caused by COVID-19. Meanwhile, the economic situation in China remains uncertain, as the major easing of the zero-COVID policy in early December has been followed by a resurgence of COVID-19. Amid such circumstances, the Company took measures to maintain a stable supply of its products, as they are daily necessities. Accordingly, in North America, Indonesia, and other regions, the Company has passed on surging costs through the launch of new products and existing product renewals.

In Japan, as business conditions continued to recover, the Company has striven to expand its market share by proposing new values to stimulate demand for high value-added products while turning to pass-through.

In these environments and under the banner “we constantly provide the world’s No. 1 and unprecedented products and services to everybody around the globe, and deliver comfort, impression, and satisfaction,” the Company and its group companies continued to develop unique non-woven fabric processing and forming technology, and products that meet the needs of consumers while working to create a “Cohesive Society” with social inclusion, as a society where people around the world are equal, unencumbered, respectful of each other’s individuality, and support each other with kindness, making heart-to-heart connections.

As a result, net sales, core operating income, profit before tax, profit for the period, and profit attributable to owners of parent in the fiscal year under review reached ¥898,022 million (up 14.7% year on year), ¥119,566 million (down 2.4% year on year), ¥115,708 million (down 5.1% year on year), ¥78,375 million (down 6.3% year on year), and ¥67,608 million (down 7.1% year on year), respectively.

(b) Risks materially affecting operating results

See “2. Business and other risks.”

(c) Analysis and assessment of the status of cash flows and information related to sources of capital and liquidity of funds

In the fiscal year under review, the Company’s main source of funds was operating cash flow (inflow of ¥92,216 million in the fiscal year under review), except for external borrowing by some overseas consolidated subsidiaries to reduce foreign exchange risks. In addition, the Company strives to ensure sufficient liquidity of funds so that it can use its own funds as much as possible to meet the demand for funds for business activities, investments, and the return of profits to shareholders including purchase of treasury shares.

Please refer to “(1) Overview of operating results, etc. 2) Cash flows” for the cash flow analysis for the fiscal year under review.

Own funds will be appropriated for the funds for capital investment for the fiscal year ending December 31, 2023.

(d) Objective indicators, etc. to determine the achievement of management policies, strategies and targets

The status of key indicators targeted by the 11th Medium-term Management Plan, which was launched in the previous fiscal year, is as follows.

The fiscal year ended December 31, 2022, which was the second year of the Medium-term Management Plan, witnessed soaring distribution cost and raw material prices. The Company made efforts to implement value shifting and move toward a more profitable product mix. However, they did not fully compensate for the impact of rising costs. As a result, core operating income margin fell short of the target set in the Medium-term Management Plan. ROE declined compared to the previous fiscal year owing to an increase in financial costs as well as a decrease in core operating income. The fiscal year ending December 31, 2023 is expected to see persistent rises in raw material prices and changes in the market environment. The Company will strive to implement value shifting through the development of new products and the creation of markets that will meet consumer needs in order to achieve sustainable high growth. We also intend to invest further management resources in wellness care and pet care, which are high profit and high growth markets, and will work to reform our business structure in order to achieve the goals set in the Medium-term Management Plan.

	Fiscal Year Ended December 31, 2021	Fiscal Year Ended December 31, 2022	Target under the 11th Medium-term Management Plan (Fiscal Year Ending December 31, 2023)
Net sales	¥782,723 million	¥898,022 million	¥888,000 million
Net sales growth rate	7.6% (YoY)	14.7% (YoY)	(Note) 6.9% Compound annual growth rate (CAGR)
Core operating income margin	15.6%	13.3%	15.5%
Return on equity attributable to owners of parent (ROE)	13.8%	11.5%	15.0%

Note: The target figure for the net sales compound annual growth rate (CAGR) in the 11th Medium-term Management Plan is set excluding impacts from foreign exchange rate fluctuations.

(e) Current state of and prospects for management strategy

Regarding the operating environment of the Group, the outlook remains uncertain due to factors such as geopolitical risk (e.g., the situation in Ukraine), the emergence of new COVID-19 variants, trends in emerging economies, and volatility in financial markets. However, the Company expects the economy to recover in a moderate pace in the Asian countries and regions where it operates its business. In Japan, the economy is also expected to turn to a recovery trend despite concerns about persistent rises in prices of raw materials and rises in prices in general.

In overseas, within this environment, we intend to grow with a speed exceeding that of the market and strive for revitalization through offering products that meet individual needs in the target countries and regions and aggressive sales activities. In Japan, the Company will promote value shifting in the personal care business by offering high value-added products reflecting consumer needs and lead the revitalization of the domestic market as it strives to improve profitability.

(f) Recognition, analysis and assessment of the financial position and operating results by segment

Please refer to "(1) Overview of operating results, etc."

2) Significant accounting estimates and assumptions used in making such estimates

The Group's consolidated financial statements are prepared in accordance with IFRS.

Significant accounting policies and estimates are presented in "V. Financial Information, 1. Consolidated financial statements, (1) Consolidated financial statements, Notes to the consolidated financial statements."

4. Important business contracts

(Acquisition of equity in Jiangsu Jijia Pet Products Co., Ltd.)

On October 8, 2022, Unicharm (China) Co., Ltd., a consolidated subsidiary fully owned by the Company, agreed to form a capital alliance with Jiangsu Jijia Pet Products Co., Ltd. (hereafter "JIA PETS"), a major pet food company in China. On November 30, 2022, Unicharm Consumer Products (China) Co., Ltd., the Company's consolidated subsidiary, agreed to form a business alliance with JIA PETS.

Details are presented in "V. Financial Information, 1. Consolidated financial statements, (1) Consolidated financial statements, Notes to the consolidated financial statements, 37. Subsequent events."

5. Research and development activities

Based on the corporate philosophy of "Maintain our No. 1 position through continued and dedicated service" and focus on continued creation of new values from technology innovation, the research and development activities of the Group are centered on the Kagawa Technical Centre and Engineering Centre in Kanonji-shi, Kagawa. The Company is committed to fostering category-leading products and improving efficiency by shortening the time required from product development to market introduction, through steady development and improvement of expertise in non-woven fabric and super-absorbent polymer technologies as well as paper and pulp.

During the fiscal year under review, overall research and development expenses totaled ¥8,270 million (0.9% of consolidated net sales). Principal achievements were as follows.

(1) Personal Care

● Wellness Care Business

From the pants type category of *Lifree*, an adult excretion care brand, the Company improved and launched *Lifree Underwear Sensation – Super Thin Pants (2 urinations, M/L)*. These pants ease the bulkiness around the crotch for a more pleasant feel. The Company also launched *Lifree Underwear Sensation – Super Thin Pants (4d urinations, M/L)* to add 4 times absorbent types to the lineup. The Company reduced the thickness of the waist part of the pants by about 50%[*1] for a light feel with no bulkiness around the waist. The Company believes that offering products that are as comfortable as underwear helps people feel energized each day to overcome frailty[*2] and has thus worked to develop such products.

In the light incontinence category, from *Charm Nap Absorbent Sarafi®*, a light incontinence care products line for women, the Company launched a new product, *Charm Nap Absorbent Sarafi® Odor Eliminating Type (15 cc/70 cc)*, which uses an antibacterial sheet that contains natural catechin and carries a deodorant function.

Overseas, in Thailand, the Company launched *LIFREE NIGHT PANTS (ADL1-3) (M/L/XL)* as nighttime pants that give excellent fit and absorb urine throughout the night with no leaks. The Company has worked to increase comfort so that people can spend the whole night with peace of mind. In China, in the pants-type category, the Company improved and launched *Lifree Light, Refreshing and Comfortable Pants-Type Diapers for Adults (M/L)*. The Company also launched *Lifree Light, Refreshing and Comfortable Pants-Type Diapers for Adults (XL/XXL).* In the tape-type category, the Company launched *Lifree Safe, Dry and Refreshing Diapers for Adults (Thick-Type) (M/L/XL)*. The Company has worked to revitalize the market by developing products that meet local needs at its development bases in various countries and expanding the lineup of its products.

*1 The thinness of the non-woven fabric around the waist that does not contain absorbers; compared to products of the Company for the same absorption counts

*2 A "frail" older person is in the stage between the state where he or she is in good health and the state where he or she needs nursing care.

In the face mask category, as people have grown accustomed to wearing a face mask due to the prolonged COVID-19 pandemic, the Company launched *Cho-kaiteki® Mask For Kids (for upper elementary school students)* that perfectly fits the face of a child in an upper grade of elementary school. We have been striving to improve customer satisfaction and expand the face mask market by enhancing the lineup of the *Cho-kaiteki® Mask* brand through the addition of a mask for children in the upper grades that perfectly fits the face of a child in an upper grade of elementary school, who grows quickly.

In addition, the Company improved and launched *clear face mask*, which had been well received as it allowed a user's mouth and facial expressions to be seen while preventing droplet infection. The anti-fog function has been improved so that the mouth can be seen (available only at the Unicharm direct shop (online shop)). By improving the anti-fog function of the transparent film part, 70%[*1] of the face can now be seen. The Company has thus been working to solve issues in using a facial mask for people with hearing impairments, as well as people working in educational settings, customer service businesses, news media, etc.

*1 The percentage of the face below the center of the eyes; compared to products of the Company

- Kirei Care Business

In the wet tissue category, the Company launched *Silcot® 99.99% Sanitization* [*1] *Antibacterial Plus*[*2], which contains plant-based ingredients[*3] in the sheet and suppresses the growth of bacteria for 24 hours just by wiping with it. Due in part to the impact of the COVID-19 pandemic, there has been a demand for wet tissues with higher functionality. By expanding the lineup to meet the needs, the Company has strived to improve customer satisfaction and expand the wet tissue market.

*1 Does not eliminate all bacteria
*2 Suppresses the growth of bacteria on the surface that has been wiped with the wet tissue; does not suppress all bacteria
*3 Contains three types of plant-based ingredients, namely, glyceryl caprylate, glyceryl undecylenate and glyceryl ricinoleate, and antibacterial agents

- Feminine Care Business

From *Sofy*, a feminine sanitary product brand, as part of *Ultra Sound Sleep Shorts*, which join a napkin and shorts in one and have been well-received since its launch by many people as they can now sleep soundly all night long with peace of mind without worrying about the napkin's slipping and twisting, the Company launched *Sofy Ultra Sound Sleep Shorts ORGANIC®*, a shorts-type napkin that uses organic cotton which is gentle on skin in the delicate zone part.

With the increase in time spent at home due to the COVID-19 pandemic, more and more people are embracing fragrance in their lives in search of healing. To meet such needs, from *Sofy® Center-in Compact 1/2*, *Sofy® Kiyora* and *Sofy® Kiyora Luxury Absorption*, the Company launched for a limited time products scented with white lily that have a gentle and healing smell and products scented with osmanthus that make you realize the fall has come. In addition, the Company improved and launched *Sofy® Center-in Compact 1/2 (Natural Floral Scent/Relaxing Savon Scent)*, which are gently and softly scented with geranium.

Overseas, to cater for the cultural belief rooted in the Arab region that olive oil is gentle on the skin, the Company launched in Saudi Arabia *SOFY Olive (Regular/Large)*, a napkin which contains olive oil on the surface of the sheet that touches the skin. In India, the Company launched *SOFY Antibacteria (Extra Long/Super XL+)*, which further suppresses the growth of bacteria and has an improved deodorizing function, and *SOFY Body Fit (Regular/Extra Long)*, which is scented to have an improved function to suppress unpleasant odors even when used for a long period of time. In Indonesia, from *CHARM*, a feminine sanitary product brand, the Company launched *CHARM Herbal Ansept+ Bio (23 cm wing)*, whose sheet surface that touches the skin, package and individual packages contain sugar cane-based bio material[*1], for a limited time in tandem with World Environment Day. The issue of marine plastic litter is a global challenge, and in order to address it, the Company has developed products primarily at its development base in Indonesia and strived to contribute to the achievement of the goals defined in the Sustainable Development Goals (SDGs).

*1 Bio material is a material part of which is made of biomass plastic instead of regular plastic.

- Baby Care Business

From the *moony* series, a disposable diaper brand, the Company improved and launched *moony (NB 3000 g/NB 5000 g/S/M/L)* and *moony man (S/M Sitting and Prone Walking/M/L/XL/XXL)*. The fluffy sheet (top sheet) that touches the baby's skin is now additive-free*[1] and weakly acidic, which is safe for the skin. The Company has improved the quality and the function of *moony (NB 5000 g/S/M).* The "loose stool stopper," which was placed on the back side of the conventional products and very-well received, is now placed around the leg holes as well.

Furthermore, from the *Mamy Poko* series, a line of widely popular disposable diapers with an illustration of Doraemon printed on them, the Company launched nighttime disposable diapers *Mamy Poko Overnight Pants*. They are nighttime disposable diapers with enhanced absorbency (five times absorbent). The Company has worked to increase the satisfaction of customers who are concerned about nighttime leaks.
Overseas, in China, the Company launched *moony Tulle Palace Tape (NB/S/M/L/XL)*, and *moony Tulle Palace Pants (L/XL/XXL)*, disposable diapers that have a thin absorber with a thickness of only 0.26 cm. In Thailand, the Company improved the quality and the function of *Mamy Poko Happy Pants Day & Night (S/M/L/XL/XXL)* so that babies and mothers can use them with peace of mind. They are affordable standard disposable diapers and now have further enhanced absorbency: they hold up for nine hours instead of eight hours. In Vietnam, the Company improved and launched *Bobby Tape (XS/S/M/L/XL/XXL)* and *Bobby Pants (S/M/L/XL/XXL/XXXL)*, disposable

diapers whose inner sheet surface contains natural rice oil. In addition, we have worked to improve customer satisfaction by developing products that meet local needs in each country where we have a presence, mainly through our development bases in each country.

*1 Contains no petroleum-based oil, fragrance, latex or synthetic coloring

- Research achievements

At the 47th Annual Meeting of Japanese Society of Sleep Research, the Company announced that it had developed childcare support content that regulates the baby's sleep rhythm in joint research with Hiroshima University and Shiga University about the usefulness of a sleep rhythm to babies and their parents and verified that babies fall asleep at certain times when put to sleep according to the bedtime forecasts using the function added to the *Team moony Point Program* app[*1]. In order to realize a society that supports parenting and is filled with smiles of babies, mothers and fathers, the Company has been striving to solve social issues related to parenting by offering solutions for parenting based on objective and scientific data.

*1 A management app to collect points for target products, such as *moony*, *moony man*, *moony Natural* and *moony man Natural*, and exchange them for nice gifts

As a result of the above, research and development expenses in the personal care business for the fiscal year under review totaled ¥6,907 million.

(2) Pet Care

As for research and development activities in the pet-care business, based on a business philosophy of "Supporting pets' healthy and happy days for life," the Company develops pet food products at the Itami Plant of the Company in Hyogo, while pet toiletry products are developed in Kanonji-shi in Kagawa.

Development in pet food focused on the realization of products that feature the nutritional balance needed to meet the particular needs of individual pets, depending on age and physique, ensuring a long and healthy life and that the food is tasty making the pets happy.

In the dog food category, from the *Grand Deli* brand, which focuses on authentic ingredients with a well-balanced colors and a balance of flavor, taste and nutrition, as part of the *Grand Deli Frecious* series, a series made of grains baked in far-infrared rays and freeze-dried ingredients packaged in an aluminum-metallized film package with deoxidizing agent to give a delicious taste dogs will always enjoy, the Company launched *Chicken & Beef for Puppies*, *Chicken & Beef for Adult Dogs and Super Small Dogs* and *Low-Fat*[*1] *Chicken & Small Fish for Adult Dogs*. From the *Gran Deli Tori Purun* series, very tasty treats that are made with 100% domestic chicken and have a springy texture the dogs will enjoy, the Company launched large packages of *Gelée with Cheese*, *Mousse with Cheese* and *Jelly with Cheese* as part of efforts to expand the market for dog food.

In the cat food category, from the *All Well* brand that is free of colorants and flavors and supports health with seven functions centered on the reduction of food regurgitation, the Company launched *For Cats Who Tend to Eat too Fast*, *For the Support of Health and Immune Systems*[*2] and *For the Maintenance of Healthy Kidneys of Adult Cats* in an effort to enhance the lineup. In addition, from the *Silver Spoon* brand, the Company launched *Silver Spoon with Raw Domestic Bonito*, which has plenty of balls made of carefully selected domestic raw bonito in it, whose authentic taste and aroma will be loved by the cats. Furthermore, from *Silver Spoon Three-Star Gourmet: Fish Cream,* the Company launched *Three Assorted Flavors - Scallop Recipes*, which is made to cater for customers who wish to feed their cats with food with a variety of flavors. The Company also launched *For Cats around 15 Years Old or Older*, which is easy for elderly cats to eat and designed to maintain their health. Moreover, in response to the increasing interest in safety and security of cat food, the Company launched three new additive-free[*3] series from *Silver Spoon Pouch* and *Silver Spoon Three-Star Gourmet Pouch*, thereby supporting pets' health and happy days.

*1 Contains about 20% less fat compared to the *Frecious for Adult Dogs*
*2 Contains antioxidants to support immune systems through maintenance of physical health
*3 No seasoning or food dye used

In the field of pet toiletry products, the Company launched *Deo Toilet Deodorizing Sand/Small Grain*, which has about 70%[*1] smaller grain size than the conventional products and allows the cats to excrete comfortably. The grain of this cat litter is smaller than the conventional products, making it easier for the cats to get used to it. It is also characterized by its strong effect to deodorize feces as the small grain size makes it easier to cover them with it.

In addition, in order to cater for the customers who wish to choose a toilet that is easy for the cat to use, the Company improved and launched two items of *Deo Toilet (Half Covered/Hooded)*, whose body shapes were significantly improved. As the amount of time spent at home has increased due to the COVID-19 pandemic, cat owners have a need for a toilet system that has both a function to deodorize and a function that allows the cats to excrete comfortably. The Company has thus been working to offer products that support the comfortable lives of both owners and the cats.

As for the pet sheet products, the Company improved and launched *Deo Sheet No-Fail Super-Absorbent (Deodorizing Type, Regular/Wide)* and *(White Floral & Green Grass Fragrance, Regular/Wide)*, which mitigate the inconvenience that the dog urinates on the pet sheet and gets its feet wet. The instantaneous absorber has been improved to reduce the spread of urine by 35%*2. We have been working on proposing products that will mitigate the dogs' wet feet trouble so that people live comfortably indoors with their pets, which are members of the family.

*1 Compared in volume to the *Deo Toilet Deodorizing Sand (Mineral Type)*
*2 Compared to conventional products of the Company; based on in-house research (*Regular*: 30 cc, *Wide*: 80 cc; tested with artificial urine)

As a result of the above, research and development expenses in pet care business for the fiscal year under review totaled ¥1,360 million.

(3) Other

The Company expanded product lines for business-use featuring non-woven fabric and absorbent material technologies.

As a result of the above, research and development expenses in other businesses for the fiscal year under review totaled ¥3 million.

III. Equipment and Facilities

1. Overview of capital investments

Capital investments by segment for the fiscal year under review are as follows.

(1) Personal care

Capital investments totaling ¥35,701 million were made for the purposes of strengthening and rationalizing production of disposable diapers and feminine sanitary items, etc.

No significant disposals or sales, etc. of major facilities took place.

(2) Pet care

Capital investments totaling ¥6,524 million were made for the purpose of strengthening and rationalizing production of pet care-related products.

No significant disposals or sales, etc. of major facilities took place.

(3) Other

Capital investments totaling ¥402 million were made for the purpose of strengthening and rationalizing production of industrial materials.

No significant disposals or sales, etc. of major facilities took place.

2. Major facilities

Major facilities of the Group are as follows.

Carrying amounts are presented in conformity with IFRS.

(1) The Company

(As of December 31, 2022)

Facilities (Location)	Segment	Description	Carrying amount (Millions of Yen)					Land area (Thousands of m^2)	Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total		
Kagawa Technical Centre Engineering Centre (Kanonji-shi, Kagawa)	Personal care Pet care	R&D facilities	1,135	1,409	397	153	3,094	32	438 (148)
Itami Plant (Itami-shi, Hyogo)	Pet care	Facilities for manufacture of pet foods, etc.	422	1,280	1,105	67	2,875	13	49 (14)
Mie Plant (Nabari-shi, Mie)	Pet care	Facilities for manufacture of pet toiletries, etc.	244	501	62	146	954	17	23 (3)
Saitama Plant (Kamisato-machi, Kodama-gun, Saitama)	Pet care	Facilities for manufacture of pet foods, etc.	335	477	146	9	967	8	23 (1)

Notes: 1. "Other" includes right-of-use assets.

2. The figures in parentheses represent the average number of part-time employees during a year, and are not included in the number of full-time employees.

(2) Domestic subsidiaries

(As of December 31, 2022)

Company	Facilities (Location)	Segment	Description	Carrying amount (Millions of Yen)					Land area (Thousands of m²)	Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total		
Unicharm Products Co., Ltd.	Shikoku Plant (Kanonji-shi, Kagawa)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	3,263	6,707	1,541	9,688	21,200	125	486 (76)
	Fukushima Plant (Tanagura-cho, Higashi-shirakawa-gun, Fukushima)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	3,482	6,568	2,139	244	12,434	128	331 (18)
	Shizuoka Plant (Kakegawa-shi, Shizuoka)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	2,542	4,239	1,498	29	8,309	83	260 (29)
	Kyushu Plant (Kanda-machi, Miyako-gun, Fukuoka)	Personal care	Facilities for manufacture of disposable diapers	12,743	8,884	3,525	121	25,273	160	60 (1)

Notes: 1. "Other" includes right-of-use assets.
2. The figures in parentheses represent the average number of part-time employees during a year, and are not included in the number of full-time employees.

(3) Overseas subsidiaries

(As of December 31, 2022)

Company	Facilities (Location)	Segment	Description	Carrying amount (Millions of Yen)					Land area (Thousands of m²)	Number of employees (Persons)
				Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total		
Unicharm India Private Ltd.	(Republic of India)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	11,292	17,214	–	5,635	34,141	540	1,012 (1)
PT UNI-CHARM INDONESIA Tbk	(Republic of Indonesia)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	5,841	9,292	1,323	2,219	18,675	355	1,774 (655)
Unicharm Gulf Hygienic Industries Ltd.	(Kingdom of Saudi Arabia)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	6,331	14,870	359	1,239	22,799	95	2,583 (–)
Unicharm Consumer Products (China) Co., Ltd.	(People's Republic of China)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	3,881	5,289	–	5,622	14,793	133	1,298 (53)
Unicharm Consumer Products (Jiangsu) Co., Ltd.	(People's Republic of China)	Personal care	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.	5,145	4,982	–	2,115	12,241	220	156 (–)

Notes: 1. "Other" includes right-of-use assets.
2. The figures in parentheses represent the average number of part-time employees during a year, and are not included in the number of full-time employees.

3. Plans for new additions or disposals

(1) New additions and renovations

With business operations in various countries and regions, as of the end of the fiscal period under review, the Group has not made case-by-case decisions regarding construction and expansion of facilities per project. For this reason, figures are disclosed on a segment basis.

The Group's capital investment plans (new construction and expansion, etc.) for the following fiscal year as of December 31, 2022 are as follows.

Segment	Amount (Millions of Yen)	Description
Personal care	40,000	Facilities for manufacture of disposable diapers and feminine sanitary products, etc.
Pet care	3,400	Facilities for manufacture of pet foods, pet toiletries, etc.
Total	43,400	–

Note:Own funds will be appropriated for the above plans.

(2) Disposals and sales

Except for disposals and sales for renewing equipment and facilities on a recurring basis, there is no plan for significant disposals or sales.

IV. Corporate Information

1. Information on the Company's shares

(1) Total number of shares and other

1) Total number of shares

Type	Number of shares authorized to be issued (Shares)
Common shares	827,779,092
Total	827,779,092

2) Number of shares issued

Type	Number of shares issued		Stock exchanges on which the Company is listed	Description
	As of December 31, 2022 (Shares)	As of March 27, 2023 (filing date of this Annual Securities Report) (Shares)		
Common shares	620,834,319	620,834,319	Prime Market of the Tokyo Stock Exchange	The number of shares constituting a unit is 100
Total	620,834,319	620,834,319	–	–

(2) Status of the share acquisition rights

1) Stock option plans

Not applicable.

2) Right plans

Not applicable.

3) Status of other share acquisition rights

Not applicable.

(3) Exercise status of bonds with share acquisition rights containing a clause for exercise price adjustment

Not applicable.

(4) Changes in the number of shares issued and the amount of capital stock and other

Period	Changes in the total number of shares issued (Shares)	Balance of the total number of shares issued (Shares)	Changes in capital stock (Millions of Yen)	Balance of capital stock (Millions of Yen)	Changes in legal capital surplus (Millions of Yen)	Balance of legal capital surplus (Millions of Yen)
October 1, 2014 (Note)	413,889,546	620,834,319	–	15,993	–	18,591

Note: The total number of shares issued increased by 413,889,546 shares with a three shares per one stock split of common shares undertaken on October 1, 2014.

(5) Details by shareholder classification

(As of December 31, 2022)

Classification	Status of shares (1 unit = 100 shares)								Shares less than one unit
	National and local governments	Financial institutions	Japanese financial instruments business operators	Other corporations	Foreign shareholders		Individuals and other	Total	
					Other than individuals	Individuals			
Number of shareholders (Persons)	–	78	29	245	787	31	27,107	28,277	–
Number of shares held (Units)	–	1,577,288	83,286	2,002,506	1,910,903	115	633,079	6,207,177	116,619
Shareholding ratio (%)	–	25.41	1.34	32.26	30.79	0.00	10.20	100.00	–

Note: Treasury shares of 27,560,827 shares are included in “Individuals and other” at 275,608 units, and in “Shares less than one unit” at 27 shares. The number of shares held by substantial shareholders as of the last day of the fiscal period is the same.

(6) Major shareholders

(As of December 31, 2022)

Name	Address	Number of shares held (Thousands of shares)	Number of shares held as a percentage of total shares issued (excluding treasury shares) (%)
Unitec Corporation	4087-24, Kawanoe-cho, Shikokuchuo-shi, Ehime	154,957	26.12
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	69,585	11.73
Takahara Kikin K.K.	3-2-34, Shirokanedai, Minato-ku, Tokyo	28,080	4.73
Custody Bank of Japan, Ltd. (Trust account)	1-8-12, Harumi, Chuo-ku, Tokyo	24,743	4.17
The Iyo Bank, Ltd. (standing proxy: Custody Bank of Japan, Ltd.)	1, Minamihoribata-cho, Matsuyama-shi, Ehime (1-8-12, Harumi, Chuo-ku, Tokyo)	15,300	2.58
Nippon Life Insurance Company (standing proxy: The Master Trust Bank of Japan, Ltd.)	1-6-6, Marunouchi, Chiyoda-ku, Tokyo (2-11-3, Hamamatsucho, Minato-ku, Tokyo)	12,189	2.05
The Master Trust Bank of Japan, Ltd. (Retirement Benefit Account Trust/The Hiroshima Bank Account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	12,101	2.04
BNYMSANV RE MIL RE FIRST SENTIER INVESTORS ICVC - STEWART INVESTORS ASIA PACIFIC LEADERS SUSTAINABILITY FUND (standing proxy: MUFG Bank, Ltd.)	FINSBURY CIRCUS HOUSE, 15 FINSBURY CIRCUS LONDON EC2M 7EB (2-7-1, Marunouchi, Chiyoda-ku, Tokyo)	10,893	1.84
THE BANK OF NEW YORK MELLON AS DEPOSITARY BANK FOR DEPOSITARY RECEIPT HOLDERS (standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	240 GREENWICH STREET NEW YORK, NEW YORK 10286 U.S.A. (SHINAGAWA INTERCITY A, 2-15-1, Konan, Minato-ku, Tokyo)	9,206	1.55
JP MORGAN CHASE BANK 385632 (standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.)	25 BANK STREET, CANARY WHARF, LONDON, E14 5JP, UNITED KINGDOM (SHINAGAWA INTERCITY A, 2-15-1, Konan, Minato-ku, Tokyo)	7,112	1.20
Total	–	344,165	58.01

Note: The Company holds 27,561 thousand shares of treasury shares. As they have no voting rights, those shares are excluded from the above list of major shareholders.

(7) Status of voting rights

1) Shares issued

(As of December 31, 2022)

Classification	Number of shares (Shares)	Number of voting rights (Units)	Description
Non-voting shares	–	–	–
Shares with restricted voting rights (Treasury shares, etc.)	–	–	–
Shares with restricted voting rights (Other)	–	–	–
Shares with full voting rights (Treasury shares, etc.)	(Treasury shares) Common shares 27,560,800	–	Standard common shares of the Company without any restriction
Shares with full voting rights (Other)	Common shares 593,156,900	5,931,569	Same as above
Shares less than one unit	Common shares 116,619	–	Same as above
Total shares issued	620,834,319	–	–
Total voting rights held by all shareholders	–	5,931,569	–

Note: "Shares less than one unit" include 27 shares of treasury shares held by the Company.

2) Treasury shares, etc.

(As of December 31, 2022)

Shareholders	Addresses of shareholders	Number of shares held under own name (Shares)	Number of shares held under the names of others (Shares)	Total shares held (Shares)	% of interest in number of shares issued (%)
(Treasury shares) Unicharm Corporation	182, Shimobun, Kinsei-cho, Shikokuchuo-shi, Ehime	27,560,800	–	27,560,800	4.44
Total	–	27,560,800	–	27,560,800	4.44

2. Acquisition of treasury shares

Class of shares: Acquisition of common shares under Article 155, Item 3, Article 155, Item 7, and Article 155, Item 13 of the Companies Act

(1) Acquisition of treasury shares based on a resolution at the General Meeting of Shareholders

Not applicable.

(2) Acquisition of treasury shares based on a resolution by the Board of Directors

Acquisition under Article 155, Item 3 of the Companies Act

Classification	Number of shares (Shares)	Total amount (Yen)
Resolution at the Board of Directors meeting (February 15, 2022) (Period of acquisition: From February 16, 2022 to December 22, 2022)	4,200,000	17,000,000,000
Treasury shares acquired before the fiscal year under review	–	–
Treasury shares acquired during the fiscal year under review	3,596,600	16,999,524,799
Total number and value of remaining shares subject to the resolution	603,400	475,201
Percentage of un-exercised acquisition as of the last day of the fiscal year under review (%)	14.37	0.00
Treasury shares acquired during the period	–	–
Ratio of un-exercised acquisition as of the date of filing (%)	14.37	0.00

Classification	Number of shares (Shares)	Total amount (Yen)
Resolution at the Board of Directors meeting (February 8, 2023) (Period of acquisition: From February 9, 2023 to December 21, 2023)	3,900,000	17,000,000,000
Treasury shares acquired before the fiscal year under review	–	–
Treasury shares acquired during the fiscal year under review	–	–
Total number and value of remaining shares subject to the resolution	–	–
Percentage of un-exercised acquisition as of the last day of the fiscal year under review (%)	–	–
Treasury shares acquired during the period	–	–
Ratio of un-exercised acquisition as of the date of filing (%)	100.00	100.00

Notes: 1. Treasury shares acquired are stated on a transfer date basis.

2. Treasury shares acquired during the period does not include the number of shares acquired pursuant to the resolution during the period from March 1, 2023 to the filing date of this Annual Securities Report.

(3) Acquisition of treasury shares not based on a resolution at the General Meeting of Shareholders or on a resolution by the Board of Directors

Acquisition under Article 155, Item 7 of the Companies Act

Classification	Number of shares (Shares)	Total amount (Yen)
Treasury shares acquired during the fiscal year under review	248	1,147,278
Treasury shares acquired during the period	50	244,350

Note: Treasury shares acquired during the period does not include the number of shares less than one unit purchased during the period from March 1, 2023 to the filing date of this Annual Securities Report.

Acquisition under Article 155, Item 13 of the Companies Act

Classification	Number of shares (Shares)	Total amount (Yen)
Treasury shares acquired during the fiscal year under review	67,280	164,101,480
Treasury shares acquired during the period	–	–

Note: The treasury shares acquired during the fiscal year under review was acquired through the restricted share-based remuneration plan.

(4) Current status of the disposition and holding of acquired treasury shares

Classification	Fiscal year under review		The Period	
	Number of shares (Shares)	Total disposition amount (Yen)	Number of shares (Shares)	Total disposition amount (Yen)
Treasury shares acquired for which subscribers were solicited (Note 1)	100,360	279,402,240	–	–
Treasury shares acquired that was cancelled	–	–	–	–
Treasury shares acquired for which transfer of shares was conducted in association with merger/share exchange/share delivery/company split	–	–	–	–
Other (Note 2)	658,200	1,832,428,800	–	–
Number of treasury shares held (Note 3)	27,560,827	–	27,560,877	–

Notes: 1. The detail of the disposition for the fiscal year under review is the disposal of treasury shares as restricted share-based remuneration (number of shares: 100,360, total disposition amount: ¥279,402,240).

2. The detail of the disposition for the fiscal year under review is the exercise of share acquisition rights (stock options) (number of shares: 658,200, total disposition amount: ¥1,832,428,800).

Treasury shares disposed of during the period does not include the decrease in the number of shares due to transfer by sale of shares less than one unit during the period from March 1, 2023 to the filing date of this Annual Securities Report.

3. Number of treasury shares held during the period does not include the increase and decrease in the number of shares due to acquisition of shares, and purchase and transfer by sale of shares less than one unit from March 1, 2023 to the filing date of this Annual Securities Report.

3. Dividend policy

The Company recognizes that one of its most important management policies is to return profits to shareholders, and it is striving to increase corporate value by generating cash flows to achieve this goal. In addition, by expanding the scale of our business and improving profitability through aggressive capital investments, and investment in research and development for sustainable growth, we have set the goal of achieving 15% ROE (return on equity attributable to owners of parent) in our 11th Medium-term Management Plan, which covers the three-year period ending in 2023. We will increase dividends in a stable and continuous manner using ongoing gains in free cash flow, and work to augment profit return with the goal of a total payout ratio (by dividends and share repurchase) of 50%.

Based on Article 459, Paragraph 1, Item 4 of the Companies Act, the details of distribution of surplus, etc., are decided by resolution of the Board of Directors, as provided in the Articles of Incorporation, and the Board of Directors handles decision-making regarding dividend payments. The basic policy of the Company is to pay dividends from surplus twice annually, at the end of the second quarter and the end of the fiscal year.

The annual dividend for the fiscal year under review was ¥38, comprising a year-end dividend of ¥19 per share, in addition to a ¥19 per share dividend for the end of the second quarter. This is the 21st consecutive period of an increase in dividends, with a dividend on equity attributable to owners of parent (DOE) being 3.8%.

Note: Dividends from surplus based on a resolution approved by the Board of Directors for which the record date belongs to the fiscal year ended December 31, 2022 are as follows:

Date of resolution	Total dividend amount (Millions of Yen)	Dividend per share (Yen)
August 4, 2022	11,328	19.0
February 8, 2023	11,272	19.0

4. Corporate governance

(1) Overview of corporate governance

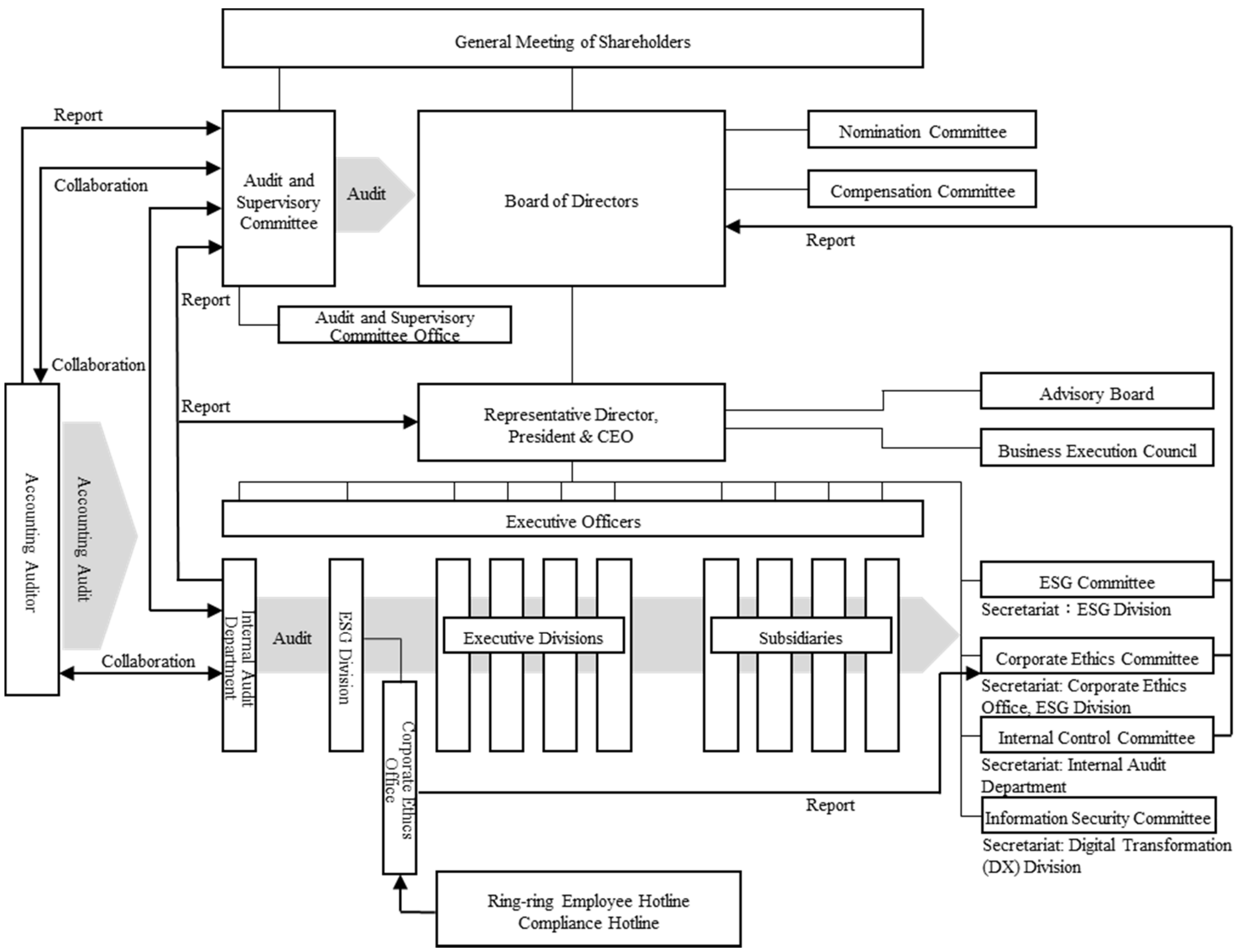
1) Basic corporate governance policy

The Group strives to achieve "sound corporate management" through its commitment to Unicharm Ideals. We aim to achieve sustainable growth and create medium and long-term corporate value through appropriate collaboration with stakeholders and secure the esteem and trust of society.

In order to realize these objectives, we have established a basic policy of corporate governance that achieves transparent, fair, expeditious and decisive management by conducting honest and active dialogue to obtain support from various stakeholders and work to improve ESG and a corporate environment where management can make appropriate decisions at the right time.

2) Overview of corporate governance system and reasons for adopting thereof

As a company with audit and supervisory committee, the Company has established the Board of Directors and the Audit and Supervisory Committee. In addition, the Company has voluntarily established the Nomination Committee and the Compensation Committee. Indicated below is a diagram of the corporate governance system of the Company.



Board of Directors

The Board of Directors of the Company comprises one Representative Director, two executive Directors, one non-executive Director who is not Outside Director, and two Outside Directors. The Board of Directors has the authority on such matters as decisions on the basic management policies, establishment of internal control systems and other major decision-making in business execution and establishes an environment where management can make appropriate decisions at the right time by playing the functions such as decisions on the medium- to long-term direction and the supervision on execution.

Members	Representative Director	Takahisa Takahara	(Chairperson)
	Director	Toshifumi Hikosaka	
	Director	Kenji Takaku	
	Outside Director	Hiroaki Sugita	
	Outside Director	Noriko Rzonca	
	Director	Shigeru Asada	

Audit and Supervisory Committee

The Audit and Supervisory Committee of the Company comprises one non-executive Director who is not Outside Director and two Outside Directors. The one non-executive Director is a full-time Audit and Supervisory Committee Member. The reason for the appointment of a full-time Audit and Supervisory Committee Member is that the effectiveness of audits carried out by the Audit and Supervisory Committee will be enhanced based on information obtained through having someone well-versed in internal matters participate in major meetings, etc. other than the Board of Directors meetings, and closely cooperate with the internal auditing department, etc.

Members	Outside Director	Hiroaki Sugita	
	Outside Director	Noriko Rzonca	
	Director	Shigeru Asada	(Chairperson)

Nomination Committee

The Company has voluntarily established the Nomination Committee for the purpose of ensuring transparency and objectivity of the nominations of Director candidates and the appointments of Executive Officers. The Nomination Committee has the authority to deliberate on (1) proposals concerning appointment and dismissal of Directors to be submitted to General Meetings of Shareholders, (2) appointment and dismissal of Representative Directors, and (3) proposals concerning appointment and dismissal of Executive Officers and appointment and dismissal of Senior Executive Officers.

Members	Representative Director	Takahisa Takahara	
	Outside Director	Hiroaki Sugita	(Chairperson)
	Outside Director	Noriko Rzonca	
	Director	Shigeru Asada	

Compensation Committee

The Company has voluntarily established the Compensation Committee for the purpose of ensuring transparency and objectivity of remuneration of Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers. The Compensation Committee has the authority to deliberate on (1) proposals concerning remuneration, etc. of Directors to be submitted to General Meetings of Shareholders, (2) policies concerning decisions on remuneration, etc. for individual Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers, and (3) evaluation indicators and evaluation results concerning decisions on remuneration, etc. for individual Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers.

Members	Representative Director	Takahisa Takahara	
	Outside Director	Hiroaki Sugita	(Chairperson)
	Outside Director	Noriko Rzonca	
	Director	Shigeru Asada	

<Reasons for adopting the system>

In May 2015, the Company adopted a “company with audit and supervisory committee” structure to meet expectations of stakeholders worldwide from a global perspective by strengthening oversight of the executive functions of the Board of Directors and increasing transparency and efficiency of processes through involvement of Outside Directors in management.

Independent Audit and Supervisory Committee Members have voting rights at meetings of the Board of Directors, and the Audit and Supervisory Committee performs audits by proactively utilizing the internal control system. This will enable the Company not only to comply with the laws and regulations, but also to strengthen audit and supervisory functions of management monitored by the Outside Directors with aims to maintain appropriate collaborative relationships with stakeholders, and to foster organizational culture and climate that respects healthy and ethical business practices.

In addition, the Company voluntarily established the Nomination Committee and the Compensation Committee in December 2015 to ensure transparency and objectivity in the nomination of candidates for Directors and Executive Officers and in the determination of their compensation.

3) Other matters concerning corporate governance

I Status of establishment of internal control systems

The Company has the internal control system in place in accordance with the following basic policy.

1. Compliance System
- In company policies and the charter of action, the policy for compliance shall be specified.
- Training shall be provided so that officers and employees can acquire necessary knowledge.
- Regular monitoring on compliance awareness shall be conducted.
- Audits by the Internal Audit Department independent of the audited department shall be conducted.
- Whistleblowing contacts shall be established for problem recognition at an early stage.
- The Company shall cut off any relationships with anti-social forces. The Company shall also strive to prevent any forms of corruption, including extortion and bribery.

2. System of Retention and Management of Information
- Information about the execution of duties of Directors shall be properly retained and managed, considering confidentiality, integrity and availability, and compliance with laws and regulations, if they are enacted.

3. Risk Management System
- Roles and responsibilities related to risk management shall be clarified.
- Proper consideration shall be made for assumed risks in decision-making.
- Regarding the material risks of management, the Company shall construct a system to handle countermeasures across the entire company.
- The Company shall prepare organizations and systems and plan for corresponding risks.
- Audits of risk management process shall be conducted.

4. System to Ensure Efficiency of Performance of Duties
- By clarifying the roles and responsibilities related to the performance of duties, duplication shall be eliminated and expeditious decision-making shall be realized.
- Management approaches ensuring efficiency of performance of duties shall be adopted and carried out.
- Consistent strategies and plans shall be developed at various levels from the entire Group to field sites.
- Management strategies shall be flexibly reviewed, corresponding to changes in the business environment.
- Streamlining of business shall be vigorously promoted.

5. Group Management System
- It shall be the basic policy for domestic and overseas Group companies to carry out autonomous management at their own responsibility.
- Regarding the compliance system, risk management system, system to ensure the efficiency of performance of duties, the matters to be commonly applied to the domestic and overseas Group companies shall be clarified and such systems shall be constructed.
- Matters to be reported to the Company by domestic and overseas Group companies and to obtain approval of the Company shall be clearly specified.
- Transactions among the Group companies shall be made properly.
- Proper monitoring and supervision of the domestic and overseas Group companies shall be conducted.
- Effective audits of the domestic and overseas Group companies shall be conducted.

6. Employee Assigned to Assist the Audit and Supervisory Committee
- An employee assisting the Audit and Supervisory Committee shall be assigned to assist the duties of the Audit and Supervisory Committee.
- Independence of the employee assisting the Audit and Supervisory Committee from Directors other than

the Audit and Supervisory Committee Members shall be ensured.
- Effectiveness of instructions of the Audit and Supervisory Committee on the employee assisting the Audit and Supervisory Committee shall be ensured.

7. Systems of Reporting to the Audit and Supervisory Committee
   - Systems in which the Audit and Supervisory Committee can receive reports from the related persons and the Audit and Supervisory Committee can obtain cooperation of the related persons when the Audit and Supervisory Committee Members investigate the status of business and assets, shall be established.
   - Systems for reporting to the Audit and Supervisory Committee of facts which might cause significant damage to the Company shall be established.
   - Systems for reporting to the Audit and Supervisory Committee by the full-time Audit and Supervisory Committee Member shall be established.
   - Systems for reporting to the Audit and Supervisory Committee by Accounting Auditor and Internal Audit Department shall be established.
   - Systems which ensure that the person reporting to the Audit and Supervisory Committee shall not be unfairly treated shall be established.

8. Other Systems to Ensure the Effectiveness of Audit by the Audit and Supervisory Committee
   - Access to the internal information by the Audit and Supervisory Committee Members shall be ensured.
   - Collaboration among an Accounting Auditor, Internal Audit Department and Auditors of Group companies shall be ensured.
   - Exchanges of information and opinions with officers other than the Audit and Supervisory Committee Members shall be conducted.
   - Expenses required for performance of duties of the Audit and Supervisory Committee Members shall be borne by the Company.
   - Collaboration with external experts shall be made possible as necessary.

II Overview, etc. of a liability insurance contract for directors and officers, etc.

The Company has entered into a liability insurance contract for directors and officers, etc. that insures Directors, Audit and Supervisory Committee Members (Audit & Supervisory Board Members), and Executive Officers of the Company and the Group, as well as employees who are employed by the Group and assigned to businesses other than the subsidiaries as officers. The Company pays all insurance premiums. The insurance contract covers damages (e.g., compensation for damage, legal costs) claimed against an insured that have arisen from the execution of duties by the insured (including omission). However, it contains certain exclusions, such as that the coverage excludes the events of the insured receiving private profits or benefits illegally, or damages caused by the insured’s criminal acts or acts carried out with recognition of a violation of a law.

III Number of Directors

The Company stipulates in its Articles of Incorporation that the number of Directors of the Company (excluding Audit and Supervisory Committee Members) shall be fifteen or less and Directors who are Audit and Supervisory Committee Members of the Company shall be three or less.

IV Requirement of a resolution for electing Directors

The Company stipulates in its Articles of Incorporation that a resolution for the election of Directors, in distinction between Directors who are Audit and Supervisory Committee Members and Directors who are not, shall be adopted by a majority vote of shareholders present holding not less than one-third (1/3) of the shares with voting rights held by shareholders entitled to exercise their voting rights. In addition, the Company stipulates in its Articles of Incorporation that a resolution for the election of Directors shall not be adopted by a cumulative vote.

V Requirement of a special resolution at the General Meeting of Shareholders

For the purpose of ensuring that the General Meeting of Shareholders is operated smoothly, the Company stipulates in its Articles of Incorporation that a special resolution at the General Meeting of Shareholders, stipulated in Article 309, Paragraph 2 of the Companies Act, shall be adopted by a two-thirds (2/3) vote of shareholders present holding not less than one-third (1/3) of the shares with voting rights held by shareholders entitled to exercise their voting rights.

VI Decision-making body for dividend of surplus, etc.

To ensure flexible capital and dividend policy, the Company stipulates in its Articles of Incorporation that dividends from surplus and other matters laid down in Article 459, Paragraph 1 of the Companies Act are subject to resolution of the Board of Directors, not of the General Meeting of Shareholders, except where special provisions laid down by laws and regulations apply.

(2) Directors

1) List of Directors

5 males, 1 female (female ratio of 16.7%)

Title	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Representative Director, President & CEO	Takahisa Takahara	July 12, 1961	April 1991 June 1995 April 1996 June 1997 April 1998 October 2000 June 2001 June 2004	Joined the Company Director Director, General Manager of Procurement Division and Deputy General Manager of International Division Senior Director Senior Director, General Manager of Feminine Hygiene Business Division Senior Director, Responsible for Management Strategy Representative Director, President Representative Director, President & CEO (to present)	(Note 2)	3,793.2
Director, Executive Managing, Production, Development, Responsible for Standardization	Toshifumi Hikosaka	August 20, 1960	February 1982 April 2008 April 2010 April 2012 January 2016 January 2020 January 2022 March 2022 March 2023	Joined the Company Department Manager of Engineering Development Department, Global Research & Development Division Department Manager of Product Innovation Development Department, Global Research & Development Division Department Manager of Blue Sky Project, Global Research & Development Division Executive Officer, Deputy General Manager of Global Research & Development Division Senior Executive Officer and General Manager of Global Research & Development Division Managing Executive Officer, Co-Chief Research & Development Officer, General Manager of Global Research & Development Division, Department Manager of Blue Sky Project, and General Manager of Intellectual Property Division Director, Senior Managing Executive Officer, Responsible for standardization, Co-Chief Research & Development Officer (CDO), General Manager of Global Research & Development Division, Department Manager of Blue Sky Project, and General Manager of Intellectual Property Division Director, Executive Managing, Production, Development, Responsible for Standardization (to present)	(Note 2)	12.3

Title	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director, Senior Managing Executive Officer, Marketing, Sales	Kenji Takaku	October 5, 1960	April 1983 April 1997 October 2000 April 2002 October 2005 April 2008 December 2014 July 2017 January 2022 March 2023	Joined the Company Marketing Director of Sanitary Business Group, Marketing Division Director of Marketing Department, Baby Care Business Division Deputy Managing Director and General Manager of Marketing Department, Shanghai Unicharm Co., Ltd. Deputy General Manager of Global Marketing Division and Department Manager of Feminine Care SBU Executive Officer and General Manager of Global Marketing Division Managing Executive Officer and General Manager of Global Marketing Division, Country President, UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA. Managing Executive Officer, Managing Director, Unicharm India Private Ltd. Senior Managing Executive Officer, Co-Chief Marketing Officer (CMO), Chairman, Unicharm India Private Ltd., Responsible for Unicharm Gulf Hygienic Industries Ltd. and Unicharm Middle East & North Africa Hygienic Industries Company S.A.E. Director, Senior Managing Executive Officer, Marketing, Sales, Co-Chief Marketing Officer (CMO), Chairman, Unicharm India Private Ltd., Responsible for Unicharm Gulf Hygienic Industries Ltd. and Unicharm Middle East & North Africa Hygienic Industries Company S.A.E. (to present)	(Note 2)	22.4
Director (Audit and Supervisory Committee Member)	Hiroaki Sugita	February 14, 1961	April 1983 April 1994 January 2001 November 2006 May 2007 January 2014 January 2016 January 2021 March 2021 January 2023	Joined JAPAN TRAVEL BUREAU Inc. (currently JTB Corp.) Joined the Boston Consulting Group (currently Boston Consulting Group LLC) Partner & Managing Director Supervisor of Japan Office Senior Partner & Managing Director Asia Pacific Client Team Leader Japan Co-chair Managing Director & Senior Partner Outside Director of the Company (Audit and Supervisory Committee Member) (to present) Senior Advisor, Boston Consulting Group LLC (to present)	(Note 3)	6.0

Title	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director (Audit and Supervisory Committee Member)	Noriko Rzonca	July 16, 1968	November 2000	Joined Allstate Insurance Company in the U.S.	(Note 3)	–
			May 2005	Associate Market Manager at Marketing Analytics, W.W. Grainger, Inc. in the U.S.		
			June 2006	Deputy Head of Marketing Business Analytics, CFJ G.K.		
			May 2008	Head of Consumer Marketing Business Analytics Department, Nikko Citi Business Services Inc. (currently Citigroup Services Japan G.K.)		
			September 2008	Vice President of Decision Management at Retail Banking Division, Citibank Japan Ltd. (dissolved in October 2017)		
			May 2014	Marketing Director, Aegon Direct and Affinity Marketing Services Co., Ltd. (currently Aegon Insight Japan Co., Ltd.)		
			May 2015	AVP, Head of Advanced Data Analytics Department, MetLife Insurance K.K.		
			November 2017	Executive Officer, Head of Data Analytics Department and Responsible for CX Design Department, Sony Bank Incorporated		
			June 2019	Executive Officer, Head of Marketing Science Department and Responsible for Content Planning Department		
			April 2020	Executive Officer, Responsible for DX Strategy Department and Content Planning Department		
			April 2021	Executive Officer, Head of Content Planning Department and Responsible for DX Strategy Department		
			November 2021	Executive Officer, Chief Digital Officer (CDO), Head of Corporate DX Strategy Department, Cosmo Energy Holdings Co., Ltd.		
			April 2022	Senior Executive Officer, Chief Digital Officer (CDO), Responsible for Corporate DX Strategy Department, Corporate Communication Department, and IT Initiative Department (to present)		
			March 2023	Outside Director of the Company (Audit and Supervisory Committee Member) (to present)		

Title	Name	Date of birth	Career profile		Term of office	Number of shares owned (Thousands)
Director (Audit and Supervisory Committee Member)	Shigeru Asada	March 20, 1949	April 1973 March 1994 April 1999 April 2004 April 2006 April 2009 February 2013 April 2013 March 2017 April 2019 March 2021	Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation) Managing Director Chief Financial Officer of Panasonic Do Brasil Limitada General Manager (tax) of Corporate Accounting Department of Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation) Managing Director Chief Financial Officer of Panasonic Europe Co., Ltd. Director General Manager of Internal Auditing Department of Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation) Standing Corporate Auditor of IPS Alpha Technology, Ltd. (currently Panasonic Liquid Crystal Display Co., Ltd.) Advisor for the Office of Audit and Supervisory Committee Member of the Company Executive Officer, General Manager of Accounting Control and Finance Division Director (Audit and Supervisory Committee Member) Advisor, Audit and Supervisory Committee Office Director (Audit and Supervisory Committee Member) (to present)	(Note 3)	2.0
Total						3,835.8

Notes: 1. Directors (Audit and Supervisory Committee Members) Hiroaki Sugita and Noriko Rzonca are Outside Directors.

2. For one year from the conclusion of the Ordinary General Meeting of Shareholders held on March 24, 2023

3. For two years from the conclusion of the Ordinary General Meeting of Shareholders held on March 24, 2023

2) Outside Directors

The Company appoints two Outside Directors. No interpersonal, capital- or transaction-based, or any other noteworthy conflicts of interest exist between these Outside Directors or any other company where these Outside Directors may serve as executives.

The Company appoints Independent Outside Directors who meet the “Standards for Appointment of Independent Directors” stipulated by the Company as Outside Directors who are Audit and Supervisory Committee Members. The details of the “Standards for Appointment of Independent Directors” of the Company are as follows.

1. In order for a Director of the Company to be recognized as being independent (hereinafter “Independent Director”), the Director must not be an executive Director, Executive Officer, manager or other employee of the Company (collectively “Executive Directors, etc.”) and must not be an Executive Director, etc. of the Company during the past 10 years before assuming office (however, for any Director who has once been a non-executive Director (meaning a Director who is not executive director; hereinafter the same shall apply), Auditor, or accounting advisor of the Company at any time during the past 10 years before assuming office, during the past 10 years before assuming such a position).
2. In order for a Director of the Company to be recognized as Independent Director, the Director must not be an Executive Director, etc. of any current subsidiary of the Company and must not be an Executive Director, etc. of the subsidiary during the past 10 years before assuming office (however, for any Director who has once been a non-executive Director, auditor, or accounting advisor of the subsidiary at any time during the past 10 years before assuming office, during the past 10 years before assuming such a position).
3. In order for a Director of the Company to be recognized as Independent Director, the Director must not fall under any of the following items:
   (i) a current principal shareholder of the Company or any of its subsidiaries (meaning a shareholder who holds 10% or more of the voting rights; hereinafter the same shall apply), or, if the principal shareholder is a corporation, director, auditor, accounting advisor, operating officer, associate officer, executive officer, or manager or other employee of the principal shareholder, its parent company, or important subsidiary;
   (ii) a person who has once been a director, auditor, accounting advisor, operating officer, associate officer, executive officer, or manager or other employee of a current principal shareholder, its parent company

or important subsidiary of the Company or any of its subsidiaries in the recent five years; or
   (iii) a director, auditor, accounting advisor, operating officer, executive officer, or manager or other employee of a corporation for which the Company or any of its subsidiaries is currently a principal shareholder.

4. In order for a Director of the Company to be recognized as Independent Director, the Director must not fall under any of the following items:
   (i) an entity whose major business partner is the Company or any of its subsidiaries (meaning an entity that has received payments from the Company or any of its subsidiaries, equivalent to 2% or more of its annual consolidated gross sales for the most recent fiscal year; hereinafter the same shall apply) or its parent company or important subsidiary, or, if any of the foregoing is a corporation, its executive director, operating officer, executive officer, or manager or other employee;
   (ii) an entity whose major business partner was the Company or any of its subsidiaries (meaning an entity that received payments from the Company or any of its subsidiaries, equivalent to 2% or more of its annual consolidated gross sales for the most recent fiscal year; hereinafter the same shall apply) or its parent company or important subsidiary, or, if any of the foregoing is a corporation, its executive director, operating officer, executive officer, or manager or other employee, in any fiscal year among the three fiscal years prior to the most recent fiscal year;
   (iii) an entity who is a major business partner of the Company or any of its subsidiaries (meaning an entity that has made payments to the Company or its subsidiaries, equivalent to 2% or more of annual consolidated gross sales for the most recent fiscal year of the Company; hereinafter the same shall apply) or its parent company or important subsidiary, or, if any of the foregoing is a corporation, its executive director, operating officer, executive officer, or manager or other employee;
   (iv) an entity who was a major business partner of the Company or any of its subsidiaries (meaning an entity that made payments to the Company or its subsidiaries, equivalent to 2% or more of annual consolidated gross sales for the most recent fiscal year of the Company; hereinafter the same shall apply) or its parent company or important subsidiary, or, if any of the foregoing is a corporation, its executive director, operating officer, executive officer, or manager or other employee, in any fiscal year among the three fiscal years prior to the immediately preceding fiscal year; or
   (v) an associate officer (limited to a person who executes business) or other person who executes business (meaning an officer, member or employee who executes business of an organization described below; hereinafter the same shall apply) of the organization (for example, public interest incorporated foundation, public interest incorporated association, non-profit corporation, etc.) which has received donation or grants from the Company or any of its subsidiaries exceeding a certain amount (an annual amount of ¥10 million on average for the past three fiscal years or 30% of the average annual total expenses of the said organization, whichever is larger).

5. In order for a Director of the Company to be recognized as Independent Director, the Director must not be a director, auditor, accounting advisor, operating officer or executive officer of a corporation, its parent company, or subsidiary which has accepted any director from the Company or any of its subsidiaries (regardless of whether on a full-time or part-time basis).

6. In order for a Director of the Company to be recognized as Independent Director, the Director must not fall under any of the following items:
   (i) a director, auditor, accounting advisor, operating officer, executive officer, or manager or other employee of a financial institution or other large creditor (hereinafter "Large Creditor, etc.") or its parent company or important subsidiary which is indispensable for the Company or any of its subsidiaries in its fund raising and on which the Company or any of its subsidiaries relies to the extent that there is no alternative; or
   (ii) a person who has once been a director, auditor, accounting advisor, operating officer, executive officer, or manager or other employee of a current Large Creditor, etc. or its parent company or important subsidiary of the Company or any of its subsidiaries in the recent three years.

7. In order for a Director of the Company to be recognized as Independent Director, the Director must not fall under any of the following items:
   (i) a person who is a certified public accountant (or certified tax accountant), or member, partner or employee of auditing firm (or tax accounting firm), that is the accounting auditor or accounting advisor of the Company or any of its subsidiaries;
   (ii) a person who is a certified public accountant (or certified tax accountant), or member, partner or employee of auditing firm (or tax accounting firm), that has once been the accounting auditor or accounting advisor of the Company or any of its subsidiaries, and was actually engaged in the audit service for the Company or any of its subsidiaries (excluding, however, supportive involvement) (including any person who is already retired or resigned) in the recent three years;
   (iii) a person who is a lawyer, certified public accountant, certified tax accountant, or other consultant who does not fall under Item (i) or (ii) above and has received money or other property benefit from the Company or any of its subsidiaries in the annual amount of ¥10 million or more on average for the past three fiscal years, aside from executive remuneration; or
   (iv) a person who is a member, partner, associate, or employee of a law firm, auditing firm, tax accounting

firm, or consulting firm or other professional advisory firm which does not fall under Item (i) or (ii) above and is a firm whose major business partner is the Company or any of its subsidiaries (meaning a firm that has received payments from the Company or any of its subsidiaries, equivalent to 2% or more of consolidated gross sales on average for the past three fiscal years of the firm; hereinafter the same shall apply).

8. In order for a Director of the Company to be recognized as Independent Director, the Director must not fall under any of the following items:
   (i) a spouse, relative within the second degree of consanguinity or cohabiting relative of a director, executive officer, or manager or other important employee of the Company or any of its subsidiaries;
   (ii) a spouse, relative within the second degree of consanguinity or cohabiting relative of a person who has once been a director, executive officer, or manager or other important employee of the Company or any of its subsidiaries in the recent five years;
   (iii) a spouse, relative within the second degree of consanguinity or cohabiting relative of a current principal shareholder of the Company or any of its subsidiaries or its director, auditor, accounting advisor, operating officer, associate officer, or executive officer;
   (iv) a spouse, relative within the second degree of consanguinity or cohabiting relative of a person who has once been a principal shareholder of the Company or any of its subsidiaries, or its director, auditor, accounting advisor, operating officer, associate officer, or executive officer, in the recent five years;
   (v) a spouse, relative within the second degree of consanguinity or cohabiting relative of a director, auditor, accounting advisor, operating officer, or executive officer of a corporation for which the Company or any of its subsidiaries is currently a principal shareholder;
   (vi) a spouse or relative within the second degree of consanguinity or cohabiting relative of a person (an individual) whose major business partner is the Company or any of its subsidiaries, or, a spouse or relative within the second degree of consanguinity or cohabiting relative of an executive director, operating officer or executive officer of a corporation whose major business partner is the Company or any of its subsidiaries;
   (vii) a spouse or relative within the second degree of consanguinity or cohabiting relative of a person (an individual) whose major business partner has once been the Company or any of its subsidiaries in any fiscal year among the recent three fiscal years, or, a spouse or relative within the second degree of consanguinity or cohabiting relative of an executive director, operating officer or executive officer of a corporation whose major business partner has once been the Company or any of its subsidiaries in any fiscal year among the recent three fiscal years;
   (viii) a spouse or relative within the second degree of consanguinity or cohabiting relative of a person (an individual) who is a major business partner of the Company or any of its subsidiaries, or, a spouse or relative within the second degree of consanguinity or cohabiting relative of an executive director, operating officer or executive officer of a corporation which is a major business partner of the Company or any of its subsidiaries;
   (ix) a spouse or relative within the second degree of consanguinity or cohabiting relative of a person (an individual) who has once been a major business partner of the Company or any of its subsidiaries in any fiscal year among the recent three fiscal years, or, a spouse or relative within the second degree of consanguinity or cohabiting relative of an executive director, operating officer or executive officer of a corporation which has once been a major business partner of the Company or any of its subsidiaries in any fiscal year among the recent three fiscal years;
   (x) a spouse, relative within the second degree of consanguinity or cohabiting relative of an associate officer (limited to a person who executes business) or other person who executes business of the organization (for example, public interest incorporated foundation, public interest incorporated association, non-profit corporation, etc.) which has received donation or grants from the Company or any of its subsidiaries exceeding a certain amount (an amount of ¥10 million on average for the past three years or 30% of the annual total expenses of the said organization, whichever is larger);
   (xi) a spouse, relative within the second degree of consanguinity or cohabiting relative of a director, auditor, accounting advisor, operating officer, or executive officer of a current Large Creditor, etc. of the Company or any of its subsidiaries;
   (xii) a spouse, relative within the second degree of consanguinity or cohabiting relative of a person who has once been a director, auditor, accounting advisor, operating officer, or executive officer of a current Large Creditor, etc. of the Company or any of its subsidiaries in the recent three years;
   (xiii) a person whose spouse, relative within the second degree of consanguinity or cohabiting relative falls under the category of a certified public accountant (or certified tax accountant), or member or partner of auditing firm (or tax accounting firm), that is the accounting auditor or accounting advisor of the Company or any of its subsidiaries;
   (xiv) a person whose spouse, relative within the second degree of consanguinity or cohabiting relative falls under the category of a certified public accountant (or certified tax accountant), or employee of auditing firm (or tax accounting firm), that is the accounting auditor or accounting advisor of the Company or any of its subsidiaries, and is currently and actually engaged in the audit service for the Company or any

of its subsidiaries (excluding, however, supportive involvement);

(xv) a person whose spouse, relative within the second degree of consanguinity or cohabiting relative falls under the category of a certified public accountant (or certified tax accountant), or member, partner or employee of auditing firm (or tax accounting firm), that is the accounting auditor or accounting advisor of the Company or any of its subsidiaries, and was actually engaged in the audit service for the Company or any of its subsidiaries (excluding, however, supportive involvement) in the recent three years; or

(xvi) a person whose spouse or relative within the second degree of consanguinity or cohabiting relative is a lawyer, certified public accountant, certified tax accountant, or other consultant who does not fall under Item (i) or (ii) of above Paragraph 8 and has received money or other property benefit from the Company or any of its subsidiaries in the annual amount of ¥10 million or more on average for the past three fiscal years, aside from executive remuneration, or, a person who falls under the category of member or partner of a law firm, auditing firm, tax accounting firm, or consulting firm or other professional advisory firm which does not fall under Item (i) or (ii) of above Paragraph 8 and whose major business partner is the Company or any of its subsidiaries.

9. In order for a Director of the Company to be recognized as Independent Director, the Director is otherwise required to be, on a permanent basis, a person with no possibility of substantial conflict of interests with the Company's public shareholders as a whole caused by any reason other than those considered in Paragraphs 1 through 8 above.
10. Even if the person falls under any of the Paragraphs 3 through 8 above, when the Company believes that he or she is appropriate for Independent Director in light of the personality, insight, etc. of the said person, the Company may designate the said person as Independent Director of the Company on the condition that the said person satisfies the requirements for outside directors stipulated in the Companies Act and the Company publicly explains the reasons why it believes that he or she is appropriate for Independent Director of the Company.
11. When an incumbent Independent Director of the Company to be reappointed as Independent Director, his or her cumulative total term of office needs to be 10 years or less.

The Company has appointed Outside Directors with insight into and experience of corporate management, and believes that they play an effective role.

3) Mutual collaboration between supervision and internal audit by Outside Directors, audit by the Audit and Supervisory Committee, and accounting audit, as well as the relationship with internal control departments

The Outside Directors of the Company are Audit and Supervisory Committee Members and carry out their role as auditors, etc. as part of Audit and Supervisory Committee. In addition, the Outside Directors of the Company play a role in supervising the performance of duties by Directors and in major decision-making, etc. in business execution, as members of the Board of Directors. Please refer to "(3) Audit 2) Internal audit" for mutual collaboration between internal audit and accounting auditor and the relationship with internal control departments.

(3) Audit

1) Audit by the Audit and Supervisory Committee

I Organization and personnel

The Audit and Supervisory Committee of the Company comprises three members, one full-time Audit and Supervisory Committee Member who is a non-executive Director and two Audit and Supervisory Committee Members who are Outside Directors.

Audit and Supervisory Committee Member, Outside Director Hiroaki Sugita has long-standing experience in the use of knowledge in corporate management and corporate governance such as serving as Japan Co-chair of the Boston Consulting Group, a leading foreign consulting firm, and has ample insight into corporate management and corporate governance.

Audit and Supervisory Committee Member, Outside Director Noriko Rzonca has secular experiences overseas and at major foreign subsidized financial institutions in Japan both at hands-on and management levels. She has a high level of insight in corporate management strategy and corporate governance.

Chairperson of the Audit and Supervisory Committee, full-time Audit and Supervisory Committee Member, Shigeru Asada has experience as Executive Officer, General Manager of Accounting Control and Finance Division of the Company, in addition to the experience as the head of the internal audit department and the tax department of global headquarters, and as an officer in charge of accounting of overseas subsidiaries, at Panasonic Corporation, and has ample insight into finance and accounting matters.

Based on reporting from the Internal Audit Department and other internal control systems, the Audit and Supervisory Committee systematically organizes audits, including requests for separate reports and expressions of opinions.

II Activities of the Audit and Supervisory Committee

1. Frequency of meetings
The Audit and Supervisory Committee of the Company basically meets once a month, and also meets as needed.

2. Main items for discussion
The following resolutions and reports were made during the fiscal year under review.

Resolutions: Audit plan and division of duties of the Audit and Supervisory Committee, reappointment/non-reappointment of the Accounting Auditor, agreement on compensation, etc. of the Accounting Auditor, audit report by the Audit and Supervisory Committee, etc.

Reports: Prior confirmation of the draft of the Board of Directors' meeting, audit plans and audit reports by the Accounting Auditor, internal control and audit reports by the Internal Audit Department, reports on strategies, financial statuses, and business restructurings of domestic and overseas subsidiaries

3. Attendance at meetings of the Audit and Supervisory Committee Member
Attendance at meetings of the Audit and Supervisory Committee held during the fiscal year under review is as follows.
The average time required for the Audit and Supervisory Committee meetings is approximately 60 minutes.

Name	Number of meetings held (Note)	Number of meetings attended (Note)
Hiroko Wada	11 times	11 times (100%)
Hiroaki Sugita	11 times	10 times (91%)
Shigeru Asada	11 times	11 times (100%)

Note: Based on the number of meetings held during their terms of office.

4. Activities of full-time Audit and Supervisory Committee Members
The full-time Audit and Supervisory Committee Members of the Company make efforts to collect information within the Company, monitor the dissemination of information by the management, attend regular meetings of the Business Execution Council and Advisory Board, which deliberates on the Company's corporate strategy and the management plans of each domestic and overseas subsidiary, audit business reports, financial statements, consolidated financial statements and supplementary schedules, inspect important approval documents and contracts, and listen to the reports from the Internal Audit Department. Through regular meetings with the Accounting Auditor, members confirm whether the methods and results of the Accounting Auditor's audit are appropriate and whether the Accounting

Auditor's internal control system is in place. They also examine the status of the internal control system to audit its appropriateness while sharing the information with part-time Outside Audit and Supervisory Committee Members.

2) Internal audit

The Company has established the Internal Audit Department comprising seven members directly under the Representative Director, President & CEO as its internal auditing department. The Internal Audit Department, in cooperation with the Audit and Supervisory Committee, conducts internal audits of business divisions and creates internal audit reports in which findings and necessary remedial measures are described. These reports are submitted to the Company's Representative Director, President & CEO, the Audit and Supervisory Committee, and the business divisions that have been audited. In the event that issues requiring remediation and/or deficiencies are identified, remedial measures are formulated and implemented. The Internal Audit Department monitors the outcomes of the remedial measures.

The Internal Audit Department, Audit and Supervisory Committee and Accounting Auditor hold regular meetings for exchange of information and opinions, etc. Audits carried out by these units also cover establishment and operational status of internal control systems by internal control departments.

3) Audit of financial statements

I Name of auditing firm

PricewaterhouseCoopers Aarata LLC

II Continuous audit period

14 years

III Certified public accountant who performed the service

Designated Limited Liability and Engagement Partner: Tsuyoshi Saito
Designated Limited Liability and Engagement Partner: Mamoru Honda
Designated Limited Liability and Engagement Partner: Toshihiro Taniguchi

IV Assistants to the audit service

Assistants to the accounting audit service for the Company comprised 8 Certified Public Accountants and 25 others.

V Policy on and reason for selecting the auditing firm

When selecting Accounting Auditor, the Audit and Supervisory Committee of the Company makes decisions in consideration of audit systems, independence, specialization, etc. of Accounting Auditor. Based on this policy, the Company determined that it is appropriate to reappoint PricewaterhouseCoopers Aarata LLC as Accounting Auditor for the fiscal year under review.

In addition, if Accounting Auditor is determined to be falling under any of the items of Article 340, Paragraph 1 of the Companies Act, the Audit and Supervisory Committee will dismiss Accounting Auditor based on the unanimous consent of its members. Whether to approve reappointment of Accounting Auditor will be examined each fiscal year with the considerations of the suitability, independence, performance of services, etc. of Accounting Auditor in mind. If it is determined that the refusal of reappointment is appropriate as a result of such examination, the Audit and Supervisory Committee will decide on the content of a proposal concerning the refusal of reappointment of Accounting Auditor to be submitted to the General Meeting of Shareholders.

VI Evaluation of the auditing firm by the Audit and Supervisory Committee

In order to ensure the appropriateness and reliability of accounting audit, the Audit and Supervisory Committee verifies and evaluates whether Accounting Auditor maintains fair attitude and independence and conducts appropriate audit as a professional.

At the 63rd Ordinary General Meeting of Shareholders held on March 24, 2023, KPMG AZSA LLC was newly appointed as the Company's Accounting Auditor. For reasons for selecting this auditing firm, please refer to the matters stated in the Extraordinary Report, which are presented in "VII Change of the auditing firm."

VII Change of the auditing firm

At the Ordinary General Meeting of Shareholders held on March 24, 2023, the Company resolved to appoint an Accounting Auditor as follows.

The 63rd fiscal year (January 1, 2022 to December 31, 2022) (Consolidated and non-consolidated): PricewaterhouseCoopers Aarata LLC

The 64th fiscal year (January 1, 2023 to December 31, 2023) (Consolidated and non-consolidated): KPMG AZSA LLC

The matters stated in the Extraordinary Report are as follows.

(1) Names of the Certified Public Accountants, etc. for audits who are subject to the change

(i) Name of the Certified Public Accountant, etc. for audits to be appointed

KPMG AZSA LLC

(ii) Name of the retiring Certified Public Accountant, etc. for audits

PricewaterhouseCoopers Aarata LLC

(2) Date of the change

March 24, 2023

(3) Date on which the retiring Certified Public Accountant, etc. for audits became the Certified Public Accountant, etc. for audits

June 24, 2009

(4) Matters concerning opinions, etc. in the audit reports, etc. prepared by the retiring Certified Public Accountant, etc. for audits in the last three years

Not applicable.

(5) Reasons and the background that led to the decision to make the change

The terms of office of the Company's Accounting Auditor, PricewaterhouseCoopers Aarata LLC expired upon the conclusion of the 63rd Ordinary General Meeting of Shareholders held on March 24, 2023. The Audit and Supervisory Committee took into consideration the number of years the current Accounting Auditor had been auditing the financial statements of the Company, received proposals from multiple auditing firms, and examined the content of those proposals. The Audit and Supervisory Committee has determined that it can expect KPMG AZSA LLC to offer new perspectives on audit. In addition, after reviewing comprehensively the firm's global auditing structure, independence, expertise and quality control system, the Committee has concluded that the firm upholds a framework to ensure adequacy in conducting accounting audit.

(6) Opinions on the reasons and the background stated in (5) above

(i) Opinions of the retiring Certified Public Accountant, etc. for audits

We have received a response that they have no particular opinions.

(ii) Opinions of the Audit and Supervisory Committee

The change is in line with the review process and results of the Audit and Supervisory Committee. The Committee thus believes that it is appropriate.

4) Content of audit fees

I Remuneration to the Certified Public Accountants engaged in the financial statements audit

(Millions of Yen)

Category	Previous fiscal year		Fiscal year under review	
	Remuneration for audit certification work	Remuneration for non-audit services	Remuneration for audit certification work	Remuneration for non-audit services
The Company	145	11	129	–
Consolidated subsidiaries	8	–	8	–
Total	153	11	138	–

Non-audit services in the previous fiscal year related to the above remuneration consist of various advisory services concerning internal control over financial reporting.

II Remuneration to the same network (PricewaterhouseCoopers) as the Certified Public Accountants, etc. (excluding I)

(Millions of Yen)

Category	Previous fiscal year		Fiscal year under review	
	Remuneration for audit certification work	Remuneration for non-audit services	Remuneration for audit certification work	Remuneration for non-audit services
The Company	–	48	–	19
Consolidated subsidiaries	222	44	276	65
Total	222	93	276	84

Non-audit services in the previous and current fiscal years related to the above remuneration consist primarily of tax advisory services, etc.

III Contents of remuneration for other important audit certification services

This information has been omitted as there is no material remuneration to be disclosed.

IV Policy on determining the audit fee

None existed in the previous fiscal year and the fiscal year under review, but the audit fee is decided after consideration of scale, characteristics and number of days needed for audits, etc.

V The Audit and Supervisory Committee’s reason for agreeing to the remuneration, etc. for Accounting Auditor

The Audit and Supervisory Committee conducted necessary examination on whether the contents of the audit plan, performance of accounting audit services, the basis for the calculation of remuneration estimates, etc. of Accounting Auditor are appropriate. As a result, the Audit and Supervisory Committee determined that the independence, audit quality, and effectiveness of Accounting Auditor are secured, and agreed to the amount of remuneration, etc. for Accounting Auditor.

(4) Remuneration paid to Executives

1. Method of deciding policies for determining individual executive remuneration

With the objective of ensuring transparency and objectivity of determination processes, the Company’s policies for determining individual executive remuneration are decided by the Board of Directors, based on deliberations by the Compensation Committee comprising one Representative Director, one non-executive Director, and two Independent Outside Directors, a majority of which is comprising Independent Outside Directors and chaired by an Independent Outside Director.

[Basic policies]

Remuneration, etc. for Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers of the Company and policies thereof shall be determined, comprehensively considering the motivation for improvement of performance and corporate value and securing excellent human resources, etc., which shall be a level appropriate to their roles and responsibilities. Basic policies on remuneration to promote growth-oriented management and to accomplish management strategy and fulfill management plan are as follows.

[Basic executive remuneration principles]

1)	Remuneration contributable to the sustainable growth and medium to long-term increase of corporate value
2)	Remuneration plan that is linked closely with performance and motivates the fulfillment of management plans and the achievement of results of the Company
3)	Remuneration level which attracts and retains “talented personnel” who are capable of company management
4)	Highly transparent and objective process for determining remuneration

[Executive remuneration levels]

1)	In order to swiftly cope with the changes in external and market circumstances, the Company benchmarks the remuneration levels of executive members of other domestic and foreign companies in the same and different industries with the size equivalent to the Company and sets remuneration standard based on the Company’s financial condition.
2)	The Company sets the target value for monetary remuneration as top 25% and the target value for monetary remuneration with the addition of share-based payments from a medium- to long-term perspective as top 10%.

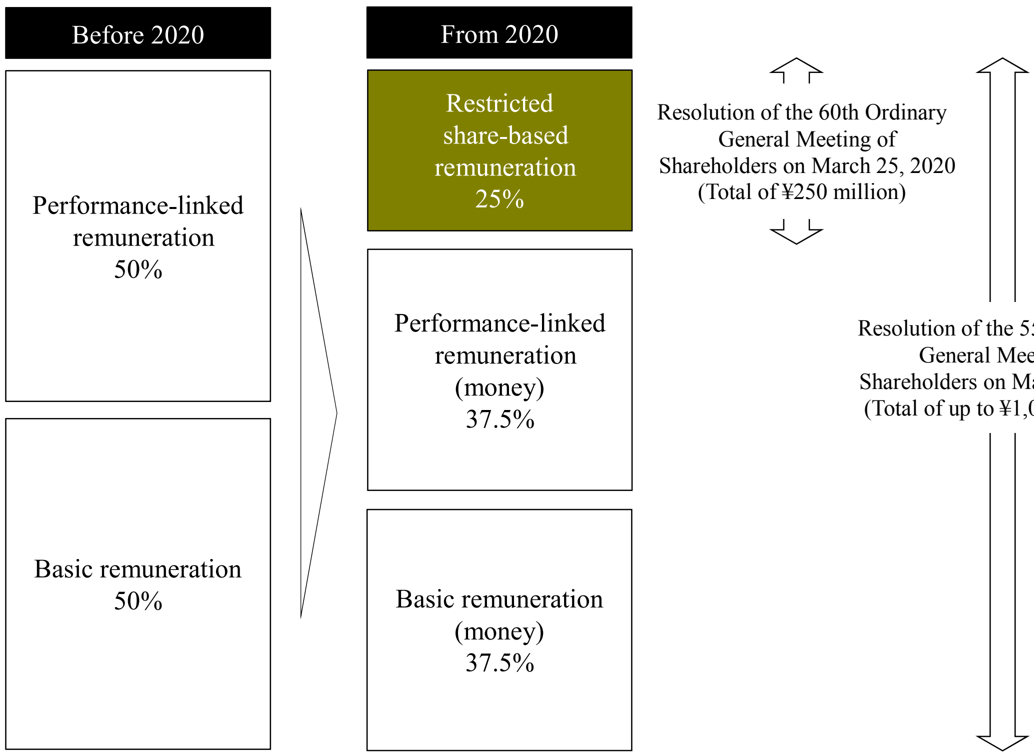
2. Overview of the policies for determining individual executive remuneration

The overview of the policies for determining remuneration for individual Directors of the Company are as follows.

1) Overview of the executive remuneration plan

The remuneration for Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers of the Company comprises basic remuneration (money) and performance-linked remuneration, and the performance-linked remuneration comprises monetary remuneration which is a short-term incentive and restricted share-based remuneration which is a medium- to long-term incentive. In addition, the basic remuneration is determined for each managerial position according to the magnitude of their job responsibilities. Remuneration for Independent Outside Directors and Directors who are Audit and Supervisory Committee Members who are independent from business execution comprises fixed remuneration only, taking into consideration their supervisory and advisory roles on management of the Company from an objective standpoint. In addition, at the 55th Ordinary General Meeting of Shareholders held on March 27, 2015, the proposal that the maximum amount of remuneration, etc. for Directors (excluding Directors who are Audit and Supervisory Committee Members) of the Company (total amount) is to be in the amount of ¥1,000 million per year, which would apply to eight Directors, and that the maximum amount of remuneration, etc. for Directors who are Audit and Supervisory Committee Members (total amount) is to be in the amount of ¥100 million per year, which would apply to three Directors, was approved, and at the 60th Ordinary General Meeting of Shareholders held on March 25, 2020, the proposal that the total maximum amount of restricted share-based remuneration is to be in the amount of ¥250 million per year (however, the amount is included in the aforementioned ¥1,000 million), which would apply to three Directors, was approved.

[Composition of executive remuneration]



- Basic remuneration (money): The objective of this basic remuneration is to ensure that the Company remains competitive in the market. The remuneration is determined according to the benchmark for each position in line with responsibilities and paid as a fixed monthly remuneration.
- Performance-linked remuneration (money): As a short-term (one year) incentive, performance-linked remuneration amounts are set in the range of 0% to 200% (on a scale of 1 to 10) of the basic remuneration amount depending on performance results for the period. An amount based on the performance during an evaluation year (January - December) will be paid in monthly installments over the period from April the next year to March the following year.
- Restricted share-based remuneration: As an incentive to increase corporate value over the medium to long term, the Company allocates restricted shares equivalent to 33% to 100% of the basic remuneration amount according to the performance results of an evaluation year (January - December) in the April of the following year. There will be a transfer-restriction period of three years.

[Evaluation indicators and basic approaches to the executive remuneration and targets and results for the fiscal year under review]

Evaluation indicators (four items and eight initiatives that include ESG evaluation) and the targets and results for the fiscal year under review concerning the performance results, which are used to determine the performance-linked remuneration (money) and restricted share-based remuneration for Directors (excluding Directors who are Audit and Supervisory Committee Members) and Executive Officers of the Company, are as follows.

The evaluation weight is set for each managerial position according to the magnitude of their job responsibilities. For example, the weight for Representative Director is company-level performance of 50% and company-level focal strategies of 50%, and for Senior Executive Officer in charge of front-line divisions, company-level performance and department-level performance of 30% each and company-level focal strategies and department-level focal strategies of 20% each.

As for ESG evaluation, which was newly added to our index from the fiscal year ended December 31, 2020, we are striving to evaluate ESG quantitatively as much as possible by adopting the FTSE Blossom Japan Index and improving the ESG score. We believe that these efforts led to diverse success in the fiscal year ended December 31, 2021, including designation of FTSE4Good Index Series for the third consecutive year, reception of the Special Prize in the Environment Sustainable Corporate Segment of the ESG Finance Awards Japan hosted by the Ministry of the Environment (MOE), reception of the highest rank of four stars in the Nikkei Smart Work Management Survey, designation of the Bloomberg Gender-Equity Index, and reception of the Award under the Excellent Green Logistics Commendation Program from the Green Logistics Partnership Conference. Starting from the fiscal year ended December 31, 2022, we assign each of our Executive Officers to some of the 20 initiatives specified in “Kyo-sei Life Vision 2030” announced in November 2020, which sets the Company’s mid-to-long term ESG goals. The progress they have made as they work on their assigned initiatives are reflected in their performance evaluation.

No.	Evaluation indicator	Accountability	Evaluation weight	Target	Result	Evaluation
1	Company-level performance (management plan)	1-1 Company-level sales	20-50%	¥850,000 million (+10.4% YoY)	¥898,022 million (+14.7% YoY)	105.6%
		1-2 Company-level core operating income		¥127,000 million (+6.7% YoY)	¥119,566 million (-2.4% YoY)	94.1%
		1-3 Profit attributable to owners of parent		¥79,200 million (+5.6% YoY)	¥67,608 million (-7.1% YoY)	85.4%
2	Department-level performance	2-1 Department-level sales	0-40%	(By department)	(By department)	–
		2-2 Department-level income		(By department)	(By department)	–
3	Company-level focal strategies	3-1 Priority strategies executed by officers themselves	20-50%	(By officer)	(By officer)	–
		3-2 Ratings of ESG agencies, etc.		(By officer)	(By officer)	–
4	Department-level focal strategies	4 Highest priority strategies of departments	0-40%	(By department)	(By department)	–

[Basic approaches to each evaluation indicator]

1. Indicator for evaluating the Company’s efforts from a performance perspective
2. Indicator for evaluating the efforts of each officer from a performance perspective
3. Indicator for evaluating the Company’s efforts on the priority strategies (including qualitative evaluation)
4. Indicator for evaluating the efforts of each officer on the priority strategies (including qualitative evaluation)

[Details of an agreement on the allotment of restricted shares]

"Restricted share-based remuneration" is a system in which Eligible Directors and Executive Officers shall pay all monetary claims to be provided to them by the Company, in the form of property contributed in kind, and shall, in return, receive common shares of the Company that shall be issued or disposed of by the Company. The Company and each of Eligible Directors and Executive Officers shall sign an agreement on the allotment of restricted shares.

1	Restricted period	The Eligible Directors and Executive Officers shall be prohibited from transfers, creation of security interest, or any other disposal (hereinafter "Transfer Restrictions") of the allotted shares of the Company (hereinafter "Allotted Shares") for three years from the date of the allotment (hereinafter "Restriction Period").
2	Treatment on retirement from the position	If an Eligible Director or Executive Officer resigns or retires from the position of Director or Executive Officer of the Company or other positions prescribed by the Board of Directors before the Restriction Period expires, the Company shall automatically acquire such Allotted Shares without contribution unless there are justifiable reasons for the retirement or resignation from office, such as expiration of the term of his or her office or death.
3	Lifting of Transfer Restrictions	The Company shall lift the Transfer Restrictions of all of the Allotted Shares upon the expiration of the Restriction Period, on the condition that the Eligible Directors and Executive Officers have remained in the position of Director or Executive Officer of the Company or other positions prescribed by the Board of Directors during the Restriction Period. However, if an Eligible Director or Executive Officer resigns or retires from the position of Director or Executive Officer of the Company or other positions prescribed by the Board of Directors before the expiration of the Restriction Period due to expiration of the term of his or her office, death, or other justifiable reasons specified in 2 above, the Company shall rationally adjust the number of the Allotted Shares for which the Transfer Restrictions are to be lifted and the timing of lifting as necessary. In addition, immediately after the Transfer Restrictions are lifted in accordance with the above provisions, the Company shall automatically acquire the Allotted Shares whose Transfer Restrictions have not been lifted without contribution.
4	Clawback provision	The Eligible Directors and Executive Officers shall return all or part of the Allotted Shares without contribution in the event of material accounting frauds or substantial losses, to take responsibility for such occurrences.
5	Other items	Other matters concerning an agreement on the allotment of restricted shares shall be determined by the Board of Directors of the Company.

2) Method of determining the amount of remuneration for each individual Director

The amount of remuneration for each individual Director is determined by the Representative Director (Takahisa Takahara), who is entrusted with the resolution by the Board of Directors, after reporting the results of evaluation based on each index to the Compensation Committee for deliberation, with the aim of ensuring correct evaluation based on the actual contribution result of each Director.

3) Policies for determining the ratios and amounts of fixed remuneration, bonuses, and restricted share-based remuneration

At the Compensation Committee meeting held on February 22, 2021, the calculation method and ratio of fixed remuneration, performance-linked remuneration and share-based payments, timing of granting each type of remuneration, and decision delegator and details were designated as matters to be decided by the Board of Directors, and the details were resolved at the Board of Directors meeting held on the same day.

3. Reason for the Board of Directors' decision that the details of remuneration for individual Directors for the fiscal year under review are in line with the policies for determining the details of remuneration for individual Directors

There was no change in the policies and calculation methods for remuneration for Directors, which were resolved at the Board of Directors meeting held on February 22, 2021, the policies for determining the details of remuneration for individual Directors were confirmed again at the Compensation Committee meeting held on February 22, 2023 and the resolution was made unanimously. Thus, the Board of Directors decided that they are in line with the said policies.

4. Total amount of remuneration and remuneration by type and number of recipients, by class of executive

Category	Total remuneration (Millions of Yen)	Total remuneration by remuneration type (Millions of Yen)			Number of Executives (Persons)
		Basic remuneration	Performance-linked remuneration	Non-monetary remuneration Restricted share-based remuneration	
Directors (excluding Directors who are Audit and Supervisory Committee Members) (excluding Outside Directors)	546	190	190	166	4
Directors (Audit and Supervisory Committee Members) (excluding Outside Directors)	8	8	–	–	1
Outside Directors	21	21	–	–	2

Notes: 1. The above figures include the amounts of remuneration related to the one Director (excluding Directors who are Audit and Supervisory Committee Members) who retired upon the conclusion of the 62nd Ordinary General Meeting of Shareholders held on March 25, 2022.

2. The total amount of remuneration for Directors (excluding Directors who are Audit and Supervisory Committee Members) includes the expense of ¥166 million recorded in relation to restricted share-based remuneration that was granted to four Directors (excluding Directors who are Audit and Supervisory Committee Members).

3. At the 47th Ordinary General Meeting of Shareholders held on June 26, 2007, in line with the enactment of the Companies Act, a resolution was passed to incorporate executive bonuses within remuneration, with abolition of retirement benefits for Directors, and to only pay an annual remuneration total.

5. Total amount of remuneration to individuals whose remuneration is ¥100 million or more

Name	Category	Company	Total remuneration by remuneration type (Millions of Yen)			Total amount of consolidated remuneration (Millions of Yen)
			Basic remuneration	Performance-linked remuneration	Non-monetary remuneration Restricted share-based remuneration	
Takahisa Takahara	Representative Director, President & CEO	The Company	150	105	124	379

Note: At the 47th Ordinary General Meeting of Shareholders held on June 26, 2007, in line with the enactment of the Companies Act, a resolution was passed to incorporate executive bonuses within remuneration, with abolition of retirement benefits for Directors, and to only pay an annual remuneration total.

(5) Status of shares held

1) Criteria for and basic approaches to the classification of shares for investment

As for classification of shares for investment, the Company classifies shares for investment held solely for the purpose of obtaining profits from the fluctuation of share value or the receipt of dividends as shares for investment for pure investment purposes, and shares for investment for the other purposes as shares for investment for purposes other than pure investment purposes.

2) Shares for investment held for any purposes other than pure investment purposes

I Method of examining the rationality of the holding policy and the holding, and the details of the examination by the Board of Directors, etc. concerning the appropriateness of the holding of individual securities

The Company holds minimum necessary shares of other companies, comprehensively taking into consideration dividends, benefits and risks that can be obtained or arising from the maintenance and strengthening of the trade relations, etc. and capital costs, among other things, from a perspective of whether the holding would contribute to an increase in corporate value of the Company. In addition, the Board of Directors examines the rationality of the holding of individual securities every year from the perspectives of whether the holding purpose is diluted and whether the benefits and risks resulting from the holding are proportionate to the capital cost. The shares determined to have no rationality in the holding as a result of the examination will be sold appropriately according to the overall judgment on market impact, etc.

II Number of securities and amount recorded in the balance sheet

	Number of securities (Securities)	Total amount recorded in the balance sheet (Millions of Yen)
Unlisted equity securities	14	423
Equity securities other than unlisted equity securities	23	10,950

(Securities for which the number of shares increased during the fiscal year under review)

	Number of securities (Securities)	Total amount of acquisition cost associated with the increase in the number of shares (Millions of Yen)	Reason for the increase in the number of shares
Unlisted equity securities	3	630	Acquisition of shares through the shareholding association of business partners; acquisition of new shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations
Equity securities other than unlisted equity securities	4	13	Acquisition of shares through the shareholding association of business partners; acquisition of new shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations

(Securities for which the number of shares decreased during the fiscal year under review)

	Number of securities (Securities)	Total amount of sales price associated with the decrease in the number of shares (Millions of Yen)
Unlisted equity securities	1	30
Equity securities other than unlisted equity securities	–	–

III Information concerning the number of specific shares for investment by securities, the amount recorded in the balance sheet, etc.

Specific shares for investment

Shares	Fiscal Year Ended December 31, 2022 Number of shares (Shares) Amount recorded in the balance sheet (Millions of Yen)	Fiscal Year Ended December 31, 2021 Number of shares (Shares) Amount recorded in the balance sheet (Millions of Yen)	Holding purpose, quantitative effect of holding and reason for increase in the number of shares	Cross-holding of the Company's shares
Sumitomo Realty & Development Co., Ltd.	1,219,000 3,804	1,219,000 4,124	The issuer engages in lease transactions, etc. of real estate facilities and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
ARATA CORPORATION	225,545 946	225,545 994	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
Mitsubishi UFJ Financial Group, Inc.	904,050 804	904,050 565	The issuer engages in fund transactions such as fund procurement and settlement and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
ZUIKO CO., LTD.	980,400 731	980,400 978	The issuer engages in equipment purchase transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
Iyogin Holdings, Inc. (Note 2)	1,017,640 728	– –	The issuer engages in fund transactions such as fund procurement and settlement and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
Mitsui Chemicals, Inc.	237,800 707	237,800 735	The issuer engages in raw material purchase transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
AEON CO., LTD.	246,342 686	242,470 657	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations. The number of shares increased due to the acquisition of shares through the shareholding association.	No

Shares	Fiscal Year Ended December 31, 2022 Number of shares (Shares) Amount recorded in the balance sheet (Millions of Yen)	Fiscal Year Ended December 31, 2021 Number of shares (Shares) Amount recorded in the balance sheet (Millions of Yen)	Holding purpose, quantitative effect of holding and reason for increase in the number of shares	Cross-holding of the Company's shares
FP Corporation	159,000 603	159,000 623	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
Hirogin Holdings, Inc.	837,550 554	837,550 577	The issuer engages in fund transactions such as fund procurement and settlement and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
PLANET, INC.	300,800 366	300,800 439	The issuer engages in contracted development of product distribution systems, among other things, and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
TSURUHA HOLDINGS INC.	20,000 204	20,000 221	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
CREATE SD HOLDINGS CO., LTD.	60,000 198	60,000 191	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
MatsukiyoCocokara & Co.	17,000 112	17,000 72	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
Sanyo Chemical Industries, Ltd.	27,720 112	27,720 148	The issuer engages in raw material purchase transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	Yes
Valor Holdings Co., Ltd.	59,504 108	59,504 128	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No

Shares	Fiscal Year Ended December 31, 2022	Fiscal Year Ended December 31, 2021	Holding purpose, quantitative effect of holding and reason for increase in the number of shares	Cross-holding of the Company's shares
	Number of shares (Shares)	Number of shares (Shares)		
	Amount recorded in the balance sheet (Millions of Yen)	Amount recorded in the balance sheet (Millions of Yen)		
KOHNAN SHOJI Co., Ltd.	20,000	20,000	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	68	68		
CB GROUP MANAGEMENT Co., Ltd.	19,289	18,713	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations. The number of shares increased due to the acquisition of shares through the shareholding association.	Yes
	60	52		
CAWACHI LTD.	20,000	20,000	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	45	44		
HARIMA-KYOWA CO., LTD.	26,400	26,400	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	42	46		
ECHO TRADING CO., LTD.	55,000	55,000	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	36	35		
UNQ Holdings Limited	598,400	598,400	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.	No
	18	52		
Encho Co., Ltd.	9,249	8,668	The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations. The number of shares increased due to the acquisition of shares through the shareholding association.	No
	9	8		

<table>
<tr><td rowspan="3">Shares</td><td>Fiscal Year Ended December 31, 2022</td><td>Fiscal Year Ended December 31, 2021</td><td rowspan="3">Holding purpose, quantitative effect of holding and reason for increase in the number of shares</td><td rowspan="3">Cross-holding of the Company’s shares</td></tr>
<tr><td>Number of shares (Shares)</td><td>Number of shares (Shares)</td></tr>
<tr><td>Amount recorded in the balance sheet (Millions of Yen)</td><td>Amount recorded in the balance sheet (Millions of Yen)</td></tr>
<tr><td rowspan="2">MINISTOP Co., Ltd.</td><td>6,295</td><td>5,975</td><td rowspan="2">The issuer engages in product sales transactions and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.
The number of shares increased due to the acquisition of shares through the shareholding association.</td><td rowspan="2">No</td></tr>
<tr><td>9</td><td>8</td></tr>
<tr><td rowspan="2">The Iyo Bank, Ltd. (Note 2)</td><td>–</td><td>1,017,640</td><td rowspan="2">The issuer engages in fund transactions such as fund procurement and settlement and the Company holds the shares for the purpose of facilitating business activities and maintaining and strengthening the trade relations.</td><td rowspan="2">Yes</td></tr>
<tr><td>–</td><td>586</td></tr>
</table>

Notes: 1. Information about quantitative effect of holding of securities is omitted, since it is difficult in practice to provide such information. The rationality of the holding was examined at the Board of Directors meeting held in November 2022 based on whether the holding purpose is diluted and whether the benefits and risks resulting from the holding are proportionate to the capital cost.

2. The Iyo Bank, Ltd. established a holding company, Iyogin Holdings, Inc., on October 3, 2022 through a share transfer. As a result of this share transfer, one share of common stock of Iyogin Holdings, Inc. was allotted for each share of common stock of The Iyo Bank, Ltd.

Shares subject to deemed holding

Not applicable.

3) Shares for investment held for pure investment purposes

Classification	Fiscal year under review		Fiscal Year Ended December 31, 2021	
	Number of securities (Securities)	Total amount recorded in the balance sheet (Millions of Yen)	Number of securities (Securities)	Total amount recorded in the balance sheet (Millions of Yen)
Unlisted equity securities	–	–	–	–
Equity securities other than unlisted equity securities	2	17,591	2	19,763

Classification	Fiscal year under review		
	Total amount of dividend income (Millions of Yen)	Total amount of gain (loss) on sale (Millions of Yen)	Total amount of gain (loss) on valuation (Millions of Yen)
Unlisted equity securities	–	–	–
Equity securities other than unlisted equity securities	509	–	(6,708)

V. Financial Information

1. Basis of preparation of the consolidated and non-consolidated financial statements

(1) The consolidated financial statements of the Company are prepared in conformity with IFRS in accordance with Article 93 of the Ministry of Finance Ordinance No. 28, 1976 "Regulations Concerning the Terminology, Forms and Preparation Methods of Consolidated Financial Statements" (hereinafter "Regulations for Consolidated Financial Statements").

(2) The non-consolidated financial statements of the Company are prepared in accordance with the Ministry of Finance Ordinance No. 59, 1963 "Regulations Concerning the Terminology, Forms and Preparation Methods of Non-Consolidated Financial Statements" (hereinafter "Regulations for Non-Consolidated Financial Statements").

As the Company falls under the category of a company filing financial statements prepared in accordance with special provisions, the non-consolidated financial statements of the Company are prepared in accordance with Article 127 of the Regulations for Non-Consolidated Financial Statements.

2. Auditing and certification

The consolidated and the non-consolidated financial statements for the fiscal year ended December 31, 2022 (January 1, 2022 – December 31, 2022) were audited by PricewaterhouseCoopers Aarata LLC, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Particular efforts to secure the appropriateness of the consolidated financial statements and establishment of system that enables preparation of appropriate consolidated financial statements in conformity with IFRS

The Company is making particular efforts to ensure the appropriateness of the consolidated financial statements while developing systems to prepare those documents in conformity with IFRS as follows.

(1) The Company has become a member of the Financial Accounting Standards Foundation (hereinafter "Foundation") and participates in seminars and other programs sponsored by the Foundation in order to have an appropriate understanding about the contents of the accounting standards, etc., and establish a system so that the Company might be able to properly respond to the changes in the accounting standards, etc.

(2) In order to prepare appropriate consolidated financial statements, the Company develops group accounting policies and guidelines in conformity with IFRS and applies them in its accounting treatment.

1. Consolidated financial statements

(1) Consolidated financial statements

1) Consolidated statement of financial position

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Assets			
Current assets			
Cash and cash equivalents	7, 31	187,547	217,153
Trade and other receivables	8, 31	129,367	152,971
Inventories	9	89,811	117,590
Other current financial assets	31	119,752	90,450
Other current assets		21,266	25,592
Total current assets		547,743	603,756
Non-current assets			
Property, plant and equipment	10, 12	271,689	271,662
Intangible assets	11, 12	85,407	90,523
Deferred tax assets	14	13,911	14,860
Investments accounted for using equity method		1,029	597
Other non-current financial assets	31	65,789	65,753
Other non-current assets	18	2,086	2,067
Total non-current assets		439,912	445,462
Total assets		987,655	1,049,218

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	17, 31	167,241	171,035
Borrowings	15, 31	33,882	10,787
Income tax payables		13,639	14,600
Other current financial liabilities	16, 31	5,455	6,645
Other current liabilities	19	54,233	53,596
Total current liabilities		274,450	256,663
Non-current liabilities			
Borrowings	15, 31	4,432	16,235
Deferred tax liabilities	14	24,285	24,940
Retirement benefit liabilities	18	11,973	12,687
Other non-current financial liabilities	16, 31	32,727	24,934
Other non-current liabilities		4,349	5,146
Total non-current liabilities		77,767	83,942
Total liabilities		352,217	340,605
Equity			
Equity attributable to owners of parent			
Capital stock	20	15,993	15,993
Share premium	20	14,801	15,209
Retained earnings	20	599,946	644,859
Treasury shares	20	(68,646)	(83,699)
Other components of equity	20	(4,454)	26,521
Total equity attributable to owners of parent		557,639	618,883
Non-controlling interests		77,799	89,730
Total equity		635,438	708,613
Total liabilities and equity		987,655	1,049,218

2) Consolidated statements of income and comprehensive income

Consolidated statement of income

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Net sales	6, 22	782,723	898,022
Cost of sales	24	(469,078)	(569,422)
Gross profit		313,645	328,600
Selling, general and administrative expenses	23, 24	(191,162)	(209,034)
Other income	25	3,235	3,052
Other expenses	13, 25	(7,445)	(7,395)
Financial income	26	5,211	4,628
Financial costs	26	(1,507)	(4,143)
Profit before tax		121,977	115,708
Income tax expenses	14	(38,372)	(37,333)
Profit for the period		83,605	78,375
Profit attributable to			
Owners of parent		72,745	67,608
Non-controlling interests		10,860	10,767
Profit for the period		83,605	78,375
Earnings per share attributable to owners of parent			
Basic earnings per share (Yen)	28	121.78	113.61
Diluted earnings per share (Yen)	28	121.69	113.59

Reconciliation of changes from gross profit to core operating income

(Millions of Yen)

Gross profit	313,645	328,600
Selling, general and administrative expenses	(191,162)	(209,034)
Core operating income (*)	122,482	119,566

* Core operating income comprises gross profit less selling, general and administrative expenses. While it is not an indicator defined in IFRS, the Company voluntarily discloses this in the consolidated statement of income and Note 6 “Segment information” as the Company’s Board of Directors evaluates the performance of business segments based on core operating income, and it is believed to be a valuable benchmark for measuring the Group’s recurring business performance.

Consolidated statement of comprehensive income

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Profit for the period		83,605	78,375
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
Net changes in equity instruments measured at fair value through other comprehensive income	27	(4,108)	(2,191)
Remeasurements related to net defined benefit liabilities (assets)	27	316	81
Subtotal		(3,792)	(2,109)
Items that may be reclassified to profit or loss			
Net changes in debt instruments measured at fair value through other comprehensive income	27	(19)	(16)
Changes in fair value of cash flow hedges	27	25	(25)
Exchange differences on translation in foreign operations	27	35,729	38,399
Share of other comprehensive income of investments accounted for using equity method	27	13	7
Subtotal		35,748	38,365
Total other comprehensive income, net of tax		31,956	36,256
Total comprehensive income		115,560	114,631
Total comprehensive income attributable to			
Owners of parent		97,670	98,094
Non-controlling interests		17,890	16,537
Total comprehensive income		115,560	114,631

3) Consolidated statement of changes in equity

Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)

(Millions of Yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2021		15,993	13,208	547,259	(54,572)	(28,886)	493,002	69,651	562,653
Profit for the period		–	–	72,745	–	–	72,745	10,860	83,605
Other comprehensive income	27	–	–	–	–	24,925	24,925	7,031	31,956
Total comprehensive income		–	–	72,745	–	24,925	97,670	17,890	115,560
Purchase of treasury shares	20	–	–	–	(16,001)	–	(16,001)	–	(16,001)
Disposal of treasury shares	20	–	360	–	1,784	(244)	1,900	–	1,900
Dividends	21	–	–	(20,308)	–	–	(20,308)	(9,659)	(29,967)
Change in scope of consolidation		–	–	–	–	–	–	48	48
Share-based payment transactions	20	–	1,232	–	144	–	1,376	–	1,376
Transfer from other components of equity to retained earnings	20	–	–	250	–	(250)	–	–	–
Other		–	–	–	–	–	–	(132)	(132)
Total transactions with owners		–	1,592	(20,058)	(14,073)	(494)	(33,033)	(9,742)	(42,775)
Balance at December 31, 2021		15,993	14,801	599,946	(68,646)	(4,454)	557,639	77,799	635,438

Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)

(Millions of Yen)

	Notes	Equity attributable to owners of parent						Non-controlling interests	Total equity
		Capital stock	Share premium	Retained earnings	Treasury shares	Other components of equity	Total		
Balance at January 1, 2022		15,993	14,801	599,946	(68,646)	(4,454)	557,639	77,799	635,438
Profit for the period		–	–	67,608	–	–	67,608	10,767	78,375
Other comprehensive income	27	–	–	–	–	30,485	30,485	5,771	36,256
Total comprehensive income		–	–	67,608	–	30,485	98,094	16,537	114,631
Purchase of treasury shares	20	–	–	–	(17,001)	–	(17,001)	–	(17,001)
Disposal of treasury shares	20	–	223	–	1,832	(146)	1,909	–	1,909
Dividends	21	–	–	(22,059)	–	–	(22,059)	(9,743)	(31,802)
Equity transactions with non-controlling interests		–	(1,003)	–	–	–	(1,003)	5,136	4,133
Share-based payment transactions	20	–	1,189	–	115	–	1,305	–	1,305
Transfer from other components of equity to retained earnings	20	–	–	(635)	–	635	–	–	–
Total transactions with owners		–	409	(22,695)	(15,053)	490	(36,849)	(4,607)	(41,456)
Balance at December 31, 2022		15,993	15,209	644,859	(83,699)	26,521	618,883	89,730	708,613

4) Consolidated statement of cash flows

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Cash flows from operating activities			
Profit before tax		121,977	115,708
Depreciation and amortization expenses		37,926	41,486
Impairment losses		4,757	4,312
Interest and dividend income		(3,592)	(4,577)
Interest expenses		1,276	2,462
Foreign exchange loss (gain)		1,154	3,065
Loss (gain) on sale and retirement of fixed assets		(18)	653
Decrease (increase) in trade and other receivables		(4,718)	(22,910)
Decrease (increase) in inventories		(23,153)	(22,474)
Increase (decrease) in trade and other payables		14,182	(1,265)
Increase (decrease) in other current liabilities		(5,374)	(5,624)
Decrease (increase) in other non-current assets		415	10,099
Other, net		(5,759)	6,242
Subtotal		139,073	127,177
Interest and dividends received		4,286	4,769
Interest paid		(1,332)	(2,327)
Income taxes refund		2,082	164
Income taxes paid		(38,856)	(37,567)
Net cash provided by (used in) operating activities		105,253	92,216

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Cash flows from investing activities			
Payments into time deposits		(51,454)	(72,673)
Proceeds from withdrawal of time deposits		47,376	111,679
Purchase of property, plant and equipment, and intangible assets		(34,671)	(32,950)
Proceeds from sale of property, plant and equipment, and intangible assets		769	38
Long-term loan advances		(21)	(2,875)
Purchase of financial assets measured at amortized cost		(8,330)	(6,766)
Purchase of financial assets measured at fair value through profit or loss		(13,000)	(18,000)
Purchase of equity instruments measured at fair value through other comprehensive income		(13,191)	(642)
Purchase of debt instruments measured at fair value through other comprehensive income		(12,673)	(2,118)
Proceeds from sale and redemption of financial assets measured at amortized cost		–	1,000
Proceeds from sale and redemption of financial assets measured at fair value through profit or loss		5,000	12,100
Proceeds from sale and redemption of equity instruments measured at fair value through other comprehensive income		37	30
Proceeds from sale and redemption of debt instruments measured at fair value through other comprehensive income		400	4,000
Purchase of shares of subsidiaries and associates		(318)	–
Proceeds from sale of shares of subsidiaries and associates		213	–
Other, net		26	34
Net cash provided by (used in) investing activities		(79,837)	(7,145)

(Millions of Yen)

	Notes	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	15	7,115	4,481
Proceeds from long-term borrowings	15	–	4,032
Repayments of long-term borrowings	15	(3,000)	(20,507)
Repayments of lease liabilities		(5,235)	(5,641)
Payments for purchase of treasury shares	20	(16,001)	(17,001)
Dividends paid to owners of parent		(20,301)	(22,053)
Dividends paid to non-controlling interests		(9,659)	(9,743)
Proceeds from share issuance to non-controlling interests		–	2,870
Proceeds from exercise of employee share options	20	1,900	1,909
Net cash provided by (used in) financing activities		(45,180)	(61,652)
Effect of exchange rate changes on cash and cash equivalents		7,789	6,186
Net increase (decrease) in cash and cash equivalents		(11,975)	29,606
Cash and cash equivalents at beginning of period	7	199,522	187,547
Cash and cash equivalents at end of period	7	187,547	217,153

Notes to the consolidated financial statements

1. Reporting entity

The Group is engaged in the manufacture and sale of wellness care, feminine care, baby care, Kirei care and other products of personal care business, and pet care products, which are its mainstay business lines, with core operations in the Asian markets. The Group is strengthening its global production facilities in response to growing demand for disposable diapers and feminine napkins in emerging regions, notably in Asia, the Middle East, North Africa, and South America.

The Company is headquartered in Japan and is listed on the Tokyo Stock Exchange. The registered location of its head office is Shikokuchuo-Shi in Ehime Prefecture.

2. Basis of preparation

(1) Conformity with IFRS

The Group's consolidated financial statements meet the requirements for a "Specified Company under Designated International Accounting Standards" as stipulated in Article 1-2 of the Regulations for Consolidated Financial Statements. Hence, they are prepared in conformity with IFRS in accordance with Article 93 of the Regulations. The Group's consolidated financial statements for the fiscal year under review were approved at the Board of Directors meeting held on March 24, 2023.

(2) Basis of measurement

The Group's consolidated financial statements are prepared using the historical cost basis except for financial instruments and other items measured at fair value, as presented in Note 3 "Significant accounting policies."

(3) Functional currency and presentation currency

Items in the financial statements of each of the Group companies are measured using the currency of the primary economic environment where the companies operate (hereinafter "functional currency"). The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency. Amounts of less than one million yen are rounded to the nearest million yen.

(4) Early adoption of new accounting standards

There are no accounting standards, etc. early adopted.

(5) Changes in the presentation method

(Consolidated statement of cash flows)

"Decrease (increase) in other non-current assets," which was included in "other, net" under "cash flows from operating activities" in the previous fiscal year, has been presented separately from the fiscal year under review as its financial materiality increased.

In order to reflect this change in the presentation method, ¥(5,344) million, which was presented in "other, net" under "cash flows from operating activities" in the consolidated statement of cash flows for the previous fiscal year, has been reclassified to "decrease (increase) in other non-current assets" of ¥415 million and "other, net" of ¥(5,759) million.

"Long-term loan advances," which were included in "other, net" under "cash flows from investing activities" in the previous fiscal year, has been presented separately from the fiscal year under review as its financial materiality increased.

In order to reflect this change in the presentation method, ¥5 million, which was presented in "other, net" under "cash flows from investing activities" in the consolidated statement of cash flows for the previous fiscal year, has been reclassified to "long-term loan advances" of ¥(21) million and "other, net" of ¥26 million.

3. Significant accounting policies

Significant accounting policies applied to the consolidated financial statements are as follows. Unless otherwise noted, the policies are applied continuously to all the periods presented.

(1) Basis of consolidation

1) Subsidiaries

Subsidiaries are entities over which the Group has control.

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to influence those returns through its power over the entity. Decisions as to whether or not the Group has power are based on a consideration of various elements, including the existence of potential voting rights that are exercisable at the present point in time. Financial statements of the subsidiaries are consolidated into the Group's consolidated financial statements from the date of acquisition of control to the date of loss of control. Adjustments to the financial statements of subsidiaries are made as necessary to bring them into conformity with the Group's accounting policies. When the fiscal closing date of subsidiaries is different from that of the Company for consolidation, provisional closing is made at the consolidated closing date for such subsidiaries.

When the ownership interest in a subsidiary changes and the control over the subsidiary is maintained, any difference between the amount by which non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized as equity transactions directly in equity attributable to owners of the parent.

All intra-group transactions, balances, and unrealized gains and losses are eliminated in consolidation.

2) Associates

An associate is an entity over which the Group has significant influence on the entity's decisions related to operational and financial policies, but does not have control. Significant influence is presumed to exist when the Group has 20% or more but 50% or less of the voting rights of the entity concerned.

Investments in associates are initially recognized at cost on acquisition and are subsequently accounted for using the equity method from the date when the Company obtains significant influence to the date when such influence is lost.

(2) Business combinations

The Group applies the acquisition method to business combinations. The consideration transferred in a business combination includes the fair value of the assets transferred by the Company to former owners of the acquiree, the liabilities incurred, the equity interests issued by the Company, and the liabilities resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. The identifiable assets acquired and the liabilities assumed as a result of the business combination are measured at fair value on the acquisition date. The amount of non-controlling interests in the acquiree is recognized either at fair value or based on the proportionate share of the non-controlling interests in the identifiable net asset amounts for each business combination transaction.

(3) Foreign currency translation

1) Transactions denominated in foreign currencies

Transactions denominated in foreign currencies are translated into the functional currency of the Group using the exchange rate as of the date of the transaction, or in cases in which items in the financial statements are to be remeasured, the exchange rate at the date of such evaluation. Exchange differences arising from the settlement of these transactions, exchange differences arising from translation of monetary assets and liabilities denominated in foreign currencies at the closing rate at the end of the fiscal period, and exchange differences arising from translation into functional currency of non-monetary assets and liabilities carried at fair value at the rate prevailing on the date when the fair value was measured, are recognized in profit or loss.

2) Foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen at the closing rate at the end of the fiscal period. Revenues and expenses are translated into Japanese yen using the average rate for the fiscal period unless there are significant changes in the exchange rate. Resulting exchange differences are recognized in other comprehensive income.

(4) Financial instruments

1) Non-derivative financial assets

(a) Initial recognition and measurement

The Group classifies financial assets which it holds into the following categories: (i) financial assets measured at amortized cost, (ii) debt instruments measured at fair value through other comprehensive income, (iii) equity instruments measured at fair value through other comprehensive income and (iv) financial assets measured at fair value through profit or loss. This classification is determined at initial recognition of the financial assets.

The Group initially recognizes trade and other receivables on the date of occurrence. Other financial assets are recognized initially on the trade date at which the Group becomes a party to the contract. At initial recognition, all financial assets are measured at fair value. However, in the case of a financial asset that is not classified as a financial asset measured at fair value through profit or loss, it is measured at the fair value plus any transaction costs directly attributable to the acquisition of the financial asset. The transaction costs of financial assets measured at fair value through profit or loss are recognized in profit or loss.

(i) Financial assets measured at amortized cost

Of the financial assets held by the Group, those that meet both of the following conditions are classified as financial assets measured at amortized cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising in the event of derecognition are recognized in profit or loss of the reporting period.

(ii) Debt instruments measured at fair value through other comprehensive income

Financial assets that meet both of the following conditions are classified as debt instruments measured at fair value through other comprehensive income.

- Financial assets are held in a business model where the objective is achieved through both the collection and sale of contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, the financial assets are measured at fair value and changes in the fair value excluding impairment loss are recognized in other comprehensive income. In the event of derecognition of the relevant financial asset, the cumulative amount of gains or losses recognized through other comprehensive income is directly transferred to profit or loss.

Interest income based on the effective interest method related to the relevant financial asset are recognized in profit or loss.

(iii) Equity instruments measured at fair value through other comprehensive income

Of the financial assets other than those measured at amortized cost, equity instruments for which the Group made an irrevocable election at initial recognition to present subsequent changes in the fair value in other comprehensive income are classified as equity instruments measured at fair value through other comprehensive income.

Subsequent to initial recognition, the financial assets are measured at fair value and changes in the fair value are recognized in other comprehensive income. In the event of derecognition of the relevant financial asset, the cumulative amount of gains or losses recognized through other comprehensive income is directly transferred to retained earnings.

Dividends from the relevant financial asset are recognized in profit or loss.

(iv) Financial assets measured at fair value through profit or loss

Financial assets, other than financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, and equity instruments measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

Subsequent to initial recognition, the financial assets are measured at fair value and changes in the fair value are recognized in profit or loss.

(b) Derecognition of financial assets

The Group derecognizes financial assets when the contractual rights to the cash flows from the financial assets expire, or when the contractual rights to receive the cash flows from the financial assets are assigned and substantially all the risks and rewards of ownership of the financial assets are transferred.

(c) Impairment of financial assets

With respect to impairment of financial assets that are measured at amortized cost and debt instruments, etc. that are measured at fair value through other comprehensive income, allowance for doubtful accounts are recognized for expected credit losses on the relevant financial assets.

At the end of each reporting period, the Group assesses whether there has been any significant increase in credit risk associated with the financial assets since initial recognition.

If credit risk of a financial instrument has not increased significantly since initial recognition, the allowance for doubtful accounts associated with the relevant financial instrument is measured at an amount equal to twelve-month expected credit losses. If credit risk of a financial instrument has increased significantly since initial recognition, the allowance for doubtful accounts associated with the relevant financial instrument is measured at an amount equal to lifetime expected credit losses.

However, with respect to trade receivables etc. that do not contain significant financing component, allowance for doubtful accounts are always measured at an amount equal to lifetime expected credit losses.

Estimation of expected credit losses on financial instruments is calculated using a method that reflects the following:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money;
- Reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, where such information is available without undue cost or effort at the end of a reporting period

The amount relating to such measurement is recognized in profit or loss. If an event occurs after recognition of an impairment loss that results in a decrease of the impairment loss, such decrease is reversed in profit or loss.

2) Non-derivative financial liabilities

Non-derivative financial liabilities that the Group holds include interest-bearing debts and trade and other payables, which are initially recognized on the transaction date on which the Group becomes a party to the contract. These financial liabilities are initially recognized at fair value net of direct transaction costs, and subsequent to initial recognition, are measured at amortized cost using the effective interest method.

The Group derecognizes financial liabilities when the obligation is satisfied, or when the contractual obligation is discharged, canceled, or expires.

3) Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when the Group has a legally enforceable right to set off the recognized amounts and intends either to settle on a net basis or to realize the assets and settle the liabilities simultaneously.

4) Derivatives and hedge accounting

(a) Derivatives

The Group utilizes primarily foreign exchange forward contracts, non-deliverable forwards and currency swaps for hedging foreign exchange fluctuation risk. Derivatives are initially recognized at fair value on the date when the derivative contracts are entered into and are subsequently measured at fair value at the end of each fiscal period. Changes in the fair value of a derivative are recognized in profit or loss immediately unless the derivative is designated as a hedging instrument or the hedging is effective.

(b) Hedge accounting

The Group designates certain derivative transactions as hedging instruments and accounts for them as cash flow hedges.

At the inception of the hedge, the Group documents the hedge relationship qualifying for hedge accounting, as well as its risk management objectives and strategies for undertaking hedge transactions. Additionally, at the inception of the hedge and on an ongoing basis, the Group evaluates whether an economic relationship exists between the hedging instrument and the relevant hedged item to offset changes in the fair value or cash flows of the hedged item during the underlying period.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in other components of equity. The amounts related to hedging instruments that are recognized in other components of equity are reclassified to profit or loss in the same period when the hedged items affect profit or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains or losses previously recognized in accumulated other comprehensive income are reclassified and included in measuring the cost of the non-financial asset or the non-financial liability at initial recognition.

The application of hedge accounting is discontinued in cases where the hedging instrument expires, is sold, terminated, or exercised, or in cases where the hedge ceases to meet the hedge effectiveness requirement. When hedge accounting is discontinued, any gains or losses recognized in accumulated other comprehensive income remain in equity and are reclassified to profit or loss when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the amount related to the hedging instrument recognized in other components of equity is immediately recognized in profit or loss.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and other highly liquid short-term investments with original maturities of three months or less.

(6) Inventories

Inventories are stated at the lower of cost or net realizable value. Costs are calculated by the gross average method for merchandise, finished goods, work in process, and supplies, and by the moving-average method for raw materials. The cost of finished goods and work in process is comprised of costs of raw materials, direct labor and other direct costs, and related manufacturing overhead (based on normal capacity of production facilities). Net realizable value is the estimated selling price in the ordinary course of business less related estimated selling expenses.

(7) Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses. Cost includes costs directly attributable to the acquisition of qualifying assets and borrowing costs directly attributable to acquisition, construction, and production of qualifying assets.

Expenses subsequent to acquisition are included in the carrying amount of the relevant asset or are separately recognized as an asset where appropriate, if it is highly probable that associated future economic benefits will flow into the Group and if such expenditures can be estimated reasonably. The carrying amount of the replaced portion is derecognized.

Except for land and other assets that are not depreciated, depreciation is calculated using the straight-line method, with the depreciable amount, which is the cost less its residual value, allocated over the asset's useful life as given below.

Buildings and structures	2 – 50 years
Machinery, equipment and vehicles	2 – 20 years

The depreciation method, residual value, and useful life of an asset are reviewed at the end of each fiscal year and revised as necessary.

(8) Goodwill and intangible assets

1) Goodwill

Goodwill is the excess of the cost of acquisition over the fair value, on the acquisition date, of the Group's share of the identifiable net assets of the acquiree. Goodwill arising from acquisition of subsidiaries is included in intangible assets and is recorded at cost less accumulated impairment losses. Goodwill is not amortized and is allocated to each group of cash-generating unit that is identified based on the region or category of operations.

2) Intangible assets

Intangible assets acquired separately are measured at cost at initial recognition.

Development expenditures directly related to designing and testing of identifiable original software products managed by the Group are recognized as intangible assets only if they can be reliably measured, it is technically and commercially feasible to complete the product or the process, it is highly probable that future economic benefits will be generated, and the Group has the intention and adequate resources to complete the development and to use or sell the assets.

Intangible assets acquired in a business combination and recognized separately from goodwill at initial recognition are measured at fair value on the acquisition date.

Major intangible assets with finite useful lives are amortized using the straight-line method over the estimated useful lives as given below.

Software	5 years
Trademarks (with finite useful lives)	10 – 30 years
Customer-related assets (with finite useful lives)	20 years

The amortization method, residual value, and useful life of an asset are reviewed at the end of each fiscal year and revised as necessary.

(9) Leases

At the lease commencement date, the right-of-use asset is measured at acquisition cost and the lease liability is measured at the present value of the lease payments not paid as of the lease commencement date.

Right-of-use assets are depreciated over the useful life of the right-of-use asset or the period of the lease, whichever is shorter, from the lease commencement date, and are included in property, plant and equipment or intangible assets in the consolidated statement of financial position.

Lease liabilities are measured at amortized cost using the effective interest method and are shown in other financial liabilities in the consolidated statement of financial position. Lease payments are allocated between financial costs and the amount of the lease liability remaining to be repaid, so that there is a fixed interest rate on the balance of the lease liability. Financial costs are shown separately from depreciation of right-of-use assets in the consolidated statement of income.

At the start of the contract, the Group identifies whether a contract meets the definition of a lease or includes a lease, based on the substance of the contract. If the contract transfers the right to control the use of an identified asset for a period of time in exchange for a consideration, the contract is deemed to be a lease or to contain a lease.

In the case of short-term leases and leases of low value underlying assets with lease terms of less than twelve months, the Group does not recognize right-of-use assets and lease liabilities. The Group recognizes the total lease payments in profit or loss using the straight-line method over the lease term.

(10) Impairment of non-financial assets

An impairment assessment is performed for property, plant and equipment, right-of-use assets, and intangible assets when there are any events or changes in circumstances indicating that the carrying amount may not be recoverable. The excess of the carrying amount of an asset over its recoverable amount is recognized as impairment losses. The recoverable amount is the higher of the fair value less costs to sell or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the asset. In performing impairment assessments, the assets are grouped together into the smallest identifiable group of assets that can generate cash flows (cash-generating unit).

Goodwill, intangible assets with indeterminable useful lives, and intangible assets that are not yet available for use are not amortized, but are tested for impairment at a certain time each year and whenever there is an indication of impairment by estimating the recoverable amount of the asset and comparing it to the carrying amount.

For non-financial assets other than goodwill for which impairment losses were recognized in prior periods, a re-assessment is performed at the end of each fiscal period for any possibility that the impairment may be reversed.

Any impairment losses for goodwill are recognized in profit or loss and are not reversed in subsequent periods.

(11) Employee benefits

1) Short-term employee benefits

Short-term employee benefits are recognized as an expense when the employees render the related service. For bonus payments and cost of compensated absences, a liability is recognized for the amount expected to be paid under the relevant benefit plan if the Group has legal or constructive obligations to make the payments as a result of past service rendered by the employees, and if the obligations can be estimated reliably.

2) Retirement benefits

The Group has adopted defined contribution plans and defined benefit plans for its current and retired employees.

Defined contribution plans are retirement benefit plans under which an employer pays fixed contributions into an independent entity and will have no legal or constructive obligations to pay further contributions. For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans. As long as the contributions are paid, the Group will not be subject to any additional obligations. Contributions are recognized as employee benefit expenses during the period in which the employees render the related service.

Defined benefit plans are retirement benefit plans other than defined contribution plans. Liabilities recognized in respect of the defined benefit plans are the present value of the defined benefit obligations less the fair value of plan assets after adjusting for the effect of asset ceiling, as necessary, considering available economic benefits. The defined benefit obligations are calculated each year using independent actuaries and the projected unit credit method. The discount rate used in the calculation is determined by reference to market yields of high quality corporate bonds at the end of each fiscal year consistent with the discount period. The discount period is determined based on the term to the estimated dates of future benefit payments.

Of retirement benefit expenses, service cost and net interest on net defined benefit liabilities (assets) are recognized in profit or loss. Remeasurements, which include actuarial gains and losses in experience adjustments as well as actuarial gains and losses due to changes in actuarial assumptions, are recognized in other comprehensive income for the period of occurrence and are transferred to retained earnings immediately from other components of equity. Past service cost is recognized in net profit or loss at the earlier of the date when a plan amendment or curtailment occurs and when the Group recognizes any related restructuring costs or termination benefits.

(12) Share-based payments

As equity-settled share-based compensation, the Group has introduced a stock option plan and restricted share-based remuneration plan, as well as cash-settled share-based compensation. Equity-settled share-based compensation is measured at fair value at the date of grant. The fair value of stock options is calculated using the Black-Scholes model, and the fair value of restricted stock is calculated using the stock price on the date of grant. The fair value determined at the date of grant is recognized as an expense over the vesting period based on an estimate of the number of stock options or restricted stock that are expected to be ultimately vested, and an equal amount is recognized as an increase in equity. The terms and conditions are reviewed periodically and the estimate of the number of vested options is revised as necessary. Cash-settled share-based compensation is measured at the fair value of the liability incurred. The fair value of such liabilities is remeasured at the end of the period and at the settlement date, with changes in fair value recognized in profit or loss.

(13) Equity

Common shares are classified as equity.

Costs directly attributable to the issuance of new shares (common shares) or stock options, net of tax effects, are recognized as a deduction from equity.

In case of purchasing treasury shares, the consideration paid, including any directly attributable transaction costs (net of tax), is deducted from equity until disposal or cancellation of the shares. The difference between the carrying amount and the consideration at sale is recognized as share premium.

(14) Revenue recognition

The Group recognizes revenue based on the following five step approach.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group is mainly engaged in the manufacture and sale of products for personal care, which includes wellness care business, feminine care business, baby care business and Kirei care business, and for pet care business. For the sale of such products, because the customer obtains control of the products at the time of delivery, the Group judges that its performance obligation is satisfied and recognizes revenue at the time of product delivery. Revenue is recognized at the amount of consideration to which the entity expects to be entitled in exchange for transfer of goods to customers, and is measured at the amount after deduction of trade discounts, rebates, value-added tax, or other taxes. Variable consideration in the form of discounts and rebates is included in the transaction price only to the extent that it is highly probable that a subsequent resolution of the uncertainty relating to such variable consideration will not result in a material reversal of the accumulated amount of revenue recognized. The consideration for performance obligations is received within one year from the fulfillment of the obligations and does not contain any significant financing component.

(15) Income taxes

Income tax expenses comprise current tax expenses and deferred tax expenses. These are recognized in the consolidated statement of income except for those recognized in relation to business combinations, recognized in other comprehensive income, or recognized directly in equity.

Current income tax expenses are measured at the amount expected to be paid to or refunded from the tax authorities, using the tax laws that have been enacted or substantively enacted as of the end of each fiscal period in the countries or regions in which the Company and its subsidiaries operate and in which taxable income is generated.

Temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements, based on the asset liability approach, and tax loss and tax credit carry-forwards, are recognized as deferred tax assets and liabilities.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the relevant deferred tax asset is realized or the deferred tax liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each fiscal period. A deferred tax asset is recognized only if it is likely to generate future taxable profit. However, deferred tax assets and liabilities are not recognized in the following circumstances.

- Temporary difference arising from the initial recognition of an asset or liability in a transaction other than a business combination which, on the transaction date, affects neither the accounting profit and loss nor the taxable profit (loss);
- Taxable temporary difference arising from the initial recognition of goodwill;
- Taxable temporary difference associated with investments in subsidiaries and associates of which the Group is able to control the timing of the reversal and which is unlikely to reverse in the foreseeable future;
- Deductible temporary difference associated with investments in subsidiaries and associates that is not likely to generate sufficient future taxable profit against which the temporary difference may be utilized, or that is not likely to reverse in the foreseeable future

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and if the deferred tax assets and liabilities relate to income taxes imposed by the same tax authorities on the same taxable entity or different taxable entities that intend to make a settlement on a net basis.

(16) Earnings per share

Basic earnings per share are calculated by dividing profit or loss attributable to owners of parent by the weighted-average number of common shares outstanding for the period, after adjusting for treasury shares. Diluted earnings per share are calculated by adjusting for the impact of all dilutive potential shares.

4. Significant accounting estimates and judgments

In preparing the Group's consolidated financial statements, the management makes judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. However, actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Impacts of the revisions to accounting estimates are recognized in the period in which the estimate is revised and the future periods affected by such revisions.

Estimates and judgments made by the management as having a significant effect on the amounts reported in the Group's consolidated financial statements are as follows:

(1) Valuation of goodwill and intangible assets with indeterminable useful lives

With regard to goodwill and intangible assets with indeterminable useful lives, the recoverable amounts of the assets are estimated for comparison with the carrying amounts thereof at a certain time each year and whenever there is an indication of impairment. Recoverable amounts are measured by value in use in the group of cash-generating unit that includes goodwill and intangible assets with indeterminable useful lives. Value in use is calculated as the present value of estimated future cash flows. Estimated future cash flows are based on a three-year business plan approved by the management and, for the period after the three years, they are estimated on the assumption that they will gradually increase at a certain growth rate, taking into account average growth rates forecast in each market.

The major assumptions used to estimate value in use are estimates of future cash flows during the period covered by the business plan, the growth rate after the period, and the discount rate calculated based on the weighted-average capital cost.

While the management uses their best judgment to estimate future cash flows in the business plan for the next three years and a growth rate used for the period beyond the years covered by the business plan, these estimates may differ from actual results due to changes in economic conditions given future uncertainties.

(2) Income taxes

The Group is engaged in business operations in many countries and regions around the world. Amounts that are estimated to be paid to the respective country's and region's tax authorities are assessed reasonably in accordance with the related laws and regulations, and are recorded as income tax payables and income tax expenses.

In the calculation of income tax payables and income tax expenses, estimates and judgments are required on various factors, including interpretation of the provisions of tax statutes by both the entities subject to taxation and the tax authorities, as well as circumstances of past tax examinations. Consequently, the amounts of income tax payables and income tax expenses that have been recorded may differ from the actual payment amounts.

Also, deferred tax assets are provided within the extent of taxable profit likely to be generated against which deductible temporary differences may be utilized. In the judgment on the possibility of taxable profit, the timing at which such taxable profit will be generated and the amount are estimated based on the business plans. Whilst these estimates are made using the management's best judgment, they may differ from actual results due to changes in economic conditions given future uncertainties.

(3) Retirement benefits

The Group operates defined contribution plans and defined benefit plans for its current and retired employees. In regard to defined benefit plans, the present values of defined benefit obligations, service cost, and other items are calculated based on various actuarial assumptions. The actuarial assumptions include estimates based on various factors, such as the discount rate, future payments, future plan leavers, and the average life expectancy of plan participants. While these estimates are made using the management's best judgment, they may differ from actual results due to such factors as changes in economic conditions given future uncertainties, and amendments to and publication of related laws and regulations.

5. New accounting standards and interpretations not yet adopted

New accounting standards and new interpretations that have been established or revised by the date of approval for the consolidated financial statements and that have not been adopted by the Group as of December 31, 2022 are mainly as follows. The impact of the adoption of IAS 12 on the Group is being assessed.

Standards	Title	Timing of mandatory adoption (Fiscal year starting on or after)	Timing of adoption by the Group	Overview of new and revised standards
IAS 12	Income taxes	January 1, 2023	Fiscal year ending December 31, 2023	To clearly define how to account for deferred tax related to assets and liabilities arising from a single transaction

6. Segment information

(1) Overview of reportable segments

The Group's reportable segments are part of its organizational units whose financial information is individually available, and are subject to regular review by its Board of Directors, the chief operating decision maker, for the purpose of deciding the allocation of its managerial resources and evaluating its business performance.

The Group is composed of three businesses, namely the personal care business, the pet care business and other businesses as its basic units, and has been engaged in its business activities by comprehensively developing domestic and overseas strategies by business unit.

Therefore, the "personal care business," the "pet care business," and "other businesses" constitute the Group's reportable segments.

In the personal care business, the Group manufactures and sells wellness care products, feminine care products, baby care products, and Kirei care products. In the pet care business, the Group manufactures and sells pet food products and pet toiletry products. In other businesses, the Group manufactures and sells industrial materials related products, etc.

The accounting policies for the reportable segments are the same as for the consolidated financial statements. The segment profit is the core operating income (comprising gross profit less selling, general and administrative expenses), which is the key performance indicator based on which the Board of Directors evaluates the performance of business segments.

(2) Sales and results by reportable segment

Sales and results by reportable segment are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)					
	Reportable segments				Adjustments	Amounts reported in consolidated financial statements
	Personal care	Pet care	Other	Total		
Sales to external customers	672,039	104,541	6,143	782,723	–	782,723
Sales across segments (Note)	–	–	58	58	(58)	–
Total segment sales	672,039	104,541	6,200	782,780	(58)	782,723
Segment profit (Core operating income)	107,322	14,619	542	122,482	–	122,482
Other income						3,235
Other expenses						(7,445)
Financial income						5,211
Financial costs						(1,507)
Profit before tax						121,977
Others						
Depreciation and amortization expenses	34,310	3,270	346	37,926	–	37,926
Impairment losses	4,757	–	–	4,757	–	4,757
Increase in property, plant and equipment and intangible assets	34,460	1,011	1,082	36,552	–	36,552

(Millions of Yen)

	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)					
	Reportable segments				Adjustments	Amounts reported in consolidated financial statements
	Personal care	Pet care	Other	Total		
Sales to external customers	764,908	125,312	7,802	898,022	–	898,022
Sales across segments (Note)	–	–	187	187	(187)	–
Total segment sales	764,908	125,312	7,989	898,209	(187)	898,022
Segment profit (Core operating income)	100,863	18,352	351	119,566	–	119,566
Other income						3,052
Other expenses						(7,395)
Financial income						4,628
Financial costs						(4,143)
Profit before tax						115,708
Others						
Depreciation and amortization expenses	37,411	3,674	400	41,486	–	41,486
Impairment losses	4,312	–	–	4,312	–	4,312
Increase in property, plant and equipment and intangible assets	35,701	6,524	402	42,627	–	42,627

Note: Sales across segments are based on prevailing market prices.

(3) Information on products and services

Information on products and services is omitted, since it is the same as reportable segments.

(4) Geographical information

Sales to external customers by region are as follows. Sales are classified by country or region based on the location of consolidated companies.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Japan	294,853	307,631
China	111,649	115,275
Asia	252,070	312,997
Other	124,151	162,118
Total	782,723	898,022

The details of non-current assets by region (excluding financial instruments, deferred tax assets, and net defined benefit asset, etc.) are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Japan	134,492	112,361
China	39,900	41,895
Asia	134,136	154,583
Other	50,521	55,285
Total	359,048	364,124

Note: Major countries or regions which belong to Asia are Indonesia, Thailand, Vietnam, and India.

(5) Information about major customers

Information about major customers is omitted, since there is no particular external customer to whom sales are 10% or more of the net sales recorded in the consolidated statement of income.

7. Cash and cash equivalents

The details of cash and cash equivalents are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Cash and deposits	293,052	292,953
Time deposits with maturities over three months	(105,505)	(75,801)
Total	187,547	217,153

The balance of cash and cash equivalents as of the end of the previous fiscal year and the end of the fiscal year under review in the consolidated statement of financial position is identical to the balance of cash and cash equivalents presented in the consolidated statement of cash flows.

8. Trade and other receivables

The details of trade and other receivables are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Notes and accounts receivable - trade	129,441	153,067
Accounts receivable - other	2,184	2,300
Allowance for doubtful accounts	(2,257)	(2,395)
Total	129,367	152,971

9. Inventories

The details of inventories are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Merchandise and finished goods	50,859	62,581
Raw materials and supplies	37,983	53,801
Work in process	969	1,208
Total	89,811	117,590

The write-down of inventories recognized as an expense totaled ¥436 million and ¥991 million for the previous fiscal year and the fiscal year under review, respectively, which is included in cost of sales.

10. Property, plant and equipment

(1) Details of property, plant and equipment

The details of "property, plant and equipment" in the consolidated statement of financial position are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Property, plant and equipment	231,104	237,458
Right-of-use assets	40,585	34,205
Total	271,689	271,662

Please refer to Note "12. Right-of-use assets" for the statement of right-of-use assets.

(2) Statement of property, plant and equipment

Cost and changes in accumulated depreciation and accumulated impairment losses of property, plant and equipment are as follows.

(Millions of Yen)

Cost	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance at January 1, 2021	139,586	334,371	16,898	11,444	23,670	525,970
Purchase	359	1,101	–	30,765	1,700	33,925
Reclassification, etc.	7,741	13,309	29	(24,180)	1,059	(2,042)
Disposal	(258)	(7,832)	(194)	(998)	(541)	(9,823)
Effect of exchange rate changes	7,099	17,157	543	760	2,191	27,750
Balance at December 31, 2021	154,528	358,107	17,276	17,791	28,078	575,780
Purchase	316	2,053	940	24,969	1,579	29,857
Reclassification, etc.	6,535	24,532	–	(32,858)	1,323	(468)
Disposal	(263)	(10,013)	(0)	(180)	(427)	(10,884)
Effect of exchange rate changes	5,755	17,473	409	1,047	1,491	26,174
Balance at December 31, 2022	166,871	392,152	18,624	10,769	32,044	620,460

(Millions of Yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance at January 1, 2021	64,672	227,408	15	802	18,188	311,085
Depreciation	5,373	20,381	–	–	1,854	27,609
Reclassification, etc.	42	(1,297)	–	12	(49)	(1,292)
Disposal	(164)	(7,511)	–	–	(531)	(8,206)
Effect of exchange rate changes	2,557	11,260	–	(2)	1,665	15,480
Balance at December 31, 2021	72,480	250,241	15	811	21,128	344,675
Depreciation	6,477	22,608	–	–	2,422	31,507
Impairment losses	–	1,802	–	–	4	1,806
Reclassification, etc.	–	(708)	–	–	(4)	(712)
Disposal	(244)	(9,515)	–	(142)	(419)	(10,320)
Effect of exchange rate changes	2,547	12,320	–	86	1,093	16,046
Balance at December 31, 2022	81,260	276,749	15	755	24,223	383,002

(Millions of Yen)

Carrying amount	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Other	Total
Balance at January 1, 2021	74,915	106,963	16,883	10,642	5,482	214,885
Balance at December 31, 2021	82,047	107,866	17,261	16,979	6,951	231,104
Balance at December 31, 2022	85,610	115,404	18,610	10,014	7,820	237,458

Depreciation is recorded in "Cost of sales" and "Selling, general and administrative expenses."

There are no property, plant and equipment which are subject to restrictions on their ownership or pledged as collateral for liabilities.

11. Intangible assets

(1) Details of intangible assets

The details of "intangible assets" in the consolidated statement of financial position are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Intangible assets	85,128	90,316
Right-of-use assets	279	207
Total	85,407	90,523

Please refer to Note "12. Right-of-use assets" for the statement of right-of-use assets.

(2) Statement of intangible assets

Cost and changes in accumulated amortization and accumulated impairment losses of goodwill and other intangible assets are as follows.

(Millions of Yen)

Cost	Goodwill	Trademarks	Customer-related assets	Other	Total
Balance at January 1, 2021	47,032	34,656	32,077	21,301	135,067
Purchase	–	–	–	2,581	2,581
Reclassification, etc.	–	1	–	123	124
Disposal	–	–	–	(668)	(668)
Decrease due to change in scope of consolidation	(1,275)	(865)	–	–	(2,141)
Effect of exchange rate changes	1,668	2,704	1,017	885	6,274
Balance at December 31, 2021	47,425	36,496	33,094	24,222	141,236
Purchase	–	–	–	4,502	4,502
Reclassification, etc.	–	10	–	(19)	(9)
Disposal	–	–	–	(530)	(530)
Effect of exchange rate changes	4,736	4,157	4,065	1,163	14,121
Balance at December 31, 2022	52,160	40,663	37,159	29,338	159,321

(Millions of Yen)

Accumulated amortization and accumulated impairment losses	Goodwill	Trademarks	Customer-related assets	Other	Total
Balance at January 1, 2021	1,498	18,948	12,159	12,676	45,280
Amortization	–	1,417	1,546	2,187	5,150
Impairment losses	4,757	–	–	–	4,757
Reclassification, etc.	–	–	–	(8)	(8)
Disposal	–	–	–	(656)	(656)
Decrease due to change in scope of consolidation	(1,275)	(865)	–	–	(2,141)
Effect of exchange rate changes	–	2,143	359	1,223	3,725
Balance at December 31, 2021	4,979	21,642	14,064	15,422	56,108
Amortization	–	780	1,922	2,394	5,097
Impairment losses	2,202	–	–	304	2,506
Reclassification, etc.	–	–	–	(64)	(64)
Disposal	–	–	–	(441)	(441)
Effect of exchange rate changes	–	3,454	1,376	969	5,800
Balance at December 31, 2022	7,181	25,876	17,363	18,584	69,004

(Millions of Yen)

Carrying amount	Goodwill	Trademarks	Customer-related assets	Other	Total
Balance at January 1, 2021	45,535	15,709	19,918	8,625	89,786
Balance at December 31, 2021	42,446	14,854	19,029	8,800	85,128
Balance at December 31, 2022	44,979	14,787	19,796	10,754	90,316

Amortization is recorded in “Cost of sales” and “Selling, general and administrative expenses.”

There are no intangible assets which are subject to restrictions on their ownership or pledged as collateral for liabilities.

Some of the trademarks are deemed to have indeterminable useful lives since they will basically remain as long as the business is continued. The carrying amounts of trademarks with indeterminable useful lives were ¥1,428 million and ¥1,534 million as of the end of the previous fiscal year and the end of the fiscal year under review, respectively.

12. Right-of-use assets

Cost and changes in accumulated depreciation and accumulated impairment losses of right-of-use assets are as follows.

(Millions of Yen)

Cost	Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total
Balance at January 1, 2021	46,622	2,222	6,268	600	55,711
Purchase	115	499	–	244	858
Other	545	(472)	753	(152)	675
Balance at December 31, 2021	47,281	2,248	7,021	693	57,244
Purchase	9,398	313	1,465	179	11,354
Other	(13,595)	(581)	438	(311)	(14,049)
Balance at December 31, 2022	43,085	1,979	8,924	561	54,549

(Millions of Yen)

Accumulated depreciation and accumulated impairment losses	Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total
Balance at January 1, 2021	9,376	1,219	744	224	11,563
Depreciation	4,463	471	174	60	5,168
Other	149	(514)	43	(28)	(350)
Balance at December 31, 2021	13,988	1,176	961	256	16,380
Depreciation	4,217	446	185	34	4,882
Other	(569)	(614)	138	(82)	(1,125)
Balance at December 31, 2022	17,636	1,008	1,284	208	20,137

(Millions of Yen)

Carrying amount	Buildings and structures	Machinery, equipment and vehicles	Land	Other	Total
Balance at January 1, 2021	37,246	1,002	5,523	376	44,148
Balance at December 31, 2021	33,294	1,072	6,060	437	40,863
Balance at December 31, 2022	25,449	971	7,639	352	34,412

13. Impairment of non-financial assets

The details of assets by type for which impairment losses are recognized are as follows.

The details of impairment losses by segment are presented in Note "6. Segment information."

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Goodwill	4,757	2,202
Property, plant and equipment	–	1,806
Intangible assets	–	304
Total impairment losses	4,757	4,312

(1) Cash-generating unit

The Group categorizes cash-generating units into the smallest units that have individually identifiable cash flows, while idle assets are grouped by individual asset.

(2) Impairment losses

Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)

As the excess earnings power assumed at the time of the acquisition declined for the business belonging to the personal care segment of Unicharm Australasia Holding Pty Ltd., a subsidiary of the Company, partly due to soaring raw material prices and worsening foreign exchange rates, the carrying amount of "goodwill (intangible assets)" related to the business in the country was reduced to the recoverable amount, and a reduction of ¥4,757 million was recorded as an impairment loss in "other expenses."

The recoverable amount of such asset group of ¥3,675 million is measured by the value in use. Value in use is obtained by discounting the future cash flows based on the business plan approved by the management and a growth rate to the present value using the discount rate calculated based on the pre-tax weighted average cost of capital (7.3%). The growth rate is estimated as 2.0% by taking into account the assumed average growth rates in each market.

Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)

As the excess earnings power assumed at the time of the acquisition declined for the business belonging to the personal care segment of Unicharm Australasia Holding Pty Ltd., a subsidiary of the Company, partly due to soaring raw material prices and increased rates of discount, the carrying amount of "goodwill (intangible assets)" related to the business in the country was reduced to the recoverable amount, and a reduction of ¥1,258 million was recorded as an impairment loss in "other expenses."

The recoverable amount of such asset group of ¥3,280 million is measured by the value in use. Value in use is obtained by discounting the future cash flows based on the business plan and growth rate approved by the management to the present value using the discount rate calculated based on the pre-tax weighted average cost of capital (13.4%). The growth rate is estimated as 2.0% by taking into account the assumed average growth rates in each market.

As the excess earnings power assumed at the time of the acquisition declined for the business belonging to the personal care segment of Uni-Charm Corporation Sdn. Bhd., DSG Malaysia Sdn. Bhd., and Disposable Soft Goods (Malaysia) Sdn. Bhd., subsidiaries of the Company, partly due to soaring raw material prices and increased rates of discount, the carrying amount of "goodwill" related to the business in the country was reduced to the recoverable amount, and a reduction of ¥945 million was recorded as an impairment loss in "other expenses."

The recoverable amount of such asset group of ¥9,200 million is measured by the value in use. Value in use is obtained by discounting the future cash flows based on the business plan and growth rate approved by the management to the present value using the discount rate calculated based on the pre-tax weighted average cost of capital (14.9%). The growth rate is estimated as 3.9% by taking into account the assumed average growth rates in each market.

As further use of certain assets classified as property, plant and equipment or intangible assets owned by DSG International (Thailand) Public Co., Ltd. and Unicharm Molnlycke Rus L.L.C. (Russia) were deemed unlikely, their carrying amounts were reduced to the recoverable amounts. As a result, DSG International (Thailand) Public Co., Ltd. recorded a reduction of ¥1,215 million, and Unicharm Molnlycke Rus L.L.C. (Russia) recorded a reduction of ¥895 million, as impairment losses in "other expenses." While the recoverable amounts are measured by value in use, when property, plant and equipment or intangible assets are deemed unlikely to be further used, the value in use of assets is recorded as zero.

(3) Impairment test for goodwill and intangible assets with indeterminable useful life

The breakdown of goodwill and intangible assets with indeterminable useful life by cash-generating unit (after recognizing impairment loss) are as follows. All of the assets below are allocated to the personal care business.

(Millions of Yen)

	Cash-generating unit or cash-generating unit group (business belonging to the personal care segment of each group company)	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)		Fiscal Year Ended December 31, 2022 (as of December 31, 2022)	
		Goodwill	Intangible assets with indeterminable useful life	Goodwill	Intangible assets with indeterminable useful life
Thailand	Uni-Charm (Thailand) Co., Ltd. DSG International (Thailand) Public Co., Ltd.	20,281	–	22,469	–
Vietnam	Diana Unicharm Joint Stock Company	13,596	–	15,686	–
Australia	Unicharm Australasia Holding Pty Ltd.	1,609	1,428	352	1,534
Malaysia	Uni-Charm Corporation Sdn. Bhd. DSG Malaysia Sdn. Bhd. Disposable Soft Goods (Malaysia) Sdn. Bhd.	5,113	–	4,626	–
Others		1,846	–	1,846	–
Total		42,446	1,428	44,979	1,534

The recoverable amounts for the impairment test of goodwill and intangible assets with indeterminable useful life are calculated based on value in use. Value in use is obtained by discounting the future cash flows for the coming three years based on the business plan approved by the management to the present value using the discount rate calculated based on the pre-tax weighted average cost of capital (6.2-11.6% for the fiscal year ended December 31, 2021; 11.0-17.3% for the fiscal year ended December 31, 2022). The business plan is based on the management's evaluation of future predictions and past performance of each business while ensuring alignment with external and internal information.

Cash flows beyond the period of the business plan are estimated while taking into account the average growth rate predicted for each market (2.0-4.4% for the fiscal year ended December 31, 2021; 2.0-3.9% for the fiscal year ended December 31, 2022).

There is the possibility of additional impairment loss in case the main assumptions used in the impairment test fluctuate, namely when the future cash flow decreases, or when the discount rate increases.

For the other cash-generating unit groups where impairment loss was not recognized for goodwill or intangible assets with indeterminable useful life, the Company has determined that the likelihood of significant impairment is low, even in the case the main assumptions used in the impairment test change within a rationally predictable range.

14. Income tax

(1) Deferred tax assets and deferred tax liabilities

The major details of deferred tax assets and liabilities are as follows.

Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)

(Millions of Yen)

	January 1, 2021	Recognized as profit or loss	Recognized as other comprehensive income	Other	December 31, 2021
Deferred tax assets					
Accrued bonuses	1,419	61	–	–	1,480
Accrued sales promotion expenses	6,091	120	–	–	6,211
Retirement benefit liabilities	2,422	746	(138)	–	3,031
Tax loss carry-forwards	2,573	(671)	–	–	1,902
Share-based payment expenses	229	296	–	–	525
Other	14,259	865	–	–	15,124
Total deferred tax assets	26,994	1,416	(138)	–	28,273
Deferred tax liabilities					
Depreciation and amortization expenses	(5,259)	87	–	–	(5,173)
Net defined benefit asset	(13)	(28)	(2)	–	(43)
Equity instruments measured at fair value through other comprehensive income	(2,809)	–	1,805	(597)	(1,601)
Undistributed earnings	(21,221)	(3,736)	–	–	(24,957)
Intangible assets	(4,423)	438	–	–	(3,985)
Other	(1,308)	(1,568)	(12)	–	(2,889)
Total deferred tax liabilities	(35,032)	(4,808)	1,791	(597)	(38,647)
Net deferred tax assets (liabilities)	(8,038)	(3,392)	1,653	(597)	(10,373)

Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)

(Millions of Yen)

	January 1, 2022	Recognized as profit or loss	Recognized as other comprehensive income	Other	December 31, 2022
Deferred tax assets					
Accrued bonuses	1,480	2	–	–	1,482
Accrued sales promotion expenses	6,211	59	–	–	6,270
Retirement benefit liabilities	3,031	259	(192)	–	3,098
Tax loss carry-forwards	1,902	(1,177)	–	–	725
Share-based payment expenses	525	253	–	–	778
Other	15,124	2,761	8	–	17,894
Total deferred tax assets	28,273	2,157	(183)	–	30,247
Deferred tax liabilities					
Depreciation and amortization expenses	(5,173)	496	–	–	(4,676)
Net defined benefit asset	(43)	1	(3)	–	(44)
Equity instruments measured at fair value through other comprehensive income	(1,601)	–	623	(745)	(1,723)
Undistributed earnings	(24,957)	(3,069)	–	–	(28,026)
Intangible assets	(3,985)	(191)	–	–	(4,176)
Other	(2,889)	1,206	1	–	(1,682)
Total deferred tax liabilities	(38,647)	(1,557)	621	(745)	(40,327)
Net deferred tax assets (liabilities)	(10,373)	600	438	(745)	(10,080)

Differences between total amounts recognized as profit or loss and deferred tax expenses are attributable to the effect of exchange rate changes.

In evaluating the recoverability of deferred tax assets, the Group takes into account the scheduled reversal of deferred tax liabilities, estimated future taxable profit, and tax planning. As a result of evaluation on the recoverability of deferred tax assets, deferred tax assets are not recorded for part of deductible temporary differences and tax loss carry-forwards.

Deductible temporary differences and tax loss carry-forwards for which deferred tax assets are not recognized are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Deductible temporary differences	4,338	6,103
Tax loss carry-forwards	28,972	37,114
Total	33,310	43,216

The details of expiration of tax loss carry-forwards for which deferred tax assets are not recognized are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
In one year or less	1,020	1,459
After one year through five years	3,662	1,760
After five years	24,289	33,894
Total	28,972	37,114

Total temporary differences associated with investments in subsidiaries which are not recognized as deferred tax liabilities were ¥8,190 million and ¥11,090 million at the end of the previous fiscal year and the end of the fiscal year under review, respectively.

Deferred tax liabilities are not recognized for these temporary differences since the Group is able to control the timing of the reversal of the temporary differences and the reversal is unlikely to occur in the foreseeable future.

(2) Income tax expenses

The details of income tax expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Current tax expenses	34,542	37,325
Deferred tax expenses	3,830	8
Total income tax expenses	38,372	37,333

Current tax expenses include benefits arising from previously unrecognized tax losses, tax credits, and temporary differences for prior periods. A decrease in current tax expenses due to the above factor was ¥9 million and ¥134 million for the previous fiscal year and the fiscal year under review, respectively.

The relationship between the effective statutory tax rate and the actual effective tax rate of the Group is as follows. The effective statutory tax rate is calculated based on a national corporate tax, an inhabitant tax, and an enterprise tax of Japan. Overseas subsidiaries are subject to local corporate and other taxes.

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Effective statutory tax rate	30.6%	30.6%
Changes in unrecognized deferred tax assets	0.3%	0.5%
Dividend income, etc.	0.4%	0.2%
Lower income tax rates applicable to income in certain foreign countries	(4.0)%	(4.1)%
Effect of tax reforms	(0.0)%	0.4%
Tax credits	(0.1)%	(0.8)%
Tax effects on undistributed earnings	3.1%	4.1%
Other	1.2%	1.3%
Actual effective tax rate	31.5%	32.3%

15. Borrowings

The details of borrowings are as follows.

(Millions of Yen)

	Short-term borrowings	Current portion of long-term borrowings	Subtotal of current items	Long-term borrowings	Subtotal of non-current items	Total
Balance at January 1, 2021	5,975	3,000	8,975	24,202	24,202	33,176
New borrowings	9,974	–	9,974	–	–	9,974
Transfer	–	20,000	20,000	(20,000)	(20,000)	–
Repayment	(2,858)	(3,000)	(5,858)	–	–	(5,858)
Effect of exchange rate changes	792	–	792	231	231	1,022
Balance at December 31, 2021	13,882	20,000	33,882	4,432	4,432	38,314
New borrowings	11,088	–	11,088	4,032	4,032	15,120
Repayment	(6,608)	(20,000)	(26,608)	(507)	(507)	(27,114)
Effect of exchange rate changes	825	–	825	(123)	(123)	702
Other	(8,400)	–	(8,400)	8,400	8,400	–
Balance at December 31, 2022	10,787	–	10,787	16,235	16,235	27,022
Average interest rate (Note 1)	7.66%	–	–	6.46%	–	–
Maturity (Note 2)	–	–	–	2024 – 2025	–	–

Notes: 1. The average interest rate represents the weighted-average interest rate applicable to the balance at the end of the fiscal year under review.

2. The maturity represents the maturity applicable to the balance at the end of the fiscal year under review.

16. Lease liabilities

The Group has rented multiple offices and vehicles, etc.

Lease payments not paid as of the end of the previous fiscal year and the fiscal year under review are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
In one year or less	5,857	6,866
After one year through five years	16,087	15,661
After five years	17,651	12,035
Total	39,595	34,562
Future finance costs	2,447	4,461
Present value of lease liabilities	37,149	30,101
Average interest rate (Note)	1.35%	1.96%

Note: The average interest rate represents the weighted-average interest rate applicable to the balance at the end of the fiscal year.

The details of gains and losses concerning leases are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Short-term lease payments	239	224
Small lease payments	274	265

Depreciation of right-of-use assets and the increase in right-of-use assets, as well as the carrying amount of right-of-use assets are presented in Note “12. Right-of-use assets,” interest expenses associated with lease liabilities are presented in Note “26. Financial income and financial costs,” and the total amount of cash outflows concerning leases are presented in the consolidated statement of cash flows.

The total amount of lease payments for leases not yet commenced to which the Group is committed in the fiscal year under review is ¥6,178 million.

17. Trade and other payables

The details of trade and other payables are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Notes and accounts payable - trade	121,532	127,870
Accounts payable - other	45,709	43,165
Total	167,241	171,035

18. Employee benefits

(1) Overview of retirement benefit plans

The Company and some of its subsidiaries have defined benefit corporate pension plans and lump-sum benefit plans (funded and unfunded) as defined benefit plans. The amounts of benefits are determined based on evaluation factors, including the number of years of service, ability and job grades, and position.

The Company's defined benefit corporate pension plans are managed by the Unicharm corporate pension fund (hereinafter "pension fund") that is separate from the Company in accordance with relevant laws and regulations. The administrative board of the pension fund and the pension management entrusted organization are required by laws and regulations to take actions by giving top priority to the interests of plan participants, and bear the responsibility to manage plan assets based on given policies. Employers are obliged to make contributions to the fund.

The pension fund outsources the management of plan assets to a financial institution and prepares a portfolio for the purpose of securing stable returns under acceptable risks in order to ensure future payments based on retirement benefit corporate pension plans. The portfolio is reviewed if necessary when the original premises or other items change significantly.

The Company's lump-sum benefit plans may pay retirement benefits from trust assets mainly based on retirement benefit trust contracts. They outsource liquid and low risk management centered on debt securities to a financial institution in order to make payments according to funding needs for future lump-sum benefit payments.

Plan assets are exposed to investment risk relating to financial instruments, and defined benefit obligations, which are measured based on various actuarial assumptions, such as discount rates, are exposed to risk resulting from changes in these assumptions.

In addition to defined benefit plans, the Company and some of its subsidiaries have defined contribution plans.

(2) Defined benefit plans

1) Amounts recognized in the consolidated statement of financial position

The relationship between defined benefit obligations and plan assets, and amounts recognized in the consolidated statement of financial position is as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Present value of funded defined benefit obligations	50,524	44,702
Fair value of plan assets	(52,649)	(51,433)
Subtotal	(2,125)	(6,731)
Effect of asset ceiling (Note 1)	6,316	10,170
Present value of unfunded defined benefit obligations	7,607	9,120
Net retirement benefit liabilities (defined benefit assets)	11,799	12,559
Amounts in the consolidated statement of financial position		
Retirement benefit liabilities	11,847	12,687
Net defined benefit assets (Note 2)	(49)	(128)

Notes: 1. Asset ceiling is calculated based on the present value of economic benefits available in the form of a decrease in future contributions to plans, taking into account minimum fund requirements.

2. Net defined benefit asset is included in other non-current assets in the consolidated statement of financial position.

2) Reconciliation of the present value of defined benefit obligations

Changes in the present value of defined benefit obligations are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Present value of defined benefit obligations at beginning of period	55,555	58,131
Current service cost	3,279	3,399
Interest expenses	598	592
Remeasurements		
Actuarial differences arising from changes in demographic assumptions	165	455
Actuarial differences arising from changes in financial assumptions	85	(7,271)
Actuarial differences arising from performance adjustments	234	468
Past service cost	21	4
Retirement benefits paid	(2,187)	(2,333)
Effect of exchange rate changes	481	724
Other	(100)	(347)
Present value of defined benefit obligations at end of period	58,131	53,822

Note: Weighted-average duration of defined benefit obligations was 17.4 years and 15.8 years for the previous fiscal year and the fiscal year under review, respectively.

3) Reconciliation of the fair value of plan assets

Changes in the fair value of plan assets are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Fair value of plan assets at beginning of period	48,474	52,649
Interest income	351	375
Remeasurements		
Gain on plan assets	2,877	(2,260)
Contribution from employers	1,950	1,967
Retirement benefits paid	(880)	(976)
Effect of exchange rate changes	(123)	(193)
Other	–	(129)
Fair value of plan assets at end of period	52,649	51,433

Note: Employers are expected to contribute ¥1,911 million to defined benefit plans in the following fiscal year.

4) Reconciliation of the effect of asset ceiling

Changes in the effect of asset ceiling are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Effect of asset ceiling at beginning of period	4,365	6,316
Restrictions on interest income	32	45
Remeasurements		
Changes in the effect of asset ceiling	1,919	3,809
Effect of asset ceiling at end of period	6,316	10,170

5) Details of plan assets

The details of plan assets are as follows.

Fiscal Year Ended December 31, 2021 (as of December 31, 2021)

(Millions of Yen)

	Quoted in an active market	Unquoted in an active market	Total
Debt instruments	–	25,167	25,167
Equity instruments	–	13,501	13,501
Cash and cash equivalents	201	253	454
Life insurance company general account	0	4,988	4,988
Other	–	8,539	8,539
Total plan assets	201	52,448	52,649

Notes: 1. All debt instruments are held in commingled trusts. The investments in commingled trusts are mainly domestic bonds and bond investment trusts.

2. All equity instruments are held in commingled trusts. The investments in commingled trusts are mainly domestic and overseas listed stocks.

3. Cash and cash equivalents are mainly held in commingled trusts.

4. All amounts of plan assets classified as other are held in commingled trusts.

Fiscal Year Ended December 31, 2022 (as of December 31, 2022)

(Millions of Yen)

	Quoted in an active market	Unquoted in an active market	Total
Debt instruments	–	23,902	23,902
Equity instruments	–	13,253	13,253
Cash and cash equivalents	168	348	515
Life insurance company general account	0	5,098	5,098
Other	–	8,664	8,664
Total plan assets	168	51,265	51,433

Notes: 1. All debt instruments are held in commingled trusts. The investments in commingled trusts are mainly domestic bonds and bond investment trusts.

2. All equity instruments are held in commingled trusts. The investments in commingled trusts are mainly domestic and overseas listed stocks.

3. Cash and cash equivalents are mainly held in commingled trusts.

4. All amounts of plan assets classified as other are held in commingled trusts.

6) Actuarial assumptions

Major actuarial assumptions (weighted-average) used are as follows.

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Discount rate	1.0%	1.9%

7) Sensitivity analysis

The effect of a change in actuarial assumptions on the present value of defined benefit obligations is as follows. This analysis assumes that the other variables are constant. There are no changes from the method and assumptions used for preparing the sensitivity analysis for the previous fiscal year.

	Change	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Discount rate	0.5% increase	¥4,176 million decrease	¥3,347 million decrease
	0.5% decrease	¥4,769 million increase	¥3,788 million increase

(3) Defined contribution plans

Expenses for defined contribution plans are recognized as an expense during the period in which the employees render the related service, and contributions payable are recognized as obligations. These expenses were ¥4,752 million and ¥5,255 million for the previous fiscal year and the fiscal year under review, respectively.

19. Other current liabilities

The details of other current liabilities are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Accrued expenses	38,025	36,486
Accrued bonuses	7,683	7,050
Accrued consumption taxes, etc.	2,163	4,891
Accrued compensated absences	2,596	2,594
Other	3,765	2,574
Total	54,233	53,596

20. Equity

(1) Capital stock and share premium

Changes in the total number of shares authorized and the number of outstanding shares are as follows.

	Total number of shares authorized (Thousands of Shares)	Number of outstanding shares (Thousands of Shares)
Balance at January 1, 2021	827,779	620,834
Increase during the period	–	–
Decrease during the period	–	–
Balance at December 31, 2021	827,779	620,834
Increase during the period	–	–
Decrease during the period	–	–
Balance at December 31, 2022	827,779	620,834

All shares issued by the Company are no-par common shares. All outstanding shares were fully paid in.

Share premium consists of legal capital surplus and other capital surplus. The Companies Act of Japan prescribes that at least 50% of the payment in or delivery relating to the issuance of shares must be incorporated into capital stock and the remaining amount must be incorporated into legal capital surplus.

The Act also prescribes that legal capital surplus may be incorporated into capital stock upon resolution at the General Meeting of Shareholders.

If share premium is negative due to a difference between additional equity in subsidiaries and additional investment, share premium is treated as zero and the remaining amount is reduced from retained earnings.

(2) Retained earnings

Retained earnings consist of legal retained earnings and other retained earnings. The Companies Act prescribes that 10% of any appropriation to shareholders from retained earnings must be set aside as legal capital surplus or legal retained earnings until the total amount of legal capital surplus and legal retained earnings reaches 25% of capital stock.

Legal retained earnings set aside may be appropriated for deficit disposition. Moreover, legal retained earnings may be reversed upon resolution at the General Meeting of Shareholders.

(3) Treasury shares

Changes in treasury shares are as follows.

	Number of shares (Thousands of Shares)	Amount (Millions of Yen)
Balance at January 1, 2021	21,743	54,572
Increase due to purchase of treasury shares based on a resolution by the Board of Directors	3,623	16,000
Increase due to purchase of shares of less than one unit	0	2
Decrease due to exercise of stock option rights	(655)	(1,784)
Acquisition through restricted share-based remuneration plan	50	122
Decrease due to disposal as restricted share-based remuneration	(106)	(266)
Balance at December 31, 2021	24,655	68,646
Increase due to purchase of treasury shares based on a resolution by the Board of Directors	3,597	17,000
Increase due to purchase of shares of less than one unit	0	1
Decrease due to exercise of stock option rights	(658)	(1,832)
Acquisition through restricted share-based remuneration plan	67	164
Decrease due to disposal as restricted share-based remuneration	(100)	(279)
Balance at December 31, 2022	27,561	83,699

(4) Other components of equity

Changes in other components of equity are as follows.

(Millions of Yen)

	Net changes in equity instruments measured at fair value through other comprehensive income	Net changes in debt instruments measured at fair value through other comprehensive income	Changes in fair value of cash flow hedges	Exchange differences on translation in foreign operations	Remeasurements related to net defined benefit liabilities (assets)	Share acquisition rights	Share of other comprehensive income of associates accounted for using equity method	Total
Balance at January 1, 2021	6,609	(1)	(8)	(35,905)	–	436	(16)	(28,886)
Other comprehensive income	(4,108)	(19)	13	28,713	314	–	13	24,925
Disposal of treasury shares	–	–	–	–	–	(244)	–	(244)
Transfer from other components of equity to retained earnings	64	–	–	–	(314)	–	–	(250)
Balance at December 31, 2021	2,565	(19)	5	(7,192)	–	192	(4)	(4,454)
Other comprehensive income	(2,191)	(16)	(13)	32,599	99	–	7	30,485
Disposal of treasury shares	–	–	–	–	–	(146)	–	(146)
Transfer from other components of equity to retained earnings	781	–	–	–	(99)	(46)	–	635
Balance at December 31, 2022	1,155	(36)	(8)	25,407	–	–	3	26,521

21. Dividends

Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting on February 22, 2021	Common shares	9,585	16.0	December 31, 2020	March 8, 2021
Board of Directors meeting on August 4, 2021	Common shares	10,723	18.0	June 30, 2021	September 2, 2021

(2) Dividends whose record date is in the fiscal year ended December 31, 2021 and whose effective date is in the fiscal year ended December 31, 2022

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting on February 24, 2022	Common shares	10,731	18.0	December 31, 2021	March 7, 2022

Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)

(1) Dividends paid

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting on February 24, 2022	Common shares	10,731	18.0	December 31, 2021	March 7, 2022
Board of Directors meeting on August 4, 2022	Common shares	11,328	19.0	June 30, 2022	September 2, 2022

(2) Dividends whose record date is in the fiscal year ended December 31, 2022 and whose effective date is in the fiscal year ending December 31, 2023

Resolution	Class of shares	Total dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting on February 8, 2023	Common shares	11,272	19.0	December 31, 2022	March 6, 2023

22. Revenue

(1) Breakdown of revenue

Net sales of the Group comprise revenue generated from goods transferred to a customer at a certain point in time. Net sales of each reportable segment are broken down based on the locations of consolidated companies. The breakdown of the net sales is as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Personal care		
Japan	219,875	225,547
China	111,029	114,597
Asia	251,373	311,720
Other	89,763	113,045
Subtotal	672,039	764,908
Pet care (Note 1)	104,541	125,312
Other (Note 2)	6,143	7,802
Total	782,723	898,022

Notes: 1. Net sales for the pet care business are mainly those in Japan and the North American region (the region categorized into Other).

2. Net sales for the other businesses are mainly those in Japan.

(2) Receivables, contract assets and contract liabilities that arise from contracts with customers

Receivables that arise from contracts with customers are notes and accounts receivable - trade included in “Trade and other receivables.” At the end of the previous fiscal year and in the fiscal year under review, the amounts of contract assets and contract liabilities as well as the amount of revenue recognized upon fulfillment of performance obligations during prior periods have no materiality. The contract assets and contract liabilities are included in “Trade and other receivables” and “Other current liabilities,” respectively.

(3) Transaction prices allocated to remaining performance obligations

The Group has no material transactions whose expected agreement period each is more than one year. Hence, a practical expedient is applied so that information about remaining performance obligations is omitted. There is no material amount of a consideration arising from a contract with a customer that is not included in transaction prices.

(4) Assets recognized from costs needed to secure or fulfill contracts with customers

At the end of the previous fiscal year and in the fiscal year under review, the amounts of assets recognized from costs needed to secure or fulfill contracts with customers have no materiality. When the amortization period for assets that should be recognized is one year or less, a practical expedient is applied so that the increase in the cost of securing a contract is recognized as an expense as incurred.

23. Selling, general and administrative expenses

The details of selling, general and administrative expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Freight-out expenses	54,111	62,892
Sales promotion expenses	24,052	27,572
Advertising expenses	28,283	26,083
Employee benefit expenses	40,834	45,641
Depreciation and amortization expenses	10,532	10,359
Research and development expenses	8,184	8,270
Others	25,167	28,218
Total	191,162	209,034

24. Employee benefit expenses

The details of employee benefit expenses included in cost of sales and selling, general and administrative expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Salaries and bonuses	55,874	61,198
Employee and legal benefits expenses	6,369	6,971
Retirement benefit expenses	7,892	8,442
Share-based payment expenses	1,262	1,187
Other	704	1,245
Total	72,101	79,043

25. Other income and other expenses

The details of other income and other expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Other income		
Subsidy income	71	127
Gain on sales of scraps	474	426
Other	2,691	2,499
Total other income	3,235	3,052
Other expenses		
Loss on disposal of non-current assets	391	687
Impairment losses (Note)	4,757	4,312
Other	2,298	2,396
Total other expenses	7,445	7,395

Note: Impairment losses are presented in Note “13. Impairment of non-financial assets.”

26. Financial income and financial costs

The details of financial income and financial costs are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Financial income		
Interest income (Note 1)	3,022	3,800
Dividend income (Note 2)	570	777
Gain on valuation of derivatives	1,389	–
Other	229	51
Total financial income	5,211	4,628
Financial costs		
Interest expenses		
Financial liabilities measured at amortized cost (Note 3)	1,276	2,462
Loss on valuation of derivatives	–	1,342
Other	231	339
Total financial costs	1,507	4,143

Notes: 1. Interest income was generated from financial assets measured at amortized cost, cash and cash equivalents, loans, and receivables.

2. Dividend income was generated from equity instruments measured at fair value through other comprehensive income.

3. Interest expenses on financial liabilities measured at amortized cost include interest expenses associated with lease liabilities, which amounted to ¥533 million and ¥679 million for the previous fiscal year and the fiscal year under review, respectively.

27. Other comprehensive income

Amounts arising during the period, reclassification adjustments, and tax effects concerning other comprehensive income are as follows.

Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)

(Millions of Yen)

	Amount arising during the period	Reclassification adjustment	Before tax effect adjustment	Tax effects	After tax effect adjustment
Items that will not be reclassified to profit or loss					
Net changes in equity instruments measured at fair value through other comprehensive income	(5,904)	–	(5,904)	1,796	(4,108)
Remeasurements related to net defined benefit liabilities (assets)	474	(18)	456	(139)	316
Subtotal	(5,431)	(18)	(5,449)	1,657	(3,792)
Items that may be reclassified to profit or loss					
Net changes in debt instruments measured at fair value through other comprehensive income	(27)	–	(27)	8	(19)
Changes in fair value of cash flow hedges	2	36	38	(12)	25
Exchange differences on translation in foreign operations	34,997	732	35,729	–	35,729
Share of other comprehensive income of investments accounted for using equity method	13	–	13	–	13
Subtotal	34,984	768	35,751	(4)	35,748
Total other comprehensive income	29,553	750	30,302	1,653	31,956

Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)

(Millions of Yen)

	Amount arising during the period	Reclassification adjustment	Before tax effect adjustment	Tax effects	After tax effect adjustment
Items that will not be reclassified to profit or loss					
Net changes in equity instruments measured at fair value through other comprehensive income	(2,807)	–	(2,807)	616	(2,191)
Remeasurements related to net defined benefit liabilities (assets)	279	(3)	276	(195)	81
Subtotal	(2,527)	(3)	(2,531)	422	(2,109)
Items that may be reclassified to profit or loss					
Net changes in debt instruments measured at fair value through other comprehensive income	(24)	–	(24)	7	(16)
Changes in fair value of cash flow hedges	6	(39)	(34)	9	(25)
Exchange differences on translation in foreign operations	38,354	45	38,399	–	38,399
Share of other comprehensive income of investments accounted for using equity method	7	–	7	–	7
Subtotal	38,343	6	38,349	16	38,365
Total other comprehensive income	35,816	3	35,818	438	36,256

28. Earnings per share

(1) Basic earnings per share

Basic earnings per share and the calculation basis therefor are as follows.

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Profit attributable to owners of parent (Millions of Yen)	72,745	67,608
Profit not attributable to common shareholders of parent (Millions of Yen)	–	–
Profit used to calculate basic earnings per share (Millions of Yen)	72,745	67,608
Weighted-average number of common shares (Thousands of Shares)	597,328	595,103
Basic earnings per share (Yen)	121.78	113.61

(2) Diluted earnings per share

Diluted earnings per share and the calculation basis therefor are as follows.

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Profit used to calculate basic earnings per share (Millions of Yen)	72,745	67,608
Adjustments to profit for the year (Millions of Yen)	–	–
Profit used to calculate diluted earnings per share (Millions of Yen)	72,745	67,608
Weighted-average number of common shares (Thousands of Shares)	597,328	595,103
Impact of dilutive potential common shares		
Share acquisition rights (Thousands of shares)	453	86
Weighted-average number of diluted common shares (Thousands of Shares)	597,781	595,188
Diluted earnings per share (Yen)	121.69	113.59
Description of potential shares that were not included in the calculation of diluted earnings per share because of their anti-dilutive effect	–	–

29. Cash flow information

Significant non-cash transactions (investment and financial transactions that do not require use of cash and cash equivalents) are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Increase in right-of-use assets pertaining to lease transactions	858	11,354

30. Share-based payments

(1) Stock option

1) Details of stock options

The Company offers a stock option plan, the details of which are as follows.

Company	Unicharm Corporation
Date of resolution	April 16, 2015
Category and number of persons granted (Persons)	Directors who are not Audit and Supervisory Committee Members of the Company: 8 Employees of the Company: 1,783 Employees of the subsidiaries: 1,316
Class and number of shares granted (Note 1)	3,202,500 common shares
Date of grant	June 1, 2015
Conditions for vesting	1) Any person who has been allotted the share acquisition rights may not exercise such rights unless the closing price of the Company's common shares at the Tokyo Stock Exchange is ¥4,030 per share ("condition price") or over on at least one occasion during the period from the allotment date through February 28, 2021. In cases where the exercise price is adjusted, the condition price shall be also adjusted in a uniform manner. (Note 2) 2) Any person who has been allotted the share acquisition rights must be, even at the time of exercise of such rights, a Director who is not an Audit and Supervisory Committee Member or an employee of the Company or a Director or an employee of the Company's subsidiary, except in cases where he or she has resigned from the position as Director who is not an Audit and Supervisory Committee Member of the Company or Director of the Company's subsidiary due to expiration of term of office or retired as employee of the Company or its subsidiary due to reaching the mandatory retirement age. 3) Notwithstanding 2) above, in the event that any person who has been allotted the share acquisition rights passed away, his/her successor may exercise the rights.
Service period	June 1, 2015 – May 31, 2017
Exercise period	June 1, 2017 – May 31, 2022

Notes: 1. The number of stock options is presented by converting into the number of shares.

2. On March 30, 2020, the closing price of one share of the Company's common shares in regular trading on the Tokyo Stock Exchange was higher than the condition price, and the relevant exercise conditions were met and the rights were exercised.

2) Size and changes of stock options

The numbers and weighted-average exercise price of stock options are as follows. The number of stock options is presented by converting into the number of shares.

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)		Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)	
	Number of shares (Shares)	Weighted-average exercise price (Yen)	Number of shares (Shares)	Weighted-average exercise price (Yen)
Non-vested:				
January 1 - Outstanding	–	–	–	–
Granted	–	–	–	–
Forfeited	–	–	–	–
Vested	–	–	–	–
December 31 - Outstanding	–	–	–	–
Vested:				
January 1 - Outstanding	1,438,100	2,901	783,000	2,901
Vested	–	–	–	–
Exercised	(655,100)	2,901	(658,200)	2,901
Forfeited	–	–	(124,800)	2,901
December 31 - Outstanding	783,000	2,901	–	–

The weighted-average remaining contract period of outstanding stock options was 0.4 years at the end of the previous fiscal year.

The weighted average share prices as of the date of exercise of the stock options exercised in the previous fiscal year and the fiscal year under review were ¥4,790 and ¥4,394, respectively.

(2) Restricted share-based remuneration plan

1) Outline of the restricted share-based remuneration plan

The Group has introduced a restricted share-based remuneration plan for the purpose of providing incentives for the sustainable enhancement of corporate value and sharing shareholder value.

Under this plan, monetary compensation claims are granted to allocate restricted shares to Directors of the Company other than Outside Directors and Directors who are Audit and Supervisory Committee Members, Executive Officers and Associate Officers who do not concurrently serve as Directors (hereinafter the "Eligible Directors, etc."), and employees of the Group (hereinafter the "Eligible Employees"), and the Company issues or disposes of the Company's common shares to the Eligible Directors, etc. and the Eligible Employees through the contribution in kind of such monetary compensation claims, and allows them to hold such shares.

The Company has entered into an allotment agreement of restricted shares with the Eligible Directors, etc. and the Eligible Employees, which includes that the Eligible Directors, etc. and the Eligible Employees may not transfer, grant security interests or otherwise dispose of the Company's common shares delivered under the allotment agreement (hereinafter the "Allotted Shares") during the transfer restriction period stipulated in the allotment agreement and that the Company will acquire the Allotted Shares without consideration if certain events occur.

Restrictions on transfer of all of the Allotted Shares will be lifted at the expiration of the restriction period, provided that the eligible Director continues to hold the position of Director of the Company during the period from the disposal date to the time immediately preceding the conclusion of the first Ordinary General Meeting of Shareholders thereafter (hereinafter the "Service Period"). Restrictions on transfer of all of the Allotted

Shares will be lifted at the expiration of the restriction period, provided that the eligible Executive Officers and Associate Officers continuously hold the position of Directors, Executive Officers and Associate Officers who do not concurrently serve as Directors of the Company during the period of the mandate agreement (hereinafter the "Mandate Agreement Period") for the fiscal year to which the disposal date belongs. Restrictions on transfer of all of the Allotted Shares will be lifted at the expiration of the restriction period, provided that the Eligible Employee continues to hold one of the positions of employee of the Company or its subsidiaries or any other equivalent position during the restriction period.

However, the Company will acquire the Allotted Shares whose transfer restrictions have not been lifted at the expiration of the restriction period, without contribution.

2) Number and fair value of shares granted during the period

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Date of grant	March 26, 2021	March 25, 2022
Number of shares granted	106,080	100,360
Restricted period	Of the number of restricted shares allocated, 64,000 shares will be restricted from the date of allocation until April 22, 2024, and 42,080 shares will be restricted from the date of allocation until July 1, 2025. (Note 1) (Note 3)	Of the number of restricted shares allocated, 72,700 shares will be restricted from the date of allocation until April 21, 2025, and 27,660 shares will be restricted from the date of allocation until July 1, 2025. (Note 2) (Note 3)
Fair value at grant date (Yen)	4,609	4,260

Notes: 1. As a general rule, if an Eligible Director, etc. resigns or retires from the position of Director, etc. of the Company due to expiration of the Service Period, expiration of term of office, mandatory retirement age or any other justifiable reason (except in the case of resignation or retirement due to death), the restrictions on transfer will be lifted at the time immediately after the resignation or retirement of the Eligible Director, etc. or on April 1, 2022, whichever is later. In the case of retirement or resignation due to death, the restrictions on transfer will be lifted at a time separately determined by the Board of Directors after the death of the Eligible Director, etc. However, notwithstanding the above provisions, if the Eligible Director, etc. resigns or retires due to death by the time immediately preceding April 1, 2022, the Company will naturally acquire all of the Allotted Shares held at that time for no consideration.

2. As a general rule, if an Eligible Director, etc. resigns or retires from the position of Director, etc. of the Company due to expiration of the Service Period, expiration of term of office, mandatory retirement age or any other justifiable reason (except in the case of resignation or retirement due to death), the restrictions on transfer will be lifted at the time immediately after the resignation or retirement of the Eligible Director, etc. or on April 1, 2023, whichever is later. In the case of retirement or resignation due to death, the restrictions on transfer will be lifted at a time separately determined by the Board of Directors after the death of the Eligible Director, etc. However, notwithstanding the above provisions, if the Eligible Director, etc. resigns or retires due to death by the time immediately preceding April 1, 2023, the Company will naturally acquire all of the Allotted Shares held at that time for no consideration.

3. If an Eligible Employee retires (including retirement due to death) due to mandatory retirement age or other legitimate reasons, even from the position of employee of the Company or its subsidiaries or any other equivalent position, the restriction on transfer of all of the Allotted Shares will be lifted as of the time immediately following the Eligible Employee's retirement.

(3) Share-based payment expenses

The details of share-based payment expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Equity-settled	1,046	937
Cash-settled	216	250
Total	1,262	1,187

Note: Cash-settled share-based payments are cash payments to Eligible Directors, etc. and Eligible Employees who are overseas residents in an amount equal to a predetermined number of shares multiplied by the share price on the vesting date. The book value of liabilities arising from the cash-settled share-based payment plan were ¥379 million and ¥629 million as of the end of the previous fiscal year and the end of the fiscal year under review, respectively.

(4) Method for calculating the fair value of stock options granted during the period

Not applicable.

31. Financial instruments

(1) Categorization of financial instruments

The details of financial instruments by category are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
<Financial assets>		
Financial assets measured at amortized cost		
Cash and cash equivalents	187,547	217,153
Trade and other receivables	129,367	152,971
Other current financial assets	106,520	83,372
Other non-current financial assets	18,817	11,992
Financial assets measured at fair value through profit or loss		
Other current financial assets	13,232	7,078
Other non-current financial assets	2,100	13,030
Equity instruments measured at fair value through other comprehensive income		
Other non-current financial assets	32,233	30,032
Debt instruments measured at fair value through other comprehensive income		
Other non-current financial assets	12,639	10,697
Total	502,455	526,325
<Financial liabilities>		
Financial liabilities measured at amortized cost		
Trade and other payables	167,241	171,035
Borrowings	38,314	27,022
Other current financial liabilities	5,396	6,276
Other non-current financial liabilities	32,727	24,934
Financial liabilities measured at fair value through profit or loss		
Other current financial liabilities	59	369
Total	243,737	229,636

(2) Equity instruments measured at fair value through other comprehensive income

Equity instruments held by the Group are mainly shares related to businesses or capital alliances with business partners and shares acquired as part of management of surplus funds under the low interest rate environment, and include no equity instruments held for short-term trading. As such, they are designated as equity instruments measured at fair value through other comprehensive income.

1) Fair value of major shares

Fair value of major shares is as follows.

Fiscal Year Ended December 31, 2021 (as of December 31, 2021)

(Millions of Yen)

Shares	Fair value
Kao Corporation	16,797
Sumitomo Realty & Development Co., Ltd.	4,124
Pigeon Corporation	2,967
ARATA CORPORATION	994
ZUIKO CO., LTD.	978

Fiscal Year Ended December 31, 2022 (as of December 31, 2022)

(Millions of Yen)

Shares	Fair value
Kao Corporation	14,665
Sumitomo Realty & Development Co., Ltd.	3,804
Pigeon Corporation	2,926
ARATA CORPORATION	946
Mitsubishi UFJ Financial Group, Inc.	804

2) Derecognized equity instruments measured at fair value through other comprehensive income

The Group has disposed of equity instruments measured at fair value through other comprehensive income through sale due to revisions to relationships with business partners, etc. and derecognized them. Fair value as of the date of derecognition of equity instruments measured at fair value through other comprehensive income derecognized during the period and their cumulative gains or losses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Fair value	37	30
Cumulative gains (losses)	(13)	15

The Group transfers cumulative gains or losses due to changes in fair value of equity instruments measured at fair value through other comprehensive income, when derecognizing them, directly from other components of equity to retained earnings. Cumulative gains or losses of other comprehensive income directly transferred to retained earnings during the previous fiscal year and the fiscal year under review were the losses of ¥13 million and the gains of ¥15 million, respectively.

3) Dividend income

The details of dividend income pertaining to equity instruments measured at fair value through other comprehensive income are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Financial assets derecognized during the period	0	–
Financial assets held as of the last day of the period	570	777
Total	570	777

(3) Capital management

The Group's basic policy on capital management is to maintain its optimum capital structure which secures financial soundness and flexibility while improving capital efficiency in order to achieve sustainable corporate value improvement and stably distribute dividends of surplus to owners of parent through the aforementioned improvement.

The Group appropriately monitors equity attributable to owners of parent and return on equity attributable to owners of parent (ROE) as significant management guidelines indicating profitability and investment efficiency in businesses.

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Equity attributable to owners of parent (Millions of Yen)	557,639	618,883
Return on equity attributable to owners of parent (ROE) (%)	13.8	11.5

(4) Financial risk management

The Group's activities are exposed to various financial risks, such as market risk (including foreign exchange risk, price risk, and interest rate risk), credit risk, and liquidity risk. The Group uses derivative transactions in order to hedge foreign exchange risk. Derivative transactions consist of foreign exchange forward contracts, non-deliverable forwards and currency swaps for hedging exchange rate change risk related to foreign currency-denominated receivables and obligations. These transactions are executed and managed in accordance with internal rules and limited to transactions based on actual demand.

The Group is not exposed to material concentration risk in relation to financial instruments.

1) Market risk

(a) Foreign exchange risk

The Group manufactures and sells products overseas and engages in foreign currency transactions for the import of materials and products and export of products. The Group is exposed to foreign exchange risk as a result of its overseas business operations. Foreign exchange risk arises from forward exchange transaction and recognized assets and liabilities.

The Group uses foreign exchange forward contracts, non-deliverable forwards and currency swaps for hedging cash flow exchange rate change risk captured by currency.

Derivatives

The outline of major derivatives executed by the Group for controlling exchange rate change risk is as follows. Derivative assets or liabilities are included in other financial assets or liabilities in the consolidated statement of financial position.

Derivatives to which hedge accounting is not applied

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)			Fiscal Year Ended December 31, 2022 (as of December 31, 2022)		
	Contract amount		Fair value	Contract amount		Fair value
		Contract amount due after one year			Contract amount due after one year	
Foreign exchange forward contracts: Selling USD	5,319	–	(46)	5,890	–	43
Foreign exchange forward contracts: Buying USD	2,081	–	6	3,791	–	(96)
Foreign exchange forward contracts: Buying EUR	126	–	(2)	107	–	5
Foreign exchange forward contracts: Buying JPY	10	–	0	5	–	0
Foreign exchange forward contracts: Selling JPY	15,569	–	98	14,991	–	(173)
Foreign exchange forward contracts: Buying THB	298	–	2	282	–	12
Foreign exchange forward contracts: Selling AUD	541	–	(2)	538	–	2
Non-deliverable forwards: Buying USD	875	–	(6)	7,042	–	(84)
Non-deliverable forwards: Selling USD	–	–	–	7,037	–	0
Currency swaps: Received in CNY Paid in JPY	12,642	–	996	–	–	–
Futures transactions: Buying USD	14	–	(0)	49	–	0
Others: Others JPY	3	–	(0)	–	–	–
Total	37,477	–	1,047	39,733	–	(289)

Derivatives to which hedge accounting is applied

(Millions of Yen)

	Major hedged item	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)				Fiscal Year Ended December 31, 2022 (as of December 31, 2022)			
		Contract amount		Fair value	Average rate	Contract amount		Fair value	Average rate
			Due after one year				Due after one year		
Foreign exchange forward contracts: Buying USD	Trade payables	–	–	–	–	1,066	–	(8)	JPY130.39 /USD
Foreign exchange forward contracts: Buying EUR	Trade payables	460	–	5	JPY129.34 /EUR	–	–	–	–
Foreign exchange forward contracts: Selling CAD	Trade payables	830	–	22	CAD0.80 /USD	588	–	5	CAD0.74 /USD
Total		1,291	–	27		1,653	–	(3)	

Foreign exchange sensitivity analysis

The foreign exchange sensitivity analysis indicates the impact of a 10% appreciation of the Japanese yen on profit before tax in the consolidated statement of income with respect to net foreign exchange risk exposures as of the reporting date. This analysis assumes that all the other variables are constant. The major exposures are to the U.S. dollar and the Chinese yuan. If the Japanese yen were to depreciate by 10%, it would have the opposite effect in the same amount as shown in the table below.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
USD	746	224
CNY	1,271	6
Total	2,017	230

(b) Price risk

Equity instruments held by the Group are mainly shares related to businesses or capital alliances with business partners and shares acquired as part of management of surplus funds under the low interest rate environment, and include no equity instruments held for short-term trading. Equity instruments include listed and unlisted shares and are exposed to market price fluctuation risk. The Group periodically captures fair values, financial conditions of issuers, and other factors, and manages its holdings by reviewing them in consideration of its relationships with counterparties.

Sensitivity analysis

The following table shows the impact on other comprehensive income (before tax effect) in the consolidated statement of comprehensive income of a 10% decline in the share price of listed shares held by the Group.

This analysis assumes that the other variables are constant.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Other comprehensive income, before tax effect	(3,112)	(2,854)

(c) Interest rate risk

In conducting business activities, the Group pays interest accrued for raising working capital and funds necessary for capital investments and others. Part of the interest is exposed to interest rate fluctuation risk because it is subject to variable interest rates. However, cash and cash equivalents exceeding interest-bearing debts are maintained. Interest rate risk is small since the impact of interest payments on the Group is currently immaterial.

2) Credit risk

Credit risk is financial loss risk to be taken by the Group if a customer or a financial instruments business partner fails to perform its contractual obligations.

The Group determines whether there has been a significant increase in credit risk based on changes in the risk of default occurring, and in making this determination, the Group considers factors such as deterioration in the business performance of the counterparty and information on the passage of due dates.

With respect to cash and cash equivalents, derivatives, financial assets measured at amortized cost, debt instruments measured at fair value through other comprehensive income, etc., the credit risk is minimal because the Company only transacts with financial institutions that it judges to have high creditworthiness.

Trade and other receivables are exposed to customer credit risk. With respect to such risk, the sales administration department is monitoring major business partners' status periodically, controlling collection due dates and outstanding balances per business partner in order to identify and reduce doubtful receivables resulting from deterioration of business partners' financial positions at an early stage in accordance with the Sales Administration Regulations. Credit risk is not concentrated on any particular business partner.

These financial assets are considered to be credit-impaired financial assets when they are considered to be in default, such as when they are significantly past due.

When all or part of a financial asset is assessed to be uncollectible and the Group determines that it is appropriate to amortize the asset as a result of a credit check, the Group directly amortizes the carrying amount of the financial asset.

The carrying amount of financial assets presented in the consolidated financial statements after impairment is the Company's maximum credit risk exposures without considering the valuation of collateral acquired.

(a) Credit risk exposure

Credit risk exposure of trade and other receivables, other current financial assets, as well as an analysis of the allowance for doubtful accounts for these by maturity is as follows.

Fiscal Year Ended December 31, 2021 (as of December 31, 2021)

(Millions of Yen)

	Total	Before maturity	Amount past maturity date				
			In 30 days or less	After 30 days through 60 days	After 60 days through 90 days	After 90 days through 120 days	After 120 days
Trade and other receivables (total)	131,625	121,007	6,581	715	223	28	3,071
Allowance for doubtful accounts	(2,257)	(241)	(17)	(11)	(52)	(17)	(1,919)
Trade and other receivables (net)	129,367	120,766	6,564	703	171	12	1,151
Other current financial assets (total)	170,209	170,209	–	–	–	–	–
Allowance for doubtful accounts	–	–	–	–	–	–	–
Other current financial assets (net)	170,209	170,209	–	–	–	–	–

Fiscal Year Ended December 31, 2022 (as of December 31, 2022)

(Millions of Yen)

	Total	Before maturity	Amount past maturity date				
			In 30 days or less	After 30 days through 60 days	After 60 days through 90 days	After 90 days through 120 days	After 120 days
Trade and other receivables (total)	155,366	140,444	9,468	1,080	557	194	3,623
Allowance for doubtful accounts	(2,395)	(237)	(14)	(2)	(53)	(105)	(1,984)
Trade and other receivables (net)	152,971	140,207	9,454	1,078	504	89	1,639
Other current financial assets (total)	136,094	136,094	–	–	–	–	–
Allowance for doubtful accounts	–	–	–	–	–	–	–
Other current financial assets (net)	136,094	136,094	–	–	–	–	–

(b) Analysis of changes in allowance for doubtful accounts

Fiscal Year Ended December 31, 2021 (as of December 31, 2021)

(Millions of Yen)

	Allowance for doubtful accounts measured at an amount equal to twelve-month expected credit losses	Allowance for doubtful accounts measured at an amount equal to lifetime expected losses			Total
		Financial assets that are not credit-impaired	Financial assets that are credit-impaired	Trade and other receivables	
Balance as of January 1, 2021	–	–	7	1,968	1,975
Increase during the period	–	–	–	551	551
Decrease during the period resulting from settlement	–	–	(7)	(385)	(392)
Decrease during the period due to reversal	–	–	–	(15)	(15)
Others due to foreign currency translation adjustments, etc.	–	–	–	138	138
Balance as of December 31, 2021	–	–	–	2,257	2,257

Fiscal Year Ended December 31, 2022 (as of December 31, 2022)

(Millions of Yen)

	Allowance for doubtful accounts measured at an amount equal to twelve-month expected credit losses	Allowance for doubtful accounts measured at an amount equal to lifetime expected losses			Total
		Financial assets that are not credit-impaired	Financial assets that are credit-impaired	Trade and other receivables	
Balance as of January 1, 2022	–	–	–	2,257	2,257
Increase during the period	–	–	–	196	196
Decrease during the period resulting from settlement	–	–	–	(7)	(7)
Decrease during the period due to reversal	–	–	–	(199)	(199)
Others due to foreign currency translation adjustments, etc.	–	–	–	148	148
Balance as of December 31, 2022	–	–	–	2,395	2,395

3) Liquidity risk

Liquidity risk refers to the risk that the Group will not be able to fulfill its obligations related to financial liabilities such as trade payables and borrowings.

To address this liquidity risk, the Group invests temporary surpluses in low risk financial assets for fund management. It raises funds through measures selected based on financial conditions and market environments. Moreover, the Group manages liquidity risk by maintaining liquidity on hand, as well as having the Accounting Control and Finance Division timely prepare and update cash management plans based on reports, etc. from each department.

Financial liabilities by maturity are as follows. The amounts presented are contractual non-discounted cash flows.

Fiscal Year Ended December 31, 2021 (as of December 31, 2021)

(Millions of Yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Trade and other payables	166,929	283	28	0	0	0	167,241
Borrowings	33,882	–	3,657	775	–	–	38,314
Lease liabilities (Note)	5,396	4,967	3,772	3,439	2,894	16,680	37,149
Other financial liabilities	–	–	–	–	–	974	974
Derivative liabilities							
Cash inflows	(440)	(13,082)	–	–	–	–	(13,523)
Cash outflows	59	11,806	–	–	–	–	11,865
Total	205,825	3,974	7,458	4,214	2,894	17,655	242,020

Note: The maturities of lease liabilities for the previous fiscal year are up to 2054. Lease liabilities are included in "Other financial liabilities" in the consolidated statement of financial position.

Fiscal Year Ended December 31, 2022 (as of December 31, 2022)

(Millions of Yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years	Total
Trade and other payables	170,986	22	26	–	–	1	171,035
Borrowings	10,787	3,516	12,719	–	–	–	27,022
Lease liabilities (Note)	6,276	4,559	3,905	3,284	2,589	9,488	30,101
Other financial liabilities	–	–	–	–	–	1,109	1,109
Derivative liabilities							
Cash inflows	–	–	–	–	–	–	–
Cash outflows	369	–	–	–	–	–	369
Total	188,418	8,097	16,649	3,284	2,589	10,598	229,636

Note: The maturities of lease liabilities for the fiscal year under review are up to 2057. Lease liabilities are included in "Other financial liabilities" in the consolidated statement of financial position.

(5) Fair value of financial instruments

1) Financial assets and financial liabilities measured at fair value

The Group categorizes the fair value hierarchy into the following three levels according to the observability of inputs used for fair value measurements in the market.

Level 1: Unadjusted quoted price of identical assets or identical liabilities in an active market

Level 2: Directly or indirectly observable input which does not belong to Level 1

Level 3: Unobservable input

Financial assets and financial liabilities measured at fair value on a recurring basis by the Group are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)			
	Level 1	Level 2	Level 3	Total
<Financial assets>				
Financial assets measured at fair value through profit or loss				
Debt securities	–	–	14,092	14,092
Derivative assets	–	1,135	–	1,135
Other	–	105	–	105
Equity instruments measured at fair value through other comprehensive income				
Shares	31,115	–	1,094	32,210
Other	–	–	23	23
Debt instruments measured at fair value through other comprehensive income				
Debt securities	–	12,639	–	12,639
Total	31,115	13,879	15,209	60,203
<Financial liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	–	59	–	59
Total	–	59	–	59

(Millions of Yen)

	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)			
	Level 1	Level 2	Level 3	Total
<Financial assets>				
Financial assets measured at fair value through profit or loss				
Debt securities	–	–	19,921	19,921
Derivative assets	–	79	–	79
Other	–	108	–	108
Equity instruments measured at fair value through other comprehensive income				
Shares	28,541	–	1,468	30,009
Other	–	–	23	23
Debt instruments measured at fair value through other comprehensive income				
Debt securities	–	10,697	–	10,697
Total	28,541	10,884	21,413	60,838
<Financial liabilities>				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	–	369	–	369
Total	–	369	–	369

The Group transfers the fair value hierarchy between levels when it recognizes an event or a change in conditions which causes the transfer.

In the third quarter of the previous fiscal year, a transfer from Level 1 to Level 2 had been made due to the delisting (as of September 29, 2021) of stocks held by the Company in connection with the acquisition of 100% ownership (as of October 1, 2021), and as of the end of the previous fiscal year, a transfer from Level 2 to Level 1 had been made due to the allotment of shares in the wholly owning parent company through a share exchange in connection with the acquisition of 100% ownership (as of October 1, 2021).

There were no transfers among Level 1, Level 2, and Level 3 in the fiscal year under review.

Fair value calculation methods are as follows.

Debt securities

The fair value of debt securities is calculated using valuations presented by creditor financial institutions.

The quoted valuations are calculated using the discounted cash flow method with discount rate inputs that take into account market interest rates and credit spreads.

Derivative assets and derivative liabilities

The fair value of foreign exchange forward contracts and non-deliverable forwards is calculated based on the forward exchange rate at the end of each fiscal period. The fair value of currency swaps is calculated based on observable market data, such as interest rates presented by creditor financial institutions and other parties.

Shares

The fair value of marketable shares is calculated based on the market price at the end of each fiscal period. The fair value of unlisted shares is calculated using appropriate valuation techniques, such as the comparable company analysis method.

Changes in financial instruments categorized in Level 3 during each fiscal year are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Balance at beginning of period	7,615	15,209
Total gains or losses	(408)	(326)
Profit or loss (Note 1)	(5)	(70)
Other comprehensive income (Note 2)	(404)	(256)
Purchase	13,003	18,630
Sale and settlement	(5,000)	(12,100)
Balance at end of period	15,209	21,413

Notes: 1. Gains or losses included in profit or loss pertain to financial assets measured at fair value through profit or loss. The profit and loss are included in “Financial income” and “Financial costs.”

2. Gains or losses included in other comprehensive income pertain to equity instruments measured at fair value through other comprehensive income, and are included in “Net changes in equity instruments measured at fair value through other comprehensive income” and “Exchange differences on translation in foreign operations” in the consolidated statement of comprehensive income.

Financial instruments categorized in Level 3 are mainly composed of debt securities and unlisted shares.

Significant unobservable inputs for financial instruments categorized in Level 3 are mainly credit risk and illiquidity discounts, and the fair value decreases (increases) with higher (lower) credit risk or illiquidity discounts. Changes in the fair value in the case where unobservable inputs are replaced by reasonably possible alternative assumptions are not material.

The department in charge determines the valuation methods for each asset and measures fair value in accordance with valuation policies and procedures for fair value measurements. The results of fair value measurements are approved by the appropriate person in charge.

2) Carrying amount and fair value of financial assets and financial liabilities measured at amortized cost

The carrying amount and fair value of financial instruments measured at amortized cost as of each closing date are as follows. The following table does not include financial instruments whose carrying amount reasonably approximates their fair value (mainly trade and other receivables, time deposits with maturities over three months, and trade and other payables).

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)		Fiscal Year Ended December 31, 2022 (as of December 31, 2022)	
	Carrying amount	Fair value	Carrying amount	Fair value
<Financial assets>				
Debt securities	8,320	8,322	13,918	13,913
<Financial liabilities>				
Borrowings	38,314	38,314	27,022	27,022

Note: The fair value of debt securities and borrowings is Level 2 and Level 3.

Fair value calculation methods are as follows.

Debt securities

The fair value of debt securities is calculated using valuations presented by creditor financial institutions.

The quoted valuations are calculated using the discounted cash flow method with discount rate inputs that take into account market interest rates and credit spreads.

Borrowings

The fair value of borrowings is estimated by discounting future cash flows to the present value with an interest rate applicable to similar new borrowings by the Group. Borrowings with variable interest rates have a carrying amount which approximates their fair value since the interest rates are revised periodically.

32. Major subsidiaries

Information on the Group's major subsidiaries as of the end of the fiscal year under review is as follows.

Company	Location	Reportable segment	Percentage of voting rights held (%)
Unicharm Products Co., Ltd.	Shikokuchuo-shi, Ehime	Personal care	100.0
United Charm Co., Ltd.	Taiwan - Greater China	Personal care	52.6
Uni-Charm (Thailand) Co., Ltd.	Kingdom of Thailand	Personal care	94.2
LG Unicharm Co., Ltd.	Republic of Korea	Personal care	51.0
Unicharm Consumer Products (China) Co., Ltd. (Note)	People's Republic of China	Personal care	75.0 (75.0)
PT UNI-CHARM INDONESIA Tbk	Republic of Indonesia	Personal care	59.4
Unicharm Gulf Hygienic Industries Ltd.	Kingdom of Saudi Arabia	Personal care	85.0
Unicharm India Private Ltd.	Republic of India	Personal care	100.0
Unicharm Australasia Holding Pty Ltd.	Commonwealth of Australia	Personal care	100.0
Unicharm Middle East & North Africa Hygienic Industries Company S.A.E.	Arab Republic of Egypt	Personal care	95.0
The Hartz Mountain Corporation	United States of America	Pet care	51.0
Unicharm (China) Co., Ltd.	People's Republic of China	Personal care	100.0
UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA.	Federative Republic of Brazil	Personal care	80.1
DSG International (Thailand) Public Co., Ltd. (Note)	Kingdom of Thailand	Personal care	99.3 (99.3)
Uni-Charm Corporation Sdn. Bhd.	Malaysia	Personal care	100.0
Diana Unicharm Joint Stock Company (Note)	Socialist Republic of Vietnam	Personal care	89.4 (89.4)

Note: The figure in parentheses in the "Percentage of voting rights held" column shows the percentage of indirect voting interests, which is a part of the total voting interests.

33. Related parties

(1) Transactions with related parties

Transactions between the Group and related parties are as follows.

Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)

(Millions of Yen)

Type	Name	Transactions	Transaction amount	Outstanding balance
Other related parties	Takahara Kosan K.K. (Note 2)	To insure	36	–

Notes: 1. Insurance premiums are determined at the general insurance premium rate after designating the insured amount.

2. The voting rights of Takahara Kosan K.K. are owned 29.0% directly and 67.6% indirectly by Mr. Takahisa Takahara, Representative Director of the Company, and 2.0% directly and 1.4% indirectly by his close relatives.

Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)

(Millions of Yen)

Type	Name	Transactions	Transaction amount	Outstanding balance
Key management	Takahisa Takahara (Note 1)	Exercise of stock options (Note 2)	12	–

Notes: 1. Mr. Takahisa Takahara, Representative Director, President & CEO of the Company, owns 0.6% of the voting rights of the Company directly and 30.2% of the voting rights of the Company indirectly.

2. Stock options that had been granted based on a resolution at the Board of Directors meeting held on April 16, 2015 were exercised in the fiscal year under review.

(2) Key management personnel compensation

Key management personnel compensation is as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Basic remuneration and performance-linked remuneration	361	409
Restricted share-based remuneration	145	166
Total	505	575

34. Commitments

Capital expenditures which have been contracted but have not yet been generated as of the end of each fiscal year are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Property, plant and equipment	3,795	5,100
Intangible assets	547	529
Total	4,341	5,629

35. Contingent liabilities

Unicharm India Private Ltd., a subsidiary of the Company, is subject to import tariff exemption applied under the Export Promotion Capital Goods (EPCG) scheme set forth in the foreign trade policy of the Indian Government. However, the said scheme requires achievement of exports calculated by multiplying the amount of exempted tariffs by a certain rate within a set period of time and we are required to pay later the amount of exempted tariffs, etc. corresponding to any portion of the said requirements that is not achieved.

The Company believes that it is highly likely that it will be able to achieve the requirements over the period between 2023 and 2025 according to the projected export volume of products based on the business plan. The Company estimates that the potential amount of customs duty reductions and exemptions and interest on overdue payments to be paid in the event that the requirements are not achieved will be ¥1,864 million.

36. Additional information

(Impact of the spread of COVID-19)

With regard to the impact of the spread of COVID-19, although it is difficult to predict how it will spread going forward, when it will come under control, etc., the Group has prepared accounting estimates based on information available as of the end of the fiscal year under review, and judged that the impact on the fiscal year under review will be insignificant.

37. Subsequent events

(Acquisition of equity in Jiangsu Jijia Pet Products Co., Ltd.)

On October 8, 2022, Unicharm (China) Co., Ltd., a consolidated subsidiary fully owned by the Company, agreed to form a capital alliance with Jiangsu Jijia Pet Products Co., Ltd. (hereafter “JIA PETS”), a major pet food company in China. On November 30, 2022, Unicharm Consumer Products (China) Co., Ltd., the Company’s consolidated subsidiary, agreed to form a business alliance with JIA PETS. The acquisition of the equity interest from the former shareholders of JIA PETS (for which RMB316 million (JPY6,015 million) of the consideration was paid during the fiscal year ended December 31, 2022 and is included in other financial assets (non-current assets) in the consolidated statement of financial position as of December 31, 2022), as well as capital increase through third-party allotment by JIA PETS, were completed with payment on January 6, 2023. The total consideration for the acquisition is RMB875 million (JPY16,632 million). Unicharm (China) Co., Ltd. obtains a 41.85% stake in JIA PETS, which will become the Company’s affiliate from the fiscal year ending December 31, 2023.

(Purchase of treasury shares)

At the meeting of the Board of Directors of the Company held on February 8, 2023, the Company resolved to purchase treasury shares under the provision of the Company’s Articles of Incorporation based upon Article 459, Paragraph 1, Item 1 of the Companies Act as follows.

(1) Reason for conducting purchase of treasury shares

To deliver even more returns to shareholders and to enable a flexible capital policy in response to changes in the business environment.

(2) Details of the share acquisition

1) Type of shares to be acquired: Company’s common shares
2) Total number of shares to be acquired: 3.9 million shares (upper limit)
(Ratio of total number of issued shares (excluding treasury shares): 0.66%)
3) Total share acquisition cost: ¥17,000 million (upper limit)
4) Acquisition period: February 9, 2023 – December 21, 2023
5) Acquisition method: Purchase on the Tokyo Stock Exchange

(2) Other

Quarterly financial information for the fiscal year under review

Cumulative period		First Quarter	Second Quarter	Third Quarter	Full Year
Net sales	(Millions of Yen)	204,373	421,614	654,548	898,022
Profit before tax	(Millions of Yen)	30,777	56,372	91,416	115,708
Profit attributable to owners of parent	(Millions of Yen)	16,826	31,764	52,474	67,608
Basic earnings per share	(Yen)	28.22	53.26	88.10	113.61

Each quarter		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Basic earnings per share	(Yen)	28.22	25.04	34.84	25.51

2. Non-consolidated financial statements

(1) Non-consolidated financial statements

1) Non-consolidated balance sheet

(Millions of Yen)

		Fiscal Year Ended December 31, 2021 (as of December 31, 2021)		Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Assets				
Current assets				
Cash and deposits		83,445		57,545
Notes and accounts receivable - trade	*2	45,767	*2	48,870
Securities		15,100		21,302
Merchandise and finished goods		3,339		4,116
Raw materials and supplies		11,677		4,284
Short-term loans receivable		514		1,236
Other		8,327		8,311
Total current assets	*1	168,171	*1	145,663
Non-current assets				
Property, plant and equipment				
Buildings and structures		3,569		3,516
Machinery, equipment and vehicles		4,666		4,873
Tools, furniture and fixtures		1,040		984
Land		2,425		2,424
Construction in progress		1,162		1,251
Other, net		31		134
Total property, plant and equipment		12,892		13,183
Intangible assets				
Goodwill		23,626		20,851
Trademarks		3,940		3,424
Software		5,522		5,245
Other		1,345		3,604
Total intangible assets		34,433		33,124
Investments and other assets				
Investment securities		53,652		53,264
Investments in shares and capital of subsidiaries and affiliates		192,615		149,623
Long-term loans receivable		3,878		11,446
Prepaid pension cost		6,000		6,437
Deferred tax assets		2,291		4,639
Other		5,783		5,132
Allowance for doubtful accounts		(108)		(76)
Allowance for loss on valuation of investments in subsidiaries and affiliates		(5,475)		(8,321)
Total investments and other assets	*1	258,635	*1	222,143
Total non-current assets		305,960		268,451
Total assets		474,130		414,114

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	39,291	36,233
Short-term borrowings	69,282	45,740
Accounts payable - other	18,963	16,178
Income taxes payable	4,834	6,379
Provision for bonuses	2,296	2,254
Other	3,111	2,543
Total current liabilities	*1 137,777	*1 109,327
Non-current liabilities		
Provision for retirement benefits	1,799	1,834
Other	706	1,045
Total non-current liabilities	2,505	2,880
Total liabilities	140,282	112,207
Net assets		
Shareholders' equity		
Capital stock	15,993	15,993
Capital surplus		
Legal capital surplus	18,591	18,591
Other capital surplus	39,878	40,288
Total capital surplus	58,469	58,879
Retained earnings		
Legal retained earnings	1,992	1,992
Other retained earnings		
Reserve for open innovation promotion	75	200
Retained earnings brought forward	323,660	308,351
Total retained earnings	325,727	310,543
Treasury shares	(68,646)	(83,699)
Total shareholders' equity	331,543	301,716
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2,141	348
Revaluation reserve for land	(157)	(157)
Total valuation and translation adjustments	1,983	190
Share acquisition rights	323	–
Total net assets	333,849	301,907
Total liabilities and net assets	474,130	414,114

2) Non-consolidated statement of income

(Millions of Yen)

		Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)		Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Net sales	*2	382,210	*2	344,281
Cost of sales	*2	225,976	*2	247,094
Gross profit		156,233		97,187
Selling, general and administrative expenses	*1, *2	114,824	*1, *2	59,286
Operating income		41,410		37,901
Non-operating income				
Interest income		482		569
Dividend income		39,925		28,756
Derivative revenue		1,445		–
Foreign exchange gains		–		2,039
Other		176		273
Total non-operating income	*2	42,027	*2	31,637
Non-operating expenses				
Interest expenses		597		545
Sales discounts		502		–
Derivative expenses		–		1,034
Foreign exchange losses		957		–
Other		27		45
Total non-operating expenses	*2	2,084	*2	1,624
Ordinary income		81,353		67,915
Extraordinary income				
Gain on sale of non-current assets		–		3
Gain on sales of investment securities		–		15
Gain on reversal of share acquisition rights		–		51
Gain on sale of shares of subsidiaries and associates		150		–
Gain on reversal of allowance for loss on valuation of investments in subsidiaries and affiliates		641		–
Other		1		–
Total extraordinary income		792		69
Extraordinary losses				
Loss on disposal of non-current assets		83		189
Provision of allowance for loss on valuation of investments in subsidiaries and affiliates		–		2,845
Loss on valuation of investments in shares and capital of subsidiaries and affiliates		8,184		44,273
Loss on sales of investment securities		13		–
Loss on valuation of investment securities		55		791
Other		83		–
Total extraordinary losses		8,417		48,098
Profit before income taxes		73,728		19,886
Income taxes - current		12,834		14,568
Income taxes - deferred		1,269		(1,558)
Total income taxes		14,103		13,010
Profit		59,625		6,876

3) Non-consolidated statement of changes in shareholders' equity
Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)

(Millions of Yen)

	Shareholders' equity									
	Capital stock	Capital surplus			Retained earnings				Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings		
						Reserve for open innovation promotion	Retained earnings brought forward			
Balance at beginning of current period	15,993	18,591	39,333	57,924	1,992	–	284,418	286,410	(54,572)	305,754
Changes of items during period										
Dividends of surplus							(20,308)	(20,308)		(20,308)
Provision of reserve for open innovation promotion						75	(75)	–		–
Profit							59,625	59,625		59,625
Purchase of treasury shares									(16,001)	(16,001)
Disposal of treasury shares			386	386					1,784	2,170
Share-based payment transactions			159	159					144	303
Net changes of items other than shareholders' equity										
Total changes of items during period	–	–	545	545	–	75	39,241	39,317	(14,073)	25,788
Balance at end of current period	15,993	18,591	39,878	58,469	1,992	75	323,660	325,727	(68,646)	331,543

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments		
Balance at beginning of current period	5,924	(157)	5,766	592	312,113
Changes of items during period					
Dividends of surplus					(20,308)
Provision of reserve for open innovation promotion					–
Profit					59,625
Purchase of treasury shares					(16,001)
Disposal of treasury shares					2,170
Share-based payment transactions					303
Net changes of items other than shareholders' equity	(3,783)	–	(3,783)	(270)	(4,053)
Total changes of items during period	(3,783)	–	(3,783)	(270)	21,736
Balance at end of current period	2,141	(157)	1,983	323	333,849

Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)

(Millions of Yen)

	Shareholders' equity									
	Capital stock	Capital surplus			Retained earnings				Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings		
						Reserve for open innovation promotion	Retained earnings brought forward			
Balance at beginning of current period	15,993	18,591	39,878	58,469	1,992	75	323,660	325,727	(68,646)	331,543
Changes of items during period										
Dividends of surplus							(22,059)	(22,059)		(22,059)
Provision of reserve for open innovation promotion						125	(125)	–		–
Profit							6,876	6,876		6,876
Purchase of treasury shares									(17,001)	(17,001)
Disposal of treasury shares			348	348					1,832	2,181
Share-based payment transactions			62	62					115	177
Net changes of items other than shareholders' equity										
Total changes of items during period	–	–	410	410	–	125	(15,308)	(15,183)	(15,053)	(29,827)
Balance at end of current period	15,993	18,591	40,288	58,879	1,992	200	308,351	310,543	(83,699)	301,716

	Valuation and translation adjustments			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Revaluation reserve for land	Total valuation and translation adjustments		
Balance at beginning of current period	2,141	(157)	1,983	323	333,849
Changes of items during period					
Dividends of surplus					(22,059)
Provision of reserve for open innovation promotion					–
Profit					6,876
Purchase of treasury shares					(17,001)
Disposal of treasury shares					2,181
Share-based payment transactions					177
Net changes of items other than shareholders' equity	(1,793)	–	(1,793)	(323)	(2,115)
Total changes of items during period	(1,793)	–	(1,793)	(323)	(31,942)
Balance at end of current period	348	(157)	190	–	301,907

Notes to Non-consolidated Financial Statements

(Significant accounting policies)

1. Valuation standards and methods for securities
   (1) Held-to-maturity debt securities
   Amortized cost method (straight-line method)

   (2) Shares of subsidiaries and associates
   Cost method by the moving-average method

   (3) Available-for-sale securities
   Securities other than shares, etc. with no market price

   Market value method

   (the valuation difference is directly included in net assets, and cost of sales is determined by the moving-average method.)

   Shares, etc. with no market price

   Cost method by the moving-average method

2. Valuation methods for derivative financial instruments
   Market value method

3. Valuation standards and methods for inventories
   Inventories held for ordinary selling purpose:

   Valuation standard is cost method (carrying amount is written down due to decreased profitability)

   (1) Merchandise and finished goods
   Gross average method

   (2) Supplies
   Specific identification method

   (3) Raw materials
   Moving-average method

4. Depreciation of non-current assets
   (1) Property, plant and equipment (excluding leased assets)
   Straight-line method

   Major useful lives are as follows:

Buildings and structures	2 – 50 years
Machinery, equipment and vehicles	2 – 17 years

   (2) Intangible assets (excluding leased assets)
   Straight-line method

   As major useful lives, goodwill is amortized within 20 years after incurred, trademarks are amortized over 10 years, and software (for internal use) is amortized over the internally estimated useful lives (5 years).

   (3) Leased assets
   Leased assets related to finance lease transactions which do not transfer ownerships to the lessee

   Leased assets are depreciated over the lease terms as useful lives using the straight-line method without any residual value.

5. Translation of foreign currency denominated assets and liabilities into Japanese yen
   Foreign currency denominated monetary receivables and payables are translated into Japanese yen using the spot exchange rate on the closing date and the translation difference is charged or credited to income.

6. Accounting standards for reserves and allowances
   (1) Allowance for doubtful accounts
   In order to prepare for possible credit losses on receivables, the Company records the estimated amount of non-recoverable receivables based on the historical loss rate for general receivables and specific collectability for specific doubtful receivables.

   (2) Allowance for loss on valuation of investments in subsidiaries and affiliates
   In order to provide for a decline in the value of investments in subsidiaries and affiliates, an amount according to the decline in actual value is recorded.

   (3) Provision for bonuses
   In order to prepare for payments of bonuses to the employees, the estimated payable amount attributable to the fiscal year under review is recorded as provision for bonuses.

   (4) Provision for retirement benefits
   In order to prepare for employees' retirement benefits, provision for retirement benefits is recorded based on the retirement benefit obligations and estimated plan assets as of the current fiscal year-end.

   1) Period attribution method for estimated retirement benefits
   In calculating retirement benefit obligations, the method of attributing the estimated amount of retirement benefits to the periods up to the end of the fiscal year under review is based on the benefit formula basis.

   2) Accounting method for actuarial difference and past service cost
   Past service cost is expensed at the amount divided proportionally using the straight-line method over a period of definite years (5 years) within the employees' average remaining service years when incurred.

   Actuarial difference is expensed at the amount divided proportionally using the straight-line method over a period of definite years (10 years) within the employees' average remaining service years in each fiscal year when it is incurred, commencing from the fiscal year following the fiscal year in which the difference is incurred.

7. Accounting standards for revenue and expenses
   The Company is mainly engaged in the sale of products for personal care, which includes wellness care business, feminine care business, baby care business and Kirei care business, and the manufacture and sale of products for pet care business. For the sale of such products, because the customer obtains control of the products at the time of delivery, the Company judges that its performance obligation is satisfied and recognizes revenue at the time of product delivery.

   Revenue is recognized at the amount of consideration to which the entity expects to be entitled in exchange for transfer of goods to customers, and is measured at the amount after deduction of trade discounts, rebates and sales discounts. Variable consideration in the form of discounts, rebates and sales discounts is included in the transaction price only to the extent that it is highly probable that a subsequent resolution of the uncertainty relating to such variable consideration will not result in a material reversal of the accumulated amount of revenue recognized. The consideration for performance obligations is received within one year from the fulfillment of the obligations and does not contain any significant financing component.

8. Other significant accounting policies concerning the preparation of financial statements
   Accounting for retirement benefits

   The accounting methods of unrecognized actuarial gain and loss and unrecognized past service cost differ from those of the consolidated financial statements.

(Significant accounting estimates)

Valuation of investments in shares and capital of subsidiaries and affiliates

(1) Amounts recorded in the non-consolidated financial statements

(Millions of Yen)

	Fiscal Year Ended December 31, 2021	Fiscal Year Ended December 31, 2022
Investments in shares and capital of subsidiaries and affiliates	192,615	149,623
Allowance for loss on valuation of investments in subsidiaries and affiliates	5,475	8,321
Loss on valuation of investments in shares and capital of subsidiaries and affiliates	8,184	44,273

Of the above amounts, the major losses on valuation of investments in shares and capital of subsidiaries and affiliates that were recorded for the fiscal year ended December 31, 2021 are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021
Shares of Unicharm Australasia Holding Pty Ltd. (after recording of loss on valuation)	723
Loss on valuation of shares of Unicharm Australasia Holding Pty Ltd.	8,184
Reversal of allowance for loss on valuation of investments in shares of subsidiaries and affiliates pertaining to shares of Unicharm Australasia Holding Pty Ltd.	1,919
Investments in capital of UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA. (after recording of loss on valuation)	7,497
Reversal of allowance for loss on valuation of investments in shares of subsidiaries and affiliates pertaining to UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA.	15,062
Gain on reversal of allowance for loss on valuation of investments in subsidiaries and affiliates that resulted from the reversal of allowance for loss on valuation of investments in shares of subsidiaries and affiliates pertaining to investments in capital of UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA.	163

With regard to the shares of ¥723 million in Unicharm Australasia Holding Pty Ltd., a subsidiary that sells mainly personal care products in Australia, we considered that the excess earnings power expected at the time of share acquisition had decreased. Since the actual value that reflects the decrease in excess earnings power has significantly declined, the allowance for loss on valuation of investments in subsidiaries and affiliates of ¥1,919 million was reversed, and the loss on valuation of investments in shares and capital of subsidiaries and affiliates of ¥8,184 million was recorded, with the amount based on the net assets per value as the actual value.

With regard to the investments of ¥7,497 million in capital of UNICHARM DO BRASIL INDÚSTRIA E COMÉRCIO DE PRODUTOS DE HIGIENE LTDA., a subsidiary that manufactures and sells mainly personal care products in Brazil, the allowance for loss on valuation of investments in subsidiaries and affiliates of ¥15,062 million was reversed since the actual value has significantly declined and future business plans will unlikely help it recover. With the reversal of the allowance for loss on valuation of investments in subsidiaries and affiliates, a gain on reversal of allowance for loss on valuation of investments in subsidiaries and affiliates of ¥163 million was recorded.

Of the above amounts, the major losses on valuation of investments in shares and capital of subsidiaries and affiliates that were recorded for the fiscal year under review are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2022
Shares of DSG (Cayman) Ltd. (after recording of loss on valuation)	7,910
Loss on valuation of shares of DSG (Cayman) Ltd.	43,414

With regard to the shares of ¥7,910 million in DSG (Cayman) Ltd., which we acquired in September 2018 in order to grow in the Southeast Asia region, we considered that the excess earnings power expected at the time of share acquisition had decreased. Since the actual value that reflects the decrease in excess earnings power has significantly declined, the loss on valuation of investments in shares and capital of subsidiaries and affiliates of ¥43,414 million was recorded, with the amount based on the net assets per value as the actual value.

DSG (Cayman) Ltd. is the holding company of DSG International (Thailand) Public Co., Ltd., which manufactures and sells disposable diapers for babies and adults.

(2) Information about the details of significant accounting estimates pertaining to identified items

Investments in shares and capital of subsidiaries and affiliates with no market price are the value at acquisition cost presented on the balance sheet. If the actual value calculated based on net assets significantly declines due to deterioration of the financial position of the company that has issued these shares, the value of these investments are considerably reduced so that the valuation difference is recognized as a loss for the fiscal year under review, except when the possibility of recovery is supported by ample evidence such as business plans. As for shares acquired at a value higher than the net assets per share that are obtained from the financial statements as a reflection of excess earnings power, if the excess earnings power is considered to have been decreased, the actual value reflects the said decrease.

When the actual value dropped to a certain extent while it has not significantly declined, and when a significant decline in the actual value was not recorded as impairment because the value is expected to recover, an amount that is equivalent to the decline is processed as an allowance for loss on valuation of investments in subsidiaries and affiliates. When investments in shares and capital of subsidiaries and affiliates are valued, certain assumptions, such as net sales growth rate, are set for estimates in business plans, among others.

As for the valuation of investments in shares and capital of subsidiaries and affiliates, whether the actual value will likely recover is judged and excess earnings power is assessed based on an analysis that is grounded on a comparison between business plans and actual results. The valuation may be affected by changes in economic conditions given future uncertainties. If the business environment of subsidiaries and affiliates worsens due to unforeseen circumstances, the amounts of investments in shares and capital of subsidiaries and affiliates and of allowance for loss on valuation of investments in subsidiaries and affiliates in the financial statements for the following fiscal year may be materially affected.

(Changes in accounting policies)

(Adoption of the Accounting Standard for Revenue Recognition, etc.)
The Company has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc. from the beginning of the fiscal year under review. The Company recognizes revenue at the time when the control of the promised goods or services is transferred to the customer at the amount the Company expects to receive in exchange for the goods or services.

As a result, some discounts, rebates, etc., which were previously recorded as selling, general and administrative expenses, are now deducted from net sales.

In addition, sales discounts, which were previously recognized as non-operating expenses, are now deducted from net sales.

In adopting the Accounting Standard for Revenue Recognition, etc., the transitional treatment was made, which is specified in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative impact of retrospectively applying the new accounting policies to periods prior to the beginning of the fiscal year under review was reflected in retained earnings brought forward as of the beginning of the fiscal year under review, and the new accounting policies have been adopted with the beginning balance. There was no impact on the beginning balance.

As a result, compared with the figures before the adoption of the Accounting Standard for Revenue Recognition, etc., net sales, selling, general and administrative expenses, and non-operating expenses for the period under review decreased by ¥52,598 million, ¥52,054 million and ¥544 million, respectively. However, there was no impact on the beginning balance of retained earnings brought forward in the non-consolidated statement of changes in shareholders' equity and per share information for the fiscal year under review.

Figures for the previous fiscal year have not been reclassified based on the new presentation method in accordance with the transitional treatment specified in Paragraph 89-2 of the Accounting Standard for Revenue Recognition. Notes on revenue recognition pertaining to the previous fiscal year are not presented in accordance with the transitional treatment specified in Paragraph 89-3 of the Accounting Standard for Revenue Recognition.

(Adoption of the Accounting Standard for Fair Value Measurement, etc.)

The Company has adopted the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019), etc. from the beginning of the fiscal year under review, and will prospectively apply the new accounting policies stipulated by the Accounting Standard for Fair Value Measurement, etc. in accordance with the transitional treatment specified in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The impact of the adoption on the fiscal year under review is insignificant.

(Additional information)

(Impact of the spread of COVID-19)
With regard to the impact of the spread of COVID-19, although it is difficult to predict how it will spread going forward, when it will come under control, etc., the Group has prepared accounting estimates based on information available as of the end of the fiscal year under review, and judged that the impact on the fiscal year under review will be insignificant.

(Balance sheet)

*1 Monetary receivables from and payables to subsidiaries and affiliates (except for those separately disclosed)

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Short-term monetary receivables	12,574	15,923
Long-term monetary receivables	3,878	8,928
Short-term monetary payables	69,552	67,760

*2 Notes maturing at the fiscal year-end are accounted for as if they were settled at the maturity date. The following notes matured at the fiscal year-end are excluded from the balance at the fiscal year-end since the fiscal year-end fell on a bank holiday:

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Notes receivable - trade	50	30

*3 Guarantee obligation

The Company provides guarantee of obligations concerning the borrowings from financial institutions of the following subsidiaries and affiliates.

(Millions of Yen)

Fiscal Year Ended December 31, 2021 (as of December 31, 2021)		Fiscal Year Ended December 31, 2022 (as of December 31, 2022)	
Uni.Charm Mölnlycke B.V. (Netherlands)	1,652	Uni.Charm Mölnlycke B.V. (Netherlands)	1,791
Unicharm Mölnlycke Rus L.L.C. (Russia)	707	Unicharm India Private Ltd. (India)	12,075
UcM Inco USA, Inc. (U.S.A.)	542	UcM Inco USA, Inc. (U.S.A.)	318
Onedot Inc.	400	Onedot Inc.	400
Total	3,301	Total	14,584

(Statement of income)

*1 The main expense items and amounts of selling, general and administrative expenses are as follows.

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Sales promotion expenses	55,831	3,884
Advertising expenses	9,901	6,086
Miscellaneous fees	5,428	5,631
Salaries and bonuses to employees	7,117	7,020
Provision of allowance for bonuses	1,679	1,583
Depreciation and amortization expenses	6,082	6,353
Share of selling expenses out of selling, general and administrative expenses	69%	38%

*2 Transactions with subsidiaries and affiliates

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (January 1, 2021 – December 31, 2021)	Fiscal Year Ended December 31, 2022 (January 1, 2022 – December 31, 2022)
Operating transactions	235,071	247,061
Non-operating transactions	40,004	28,632

(Securities)
Shares of subsidiaries and affiliates
Fiscal Year Ended December 31, 2021 (as of December 31, 2021)

(Millions of Yen)

Category	Amount recorded in the balance sheet	Fair value	Difference
Shares of subsidiaries	3,088	28,901	25,813

Note: The amounts of shares of subsidiaries and affiliates recorded in the balance sheet for which it is deemed extremely difficult to determine the fair value.

(Millions of Yen)

Category	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)
Shares of subsidiaries	153,239
Investments in capital of subsidiaries	35,400
Shares of affiliates	888

The above figures have not been included in the table "Shares of subsidiaries and affiliates" above because market values of above items are not available and these items are deemed to be extremely difficult to determine their fair values.

Fiscal Year Ended December 31, 2022 (as of December 31, 2022)

(Millions of Yen)

Category	Amount recorded in the balance sheet	Fair value	Difference
Shares of subsidiaries	3,088	22,903	19,815

Note: Amount recorded in the balance sheet of shares, etc. with no market price that are not included in the above

(Millions of Yen)

Category	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Shares of subsidiaries	111,075
Investments in capital of subsidiaries	34,827
Shares of affiliates	633

(Tax-effect accounting)

1. Major components of deferred tax assets and liabilities

(Millions of Yen)

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Deferred tax assets:		
Provision for bonuses	703	690
Loss on valuation of investments in shares and capital of subsidiaries and affiliates	20,586	34,082
Accrued sales promotion expenses	2,668	2,391
Allowance for loss on valuation of investments in subsidiaries and affiliates	1,676	2,548
Provision for retirement benefits	1,853	1,866
Share-based payment expenses	525	778
Other	2,523	3,557
Subtotal	30,536	45,913
Valuation allowance	(23,063)	(37,729)
Total deferred tax assets	7,472	8,185
Deferred tax liabilities:		
Prepaid pension cost	(1,837)	(1,971)
Valuation difference on available-for-sale securities	(1,422)	(1,382)
Other	(1,922)	(193)
Total deferred tax liabilities	(5,181)	(3,546)
Net deferred tax assets (liabilities)	2,291	4,639

2. The reconciliation between the effective statutory tax rate and the actual effective tax rates after the application of tax-effect accounting

	Fiscal Year Ended December 31, 2021 (as of December 31, 2021)	Fiscal Year Ended December 31, 2022 (as of December 31, 2022)
Effective statutory tax rate	30.6%	30.6%
Reconciliations:		
Non-deductible items such as entertainment expenses, etc.	0.0%	0.1%
Non-taxable items such as dividend income, etc.	(15.7)%	(41.6)%
Amortization of goodwill	1.2%	4.3%
Valuation allowance	1.3%	73.7%
Tax credit	(1.3)%	(4.8)%
Loss on share transfer of subsidiaries following capital reduction	–	(4.6)%
Withholding tax on dividends at overseas subsidiaries	1.6%	8.3%
Other	1.4%	(0.7)%
Actual effective tax rate after the application of tax-effect accounting	19.1%	65.4%

(Significant subsequent events)

(Purchase of treasury shares)

At the meeting of the Board of Directors of the Company held on February 8, 2023, the Company resolved to purchase treasury shares under the provision of the Company's Articles of Incorporation based upon Article 459, Paragraph 1, Item 1 of the Companies Act as follows.

(1) Reason for conducting purchase of treasury shares

To deliver even more returns to shareholders and to enable a flexible capital policy in response to changes in the business environment.

(2) Details of the share acquisition

1) Type of shares to be acquired:	Company's common shares
2) Total number of shares to be acquired:	3.9 million shares (upper limit) (Ratio of total number of issued shares (excluding treasury shares): 0.66%)
3) Total share acquisition cost:	¥17,000 million (upper limit)
4) Acquisition period:	February 9, 2023 – December 21, 2023
5) Acquisition method:	Purchase on the Tokyo Stock Exchange

4) Non-consolidated supplemental schedules
Detailed schedule of property, plant and equipment

(Millions of Yen)

Classification	Type of assets	Balance at the beginning of the fiscal year ended December 31, 2022	Increase in the fiscal year ended December 31, 2022	Decrease in the fiscal year ended December 31, 2022	Depreciation and amortization for the fiscal year ended December 31, 2022	Balance at the end of the fiscal year ended December 31, 2022	Accumulated depreciation and amortization
Property, plant and equipment	Buildings and structures	3,569	219	2	269	3,516	5,293
	Machinery, equipment and vehicles	4,666	2,123	174	1,741	4,873	10,471
	Tools, furniture and fixtures	1,040	209	1	263	984	3,272
	Land	2,425 [(157)]	–	0	–	2,424 [(157)]	139
	Construction in progress	1,162	733	644	–	1,251	–
	Other	31	123	–	21	134	33
	Total	12,892	3,408	821	2,295	13,183	19,209
Intangible assets	Goodwill	23,626	–	–	2,776	20,851	–
	Trademarks	3,940	10	–	526	3,424	–
	Software	5,522	1,812	151	1,937	5,245	–
	Software in progress	1,341	4,072	1,812	–	3,601	
	Other	4	10	10	0	3	–
	Total	34,433	5,904	1,973	5,240	33,124	–

Notes: 1. The increases in the fiscal year ended December 31, 2022 are mainly as follows.

Machinery, equipment and vehicles	Manufacturing machines for wellness care business	¥731 million
Machinery, equipment and vehicles	Development machines for feminine care business	¥705 million
Machinery, equipment and vehicles	Manufacturing machines for baby care business	¥348 million
Machinery, equipment and vehicles	Manufacturing machines for pet care business	¥302 million
Software in progress	Mission-critical business system	¥1,516 million

2. [ ] denotes revaluation difference of land which was revalued in accordance with the Act of Revaluation of Land (1998 Act No. 34).
3. The amount of accumulated depreciation and amortization includes the amount of accumulated impairment losses.

Detailed schedule of allowances

(Millions of Yen)

Classification	Balance at the beginning of the fiscal year ended December 31, 2022	Increase in the fiscal year ended December 31, 2022	Decrease in the fiscal year ended December 31, 2022	Balance at the end of the fiscal year ended December 31, 2022
Allowance for doubtful accounts	108	76	108	76
Provision for bonuses	2,296	2,254	2,296	2,254
Allowance for loss on valuation of investments in subsidiaries and affiliates	5,475	2,845	–	8,321

Note: The reasons for accounting the allowances and calculation method thereof are stated in "6. Accounting standards for reserves and allowances" in "Significant accounting policies."

(2) Details of major assets and liabilities

This information is omitted because the Company prepares consolidated financial statements.

(3) Other

Not applicable.

VI. Information on Transfer and Repurchase of the Company's Shares

Fiscal year	From January 1 to December 31
Ordinary General Meeting of Shareholders	March
Record date	December 31
Record date for dividend	June 30 (interim dividend) and December 31 (year-end dividend)
Number of shares per unit of the Company	100 shares
Repurchase of shares less than one unit	
Address where repurchases are processed	(Special account) 1-4-5, Marunouchi, Chiyoda-ku, Tokyo Stock Transfer Agency, Mitsubishi UFJ Trust and Banking Corporation
Administrator of shareholders' register	(Special account) 1-4-5, Marunouchi, Chiyoda-ku, Tokyo Mitsubishi UFJ Trust and Banking Corporation
Offices available for repurchase	–
Charges for repurchase	No charge
Method of public notice	Public notice of the Company shall be given by electronic means; provided, however, that in the event accidents or other unavoidable reasons prevent public notice by electronic means, the notice can be given in the Nihon Keizai Shimbun. URL for public notice https://www.unicharm.co.jp/ir/
Special benefits to shareholders	Not applicable.

Notes: The Company's shareholders of shares of less than one unit are not able to exercise their rights other than the rights as following:

(1) The rights stipulated in each Item of Article 189, Paragraph 2 of the Companies Act;

(2) The right to make a claim in accordance with Article 166, Paragraph 1 of the Companies Act; and

(3) The right to subscribe for new shares or new share acquisition rights in proportion to the number of the shares owned by said shareholder.

VII. Reference Information on the Company

1. Information on the parent company or equivalent of the Company

The Company has no parent company or equivalent.

2. Other reference information

The Company filed the following documents between the beginning of the fiscal year ended December 31, 2022 and the date when this Annual Securities Report (Yukashoken-Houkokusho) was filed.

(1) Annual Securities Report and Accompanying Documents and Confirmation Note

The 62nd Fiscal Year (from January 1, 2021 to December 31, 2021)
Submitted to the Director-General of the Kanto Local Finance Bureau on March 28, 2022.

(2) Internal Control Report and Accompanying Documents

Submitted to the Director-General of the Kanto Local Finance Bureau on March 28, 2022.

(3) Quarterly Securities Reports and Confirmation Notes

The 1st Quarter of 63rd Fiscal Year (from January 1, 2022 to March 31, 2022)
Submitted to the Director-General of the Kanto Local Finance Bureau on May 11, 2022.

The 2nd Quarter of 63rd Fiscal Year (from April 1, 2022 to June 30, 2022)
Submitted to the Director-General of the Kanto Local Finance Bureau on August 5, 2022.

The 3rd Quarter of 63rd Fiscal Year (from July 1, 2022 to September 30, 2022)
Submitted to the Director-General of the Kanto Local Finance Bureau on November 8, 2022.

(4) Extraordinary Report

The Extraordinary Report according to the provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Order on Disclosure of Corporate Affairs
Submitted to the Director-General of the Kanto Local Finance Bureau on March 28, 2022.

The Extraordinary Report according to the provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 12 of the Cabinet Office Order on Disclosure of Corporate Affairs
Submitted to the Director-General of the Kanto Local Finance Bureau on May 31, 2022.

The Extraordinary Report according to the provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 12 of the Cabinet Office Order on Disclosure of Corporate Affairs
Submitted to the Director-General of the Kanto Local Finance Bureau on January 23, 2023.

The Extraordinary Report according to the provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 12 of the Cabinet Office Order on Disclosure of Corporate Affairs
Submitted to the Director-General of the Kanto Local Finance Bureau on February 8, 2023.

The Extraordinary Report according to the provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 9-4 of the Cabinet Office Order on Disclosure of Corporate Affairs
Submitted to the Director-General of the Kanto Local Finance Bureau on February 22, 2023.

The Extraordinary Report according to the provisions of Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 2-2 of the Cabinet Office Order on Disclosure of Corporate Affairs
Submitted to the Director-General of the Kanto Local Finance Bureau on March 27, 2023.

(5) Reporting on status of purchase of treasury shares

Reports were submitted to the Director-General of the Kanto Local Finance Bureau on April 11, 2022, May 11, 2022, June 13, 2022, July 14, 2022, August 9, 2022, September 7, 2022, October 11, 2022, November 10, 2022, December 9, 2022, January 13, 2023, March 10, 2023.

Part 2. Information on Guarantors for the Company

Not applicable.