

## Consolidated Financial Results for the Six Months Ended June 30, 2022 (Japanese GAAP)

August 5, 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

Scheduled date for quarterly report submission: August 10, 2022  
Scheduled date for dividend payment: —  
Preparation of supplemental explanatory materials: Yes  
Results briefing to be held: Yes (for institutional investors and analysts)

### 1. Consolidated Financial Results for the Six Months Ended June 30, 2022 (January 1 to June 30, 2022)

#### (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	%
Six months ended June 30, 2022	89,305	—	11,941	—	12,714	—	8,587	—
Six months ended June 30, 2021	115,821	4.7	18,566	15.9	18,907	17.2	12,759	16.5

Note: Comprehensive income for the six months ended June 30, 2022 was 9,658 million yen (—% YoY), and comprehensive income for the six months ended June 30, 2021 was 12,460 million yen (-7.1% YoY)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended June 30, 2022	389.53	—
Six months ended June 30, 2021	578.41	—

Note: Due to the adoption of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29), etc. from the beginning of the fiscal year ending December 31, 2022, the figures for the second quarter of the fiscal year under review reflect impact stemming from the adoption of this standard, and hence, no year-on-year comparison figures have been provided.

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
Six months ended June 30, 2022	140,125	70,956	47.2
Fiscal year ended December 31, 2021	120,715	64,596	49.7

Reference: Equity capital amounted to 66,205 million yen as of June 30, 2022 and 59,958 million as of December 31, 2021.

## 2. Dividends

	Dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
Fiscal year ended December 31, 2021	Yen —	Yen 0.00	Yen —	Yen 118.00	Yen 118.00
Fiscal year ending December 31, 2022	—	0.00			
Fiscal year ending December 31, 2022 (forecast)			—	118.00	118.00

Note: No revisions have been made to the Company's most recently announced dividend forecast.

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

(Percentages indicate 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
Full-year	155,000	—	10,750	—	11,150	—	7,280	—	330.30

Note: No revisions have been made to the Company's most recently announced dividend forecast.

Note: Due to the adoption of the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29), etc. from the beginning of the fiscal year ending December 31, 2022, the consolidated earnings forecast above reflects impact stemming from the adoption of this standard, and hence, no year-on-year comparison figures have been provided.

\*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) Distinctive accounting methods applied when preparing quarterly consolidated financial statements: None

(3) 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

(4) Number of shares outstanding (common stock)

1. Shares outstanding (including treasury stock)	As of June 30, 2022	22,077,500	As of December 31, 2021	22,077,500
2. Treasury shares outstanding	As of June 30, 2022	13,749	As of December 31, 2021	36,939
3. Cumulative average number of shares	Six months ended June 30, 202	22,047,142	Six months ended June 30, 2021	22,059,386

\*The financial information in this quarterly report is not subject to review by certified public accountants or auditing firms.

\*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. Qualitative Information on Quarterly Financial Performance (3) Explanation of Consolidated Earnings Forecasts and Other Projections" on page five of the accompanying materials.

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## 1. Qualitative Information on Quarterly Financial Performance

### (1) Explanation of Operating Results

Effective from the beginning of the first three months (hereafter, “Q1”) of the fiscal year ending December 31, 2022, the Company has adopted the Accounting Standard for Revenue Recognition (Accounting Standard Board of Japan [ASBJ] Statement No. 29; March 31, 2020), etc. As a result, revenue recognition standards applied to results for the first six months (hereafter, “Q2”) of the fiscal year under review differ from those applied to results for the same period of the previous fiscal year, and hence, no year-on-year comparison figures (% changes) have been provided in the explanation of operating results below.

During Q2 of the fiscal year ending December 31, 2022, the Japanese economy showed signs indicating that economic activities were returning to a normal pace following the lifting of semi-emergency measures that were previously reinstated in response to an additional wave of COVID-19 infections. At the same time, future prospects remain uncertain due to persisting conflict in Ukraine, soaring resource prices, and depreciation of the yen caused by monetary policy. In the Asian region, where the Group is focusing on business expansion, supply chain disruptions continue after China's zero-COVID policy caused urban blockades. At the same time, economic recovery is seen in Thailand, Vietnam, and other countries as a result of efforts aimed at balancing infection control measures with economic activities to facilitate adaptation to the COVID-19 era and the post-pandemic era.

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 strove to implement priority measures associated with these policies in the fiscal year ending December 31, 2022.

Sales generated during Q2 of the fiscal year ending December 31, 2022 amounted to 89,305 million yen. The Company observed sluggish sales of domestic insecticides and repellents in the Household Products Business due to unfavorable weather conditions but also reported growth in the General Environment and Sanitation Business. Meanwhile, due to such factors as surging raw material prices, FOREX impact, and an increase in promotion expenses, operating income came to 11,941 million yen, ordinary income 12,714 million yen, net income before income taxes 12,668 million yen, and net income attributable to owners of parent 8,587 million yen.

Consolidated results for Q2 of the fiscal year ending December 31, 2022

(Millions of yen)

	Consolidated Q2 results for the fiscal year ended December 31, 2021	Consolidated Q2 results for the fiscal year ending December 31, 2022	(Ref.) Consolidated Q2 results, excl. the impact of accounting standard change	YoY change, excl. the impact of accounting standard change
Sales	115,821	89,305	119,340	3.0%
Operating income	18,566	11,941	16,267	(12.4%)
Ordinary income	18,907	12,714	17,040	(9.9%)
Net income before income taxes	18,895	12,668	16,993	(10.1%)

Note: Due to the adoption of the Accounting Standard for Revenue Recognition, etc. from the beginning of Q1 of the fiscal year under review, sales were reduced by 30,035 million yen and all profit categories from the operating income line down were reduced by 4,325 million yen.

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. The Company strove to improve profitability and reduce manufacturing costs and costs for sales. Overseas, the Company is proactively and effectively investing management resources in Southeast Asia, particularly in Thailand and Vietnam, while conducting initiatives aimed at expanding its operations in this region.

Sales generated through the Household Products Business in Q2 of the fiscal year ending December 31, 2022 amounted to 82,553

million yen. Insecticides and repellents produced sluggish sales due to unfavorable weather conditions, but the Company achieved sales growth primarily through household products. Meanwhile, operating income in the Household Products Business came to 11,154 million yen. The Company primarily attributes this result to changes in the business's sales mix, impact of surging raw material prices, a substantial decline in gross profit margin caused by and rapid yen depreciation, and an increase in promotional spending.

#### Results in the Household Products Business

(Millions of yen)

	Consolidated Q2 results for the fiscal year ended December 31, 2021	Consolidated Q2 results for the fiscal year ending December 31, 2022	(Ref.) Consolidated Q2 results, excl. the impact of accounting standard change	YoY change, excl. the impact of accounting standard change
Sales	109,224	82,553	112,567	3.1%
Segment income (operating income)	17,870	11,154	15,465	(13.5%)

Notes: 1. Sales include internal sales and transfers made within and between segments, which amounted to 6,880 million yen during Q2 of the fiscal year ended December 31, 2021 and 6,969 million yen during Q2 of the fiscal year ending December 31, 2022.

2. Due to the adoption of the Accounting Standard for Revenue Recognition, etc. from the beginning of Q1 of the fiscal year under review, sales decreased by 30,013 million yen and segment income decreased by 4,310 million yen.

#### Insecticides and repellents

In Japan, temperatures were lower year on year in May through the first half of June, when sales typically reach their peak, and although they picked up in the second half of June due to rising temperatures nationwide, performance throughout the market fell off compared to the previous year. Due in part to these circumstances, sales of insecticides and repellents for flies and mosquitoes and those for cockroaches (top sales products in the insecticide and repellent category) were weak. However, sales of insecticides and repellents for ticks and other unpleasant insect pests were strong thanks primarily to contributions from *MAMO ROOM* and *Iyana Mushi ZEROdeKNIGHT*, which were recently launched as new high-end products. Overseas, sales grew substantially in Thailand and Vietnam, where economic activity is recovering.

As a result of the above, sales in this category totaled 44,086 million yen.

#### Household products

Oral hygiene products generated sales of 3,950 million yen thanks to strong performance from *Mondahmin Premium Care*.

Meanwhile, conditions in the market for bath salts, which has expanded as a result of COVID-19, remained favorable. Additionally, amid ongoing change in customer needs related to bath salts, the Company observed strong performance from products such as *Onpo* tablets, the granular form of *Kikiyu*, and *Nihon no Meito* offered in small packages for each use. Consequently, sales generated through bath salts amounted to 11,865 million yen.

Concurrently, sales of other household products amounted to 17,941 million yen. The Company attributes this result to contributions from its *Kaiteki Guard* protective face masks and items in its *Sukki-ri!* series of deodorizing air fresheners and its *Raku Hapi* series of cleaning products.

As a result of the above, sales in this category totaled 33,757 million yen.

#### Pet products and others

In the pet products category, sales of insecticides and repellents remained sluggish as the market fell below the previous year's level. Meanwhile, sales of pet care products, including cat litter sand, towels, and cleaners, rose to 4,709 million yen as more customers began to keep pets during the COVID-19 pandemic and people spent more time at home to develop deeper communication with their pets.

#### **[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 13,800 million yen, while segment income (operating income) was 790 million yen due to increases in personnel expenses for more hiring.

Results in the General Environment and Sanitation Business

(Millions of yen)

	Consolidated Q2 results for the fiscal year ended December 31, 2021	Consolidated Q2 results for the fiscal year ending December 31, 2022	(Ref.) Consolidated Q2 results, excl. the impact of accounting standard change	YoY change, excl. the impact of accounting standard change
Sales	13,546	13,800	13,822	2.0%
Segment income (operating income)	898	790	776	(13.6%)

Notes: 1. Sales include internal sales and transfers made within and between segments, which amounted to 68 million yen in Q2 of the fiscal year ended December 31, 2021 and 78 million yen in Q2 of the fiscal year ending December 31, 2022.

2. Due to the adoption of the Accounting Standard for Revenue Recognition, etc. from the beginning of Q1 of the fiscal year under review, sales decreased by 21 million yen and segment income increased by 14 million yen.

## (2) Explanation of Financial Position

### (1) Assets, Liabilities and Net Assets

As of June 30, 2022, total assets amounted to 140,125 million yen, up 19,410 million yen from December 31, 2021 due primarily to an increase in trade receivables.

Meanwhile, despite a downturn in accounts payable, total liabilities as of June 30, 2022 came to 69,168 million yen, up 13,050 million yen from December 31, 2021, mainly as a result of growth in accounts payable-trade and income taxes payable.

Net assets amounted to 70,956 million yen as of June 30, 2022, rising 6,359 million yen compared to December 31, 2021, mainly because of an increase in retained earnings that occurred due to the Company's booking of net income attributable to owners of parent.

Consequently, the Company's equity ratio was 47.2% as of June 30, 2022, down 2.5 points from December 31, 2021.

### (2) Cash Flows

As of June 30, 2022, cash and cash equivalents (below, "cash") stood at 21,739 million yen, up 711 million yen compared to December 31, 2021.

The status of each cash flow and their factors during the six months ended June 30, 2022 are as follows.

Net cash provided by operating activities amounted to 6,686 million yen (versus net cash of 6,729 million yen provided during the six months ended June 30, 2021). The primary sources of this net cash were 12,668 million yen in profit before income taxes (18,895 million yen during the six months ended June 30, 2021), an increase of 14,353 million yen in accounts receivable (increase of 13,926 million yen during the six months ended June 30, 2021), and growth of 998 million yen in inventories (increase of 3,987 million yen during the six months ended June 30, 2021).

Net cash used in investing activities during the same period was 3,173 million yen (versus 2,308 million yen used during the six months ended June 30, 2021). This figure primarily consisted of 1,908 million yen in purchase of property, plant, and equipment (versus 1,980 million yen during the six months ended June 30, 2021).

Meanwhile, net cash used in financing activities was 3,642 million yen (versus 4,175 million yen used during the six months ended June 30, 2021). This amount primarily comprised 2,600 million yen in cash dividends paid (versus 2,536 million yen paid during the six months ended June 30, 2021).

## (3) Explanation of Consolidated Earnings Forecasts and Other Projections

The Company has made no changes to its full-year earnings forecast for the financial year ending December 31, 2022, which was announced on February 14, 2022.

This forecast is based on information available to the Company at the time of its formulation. Actual results may differ substantially from the projections included within due to potential changes affecting a variety of factors.

## 2. Quarterly Consolidated Financial Statements and Primary Notes

### (1) Consolidated Balance Sheet

(Millions of yen)

	Fiscal year ended December 31, 2021 (as of December 31, 2021)	Six months ended June 30, 2022 (as of June 30, 2022)
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	21,027	21,739
Notes and accounts receivable - trade	21,210	33,256
Electronically recorded monetary claims - operating	1,730	3,967
Merchandise and finished goods	21,622	24,032
Work in process	1,315	910
Raw materials and supplies	4,564	4,204
Other	2,568	2,845
Allowance for doubtful accounts	(20)	(36)
<b>Total current assets</b>	<b>74,018</b>	<b>90,919</b>
<b>Non-current assets</b>		
<b>Property, plant and equipment</b>		
Buildings and structures	29,489	30,153
Accumulated depreciation and impairment	(15,884)	(16,570)
Buildings and structures, net	13,604	13,582
Machinery, equipment and vehicles	16,536	17,123
Accumulated depreciation and impairment	(12,426)	(12,993)
Machinery, equipment and vehicles, net	4,110	4,129
Land	7,873	7,793
Leased assets	255	300
Accumulated depreciation and impairment	(79)	(106)
Leased assets, net	176	194
Construction in progress	253	1,219
Other	9,198	9,429
Accumulated depreciation and impairment	(7,666)	(7,849)
Other, net	1,532	1,580
<b>Total property, plant and equipment</b>	<b>27,551</b>	<b>28,501</b>
<b>Intangible assets</b>		
Goodwill	423	596
Other	3,853	4,192
<b>Total intangible assets</b>	<b>4,276</b>	<b>4,788</b>
<b>Investments and other assets</b>		
Investment securities	6,025	5,745
Retirement benefit asset	6,114	6,296
Deferred tax assets	1,132	1,689
Other	1,612	2,202
Allowance for doubtful accounts	(16)	(16)
<b>Total investments and other assets</b>	<b>14,868</b>	<b>15,916</b>
<b>Total non-current assets</b>	<b>46,696</b>	<b>49,206</b>
<b>Total assets</b>	<b>120,715</b>	<b>140,125</b>

(Millions of yen)

	Fiscal year ended December 31, 2021 (as of December 31, 2021)	Six months ended June 30, 2022 (as of June 30, 2022)
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	22,617	23,141
Electronically recorded obligations - operating	9,832	15,693
Short-term borrowings	1,480	1,314
Current portion of long-term borrowings	1,018	970
Accounts payable - other	10,721	6,476
Income taxes payable	1,520	5,091
Accrued consumption taxes	526	1,571
Provision for bonuses	255	370
Provision for sales returns	434	—
Refund liabilities	—	1,834
Other	3,892	10,080
Total current liabilities	52,300	66,545
Non-current liabilities		
Long-term borrowings	1,200	720
Deferred tax liabilities	1,178	489
Retirement benefit liability	382	358
Asset retirement obligations	516	518
Other	540	537
Total non-current liabilities	3,818	2,623
Total liabilities	56,118	69,168
<b>Net assets</b>		
Shareholders' equity		
Share capital	9,895	9,895
Capital surplus	9,928	9,917
Retained earnings	37,929	43,182
Treasury shares	(215)	(78)
Total shareholders' equity	57,537	62,916
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,297	1,091
Foreign currency translation adjustment	(22)	1,192
Remeasurements of defined benefit plans	1,146	1,005
Total accumulated other comprehensive income	2,421	3,289
Non-controlling interests	4,638	4,750
Total net assets	64,596	70,956
Total liabilities and net assets	120,715	140,125

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

## Consolidated Statement of Income

(Millions of yen)

	Six months ended June 30, 2021 (from January 1, 2021 to June 30, 2021)	Six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)
Sales	115,821	89,305
Cost of sales	64,218	49,372
Gross profit	51,603	39,933
Selling, general and administrative expenses		
Transportation and storage costs	3,375	3,629
Advertising expenses	4,201	4,276
Promotion expenses	7,161	594
Provision of allowance for doubtful accounts	17	14
Salaries and allowances	8,016	8,487
Provision for bonuses	228	270
Travel and transportation expenses	506	590
Depreciation	619	715
Amortization of goodwill	954	423
Rent expenses on land and buildings	707	733
Research and development expenses	1,346	1,426
Other	5,900	6,828
Total selling, general and administrative expenses	33,036	27,991
Operating income	18,566	11,941
Non-operating income		
Interest income	30	54
Dividend income	103	36
Foreign exchange gains	68	529
Commission income	14	9
Rental income from buildings	23	23
Other	145	143
Total non-operating income	385	796
Non-operating expenses		
Interest expenses	10	17
Compensation for damage	27	—
Other	6	6
Total non-operating expenses	45	23
Ordinary income	18,907	12,714
Extraordinary income		
Gain on sale of non-current assets	1	23
Total extraordinary income	1	23
Extraordinary losses		
Loss on sale of non-current assets	6	3
Loss on retirement of non-current assets	5	65
Loss on valuation of investment securities	1	0
Total extraordinary losses	13	69
Net income before income taxes	18,895	12,668
Income taxes - current	5,486	4,771
Income taxes - deferred	399	(900)
Total income taxes	5,885	3,870
Net income	13,009	8,797
Net income attributable to non-controlling interests	250	209
Net income attributable to owners of parent	12,759	8,587

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended June 30, 2021 (from January 1, 2021 to June 30, 2021)	Six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)
Net income	13,009	8,797
Other comprehensive income		
Valuation difference on available-for-sale securities	(920)	(206)
Foreign currency translation adjustment	439	1,215
Remeasurements of defined benefit plans, net of tax	(68)	(147)
Total other comprehensive income	(549)	861
Comprehensive income	12,460	9,658
(Breakdown)		
Comprehensive income attributable to owners of parent	12,202	9,456
Comprehensive income attributable to non-controlling interests	258	202

## (3) Quarterly Statement of Cash Flows

(Millions of yen)

	Six months ended June 30, 2021 (from January 1, 2021 to June 30, 2021)	Six months ended June 30, 2022 (from January 1, 2022 to June 30, 2022)
<b>Cash flows from operating activities</b>		
Profit before income taxes	18,895	12,668
Depreciation	1,687	1,846
Amortization of goodwill	954	423
Increase (decrease) in provision for sales returns	563	(434)
Increase (decrease) in refund liabilities	—	1,834
Increase in retirement benefit assets (increase in retirement benefit liabilities)	(298)	(429)
Decrease (increase) in trade receivables	(13,926)	(14,353)
Decrease (increase) in inventories	(3,987)	(998)
Increase (decrease) in trade payables	8,099	6,237
Other	(2,046)	1,002
Subtotal	9,940	7,796
Interest and dividends received	134	91
Interest paid	(10)	(17)
Income taxes paid	(3,334)	(1,184)
Net cash provided by (used in) operating activities	6,729	6,686
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(1,980)	(1,908)
Purchase of investment securities	(9)	(9)
Purchase of shares of subsidiaries and associates	—	(163)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(722)
Other payments	(345)	(624)
Other proceeds	27	254
Net cash provided by (used in) investing activities	(2,308)	(3,173)
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	(619)	(224)
Repayments of long-term borrowings	(757)	(532)
Purchase of treasury shares	(0)	(99)
Purchase of treasury shares of subsidiaries	(86)	(3)
Dividends paid	(2,536)	(2,600)
Dividends paid to non-controlling interests	(158)	(155)
Other	(17)	(26)
Net cash provided by (used in) financing activities	(4,175)	(3,642)
Effect of exchange rate change on cash and cash equivalents	192	713
Net increase (decrease) in cash and cash equivalents	438	584
Cash and cash equivalents at beginning of period	23,716	21,027
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	126
Cash and cash equivalents at end of period	24,154	21,739

#### (4) Notes to Quarterly Financial Statements

(Notes to going concern assumptions)

None to be reported.

(Notes in the event of significant changes in shareholders' equity)

None to be reported.

(Changes to accounting policies)

(Adoption of the Accounting Standard for Revenue Recognition, etc.)

Effective from the beginning of Q1 of the fiscal year ending December 31, 2022, the Earth Group has adopted the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020) and Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30; March 26, 2021). As a result, the Group now recognizes revenue at the time of transfer of control of promised goods or services to the customer, in the amount it expects to receive in exchange for said goods or services.

In light of this, the Group has made the following changes.

##### (1) Change in the timing of revenue recognition

In the Household Products Business, the Company (parent) and some of its consolidated subsidiaries previously recognized revenue for sales of products at the time the products were shipped. Under the new accounting standards, however, revenue is recognized when the products are shipped to the destination designated by the customer and handed over to the customer, as this is when control of the products is transferred to the customer.

Under the previous accounting standards, for some transactions in the General Sanitary Management Business, revenue was recognized over the period in which services promised in the contract were provided. Under the new accounting standards, however, the Group identifies services that are performance obligations as promised in the contract, and since the performance obligations are deemed satisfied when the services identified as such have been provided in full, the Group recognizes revenue at the time of the completion of the services.

##### (2) Considerations payable to customers

From the fiscal year under review, the Group deducts a portion of sales promotion expenses and other considerations payable to customers from revenue as it has identified performance obligations in contracts with customers. Under the previous accounting standards, some sales promotion expenses and other considerations payable to customers were recorded as SG&A expenses at the time the Group determined these payables were highly likely to occur. However, under the new accounting standards, the Group makes a reasonable estimate of the variable portion of the transaction price based on past records and only deducts from revenue the portion that is highly likely to not result in a substantial reduction in revenue.

##### (3) Products sales with rights of return

Under the previous accounting standards, the Group recorded provisions for product returns in the amount equivalent to anticipated losses resulting from the product returns based on the past rate of returns and gross profit margin. Under the new accounting standards, however, the Group deducts from revenue the estimated amount of refunds payable to customers as an obligation to refund the amount of consideration received for the products expected to be returned and recognizes refund liabilities for the products in questions. Further, the Group records return assets and makes corresponding adjustments (deductions) to the cost of sales for its right to recover products from customers when the refund liabilities are settled.

##### (4) Revenue recognition for agent transactions

For the purchase and sales transactions involving denture-related products and toothpaste and toothbrush-related products with GlaxoSmithKline Consumer Healthcare Japan Co., Ltd. (hereafter "GSKCHJ"), the Company previously recorded the total amount of consideration it expected to receive from customers as revenue. However, under the new accounting standards, since the Company's role of providing these products to customers is classified as that of an agent, the Company records a net amount obtained by subtracting the amount it pays to GSKCHJ, the supplier, from the amount billed to the customer as

revenue.

The Group has applied the Accounting Standard for Revenue Recognition, etc. in accordance with the transitional treatment stipulated in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative amount of impact of retroactively applying the new accounting policy to periods prior to the beginning of Q1 of the fiscal year under review has been added to or subtracted from retained earnings at the beginning of said period, and the new accounting policy has been applied from the balance at the beginning of said period.

However, in accordance with the methods prescribed in Paragraph 86 of the Accounting Standard for Revenue Recognition, the Group has not retroactively applied the new accounting policy to contracts prior to Q1 of the fiscal year under review where nearly all revenue amounts were recorded based on the previous accounting standards.

As a result, in Q2 of the fiscal year under review, sales were reduced by 30,035 million yen, cost of sales by 17,944 million yen, and SG&A expenses by 7,764 million yen, and operating income, ordinary income, and net income before income taxes were each reduced by 4,325 million yen. Further, the balance of retained earnings at the beginning of the period under review was down by 608 million yen.

As a result of the application of the Accounting Standard for Revenue Recognition, etc., provisions for sales returns shown under the current liabilities section of the consolidated balance sheet for the fiscal year ended December 31, 2021 are shown as return assets included in other under the current assets section and as refund liabilities under the current liabilities section of the balance sheet for Q1 of the fiscal year under review. Note that in accordance with the transitional treatment stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the Group has not reclassified the amounts reported in the previous fiscal year using the new representation method. Further, in accordance with the transitional treatment set forth in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12; March 31, 2020), the Group has not included the breakdown of revenue from contracts with customers in Q2 of the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement, etc.)

Effective from the beginning of Q1 of the fiscal year under review, the Group has adopted the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30; July 4, 2019). In accordance with the transitional treatment stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10; July 4, 2019), the Group has decided to prospectively apply the new accounting policy prescribed in the Accounting Standard for Fair Value Measurement, etc. Please note that this has no impact on the Group's quarterly consolidated financial results.