

Consolidated Financial Results
for the Fiscal Year Ended December 31, 2021 (Japanese GAAP)

February 14, 2022

Company name: Earth Corporation
Stock code: 4985

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

Representative: Katsunori Kawabata, President and Representative Director, Chairman of the Board of Directors of each group company

Contact: Tsuyoshi Mitsuzuka, Senior Executive Officer, Director General, Group Management Headquarters
Tel: +81-3-5207-7458

Ordinary annual general meeting of shareholders: March 25, 2022
Scheduled date for dividend payment: March 9, 2022
Scheduled date to file securities report: March 28, 2022
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, 2021
(January 1 to December 31, 2021)

(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, 2021	203,785	3.9	10,667	(6.6)	11,362	(2.6)	7,142	101.4
Fiscal year ended December 31, 2020	196,045	3.4	11,416	191.5	11,661	169.6	3,547	183.8

Note: Comprehensive income for the fiscal year ended December 31, 2021 was 7,621 million yen (52.9%), and comprehensive income for the fiscal year ended December 2020 was 4,982 million yen (101.6%).

	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, 2021	323.76	—	12.4	9.4	5.2
Fiscal year ended December 31, 2020	170.65	—	7.4	10.3	5.8

Reference: Equity in earnings of affiliates Fiscal year ended December 31, 2021 **million yen Fiscal year ended December 31, 2020 **million yen

(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, 2021	120,715	64,596	49.7	2,720.37
Fiscal year ended December 31, 2020	119,870	59,823	46.1	2,507.62

Reference: Equity capital amounted to 59,958 million yen as of December 31, 2021 and 55,299 million as of December 31, 2020.

(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, 2021	4,814	(3,220)	(4,610)	21,027
Fiscal year ended December 31, 2020	24,590	(3,168)	(4,938)	23,716

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, 2020	—	0.00	—	115.00	115.00	2,536	67.4	5.1
Fiscal year ended December 31, 2021	—	0.00	—	118.00	118.00	2,600	36.4	4.5
Fiscal year ending December 31, 2022 (forecast)	—	0.00	—	118.00	118.00		35.8	

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2022 (January 1, 2022 to December 31, 2022)

(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, 2022	91,500	—	13,300	—	13,400	—	9,280	—	421.04
Full-year	155,000	—	10,750	—	11,150	—	7,280	—	330.30

Note: The Company will begin applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) from the beginning of the fiscal year ending December 31, 2022. The figures above reflect impact from the application of this standard, so rates of YoY change referring to the fiscal year ended December 31, 2021 have been omitted.

*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.: None
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, 2021	22,077,500	As of December 31, 2020	22,057,500
2. Treasury shares outstanding	As of December 31, 2021	36,939	As of December 31, 2020	5,065
3. Average number of shares outstanding	Fiscal year ended December 31, 2021	22,062,456	Fiscal year ended December 31, 2020	20,786,948

*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 Operating Results, (4) Future Prospects" on page five of the accompanying materials.

Accompanying Materials — Contents

1. Overview of Business Results, etc.	2
(1) Overview of business results for the fiscal year under review	2
(2) Overview of financial position for the fiscal year under review.	5
(3) Overview of cash flows for the fiscal year under review	5
(4) Future outlook	7
(5) Basic Policy concerning the Allocation of Profits and Dividends for Fiscal 2021 and Fiscal 2022	8
2. Basic Views on Selection of Accounting Standards.	9
3. Consolidated Financial Statements and Primary Notes	10
(1) Consolidated Balance Sheet	10
(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income.	12
Consolidated Statement of Income	12
Consolidated Statement of Comprehensive Income.	14
(3) Consolidated Statement of Changes in Equity	15
(4) Consolidated Statement of Cash Flows	17
(5) Notes to Consolidated Financial Statements	18
(Notes to going concern assumptions).	18
(Change in presentation of results)	18
(Segment information, etc.)	19
(Per share information)	24
(Significant subsequent events)	24
(6) Other	24

1. Overview of Business Results, etc.

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

Although the Japanese economy continued to incur impact from the COVID-19 pandemic throughout the fiscal year ended December 31, 2021, new infections decreased thanks to various policies and growth in Japan's vaccinated population, while the economy and social conditions exhibited signs of gradual recovery, including the holding of the Tokyo 2020 Olympic and Paralympic Games, which had been postponed for one year. However, the future of the pandemic remains extremely uncertain, and priority measures have been put in place to thwart the spread of new variants in some regions.

Meanwhile, conditions in Asian regions in which the Earth Corporation is conducting business development continue to require close attention because waves of COVID-19 infections continue to intermittently impact various nations in these Asian regions.

Under these economic conditions, the Company announced its medium-term management plan, “Act For SMILE—COMPASS 2023—” in February 2021. In accordance with the Company’s corporate philosophy, “We act to live in harmony with the Earth,” the plan includes four fundamental policies: “Reform Corporate Compass & Infrastructure,” “Expand Profit Foundation in Asia,” “ESG/Open Innovation,” and “Generate Cost Synergies.” The Company is striving to implement priority measures associated with these policies during the fiscal year ended December 31, 2021, the first year of the plan.

During the fiscal year ended December 31, 2021, the Company generated 203,785 million yen in sales (+3.9% YoY). This sales growth was due in part to upward impact stemming from factors associated with the Household Products Business, including ongoing high customer demand and the launch of new products in response to lifestyle changes caused by COVID-19. Also contributing to this growth was expansion in the General Environment and Sanitation Business that was caused by an increase in contract numbers. Meanwhile, gross profit rose due to higher sales and the introduction of new products, but operating income amounted to 10,667 million yen (-6.6% YoY), while ordinary income came to 11,362 million yen (-2.6% YoY). These declines were primarily due to an increase in returns of insecticides and repellents, active investment in marketing and human resources, and a rise in logistical costs. At the same time, net income attributable to owners of parent reached a record high of 7,142 million yen (+101.4% YoY) in part because it did not incur downward impact it previously sustained during the fiscal year ended December 31, 2020, when the Company recorded impairment losses on goodwill associated with its acquisition of Earth Corporation Vietnam as extraordinary losses.

Results by segment were as follows.

Household Products Business

Through its Household Products Business, the Company endeavored to rejuvenate corresponding markets through advertising, the creation of appealing sales areas, and other means of communicating with customers while pursuing new customers with the launch of new products and updating existing products to improve their value. At the same time, it strove to lower manufacturing costs and raise the efficiency of its sales-related spending as it targeted improvement in profitability. Overseas, despite downward impact stemming from lockdowns implemented in response to the COVID-19 pandemic, the Company generated sales growth, particularly in China, thanks to its proactive investment of management resources.

In the fiscal year ended December 31, 2021, sales generated through the Household Products Business amounted to 188,493 million yen (+5.1% YoY), rising thanks primarily to growth in the market share of insecticides and repellents that resulted from favorable sales of new products in this category and sales of bath salts, which saw an expansion in the size of their market due to changes in customer demand caused by COVID-19. Meanwhile, gross profit increased due to the introduction of new products and higher sales, but segment operating profit declined to 9,944 million yen (-0.4% YoY) as a result of growth in returns of insecticides and repellents, active investments in marketing and human resources, and soaring logistical costs.

Results in the Household Products Business

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change	Rate of change
Insecticides and repellents	65,990	69,000	3,010	4.6%
Household products	104,164	110,154	5,990	5.8%
Oral hygiene products	45,222	46,935	1,712	3.8%
Bath salts	26,334	29,915	3,580	13.6%
Other household products	32,606	33,303	697	2.1%
Pet products and others	9,220	9,338	118	1.3%
Total sales	179,374	188,493	9,119	5.1%
Segment income (operating income)	9,980	9,944	(35)	(0.4%)

Note: Sales include internal sales and transfers made within and between segments, which amounted to 9,615 million yen during the fiscal year ended December 31, 2020 and 11,804 million yen during the fiscal year ended December 31, 2021.

Insecticides and repellents

In Japan, demand continues to grow due to lifestyle changes associated with the pandemic, including recommendations to ventilate living spaces and more time spent at home. However, the size of the market for insecticides and repellents declined compared to the fiscal year ended December 31, 2020, when it was strong, due mainly to falling temperatures that began their downward slide in August 2021. Under these circumstances, the return rate for insecticides and repellents rose to 6.5% (+1.7 points YoY), up from the record-low level it reached in the fiscal year ended December 31, 2020. Regardless, the market share of the Company's insecticides and repellents increased to 55.8% (Company estimate; +0.8 points YoY) thanks to growth in sales of products such as *Earth Mushiyoke Net EX* (insect repellent) and *Kobae ga Hoi Hoi* (fruit fly traps), as well as contribution from new products including *Osu Dake Earth Red Muen Push* (no-flame fumigation of cockroaches, mites, fleas).

Overseas, the Company observed favorable results in terms of sales generated through e-commerce channels China. It also reported sales increases in ASEAN regions such as Thailand and Vietnam despite downward impact from lockdowns implemented in response to the COVID-19 pandemic. Meanwhile, sales generated through exports to the Middle East and other regions also achieved growth.

Sales amounted to 69,000 million yen (+4.6% YoY).

Household products

Sales of oral hygiene products came to 46,935 million yen, up 3.8% YoY, thanks to ongoing strong performance from *Mondahmin Premium Care Sensitive* (a mouthwash) and *Shumitect* (a line of toothpastes formulated to prevent dentin hypersensitivity).

Shifts in customer demand in response to the COVID-19 pandemic saw the market for bath salts expand. Bath salt sales were 29,915 million yen, up 13.6% YoY, due to continuing favorable performance from products such as *Onpo* tablets, the granular form of *Kikiyu* (a carbonated bath agent), and packaged bath salts *Iiyu Tabidachi*.

Despite a YoY decline in sales of dehumidifiers and cooling agents caused by falling temperatures that began their downward slide in August 2021, sales of other household products rose to 33,303 million yen (+2.1% YoY) thanks to expansion in sales of the Company's *Rakuhapi* series of cleaning products, which occurred amid continuously strong demand.

Segment sales amounted to 110,154 million yen (+5.8% YoY).

Pet products and others

Sales of pet products and other miscellaneous products rose to 9,338 million yen (+1.3% YoY), driven primarily by an increase in customers who began to keep pets during the COVID-19 pandemic and growth in sales of cleaning towels and other pet care products, as well as pet food, that occurred as people spent more time at home and developed more deep communication with their pets. Also contributing to expansion in sales of pet products and other miscellaneous products were proactive sales measures, including updates to existing products and efforts aimed at raising recognition among customers through the introduction of products with new features.

General Environment and Sanitation Business

In the General Environment and Sanitation Business, the Company is enhancing its in-house hygiene management as relevant laws in Japan are revised and safety standards for food, pharmaceutical products, and medical care are adjusted on an international scale. Accordingly, the Company observed growth in demand among core customers (food, pharmaceutical, and packing material factories) for its high-quality hygiene management services, which leverage the Company's specialized knowledge, skills, and expertise.

Under these circumstances, we endeavored to maintain and expand our contracts by providing standout quality assurance services through the enhancement of our technological development capabilities. At the same time, we actively invested in the construction of an internal framework that facilitates the prompt fulfillment of customer needs associated primarily with software development aimed at improving operational efficiency and recruiting and training human resources. Along with these efforts, we intensified our initiatives in the pharmaceutical and regenerative medicine industries and efforts associated with auditing and consulting services related to food safety management.

Consequently, sales in the General Environment and Sanitation Business amounted to 27,234 million yen (+3.1% YoY), while segment income (operating income) fell to 1,114 million yen (-21.5% YoY) due to an increase in the Company's cost of sales ratio and a rise in personnel expenses that occurred due to the Company's active investment in human resources.

Results in the General Environment and Sanitation Business (Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change	Rate of change
Sales	26,420	27,234	813	3.1%
Segment income (operating income)	1,419	1,114	(305)	(21.5%)

Note: Sales include internal sales and transfers made within and between segments, which amounted to 134 million yen in the fiscal year ended December 31, 2020 and 138 million yen in the fiscal year ended December 31, 2021.

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

(Consolidated financial position)

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change
Total assets	119,870	120,715	845
Liabilities	60,046	56,118	(3,927)
Net assets	59,823	64,596	4,773
Equity ratio (%)	46.1	49.7	3.6 points
Net assets per share (yen)	2,507.62	2,720.37	212.75

As of December 31, 2021, total assets amounted to 120,715 million yen, up 845 million yen compared to December 31, 2020. This increase occurred despite declines in notes and accounts receivable—trade, investment securities, and goodwill and was principally due to growth in inventories and retirement benefit assets.

Total liabilities amounted to 56,118 million yen, down 3,927 million yen compared to December 31, 2020. This decline occurred despite growth in electronically recorded obligations—operating and was mainly due to decreases in notes and accounts payable—trade, income taxes payable, and borrowings.

Net assets rose to 64,596 million yen, up 4,773 million yen compared to December 31, 2020. This growth was chiefly due to an increase in retained earnings.

Consequently, the Company's equity ratio rose to 49.7%, an increase of 3.6 points compared to December 31, 2020.

Reference: Cash flow-related indicators

	Fiscal year ended December 31, 2017	Fiscal year ended December 31, 2018	Fiscal year ended December 31, 2019	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Equity ratio (%)	38.0	37.0	37.3	46.1	49.7
Equity ratio on a fair market value basis (%)	97.1	93.4	107.4	107.1	111.9
Interest-bearing debt to cash flow ratio (annual)	2.4	62.1	2.1	0.2	0.8
Interest coverage ratio	102.1	24.2	105.3	549.6	634.1

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

(Consolidated cash flow)

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change
Cash flows from operating activities	24,590	4,814	(19,776)
Cash flows from investing activities	(3,168)	(3,220)	(51)
Cash flows from financing activities	(4,938)	(4,610)	328
Effect of exchange rate change on cash and cash equivalents	(79)	327	406
Net increase (decrease) in cash and cash equivalents	16,403	(2,688)	(19,092)
Cash and cash equivalents at end of period	23,716	21,027	(2,688)

As of December 31, 2021, cash and cash equivalents (below, "cash") stood at 21,027 million yen, down 2,688 million yen compared to December 31, 2020.

In the fiscal year ended December 31, 2021, net cash provided by operating activities amounted to 4,814 million yen (versus 24,590 million yen in the fiscal year ended December 31, 2020). The primary sources of this cash were 10,963 million yen in profit before income taxes (7,278 million yen in the fiscal year ended December 31, 2020), 3,536 million yen in depreciation (3,334 million yen in the fiscal year ended December 31, 2020), and 1,836 million yen in amortization of goodwill (2,849 million yen in the fiscal year ended December 31, 2020). Downward impact on cash stemmed mainly from 5,562 million yen in income taxes paid (2,639 million

yen in the fiscal year ended December 31, 2020) and a 5,114 million-yen increase in inventories (in contrast with a decrease of 300 million yen in the fiscal year ended December 31, 2020).

Net cash used in investing activities was 3,220 million yen (3,168 million yen used in the fiscal year ended December 31, 2020). This figure primarily consisted of 2,616 million yen in purchase of property, plant, and equipment (2,298 million yen in the fiscal year ended December 31, 2020).

Net cash used in financing activities amounted to 4,610 million yen (4,938 million yen used in the fiscal year ended December 31, 2020). Cash used consisted mainly of 2,536 million yen in dividends paid (2,023 million yen in the fiscal year ended December 31, 2020) and 1,314 million yen in repayments of long-term borrowings (3,279 million yen in the fiscal year ended December 31, 2020).

(4) Future outlook

Although the Japanese economy showed signs of gradual recovery due to a variety of policies implemented in response to the COVID-19 pandemic and expansion in Japan's vaccinated population, future circumstances remain extremely uncertain due to the rapid spread of new COVID-19 variants, while trends associated with consumer spending and business activities continue to require close observation. Additionally, business environments surrounding the industries in which Earth Corporation develops its products and services continue to change on a daily basis due to a variety of factors, including growth in buying power stemming from M&A among retailers, expansion in e-commerce channels, fragmentation of customer needs, and soaring raw material prices.

Under these circumstances, the Group will continue to focus on "creating a market with customers" in accordance with its Corporate Philosophy of acting to "to live in harmony with the Earth" as it simultaneously contributes to the achievement of the Sustainable Development Goals (SDGs). Additionally, in accordance with its medium-term management plan, "Act For SMILE – COMPASS 2023 –" (in effect until the end of 2023), the Company will remain conscious of capital efficiency while conducting management that further enhances profitability.

In terms of overseas expansion, which is currently Earth Corporation's most important growth driver, the Company will improve profitability and establish a foundation for earnings by maintaining local subsidiaries in China and other ASEAN regions (its primary target areas for expansion) and proactively investing its management resources. Furthermore, with regard to strategies associated with exports and cross-border e-commerce, the Company will aim to generate earnings by focusing on highly profitable products and through the development and introduction of products that meet the unique needs of each of the countries in which it operates.

As it expands its operations in Japan, the Company will endeavor to generate steady earnings amid external environmental changes caused by climate change and the COVID-19 pandemic. At the same time, it will continue to launch new products and services in response to these changes while also conducting promotional campaigns and developing new sales channels on an ongoing basis. Additionally, Earth Corporation will leverage the experience and knowledge it has accumulated as a leader in the field of insecticides and repellents as it promotes the MA-T (Matching Transformation) system, an innovative catalytic technology developed in Japan. The Company believes that its mission includes enhancing the credibility of the MA-T system throughout society, expanding positive economic impact through the creation of new industries, and exploring possible solutions to social issues. Through the platform provided by Japan MA-T Industrial Association, Earth Corporation will collaborate with a wide range of companies, research institutes, and organizations as it attempts to augment the value of MA-T and facilitate its utilization across a broad spectrum of industries.

Earth Corporation is evaluating the results of these activities in each of its individual business divisions and categories, gradually establishing profit management indicators that enable it to closely monitor profitability. At the same time, the Company is striving to increase its investment efficiency moving forward. In support of these efforts, it maintains an awareness of capital costs when formulating hurdle rates for individual investment projects. Additionally, the Company will actively invest in a variety of large-scale system-related projects that aim to generate work style reforms and improve labor productivity, including upgrades to core systems and Group ICT infrastructure.

Incorporating impact from these efforts, the Company's full-year consolidated earnings forecast for the fiscal year ending December 31, 2022 projects 155,000 million yen in sales, 10,750 million yen in operating income, 11,150 million yen in ordinary income, and 7,280 million yen in net income attributable to owners of parent.

Included below are forecasts for each of the Company's business segments.

Household Products Business

Earth Corporation projects that demand for product lines that it handles through its Household Products Business will remain high thanks to lifestyle changes caused by the COVID-19 pandemic. At the same time, the Company does not believe that it will be able to compensate for downward impact from soaring raw material prices through its own independent efforts alone. Given these circumstances, the Company will aim to secure sufficient earnings by adopting policies targeting sales growth, higher earnings in categories where it has captured high market shares, appropriate allocation of management resources, and improved cost efficiency.

Earth Corporation projects that the COVID-19 pandemic will continue to cause major changes in the market for insecticides and repellents, which are a major source of earnings, while also raising corresponding demand. Facing these circumstances as a leading Japanese manufacturer of insecticides and repellents, the Company believes that facilitating the spread of accurate information regarding the prevention of insect-borne diseases is one of its responsibilities. In accordance with this view, it will aim to strengthen

sales through educational activities such as "insecticide and repellent seminars" and the establishment of "insecticide and repellent stations." In terms of household products, we will aim to achieve maximum scale and profitability in all major product categories, including oral hygiene products, bath salts, clothing care products, and deodorizing air fresheners. To facilitate the achievement of these aims, we will introduce new products, generate buzz through promotional campaigns, and develop new sales vectors, such as e-commerce and BtoB channels.

With regard to overseas expansion, we will develop products and implement sales measures that satisfy the unique needs of each of the countries in which we operate. Through these efforts, we will ensure response that is appropriate for the different climates, cultures, preferences, and laws and regulations associated with each of these countries. Moving forward, our local subsidiary in Thailand will aim to improve its profit structure primarily through efficient investment in marketing while striving to generate growth through a focus on business categories where it can leverage the competitive advantage of our corporate group. Meanwhile, we will take advantage of Vietnam's favorable geographic location by continuing to invest in our Vietnamese subsidiary, which is a major production base facilitating our medium- to long-term expansion overseas. Through our local subsidiary in Malaysia, we will target full-scale launches of insecticides and repellents while aiming to expand existing brands and strengthen distribution channels. Using new companies that we plan to acquire for the purpose of accelerating our business development in the Philippines, we will broaden the scope of our operations in the same country while maintaining a particular focus on insecticides and repellents. Additionally, we will actively pursue business expansion in other ASEAN regions as we aim to establish local subsidiaries and capitalize on M&A opportunities. In China, Earth Corporation will strive to improve its earnings efficiency by allocating management resources to e-commerce sales (a channel that is rapidly growing due to COVID-19) while launching products through which it can leverage its competitive advantages, including insecticides and repellents, masks, and dehumidifying agents.

In the meantime, we will aim to secure adequate profits through ongoing efforts aimed at lowering manufacturing- and sales-related costs, cutting down on product returns, and limiting marketing expenditures.

Consequently, we project segment sales of 137,763 million yen and segment income (operating income) of 9,320 million yen in the Household Products Business.

General Environment and Sanitation Business

The core customers of our General Environment and Sanitation Business (primarily companies associated with the food, pharmaceutical, and packaging material industries) are facing stringent requirements regarding the establishment of hygiene management measures aimed at preventing food poisoning and contamination through foreign matter. Accordingly, they are exhibiting growing need for the high-quality hygiene management services that Earth Corporation provides using its specialized knowledge, technology, and expertise.

In response to these circumstances, 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 using IoT technology and various AI systems, 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.

Based on these factors, we project segment sales of 27,700 million yen and segment income (operating income) of 1,430 million yen in the General Environment and Sanitation Business.

Earth Corporation will begin applying the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) from the beginning of the fiscal year ending December 31, 2022. Accordingly, the consolidated earnings projections indicated above reflect impact stemming from the application of this standard and forecasts regarding rates of year-on-year change have been omitted.

(5) Basic Policy concerning the Allocation of Profits and Dividends for Fiscal 2021 and Fiscal 2022

We view the return of profits to our shareholders as an important management issue, and accordingly strive to ensure both stable dividends and a dividend on equity ratio (DOE) of four to five percent while securing internal reserves in pursuit of sustainable growth and the maintenance of a sound management structure.

The Company will primarily use internal reserves for strategic investments and M&A targeting an expanded revenue base in Asia, investment in core system upgrades and other ICT infrastructure construction projects, research and development expected to lead to open innovation, and capital investment aimed at improving production efficiency. In addition, the Company will consider conducting share buybacks in flexible accordance with cash flow conditions and stock price trends.

Based on these policies, we project 118 yen per share in full-year dividends, which, as stated in our IR release entitled "Notice of Revisions to Earnings and Dividend Forecasts for the Fiscal Year Ended December 31, 2021" (released on January 31, 2022 in Japanese only), is an increase of 3 yen per share from our previous forecast. As a result of this upward revision, we now project a DOE ratio of 4.5% and a consolidated dividend payout ratio of 36.4%.

The Company also plans to pay 118 yen per share in full-year dividends in the fiscal year ending December 31, 2022.

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, 2020 (as of December 31, 2020)	Fiscal year ended December 31, 2021 (as of December 31, 2021)
Assets		
Current assets		
Cash and deposits	23,716	21,027
Notes and accounts receivable – trade	21,236	21,210
Electronically recorded obligations - operating	1,509	1,730
Merchandise and finished goods	17,403	21,622
Work in process	789	1,315
Raw materials and supplies	3,986	4,564
Other	2,124	2,568
Allowance for doubtful accounts	(20)	(20)
Total current assets	70,747	74,018
Non-current assets		
Property, plant and equipment		
Buildings and structures	29,002	29,489
Accumulated depreciation and impairment	(14,982)	(15,884)
Buildings and structures, net	14,019	13,604
Machinery, equipment and vehicles	15,598	16,536
Accumulated depreciation and impairment	(11,357)	(12,426)
Machinery, equipment and vehicles, net	4,240	4,110
Land	7,875	7,873
Leased assets	115	255
Accumulated depreciation and impairment	(58)	(79)
Leased assets, net	56	176
Construction in progress	389	253
Other	8,616	9,198
Accumulated depreciation and impairment	(7,166)	(7,666)
Other, net	1,449	1,532
Total property, plant and equipment	28,030	27,551
Intangible assets		
Goodwill	2,260	423
Other	4,008	3,853
Total intangible assets	6,268	4,276
Investments and other assets		
Investment securities	8,001	6,025
Retirement benefit asset	4,343	6,114
Deferred tax assets	1,152	1,132
Other	1,333	1,612
Allowance for doubtful accounts	(7)	(16)
Total investments and other assets	14,823	14,868
Total non-current assets	49,122	46,696
Total assets	119,870	120,715

(Millions of yen)

	Fiscal year ended December 31, 2020 (as of December 31, 2020)	Fiscal year ended December 31, 2021 (as of December 31, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable – trade	22,498	22,617
Electronically recorded obligations - operating	9,216	9,832
Short-term borrowings	1,756	1,480
Current portion of long-term borrowings	1,314	1,018
Accounts payable – other	10,017	10,721
Income taxes payable	3,640	1,520
Accrued consumption taxes	1,684	526
Provision for bonuses	312	255
Provision for sales returns	595	434
Other	3,848	3,892
Total current liabilities	54,884	52,300
Non-current liabilities		
Long-term borrowings	2,218	1,200
Deferred tax liabilities	1,329	1,178
Retirement benefit liability	454	382
Asset retirement obligations	505	516
Other	652	540
Total non-current liabilities	5,161	3,818
Total liabilities	60,046	56,118
Net assets		
Shareholders' equity		
Share capital	9,829	9,895
Capital surplus	9,859	9,928
Retained earnings	33,322	37,929
Treasury shares	(17)	(215)
Total shareholders' equity	52,994	57,537
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,723	1,297
Foreign currency translation adjustment	(789)	(22)
Remeasurements of defined benefit plans	371	1,146
Total accumulated other comprehensive income	2,304	2,421
Non-controlling interests	4,524	4,638
Total net assets	59,823	64,596
Total liabilities and net assets	119,870	120,715

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

Consolidated Statement of Income

(Millions of yen)

	Fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)	Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)
Sales	196,045	203,785
Cost of sales	117,094	121,451
Gross profit	78,951	82,334
Selling, general and administrative expenses		
Transportation and storage costs	6,228	6,662
Advertising expenses	8,172	8,392
Promotion expenses	15,891	17,098
Provision of allowance for doubtful accounts	(11)	12
Salaries and allowances	16,880	17,587
Provision for bonuses	250	202
Travel and transportation expenses	1,076	1,092
Depreciation	1,123	1,277
Amortization of goodwill	2,440	1,836
Rent expenses on land and buildings	1,349	1,435
Research and development expenses	2,673	3,172
Other	11,459	12,895
Total selling, general and administrative expenses	67,535	71,666
Operating income	11,416	10,667
Non-operating income		
Interest income	47	85
Dividend income	115	141
Foreign exchange gains	—	157
Commission income	30	27
Rental income from buildings	66	46
Other	149	300
Total non-operating income	408	759
Non-operating expenses		
Interest expenses	49	16
Stock issuance expenses	58	—
Foreign exchange losses	35	—
Compensation for damage	—	30
Other	19	18
Total non-operating expenses	163	65
Ordinary income	11,661	11,362
Extraordinary income		
Gain on sale of non-current assets	7	121
Gain on sale of investment securities	46	32
Total extraordinary income	54	153
Extraordinary losses		
Loss on sale of non-current assets	11	8
Loss on retirement of non-current assets	146	174
Impairment losses	3,831	368
Loss on valuation of investment securities	39	1
Amortization of goodwill	409	—
Loss on valuation of golf club membership	0	—
Total extraordinary losses	4,437	553
Profit before income taxes	7,278	10,963
Income taxes – current	4,366	3,455
Income taxes – deferred	(941)	80

(Millions of yen)

	Fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)	Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)
Total income taxes	3,425	3,536
Net income	3,853	7,426
Net income attributable to non-controlling interests	305	283
Net income attributable to owners of parent	3,547	7,142

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)	Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)
Net income	3,853	7,426
Other comprehensive income		
Valuation difference on available-for-sale securities	907	(1,414)
Foreign currency translation adjustment	(365)	767
Remeasurements of defined benefit plans, net of tax	587	841
Total other comprehensive income	1,129	194
Comprehensive income	4,982	7,621
(Breakdown)		
Comprehensive income attributable to owners of parent	4,585	7,259
Comprehensive income attributable to non-controlling interests	397	361

(3) Consolidated Statement of Changes in Equity

Fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	3,478	3,509	31,798	(16)	38,770
Changes of items during period					
Issuance of new shares	6,350	6,350			12,700
Dividends of surplus			(2,023)		(2,023)
Net income attributable to owners of parent			3,547		3,547
Purchase of treasury shares				(1)	(1)
Net changes in items other than shareholders' equity					
Total changes of items during period	6,350	6,350	1,524	(1)	14,223
Balance at end of current period	9,829	9,859	33,322	(17)	52,994

(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	1,792	(424)	(100)	4,285	44,322
Changes of items during period					
Issuance of new shares					12,700
Dividends of surplus					(2,023)
Net income attributable to owners of parent					3,547
Purchase of treasury shares					(1)
Net changes in items other than shareholders' equity	930	(365)	472	239	1,277
Total changes of items during period	930	(365)	472	239	15,500
Balance at end of current period	2,723	(789)	371	4,524	59,823

Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	9,829	9,859	33,322	(17)	52,994
Changes of items during period					
Issuance of new shares	65	65			131
Dividends of surplus			(2,536)		(2,536)
Net income attributable to owners of parent			7,142		7,142
Purchase of treasury shares				(198)	(198)
Change in ownership interest of parent due to transactions with non-controlling interests		2			2
Net changes in items other than shareholders' equity					
Total changes of items during period	65	68	4,606	(198)	4,542
Balance at end of current period	9,895	9,928	37,929	(215)	57,537

(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	2,723	(789)	371	4,524	59,823
Changes of items during period					
Issuance of new shares					131
Dividends of surplus					(2,536)
Net income attributable to owners of parent					7,142
Purchase of treasury shares					(198)
Change in ownership interest of parent due to transactions with non-controlling interests					2
Net changes in items other than shareholders' equity	(1,425)	767	775	113	230
Total changes of items during period	(1,425)	767	775	113	4,773
Balance at end of current period	1,297	(22)	1,146	4,638	64,596

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)	Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)
Cash flows from operating activities		
Profit before income taxes	7,278	10,963
Depreciation	3,334	3,536
Impairment losses	3,831	368
Amortization of goodwill	2,849	1,836
Increase (decrease) in retirement benefit assets and liabilities	(428)	(635)
Increase (decrease) in allowance for doubtful accounts	(13)	9
Interest and dividend income	(162)	(227)
Interest expenses	49	16
Foreign exchange losses (gains)	18	(33)
Loss (gain) on sale of investment securities	(46)	(32)
Loss (gain) on valuation of investment securities	39	1
Decrease (increase) in trade receivables	(201)	(161)
Decrease (increase) in inventories	300	(5,114)
Decrease (increase) in other assets	268	(271)
Increase (decrease) in trade payables	4,976	668
Increase (decrease) in other liabilities	4,797	(597)
Other	227	(161)
Subtotal	27,117	10,165
Interest and dividends received	162	227
Interest paid	(49)	(16)
Income taxes paid	(2,639)	(5,562)
Net cash provided by (used in) operating activities	24,590	4,814
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,298)	(2,616)
Proceeds from sale of property, plant and equipment	64	186
Purchase of investment securities	(20)	(101)
Proceeds from sale of investment securities	62	68
Purchase of shares of subsidiaries and associates	(51)	—
Other payments	(1,106)	(805)
Other proceeds	180	48
Net cash provided by (used in) investing activities	(3,168)	(3,220)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(12,029)	(274)
Repayments of long-term borrowings	(3,279)	(1,314)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	12,595	—
Purchase of treasury shares	(1)	(198)
Purchase of treasury shares of subsidiaries	—	(86)
Dividends paid	(2,023)	(2,536)
Dividends paid to non-controlling interests	(158)	(158)
Other	(42)	(41)
Net cash provided by (used in) financing activities	(4,938)	(4,610)
Effect of exchange rate change on cash and cash equivalents	(79)	327
Net increase (decrease) in cash and cash equivalents	16,403	(2,688)
Cash and cash equivalents at beginning of period	7,312	23,716
Cash and cash equivalents at end of period	23,716	21,027

(5) Notes to Consolidated Financial Statements

(Notes to going concern assumptions)

None to be reported.

(Change in presentation of results)

(Changes to consolidated balance sheet)

For the fiscal year ended December 31, 2020, the Company recorded all impact stemming from electronically recorded monetary claims (operating) under the current asset account titled "notes and accounts receivable—trade." However, to improve clarity, we have included a separate account entitled "electronically recorded monetary claims—operating" to reflect this impact in our consolidated balance sheet for the fiscal year ended December 31, 2021. To reflect this change in presentation, we have recomposed our consolidated financial statements for the fiscal year ended December 31, 2020, lowering the balance of the "notes and accounts receivable—trade" account (under "current assets") from 22,746 million yen to 21,236 million yen and including an "electronically recorded monetary claims—operating" account with a balance of 1,509 million yen.

Accordingly, we have also included an "electronically recorded obligations—operating" account in our consolidated balance sheet for the fiscal year ended December 31, 2021 to reflect impact from electronically recorded obligations (operating), which was reflected in the balance of "notes and accounts payable—trade" (under "current liabilities") in our consolidated balance sheet for the fiscal year ended December 31, 2020. To reflect this change in presentation, we have recomposed our consolidated financial statements for the latter fiscal year, lowering the balance of the "notes and accounts payable—trade" account on the corresponding consolidated balance sheet from 31,714 million yen to 22,498 million yen and including an "electronically recorded obligations—operating" with a balance of 9,216 million yen.

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

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

The accounting methods we apply for all reportable segments are compliant with the "material matters that serve as the basis for preparation of consolidated financial statements" as outlined in Japan's Regulation on Terminology, Forms, and Preparation Methods of 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, 2020 (from January 1, 2020 to December 31, 2020)

(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	169,759	26,286	196,045	—	196,045
Intersegment sales and transfers*1	9,615	134	9,749	(9,749)	—
Total	179,374	26,420	205,795	(9,749)	196,045
Segment income	9,980	1,419	11,400	16	11,416
Segment assets	122,438	16,519	138,958	(19,088)	119,870
Other items					
Depreciation*4	2,962	372	3,334	—	3,334
Amortization of goodwill	2,440	—	2,440	—	2,440
Increases in tangible and intangible non-current assets*4	2,831	759	3,591	—	3,591

Notes: 1. Includes internal sales within and among segments

2. Adjustments were as follows:

- (1) The 16 million-yen adjustment to segment income comprised eliminations of intersegment transactions.
- (2) The 19,088 million-yen downward adjustment to segment assets is comprises eliminations of intersegment transactions.
3. Segment income (losses) are 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, 2021 (from January 1, 2021 to December 31, 2021)

(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	176,689	27,095	203,785	—	203,785
Intersegment sales and transfers* ¹	11,804	138	11,942	(11,942)	—
Total	188,493	27,234	215,728	(11,942)	203,785
Segment income	9,944	1,114	11,059	(391)	10,667
Segment assets	124,919	16,959	141,879	(21,163)	120,715
Other items					
Depreciation* ⁴	3,115	421	3,536	—	3,536
Amortization of goodwill	1,836	—	1,836	—	1,836
Increases in tangible and intangible non-current assets* ⁴	2,721	369	3,090	—	3,090

Notes: 1. Includes internal sales within and among segments

2. Adjustments were as follows:

(1) The 391 million-yen adjustment to segment income comprised eliminations of intersegment transactions.

(2) The 21,163 million-yen downward adjustment to segment assets is comprises eliminations of intersegment transactions.

3. Segment income (losses) are 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, 2020 (from January 1, 2020 to December 31, 2020)

1. Information by product and service

(Millions of yen)					
	Insecticides and repellents	Household products	Pet products and others	General Environment and Sanitation	Total
Sales generated through external customers	60,984	100,084	8,690	26,286	196,045

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
25,558	946	1,393	132	28,030

3. Information by the major customer

(Millions of yen)

Customer name or title	Sales	Name of related segment
PALTAC Corporation	41,607	Household Products Business
ARATA Corporation	34,601	Household Products Business

Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

1. Information by product and service

(Millions of yen)

	Insecticides and repellents	Household products	Pet products and others	General Environment and Sanitation	Total
Sales generated through external customers	62,858	105,158	8,672	27,095	203,785

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
25,010	1,010	1,425	105	27,551

3. Information by the major customer

(Millions of yen)

Customer name or title	Sales	Name of related segment
PALTAC Corporation	42,459	Household Products Business
ARATA Corporation	35,971	Household Products Business

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

Fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)

(Millions of yen)

	Reportable segments			Adjustments	Total
	Household Products Business	General Environment and Sanitation Business	Total		
Impairment losses	3,704	126	3,831	—	3,831

Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Millions of yen)

	Reportable segments			Adjustments	Total
	Household Products Business	General Environment and Sanitation Business	Total		
Impairment losses	311	57	368	—	368

d. Amortization of goodwill and unamortized goodwill by reportable segment

Fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)

(Millions of yen)

	Reportable segments			Adjustments	Total
	Household Products Business	General Environment and Sanitation Business	Total		
Amortization of goodwill	2,849	—	2,849	—	2,849
Unamortized goodwill	2,260	—	2,260	—	2,260

Note: Amortization of goodwill in the Household Products Business includes amortization resulting from extraordinary losses.

Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Millions of yen)

	Reportable segments			Adjustments	Total
	Household Products Business	General Environment and Sanitation Business	Total		
Amortization of goodwill	1,836	—	1,836	—	1,836
Unamortized goodwill	423	—	423	—	423

(Per share information)

	Fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)	Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)
Net assets per share	2,507.62 yen	2,720.37 yen
Net income per share	170.65 yen	323.76 yen

Notes: 1. Due to a lack of dilutive shares, diluted net income per share for the fiscal years ended December 31, 2020 and 2021 have been omitted.

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

Item		Fiscal year ended December 31, 2020 (from January 1, 2020 to December 31, 2020)	Fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)
Net income attributable to owners of parent	(millions of yen)	3,547	7,142
Amount not attributable to common shareholders	(millions of yen)	—	—
Net income attributable to owners of parent attributable to common stock	(millions of yen)	3,547	7,142
Average number of common stock outstanding during the fiscal year	(thousands of shares)	20,786	22,062

(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 14, 2022 (available in Japanese only).