

Consolidated Financial Results
for the Fiscal Year Ended December 31, 2023 (Japanese GAAP)

February 13, 2024

Company name: Earth Corporation
Stock code: 4985

Listing Stock Exchange: Tokyo
URL: <https://corp.earth.jp/en/index.html>

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Ordinary annual general meeting of shareholders: March 22, 2024
Scheduled date for dividend payment: March 8, 2024
Scheduled date to file securities report: March 25, 2024
Preparation of supplemental explanatory materials: Yes
Results briefing to be held: Yes (For securities analysts and institutional investors)

(Amounts of less than one million yen are rounded down.)

1. Consolidated Financial Results for the Fiscal Year Ended December 31, 2023
(January 1, 2023 to December 31, 2023)

(1) Consolidated operating results

(Percentages indicate YoY change)

	Sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended December 31, 2023	158,344	3.9	6,370	(14.3)	6,791	(16.5)	4,102	(22.6)
Fiscal year ended December 31, 2022	152,339	—	7,434	—	8,133	—	5,303	—

Note: Comprehensive income for the fiscal year ended December 31, 2023 was 6,531 million yen (1.1%), and comprehensive income for the fiscal year ended December 31, 2022 was 6,457 million yen (—%).

	Net income per share	Diluted net income per share	Ratio of net income to equity capital	Ratio of ordinary income to total assets	Operating income margin
	Yen	Yen	%	%	%
Fiscal year ended December 31, 2023	185.57	—	6.3	5.3	4.0
Fiscal year ended December 31, 2022	240.47	—	8.6	6.6	4.9

Reference: Equity in earnings of affiliates Fiscal year ended December 31, 2023 -326 million yen Fiscal year ended December 31, 2022 — million yen

Note: The Company adopted the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan, Statement No. 29) from the beginning of the fiscal year ended December 31, 2022. Figures for the fiscal year ended December 31, 2022 are based on the new accounting standard, and no year-on-year comparatives have been provided.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Million yen
Fiscal year ended December 31, 2023	132,407	72,000	50.3	3,007.52
Fiscal year ended December 31, 2022	124,489	68,018	50.4	2,846.07

Reference: Equity capital amounted to 66,546 million yen as of December 31, 2023 and 62,794 million as of December 31, 2022.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended December 31, 2023	7,524	(10,135)	4,893	17,505
Fiscal year ended December 31, 2022	3,901	(6,266)	(4,464)	14,772

2. Dividends

	Dividend per share					Total dividends	Payout ratio (consolidated)	Ratio of dividends to net assets (consolidated)
	End of Q1	End of Q2	End of Q3	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended December 31, 2022	—	0.00	—	118.00	118.00	2,603	49.1	4.2
Fiscal year ended December 31, 2023	—	0.00	—	118.00	118.00	2,610	63.6	4.0
Fiscal year ending December 31, 2024 (forecast)	—	0.00	—	118.00	118.00		145.9	

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2024 (January 1, 2024 to December 31, 2024)

(Percentages indicate rates of YoY change)

	Sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Six months ending June 30, 2024	94,700	4.8	7,900	(20.4)	8,200	(21.3)	5,450	(22.6)	246.31
Full-year	165,000	4.2	3,000	(52.9)	3,560	(47.6)	1,790	(56.4)	80.90

*Notes

(1) Changes in significant subsidiaries during the period under review: None
(Transfers of specified subsidiaries associated with changes in the Company's scope of consolidation)

Newly subsidiaries added: None

Subsidiaries excluded: None

(2) Changes in accounting policies and accounting estimates and retrospective restatements

1. Accounting policy changes due to accounting standard revisions, etc.: Yes

2. Other accounting policy changes: None

3. Changes in accounting estimates: None

4. Retrospective restatements: None

(3) Number of shares outstanding (common stock)

1. Shares outstanding (including treasury stock)	As of December 31, 2023	22,141,100	As of December 31, 2022	22,077,500
2. Treasury shares outstanding	As of December 31, 2023	14,296	As of December 31, 2022	13,782
3. Average number of shares outstanding	Fiscal year ended December 31, 2023	22,107,916	Fiscal year ended December 31, 2022	22,055,509

*Summaries of financial statements are not subject to audit through certified public accountants or auditing corporations.

*Appropriate use of earnings forecast and other special notes

The earnings forecasts and other forward-looking statements contained in this document are based on information currently available to the Company, and certain assumptions it considers reasonable, but are not intended to be a promise that the Company will achieve. Actual results may vary materially from forecasts due to a variety of factors. For more information regarding assumptions made when formulating earnings projections and matters to note when using these projections, please see "1. Overview of Business Results, (4) Future outlook" on page 6 of the accompanying materials.

(Method of obtaining earnings briefing materials and briefing details)

The Company plans to hold an earnings briefing session on Wednesday, February 14, 2024, for institutional investors and analysts. We will upload earnings briefing materials to be used during the briefing session to the TDnet and our official website on Wednesday, February 14. Further, we will promptly post the details of the briefing session on our website after it is held.

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1. Overview of Business Results, etc.

(1) Overview of business results for the fiscal year under review

In the fiscal year ended December 31, 2023, the Japanese economy saw social and economic activities returning to normal against a backdrop of the easing of travel and activity restrictions following the downgrading of COVID-19 to a Class 5 infectious disease and an increase in inbound demand propelled by the lifting of border restrictions. The outlook, however, remains clouded due to rapid changes in the foreign exchange rate, soaring resource prices driven by heightening geopolitical risks, and cooling consumer sentiment due to rising prices.

Looking at Asia, the key region for the Earth Group's overseas operations, economic recovery slowed in China despite the scrapping of the country's stringent zero-COVID policy, due to a stagnation in the local real estate market. In ASEAN, although there were concerns over an economic slowdown due to the impact of economic conditions in Europe, America, and China, performance in the region overall held firm, albeit some variations between countries, backed by robust domestic demand.

Under these economic conditions, with the corporate philosophy of "We act to live in harmony with the Earth," in February 2021 the Group announced the medium-term management plan dubbed Act for SMILE-COMPASS 2023- for the three year period through the fiscal year ended December 31, 2023. We pushed forward with business management under the four fundamental policies of "corporate compass & infrastructure reform," "expansion of profit foundation in Asia," "ESG/open innovation," and "generation of cost synergies" set forth in the medium-term plan, but due to drastic changes in the external environment, we had to revise the plan's numerical targets. That being said, measures we implemented under the abovementioned policies began to bear fruit, and without revising the direction or strategies initially set forth in the plan, we diligently worked on these measures in the final year of the plan as well.

In the fiscal year ended December 31, 2023, sales amounted to 158,344 million yen (+3.9% year-on-year). Sales of bath salts and masks declined in the Household Products Business due to changing market conditions, and sales were sluggish in China. However, in Japan, owing to higher-than-usual temperatures year around, sales of household insecticides and repellents grew and product returns decreased. Further, sales grew in ASEAN as did sales in the General Environment and Sanitation Business, the latter driven by an increase in the number of annual contracts on increased demand for sanitation management services. Profits were affected by a year-on-year increase in the cost of sales caused by the surge in raw material prices, foreign exchange rate fluctuations, and changes in the sales mix, as well as higher SG&A expenses. As a result, operating income for the year came to 6,370 million yen (-14.3% year-on-year), ordinary income to 6,791 million yen (-16.5% year-on-year), and net income attributable to owners of parent to 4,102 million yen (-22.6% year-on-year).

Results by segment are as follows.

[Household Products Business]

In the Household Products Business, the Company improved product value by updating existing products, launched high-value-added products, and carried out effective promotions using social media. Further, the Company strove to improve profitability by revising selling prices to better reflect soaring raw material prices and by reducing product and sales costs. Overseas, the Company actively and effectively invested its management resources, mainly in the ASEAN region, including in Thailand and Vietnam, and rolled out initiatives to expand the scale of its operations.

In the fiscal year ended December 31, 2023, sales amounted to 139,007 million yen (+1.8% year-on-year). Sales of household insecticides and repellents increased backed by the emerging effects of price revisions and an extended demand period on lingering summer heat, and sales of pet products and others also grew thanks to strong sales of premium pet foods. Meanwhile, sales of bath salts and masks declined year-on-year due to changes in the market environment. On the profit front, segment income (operating income) came to 4,420 million yen (-25.2% year-on-year), due to a year-on-year increase in the cost of sales ratio attributed to soaring raw material prices, foreign exchange rate fluctuations, and product mix changes. Also behind the decline in segment income were increases in logistics costs and personnel expenses, the increase in the latter resulting from personnel investment.

(Household Products segment results)

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	YoY change (amount)	YoY change (percent)
Household insecticides and repellents	59,368	62,031	2,663	4.5%
Household products	68,275	67,199	(1,075)	(1.6%)
Oral hygiene products	8,191	8,364	172	2.1%
Bath salts	26,946	26,041	(905)	(3.4%)
Other household products	33,137	32,793	(343)	(1.0%)
Pet products and others	8,843	9,776	933	10.6%
Total sales	136,486	139,007	2,521	1.8%
Segment income (operating income)	5,909	4,420	(1,488)	(25.2%)

Notes: Sales include internal sales and transfers made within and between segments, which amounted to 11,957 million yen during the fiscal year ended December 31, 2022 and 9,577 million yen during the fiscal year ended December 31, 2023.

Results by product category are as follows.

Household insecticides and repellents

In Japan, the demand period for household insecticides and repellents was extended over the latter half of the usual sales season due to prolonged summer heat waves that lasted longer compared with the previous year. Under such conditions, in addition to measures to curb product returns the Group has been working on as a management priority, the favorable weather conditions helped reduce the total amount of product returns, which in turn contributed to earnings improvements. Sales were also buoyed by increased sales of the mainstay products for cockroaches and other insect pests, and the launch of *MAMO ROOM for Cockroaches* in the *MAMO ROOM* brand, which helped uncover new demand for the fall and winter season. Market share increased to 56.9% (Company estimate, +0.6 points versus 2022), as the effects of price revisions began to materialize.

Overseas, sales were sluggish in China due to a slowing economic recovery, but sales continued to grow mainly in Thailand and Vietnam.

As a result of the above, sales in this category totaled 62,031 million yen (+4.5% year-on-year).

Household products

In oral hygiene products, sales of *Mondahmin Peppermint* and other general-use products decreased year-on-year due to intensifying market competition caused by changes in consumer needs. Meanwhile, sales of the all-in-one mouthwash *Mondahmin Premium Care* increased, and sales of *Mondahmin Habit Pro* mouthwash sold exclusively through dental clinics also grew on the back of the Company's progress in cultivating partner dental clinics. As a result, overall oral hygiene product sales amounted to 8,364 million yen (+2.1% year-on-year).

For bath salts, while the use of bath salts has become more widespread, the market shrank year-on-year due to consumers' having greater opportunities to go out with the downgrading of COVID-19 to a Class 5 infectious disease and the impact of the weather, namely the summer heat waves and warmer winter temperatures. In line with such market trends, the Group's performance lagged, with bath salts sales amounting to 26,041 million yen (-3.4% year-on-year).

In other household products, sales of refrigerants and coolants grew as countermeasures for heat stroke during the summer. Sales of the *Sukki-ri!* series of deodorizing air fresheners and *Raku Hapi* series of cleaning products also contributed, but sales of masks for household use and insect repellents for clothing fell year-on-year, resulting in other household products sales of 32,793 million yen (-1.0% year-on-year).

As a result of the above, sales in this category totaled 67,199 million yen (-1.6% year-on-year).

Pet products and others

In pet products, while the pandemic pet boom showed signs of winding down, the pet products market continued holding firm

backed by heightened awareness for pet health among pet owners. Against this backdrop, sales of pet care products such as premium food and cat litter increased, leading to sales in this category amounting to 9,776 million yen (+10.6% year-on-year).

[General Environment and Sanitation Business]

Companies are strengthening in-house hygiene management, prompted by the revisions of relevant laws and regulations in Japan and the trend toward the international harmonization of safety standards for food, pharmaceuticals, and healthcare. Against this backdrop, demand for the Company’s quality hygiene management services utilizing its specialized knowledge, technology, and expertise continued holding firm, especially among its core customers—those involved in the operation of food, pharmaceutical, and package material production facilities. Meanwhile, personnel expenses and material and equipment costs rose at an accelerated pace due to the protracted Russia-Ukraine war.

Under these circumstances, the Company actively invested in the construction of an internal structure, including for the installation and development of systems aimed at cultivating human resources and improving operational efficiency, to better respond to customer needs. At the same time, we stepped up efforts in technology development, including by engaging in industry-academia-government collaborations, to provide sanitary management services that stand apart from competitors’ offerings, and in doing so maintained existing contracts while acquiring new ones and secured an appropriate level of profit. We implemented various measures targeting the pharmaceutical and regenerative medicine industries in particular, and continued strengthening audit and consulting operations related to food safety management. Further, we reviewed the prospects for business expansion and new business development to tackle various environmental issues in a range of fields, including agriculture, with the aim of contributing to creating an environment that will lead to a more prosperous future.

In the fiscal year ended December 31, 2023, while performance was affected by a higher cost ratio and an increase in personnel expenses attributed to active investment in human resources, the number of annual contracts grew, boosting overall segment results. Accordingly, sales in the General Environment and Sanitation Business amounted to 29,073 million yen (+3.9% year-on-year) and the segment income (operating income) to 1,451 million yen (+1.5% year-on-year).

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	YoY change (amount)	YoY change (percent)
Sales	27,973	29,073	1,099	3.9%
Segment income (operating income)	1,430	1,451	20	1.5%

Notes: Sales include internal sales and transfers made within and between segments, which amounted to 163 million yen in the fiscal year ended December 31, 2022 and 158 million yen in the fiscal year ended December 31, 2023.

(2) Overview of financial position for the fiscal year under review

(Consolidated financial position)

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	Change
Total assets	124,489	132,407	7,917
Liabilities	56,470	60,406	3,935
Net assets	68,018	72,000	3,982
Equity ratio (%)	50.4	50.3	(0.1 points)
Net assets per share (yen)	2,846.07	3,007.52	161.45

As of December 31, 2023, total assets amounted to 132,407 million yen, up 7,917 million yen compared to December 31, 2022. This was mainly due to increases in cash and deposits, accounts receivable–trade, buildings and structures, machinery, equipment and vehicles, trademark rights, goodwill, other intangible assets, and retirement benefit assets, offsetting decreases in inventories and construction in progress.

Total liabilities amounted to 60,406 million yen, up 3,935 million yen compared to December 31, 2022. This was mainly attributed to increases in refund liabilities, borrowings, and income taxes payable, only partially offset by decreases in accounts payable–trade, electronically recorded obligations, and accounts payable–other.

Net assets rose to 72,000 million yen, up 3,982 million yen compared to December 31, 2022. This growth was chiefly due to increases in retained earnings, foreign currency translation adjustments, and remeasurement of defined benefit plans.

Consequently, the Company's equity ratio rose to 50.3%, a decrease of 0.1 points compared to December 31, 2022.

Reference: Cash flow-related indicators

	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Equity ratio (%)	37.3	46.1	49.7	50.4	50.3
Equity ratio on a fair market value basis (%)	107.4	107.1	111.9	89.7	76.4
Interest-bearing debt to cash flow ratio (annual)	2.1	0.2	0.8	0.6	1.3
Interest coverage ratio	105.3	549.6	634.1	285.9	255.4

(3) Overview of cash flows for the fiscal year under review

(Consolidated cash flow)

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	Change
Cash flows from operating activities	3,901	7,524	3,622
Cash flows from investing activities	(6,266)	(10,135)	(3,869)
Cash flows from financing activities	(4,464)	4,893	9,358
Effect of exchange rate change on cash and cash equivalents	447	450	2
Net increase (decrease) in cash and cash equivalents	(6,381)	2,732	9,113
Cash and cash equivalents at end of period	14,772	17,505	2,732

As of December 31, 2023, cash and cash equivalents (below, "cash") stood at 17,505 million yen, up 2,732 million yen compared to December 31, 2022.

The status of each cash flow and their main factors in the fiscal year under review are as follows.

In the fiscal year ended December 31, 2023, net cash provided by operating activities amounted to 7,524 million yen (versus 3,901 million yen in the fiscal year ended December 31, 2022). This mainly reflected profit before income taxes of 6,563 million yen (8,057 million yen), depreciation of 4,118 million yen (3,852 million yen), an increase in trade receivables of 1,357 million yen (an increase

of 1,338 million yen), a decrease in inventories of 4,648 million yen (an increase of 4,266 million yen), a decrease in trade payables of 5,636 million yen (an increase of 2,997 million yen), and income taxes paid of 1,108 million yen (2,830 million yen).

Net cash used in investing activities was 10,135 million yen (6,266 million yen used in the fiscal year ended December 31, 2022). This figure primarily consisted of 4,439 million yen (4,893 million yen) in purchase of property, plant and equipment, 1,604 million yen (999 million yen) in purchase of intangible assets, and 3,718 million yen (none) in payments for acquisition of businesses.

Net cash provided by financing activities amounted to 4,893 million yen (4,464 million yen used in the fiscal year ended December 31, 2022). Cash provided consisted mainly of a net increase of 9,000 million yen (a decrease of 532 million yen) in short-term borrowings, repayment of long-term borrowings of 1,200 million yen (1,021 million yen), and dividend payments of 2,603 million yen (2,600 million yen).

(4) Future outlook

(Millions of yen)

	Fiscal year ended December 31, 2023		Fiscal year ending December 31, 2024		Change	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Sales	158,344	100.0%	165,000	100.0%	6,655	4.2%
Operating income	6,370	4.0%	3,000	1.8%	(3,370)	(52.9%)
Ordinary income	6,791	4.3%	3,560	2.2%	(3,231)	(47.6%)
Net income attributable to owners of parent	4,102	2.6%	1,790	1.1%	(2,312)	(56.4%)

We expect the outlook for the global economy, including Japan, to remain uncertain due to soaring raw material prices caused by intensifying geopolitical tensions, changes in the financial market, and weak consumer sentiment due to rising prices.

Under such circumstances, with the motto of “Giving the Group’s full strength for the future of Earth Corporation,” the Group established a new medium-term management plan, dubbed Act for SMILE COMPASS 2026, for the three-year period starting the fiscal year ending December 31, 2024. We have positioned the three years under the new plan as a period for fundamental structural reforms centered on restructuring of the Group. Even amid a rapidly changing business environment, we intend to firmly implement reforms with the goal of maintaining sustainable growth.

In the new medium-term management plan, we have identified profit and cash flow generation (profitability improvement) as our topmost priority, and toward achieving this goal, we will work to increase profitability through restructuring the domestic business and boosting the brand power of our household products. At the same time, we will position the Asian market and exports to other regions as growth drivers, and strive to expand the sales weighting of overseas operations.

The forecast by segment is as follows.

[Household Products Business]

In the Household Products Business, we will fundamentally reform the earnings structure.

In the fiscal year ended December 31, 2020, the household insecticides and repellents market, as well as the bath salts market, expanded propelled by the pandemic-driven shelter-in-place demand, resulting in substantial year-on-year growth in operating income and free cash flows in that fiscal year. Backed by such tailwinds in the financial front, we actively expanded the households products category to cater to rapidly changing consumer behaviors, and churned out products designed to make time spent at home more comfortable. However, performance sharply deteriorated as the pandemic-related travel and activity restrictions were lifted following the downgrading of COVID-19 to a Class 5 infectious disease in 2023, consumer sentiment cooled due to a series of price hikes, and costs of sales shot up driven by soaring raw material prices. To improve performance, we will fundamentally reassess the product categories that underwent expansion during the pandemic years and streamline brands and SKUs based on profitability and future prospects.

In 2023, the Group revised prices of some of its products. While price revisions for household insecticides and repellents had anticipated results, owing in part to the Group’s high market share for these products, price revisions for bath salts and mouthwashes led to rather insufficient results, with the price revisions resulting in a decline in market share due to intense price competition with competitors. To regain market share of bath salts and mouthwashes, our main product categories, we intend to increase spending on

marketing to strengthen our brands, and in doing so contribute to the expansion of the market for those products.

Regarding returns of household insecticides and repellents, which have been an issue from before, we have set a goal to bring them down to zero by 2028 to reduce waste (unsold products), and we will proactively work toward achieving that goal, led by our Marketing and SCM Divisions in particular. We not only expect to reduce our environmental footprint through these measures, but also anticipate profitability improvements arising from curtailed waste-related expenses.

The core system built under the previous medium-term management plan will make significant contributions to the earnings structure reform. Using a system that centrally gathers and links data from production to sales management, we intend to upgrade the supply-demand adjustment function, prevent stock outs and control inventory, increase throughput, and improve cash flows. Moreover, the management accounting system put in place under the previous medium-term plan has enabled us to visualize monthly profitability trends, and we intend to build a system to monitor our progress toward achieving our goals, which will help us to identify issues at an early stage and change courses if necessary.

Overseas, led by Thailand where we aim to maintain No. 1 share in the household insecticides and repellents market in 2025, in addition to supporting active business development of local subsidiaries, we will work to expand exports to the Middle East and North America. Along with efforts to grow overseas operations, we intend to reinforce governance to enhance our management function and establish an earnings management structure. To support the overseas business expansion, we will readily invest in hiring and nurturing of global talent and work to further increase the sales weighting of the overseas business.

[General Environment and Sanitation Business]

The core customers of our General Environment and Sanitation Business (primarily companies in the food, pharmaceutical, and packaging material industries) are facing stringent requirements for the establishment of hygiene management measures to prevent food poisoning and foreign material contamination. Accordingly, they are exhibiting growing needs for the quality hygiene management services that Earth Corporation provides using its specialized knowledge, technology, and expertise. Further, companies, particularly major corporations, are strengthening measures to ensure sustainable procurement.

Under these circumstances, with the existing sanitation management services as the pillar of the segment, we will take flexible and proactive measures to tackle various environmental issues, including those relating to the natural environment, in the aim of contributing to creating an environment that will lead to a more prosperous future. Specifically, we will utilize the Saito General Research Institute as a base for promoting research, technological development, and the training of human resources. At the same time, we will provide services utilizing digital technologies such as IoT and AI, expand auditing activities related to food safety, and step up expansion in the life science field as we aim to achieve stable earnings growth through an increase in annual contracts. Further, we will launch new projects, for instance in the agriculture field, with an eye to developing new businesses, and formulate and assess business plans.

For the fiscal year ending December 31, 2024, the first year under the new medium-term management plan, we expect sales to grow but profits to decline due to one-time expenses required for the abovementioned reforms, active investment in strengthening brands of mainstay categories, and higher fixed costs resulting from personnel investment among others. Specifically, the consolidated earnings forecast for the fiscal year calls for sales of 165,000 million yen (+4.2% year-on-year), operating income of 3,000 million yen (-52.9% year-on-year), ordinary income of 3,560 million yen (-47.6% year-on-year), and net income attributable to owners of parent of 1,790 million yen (-56.4% year-on-year).

(5) Basic Policy concerning the Allocation of Profits and Dividends for the Current and Next Periods

We view the return of profits to our shareholders as an important management issue, and accordingly strive to ensure stable dividends while securing internal reserves in pursuit of sustainable growth and the maintenance of a sound management structure.

As set forth in the medium-term management plan starting in the fiscal year ending December 31, 2024, the Company will primarily use internal reserves for strategic investments and M&A aimed at overseas business expansion, R&D and personnel investments to enhance non-financial value, the overhaul of various systems to streamline operations, capital investments with an eye to productivity improvements, and structural reforms to achieve sustainable growth. Further, we will continue to consider implementing flexible share buyback programs based on cash flow conditions and stock price trends.

In terms of dividends of surplus, we target a dividend on equity ratio (DOE) in the 4% range in the aim of paying stable, continuous

dividends.

Based on these policies, the Board of Directors of the Company has resolved to pay 118 yen per share for the fiscal year ended December 31, 2023, taking into account earnings performance for the year and funds necessary for future growth. As a result,, we now project a DOE ratio of 4.0% and a consolidated dividend payout ratio of 63.6%.

2. Basic Views on Selection of Accounting Standards

Over the near term, the Company will prepare its financial statements based on Japanese generally accepted accounting principles (GAAP), taking into account the inter-period comparability of financial statements and comparability across companies.

In terms of the application of International Financial Reporting Standards (IFRS), the Company will take appropriate measures in light of the existing circumstances in Japan and overseas.

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal year ended December 31, 2022 (as of December 31, 2022)	Fiscal year ended December 31, 2023 (as of December 31, 2023)
Assets		
Current assets		
Cash and deposits	14,772	17,505
Notes and accounts receivable – trade	22,321	23,573
Electronically recorded obligations – operating	1,842	2,066
Merchandise and finished goods	25,617	21,313
Work in process	1,435	820
Raw materials and supplies	5,200	6,133
Other	2,795	2,859
Allowance for doubtful accounts	(22)	(100)
Total current assets	73,962	74,170
Non-current assets		
Property, plant and equipment		
Buildings and structures	30,174	32,977
Accumulated depreciation and impairment	(16,336)	(17,484)
Buildings and structures, net	13,837	15,492
Machinery, equipment and vehicles	16,770	18,798
Accumulated depreciation and impairment	(12,785)	(13,617)
Machinery, equipment and vehicles, net	3,985	5,181
Land	7,787	7,838
Leased assets	320	379
Accumulated depreciation and impairment	(131)	(188)
Leased assets, net	188	191
Construction in progress	2,114	926
Other	9,499	10,025
Accumulated depreciation and impairment	(7,927)	(8,272)
Other, net	1,571	1,753
Total property, plant and equipment	29,483	31,383
Intangible assets		
Trademark right	1,233	2,411
Software	1,432	1,399
Goodwill	105	1,261
Customer-related assets	1,643	1,523
Other	940	2,178
Total intangible assets	5,355	8,774
Investments and other assets		
Investment securities	5,261	5,162
Retirement benefit asset	7,336	9,844
Deferred tax assets	1,001	753
Other	2,105	2,320
Allowance for doubtful accounts	(16)	(1)
Total investments and other assets	15,688	18,079
Total non-current assets	50,527	58,237
Total assets	124,489	132,407

(Millions of yen)

	Fiscal year ended December 31, 2022 (as of December 31, 2022)	Fiscal year ended December 31, 2023 (as of December 31, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	24,236	21,484
Electronically recorded obligations – operating	11,288	8,520
Short-term borrowings	1,000	10,000
Current portion of long-term borrowings	1,200	–
Accounts payable – other	7,477	6,608
Income taxes payable	426	1,608
Accrued consumption taxes	612	713
Provision for bonuses	240	283
Refund liabilities	1,010	1,226
Other	5,849	7,047
Total current liabilities	53,341	57,493
Non-current liabilities		
Deferred tax liabilities	1,815	1,550
Retirement benefit liability	314	382
Asset retirement obligations	479	486
Other	520	494
Total non-current liabilities	3,129	2,912
Total liabilities	56,470	60,406
Net assets		
Shareholders' equity		
Share capital	9,895	10,043
Capital surplus	9,917	10,066
Retained earnings	39,897	41,385
Treasury shares	(79)	(79)
Total shareholders' equity	59,631	61,415
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,109	1,383
Foreign currency translation adjustment	698	1,363
Remeasurements of defined benefit plans	1,354	2,383
Total accumulated other comprehensive income	3,163	5,130
Non-controlling interests	5,224	5,453
Total net assets	68,018	72,000
Total liabilities and net assets	124,489	132,407

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

Consolidated Statement of Income

(Millions of yen)

	Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)	Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)
Sales	152,339	158,344
Cost of sales	89,870	94,719
Gross profit	62,468	63,624
Selling, general and administrative expenses		
Transportation and storage costs	7,067	7,560
Advertising expenses	7,393	7,319
Promotion expenses	1,029	1,045
Provision of allowance for doubtful accounts	2	64
Salaries and allowances	17,591	18,291
Provision for bonuses	189	235
Travel and transportation expenses	1,317	1,521
Depreciation	1,475	1,728
Amortization of goodwill	429	119
Rent expenses on land and buildings	1,488	1,503
Research and development expenses	3,217	3,301
Other	13,831	14,562
Total selling, general and administrative expenses	55,034	57,254
Operating income	7,434	6,370
Non-operating income		
Interest income	121	201
Dividend income	77	78
Foreign exchange gains	226	118
Commission income	28	28
Rental income from buildings	45	42
Other	247	347
Total non-operating income	747	818
Non-operating expenses		
Interest expenses	23	33
Share of loss of entities accounted for using equity method	—	326
Other	24	35
Total non-operating expenses	47	396
Ordinary income	8,133	6,791
Extraordinary income		
Gain on sale of non-current assets	29	3
Gain on sale of investment securities	10	8
Total extraordinary income	40	12
Extraordinary losses		
Loss on sale of non-current assets	8	7
Loss on retirement of non-current assets	107	226
Loss on sale of investment securities	—	7
Loss on valuation of investment securities	0	—
Total extraordinary losses	116	240

(Millions of yen)

	Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)	Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)
Net income before income taxes	8,057	6,563
Income taxes – current	1,742	2,281
Income taxes – deferred	674	(128)
Total income taxes	2,417	2,153
Net income	5,639	4,410
Net income attributable to non-controlling interests	336	307
Net income attributable to owners of parent	5,303	4,102

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)	Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)
Net income	5,639	4,410
Other comprehensive income		
Valuation difference on available-for-sale securities	(184)	287
Foreign currency translation adjustment	716	673
Remeasurements of defined benefit plans, net of tax	285	1,160
Total other comprehensive income	817	2,121
Comprehensive income	6,457	6,531
(Breakdown)		
Comprehensive income attributable to owners of parent	6,045	6,070
Comprehensive income attributable to non-controlling interests	412	461

(3) Consolidated Statement of Changes in Equity

Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	9,895	9,928	37,929	(215)	57,537
Cumulative effects of changes in accounting policies			(542)		(542)
Restated balance	9,895	9,928	37,387	(215)	56,995
Changes of items during period					
Dividends of surplus			(2,600)		(2,600)
Net income attributable to owners of parent			5,303		5,303
Purchase of treasury shares				(99)	(99)
Disposal of treasury shares		(12)		236	224
Change in scope of equity method			(192)		(192)
Change in ownership interest of parent due to transactions with non-controlling interests		1			1
Net changes in items other than shareholders' equity					
Total changes of items during period	—	(10)	2,510	136	2,636
Balance at end of current period	9,895	9,917	39,897	(79)	59,631

(Millions of yen)

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans		
Balance at beginning of current period	1,297	(22)	1,146	4,638	64,596
Cumulative effects of changes in accounting policies				(66)	(608)
Restated balance	1,297	(22)	1,146	4,572	63,988
Changes of items during period					
Dividends of surplus					(2,600)
Net income attributable to owners of parent					5,303
Purchase of treasury shares					(99)
Disposal of treasury shares					224
Change in scope of equity method					(192)

Change in ownership interest of parent due to transactions with non-controlling interests					1
Net changes in items other than shareholders' equity	(188)	721	208	651	1,393
Total changes of items during period	(188)	721	208	651	4,030
Balance at end of current period	1,109	698	1,354	5,224	68,018

Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	9,895	9,917	39,897	(79)	59,631
Changes of items during period					
Issuance of new shares	148	148			296
Dividends of surplus			(2,603)		(2,603)
Net income attributable to owners of parent			4,102		4,102
Purchase of treasury shares				(0)	(0)
Change in scope of consolidation			(11)		(11)
Change in ownership interest of parent due to transactions with non-controlling interests		0			0
Net changes in items other than shareholders' equity					
Total changes of items during period	148	149	1,487	(0)	1,784
Balance at end of current period	10,043	10,066	41,385	(79)	61,415

(Millions of yen)

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans		
Balance at beginning of current period	1,109	698	1,354	5,224	68,018
Changes of items during period					
Issuance of new shares					296
Dividends of surplus					(2,603)
Net income attributable to owners of parent					4,102
Purchase of treasury shares					(0)
Change in scope of consolidation					(11)
Change in ownership interest of parent due to transactions with non-controlling interests					0
Net changes in items other than shareholders' equity	274	664	1,029	229	2,197
Total changes of items during period	274	664	1,029	229	3,982
Balance at end of current period	1,383	1,363	2,383	5,453	72,000

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)	Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)
Cash flows from operating activities		
Profit before income taxes	8,057	6,563
Depreciation	3,852	4,118
Amortization of goodwill	429	119
Increase (decrease) in retirement benefit assets and liabilities	(882)	(773)
Increase (decrease) in allowance for doubtful accounts	0	62
Interest and dividend income	(198)	(280)
Interest expenses	23	33
Foreign exchange losses (gains)	(217)	(260)
Share of loss (profit) of entities accounted for using equity method	—	326
Loss (gain) on sale of investment securities	(10)	(1)
Loss (gain) on valuation of investment securities	0	—
Decrease (increase) in trade receivables	(1,338)	(1,357)
Decrease (increase) in inventories	(4,266)	4,648
Decrease (increase) in other assets	(367)	335
Increase (decrease) in trade payables	2,997	(5,636)
Increase (decrease) in other liabilities	(2,165)	2
Other	645	486
Subtotal	6,557	8,386
Interest and dividends received	198	280
Interest paid	(23)	(33)
Income taxes paid	(2,830)	(1,108)
Net cash provided by (used in) operating activities	3,901	7,524
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,893)	(4,439)
Proceeds from sale of property, plant and equipment	175	12
Purchase of intangible assets	(999)	(1,604)
Purchase of investment securities	(20)	(215)
Proceeds from sale of investment securities	539	224
Purchase of shares of subsidiaries and associates	(163)	(53)
Proceeds from sale of shares of subsidiaries and associates	—	211
Payments for acquisition of businesses	—	(3,718)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(722)	—
Other payments	(307)	(612)
Other proceeds	126	61
Net cash provided by (used in) investing activities	(6,266)	(10,135)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(532)	9,000
Repayments of long-term borrowings	(1,021)	(1,200)
Purchase of treasury shares	(99)	0
Purchase of treasury shares of subsidiaries	(3)	(53)
Dividends paid	(2,600)	(2,603)
Dividends paid to non-controlling interests	(155)	(176)
Other	(51)	(72)

(Millions of yen)

	Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)	Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)
Net cash provided by (used in) financing activities	(4,464)	4,893
Effect of exchange rate change on cash and cash equivalents	447	450
Net increase (decrease) in cash and cash equivalents	(6,381)	2,732
Cash and cash equivalents at beginning of period	21,027	14,772
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	126	—
Cash and cash equivalents at end of period	14,772	17,505

(5) Notes to Consolidated Financial Statements

(Notes to going concern assumptions)

None to be reported.

(Changes to accounting policies)

From the start of the consolidated fiscal year ended December 31, 2023, the Group has adopted the Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31, June 17, 2021), and in accordance with the transitional treatment provided in Paragraph 27-2 of the said Guidance, the Group will prospectively apply the new accounting standards stipulated by the said Guidance. This change has no impact on the consolidated balance sheet.

(Segment information, etc.)

a. Segment information

1. Overview of reportable segments

Earth Corporation's reportable segments represent constituent units of the Company's corporate group for which separate financial information is available. These segments are subject to periodic reviews conducted by the Company's Board of Directors with the aim of evaluating business performance and facilitating decisions regarding the allocation of management resources.

Earth Corporation maintains a Household Products Business and a General Environment and Sanitation Business, and these two businesses constitute the Company's reportable segments.

Through its Household Products Business, the Company produces, sells, purchases, imports, and exports a variety of products, including household insecticides and repellents; gardening supplies; household products (mouthwash, denture-related supplies, toothpaste and associated products, bath salts, deodorizing air fresheners, etc.); pet products; chemical agents used for communicable disease control and in the fields of agriculture, forestry, and animal husbandry; and raw materials for overseas markets.

Through its General Environment and Sanitation Business, the Company provides hygiene management services for facilities such as factories and hospitals.

2. Method for calculating sales, income or loss, assets, liabilities and other items for each reportable segment

We apply the same accounting methods for all reportable segments as the ones we use to prepare consolidated financial statements.

The income figures of our reportable segments indicate operating income generated through these segments.

Intersegment sales and transfers are based on prevailing market prices.

3. Sales, income or loss, assets, liabilities and other items for each reportable segment

Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(Millions of yen)					
	Reportable segments			Adjustments* ²	Amount recorded in consolidated financial statements* ³
	Household Products Business	General Environment and Sanitation Business	Total		
Sales					
Sales generated through external customers	124,529	27,809	152,339	—	152,339
Intersegment sales and transfers* ¹	11,957	163	12,121	(12,121)	—
Total	136,486	27,973	164,460	(12,121)	152,339
Segment income	5,909	1,430	7,339	94	7,434
Segment assets	130,579	17,748	148,328	(23,838)	124,489
Other items					
Depreciation* ⁴	3,430	421	3,852	—	3,852
Amortization of goodwill	429	—	429	—	429
Increases in tangible and intangible non-current assets* ⁴	5,737	259	5,997	—	5,997

Notes: 1. Includes internal sales within and among segments

2. Adjustments were as follows:

(1) The 94 million yen adjustment to segment income comprises eliminations of intersegment transactions.

(2) The 23,838 million yen downward adjustment to segment assets comprises eliminations of intersegment transactions.

3. Segment income is adjusted according to the amount of operating income indicated on the consolidated statements of income.

4. "Depreciation" and "Increase in tangible and intangible non-current assets" include both amortization of, and increases in, long-term prepaid expenses.

Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

(Millions of yen)					
	Reportable segments			Adjustments*2	Amount recorded in consolidated financial statements*3
	Household Products Business	General Environment and Sanitation Business	Total		
Sales					
Sales generated through external customers	129,429	28,914	158,344	—	158,344
Intersegment sales and transfers*1	9,577	158	9,736	(9,736)	—
Total	139,007	29,073	168,081	(9,736)	158,344
Segment income	4,420	1,451	5,871	498	6,370
Segment assets	137,610	19,078	156,688	(24,281)	132,407
Other items					
Depreciation*4	3,702	415	4,118	—	4,118
Amortization of goodwill	119	—	119	—	119
Increases in tangible and intangible non-current assets*4	6,461	239	6,700	—	6,700

Notes: 1. Includes internal sales within and among segments

2. Adjustments were as follows:

(1) The 498 million yen adjustment to segment income comprises eliminations of intersegment transactions.

(2) The 24,281 million yen downward adjustment to segment assets comprises eliminations of intersegment transactions.

3. Segment income is adjusted according to the amount of operating income indicated on the consolidated statements of income.

4. "Depreciation" and "Increase in tangible and intangible non-current assets" include both amortization of, and increases in, long-term prepaid expenses.

b. Related information

Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

1. Information by product and service

(Millions of yen)					
	Household insecticides and repellents	Household products	Pet products and others	General Environment and Sanitation	Total
Sales generated through external customers	53,099	63,205	8,224	27,809	152,339

2. Information about geographical areas

(1) Sales

Sales by geographical area have been omitted because sales generated through external customers in Japan accounted for more than 90% of sales reported on the Company's consolidated statement of income.

(2) Property, plant and equipment

(Millions of yen)

Japan	China	Thailand	Other	Total
26,844	964	1,513	161	29,483

3. Information by the major customer

(Millions of yen)

Customer name or title	Sales	Name of related segment
PALTAC Corporation	39,209	Household Products Business
ARATA Corporation	37,414	Household Products Business
Alfresa Healthcare Corporation	19,422	Household Products Business

Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

1. Information by product and service

(Millions of yen)

	Household insecticides and repellents	Household products	Pet products and others	General Environment and Sanitation	Total
Sales generated through external customers	57,249	63,206	8,974	28,914	158,344

2. Information about geographical areas

(1) Sales

Sales by geographical area have been omitted because sales generated through external customers in Japan accounted for more than 90% of sales reported on the Company's consolidated statement of income.

(2) Property, plant and equipment

(Millions of yen)

Japan	China	Thailand	Other	Total
28,809	877	1,535	160	31,383

3. Information by the major customer

(Millions of yen)

Customer name or title	Sales	Name of related segment
ARATA Corporation	39,890	Household Products Business
PALTAC Corporation	37,831	Household Products Business
Alfresa Healthcare Corporation	20,608	Household Products Business
Ohki Co., Ltd.	16,471	Household Products Business

c. Information about impairment loss on non-current assets by reportable segment

Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

None to be reported.

Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

None to be reported.

d. Amortization of goodwill and unamortized goodwill by reportable segment

Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

(Millions of yen)

	Reportable segments			Adjustments	Total
	Household Products Business	General Environment and Sanitation Business	Total		
Amortization of goodwill	429	—	429	—	429
Unamortized goodwill	105	—	105	—	105

Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

(Millions of yen)

	Reportable segments			Adjustments	Total
	Household Products Business	General Environment and Sanitation Business	Total		
Amortization of goodwill	119	—	119	—	119
Unamortized goodwill	1,261	—	1,261	—	1,261

e. Gain on bargain purchase by reportable segment

Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)

None to be reported.

Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)

None to be reported.

(Per share information)

	Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)	Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)
Net assets per share	2,846.07 yen	3,007.52 yen
Net income per share	240.47 yen	185.57 yen

Notes: 1. Due to a lack of dilutive shares, diluted net income per share for the fiscal years ended December 31, 2022 and 2023 have been omitted.

2. The basis for calculating net income per share is as follows:

Item		Fiscal year ended December 31, 2022 (from January 1, 2022 to December 31, 2022)	Fiscal year ended December 31, 2023 (from January 1, 2023 to December 31, 2023)
Net income attributable to owners of parent	(millions of yen)	5,303	4,102
Amount not attributable to common shareholders	(millions of yen)	—	—
Net income attributable to owners of parent attributable to common stock	(millions of yen)	5,303	4,102
Average number of common stock outstanding during the fiscal year	(thousands of shares)	22,055	22,107

(Significant subsequent events)

None to be reported.

(6) Other

For further details, please refer to the announcement entitled "Notice of Change of Directors" released on February 13, 2024.