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Annual Securities Report

Milbon Co., Ltd.

E01039

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

Annual Securities Report (“Yukashoken Hokokusho”)

1. This document is an electronic report of the Annual Securities Report based on Article 24, Paragraph 1 of the Financial Instruments and Exchange Act, which was submitted using the Electronic Disclosure for Investors’ NETwork (EDINET) provided for in Article 27, Paragraph 30-2 of the same Act, and was printed with an added table of contents and page numbers.
2. This document includes, at the end, the audit report attached to the Annual Securities Report submitted in the manner described above and the internal control report (in Japanese only) and confirmation document (in Japanese only) submitted in conjunction with the Annual Securities Report described above.

Milbon Co., Ltd.

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Cover

[Document Submitted]	Annual Securities Report (“Yukashoken Hokokusho”)
[Article of the Applicable Law Requiring Submission of This Document]	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
[Submitted to]	Director-General, Kinki Local Finance Bureau
[Date of Submission]	March 29, 2023
[Accounting Period]	The 63rd Fiscal Year (from January 1, 2022 to December 31, 2022)
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[Company Name in English]	Milbon Co., Ltd.
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Part 1 Company Information

I. Overview of Company

1. Key Financial Data

(1) Consolidated Financial Data, etc.

Fiscal Year		59th	60th	61st	62nd	63rd
Year End		Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021	Dec. 2022
Net sales	(thousand yen)	33,882,496	36,266,444	35,725,069	41,582,267	45,238,377
Ordinary income	(thousand yen)	5,811,372	6,231,538	5,791,315	7,158,440	7,829,279
Profit attributable to owners of parent	(thousand yen)	4,495,417	4,517,615	4,204,139	5,109,288	5,577,274
Comprehensive income	(thousand yen)	3,689,484	4,601,226	3,776,739	5,754,382	6,253,306
Net assets	(thousand yen)	33,151,797	35,882,612	36,308,349	40,197,181	43,991,750
Total assets	(thousand yen)	39,634,942	41,912,194	43,075,520	48,238,490	52,760,387
Net assets per share	(Yen)	1,012.58	1,096.02	1,117.10	1,236.41	1,352.52
Basic earnings per share	(Yen)	137.31	137.99	129.24	157.17	171.49
Diluted earnings per share	(Yen)	-	-	-	-	-
Equity ratio	(%)	83.6	85.6	84.3	83.3	83.4
Return on equity	(%)	14.0	13.1	11.6	13.4	13.2
Price earnings ratio	(Times)	32.6	44.9	50.8	36.3	33.4
Cash flows from operating activities	(thousand yen)	6,487,332	4,486,862	6,548,116	6,636,823	5,008,008
Cash flows from investing activities	(thousand yen)	(1,202,149)	(2,777,709)	(161,779)	(3,995,279)	(3,865,221)
Cash flows from financing activities	(thousand yen)	(1,639,203)	(1,869,274)	(3,416,124)	(1,919,749)	(2,578,462)
Cash and cash equivalents at end of period	(thousand yen)	9,541,483	9,376,300	12,307,591	13,312,634	12,258,237
Number of employees	(Persons)	856	910	975	1,038	1,097

(Notes) 1. Diluted earnings per share is not shown since there are no dilutive shares.

2. The “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020), etc., are applied from the beginning of the current fiscal year. The “Accounting Standard for Revenue Recognition,” etc., issued on March 30, 2018 are applied from the beginning of the 60th fiscal year.
3. The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc., are applied from the beginning of the 60th fiscal year, and the key management indicators for the 59th fiscal year are those after retroactive application of the said accounting standard, etc.

(2) Financial Data, etc., of Reporting Company

Fiscal Year		59th	60th	61st	62nd	63rd
Year End		Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021	Dec. 2022
Net sales	(thousand yen)	31,717,731	34,085,114	33,651,807	39,237,623	41,780,945
Ordinary income	(thousand yen)	5,203,303	5,825,268	5,584,059	6,928,387	7,959,986
Profit	(thousand yen)	4,037,824	4,236,159	3,842,075	4,986,323	5,533,885
Capital stock	(thousand yen)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total number of issued shares	(Shares)	33,117,234	33,117,234	33,117,234	33,117,234	33,117,234
Net assets	(thousand yen)	32,841,818	35,120,946	35,243,127	38,128,794	41,249,787
Total assets	(thousand yen)	39,135,985	40,962,412	41,650,835	45,721,261	49,508,428
Net assets per share	(Yen)	1,003.12	1,072.76	1,084.32	1,172.79	1,268.22
Dividend per share (Interim dividend per share)	(Yen)	54.00 (24.00)	56.00 (27.00)	56.00 (27.00)	68.00 (30.00)	86.00 (40.00)
Basic earnings per share	(Yen)	123.33	129.39	118.11	153.38	170.16
Diluted earnings per share	(Yen)	-	-	-	-	-
Equity ratio	(%)	83.9	85.7	84.6	83.4	83.3
Return on equity	(%)	12.7	12.5	10.9	13.6	13.9
Price earnings ratio	(Times)	36.2	47.9	55.6	37.2	33.6
Dividend payout ratio	(%)	43.8	43.3	47.4	44.3	50.5
Number of employees	(Persons)	674	723	765	810	842
Total shareholder return (Comparison indicators: Dividend Included TOPIX)	(%)	119.4 (84.0)	166.5 (99.2)	177.7 (106.6)	156.6 (120.2)	159.4 (117.2)
Highest share price	(Yen)	5,880	6,500	6,690	7,270	6,480
Lowest share price	(Yen)	3,340	4,245	4,280	5,510	4,220

(Notes) 1. Diluted earnings per share is not shown since there are no dilutive shares.

2. The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020), etc., are applied from the beginning of the current fiscal year. The “Accounting Standard for Revenue Recognition,” etc., issued on March 30, 2018 are applied from the beginning of the 60th fiscal year.
3. The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc., are applied from the beginning of the 60th fiscal year, and the key management indicators for the 59th fiscal year are those after retroactive application of the said accounting standard, etc.
4. Highest and lowest share prices are those recorded on the Prime Market of the Tokyo Stock Exchange from April 4, 2022, while those recorded on the First Section of the Tokyo Stock Exchange before that date.

2. History

Month / Year	Overview
July 1960	Established Yutaka Beauty Chemicals Co., Ltd. in Higashi-yodogawa-ku, Osaka City, for the purpose of manufacturing and selling (cold wave perm solutions, shampoos, etc.). A factory was also built at the same location.
September 1963	Transferred the head office in Higashi-yodogawa-ku, Osaka City to Higashi-sumiyoshi-ku, Osaka City and shutdown the factory. Established Kire Factory in Higashi-sumiyoshi-ku, Osaka City.
January 1965	Changed trade name to Milbon Co., Ltd. Transferred the head office to Asahi-ku, Osaka City in the next month.
February 1969	Established Ueno Dai-Ichi Factory in Ueno City, Mie (currently Iga City, Mie), and shutdown Kire Factory.
May 1970	Opened Tokyo Branch in Minato-ku, Tokyo.
October 1975	Established Ueno Dai-Ni Factory in Ueno City, Mie (currently Iga City, Mie).
June 1979	Opened Osaka Branch in Miyakojima-ku, Osaka City, and established Osaka Studio in the same location.
July 1980	Transferred Tokyo Branch to Shinjuku-ku, Tokyo, and established Tokyo Studio in the same location.
July 1982	Opened Nagoya Branch in Naka-ku, Nagoya City, and established Nagoya Studio in the same location.
March 1984	Established Training Center in Miyakojima-ku, Osaka City.
April 1984	Started Field Person Strategy (first term employees were hired).
March 1987	Started Milbon's proprietary TAC Product Development System.
March 1991	Transferred Training Center to Joto-ku, Osaka City.
October 1992	Established Aoyama Factory in Aoyama-cho, Naga-gun, Mie (currently Iga City, Mie).
April 1993	Launched NIGELLE to create natural design.
June 1996	Registered shares as over-the-counter securities at Japan Securities Dealers Association.
April 1997	Transferred head office to Miyakojima-ku, Osaka City. Renovated the former head office and established Central Research Institute.
April 1998	Transferred Tokyo Branch from Shibuya-ku, Tokyo to Shinjuku-ku, Tokyo
October 1998	Launched LISCIO, a hair straightening system using iron technology.
June 1999	Launched DEESSE'S, hair care series that supports colored hair.
May 2000	Established additional factory adjacent to Aoyama Factory in Aoyama-cho, Naga-gun, Mie (currently Iga City, Mie).
July 2000	Listed shares on the Second Section of the Tokyo Stock Exchange.
November 2000	Newly built the Training Center and company dormitory at Joto-ku, Osaka City.
June 2001	Assigned to the First Section of the Tokyo Stock Exchange.
September 2002	Newly built the head office and Central Research Institute buildings and transferred from Asahi-ku, Osaka City to Miyakojima-ku, Osaka City.
March 2004	Established MILBON USA, INC. in New York.
December 2004	Opened MILBON USA, INC. Studio in New York.
July 2005	Established Yumegaoka Factory in Iga City, Mie.
December 2006	Transferred Osaka Branch from Miyakojima-ku, Osaka City to Nishi-ku, Osaka City.
December 2006	Raised the status of Fukuoka Sales Office to Fukuoka Branch.
April 2007	Launched a hair color product "ORDEVE" that supports foil placement techniques.
November 2007	Established Milbon Trading (Shanghai) Co., Ltd. in China.
December 2008	Opened Milbon Trading (Shanghai) Co., Ltd. Studio in China.
June 2009	Shutdown Ueno Dai-Ichi Factory in Iga City, Mie.
July 2009	Established Production Technology Development Center in Yumegaoka Factory in Iga City, Mie.
July 2009	Established Milbon Korea Co., Ltd. in South Korea and opened a Studio.
April 2010	Launched a premium brand "Aujua," born from Japanese climate, culture, and hair characteristics.
May 2012	Established MILBON (THAILAND) CO., LTD. in Thailand.
December 2013	Established MILBON (THAILAND) CO., LTD. production factory in Thailand.
March 2015	Opened Tokyo Ginza Branch in Chuo-ku, Tokyo and opened a Studio.
June 2016	Launched "Global Milbon," a premium brand of 360 Degree Beautiful Hair.
September 2016	Shutdown Aoyama Factory in Iga City, Mie.
November 2016	Established additional factory adjacent to Yumegaoka Factory in Iga City, Mie.

Month / Year	Overview
July 2017	Established KOSÉ Milbon Cosmetics Co., Ltd. (currently affiliate accounted for by the equity method) jointly with KOSÉ Corporation.
November 2017	Upgraded the premium brand “Aujua.”
November 2017	Transferred head office from Miyakojima-ku, Osaka City to Chuo-ku, Tokyo.
December 2017	Changed settlement day from December 20 to December 31.
January 2018	Raised the status of Saitama Sales Office to Saitama Branch.
September 2018	Established MILBON MALAYSIA SDN. BHD. in Malaysia.
October 2018	Established MILBON VIETNAM CO., LTD. in Vietnam.
January 2019	Raised the status of Hiroshima Sales Office to Hiroshima Branch.
April 2019	Launched “iMPREA,” a premium cosmetics brand exclusive to hair salons
October 2019	Established MILBON SINGAPORE PTE. LTD. in Singapore.
February 2020	Established Milbon (Zhejiang) Cosmetics Co., Ltd. in China.
July 2021	Transferred Tokyo Aoyama Branch from Shibuya-ku, Tokyo to Minato-ku, Tokyo
April 2022	Established Milbon Europe GmbH in Germany.

(Note) Studios are training venue for stylists.

3. Business Description

The Group consists of the Company, nine subsidiaries, and one affiliate, and is mainly engaged in the manufacture and sale of cosmetic products, as well as related services.

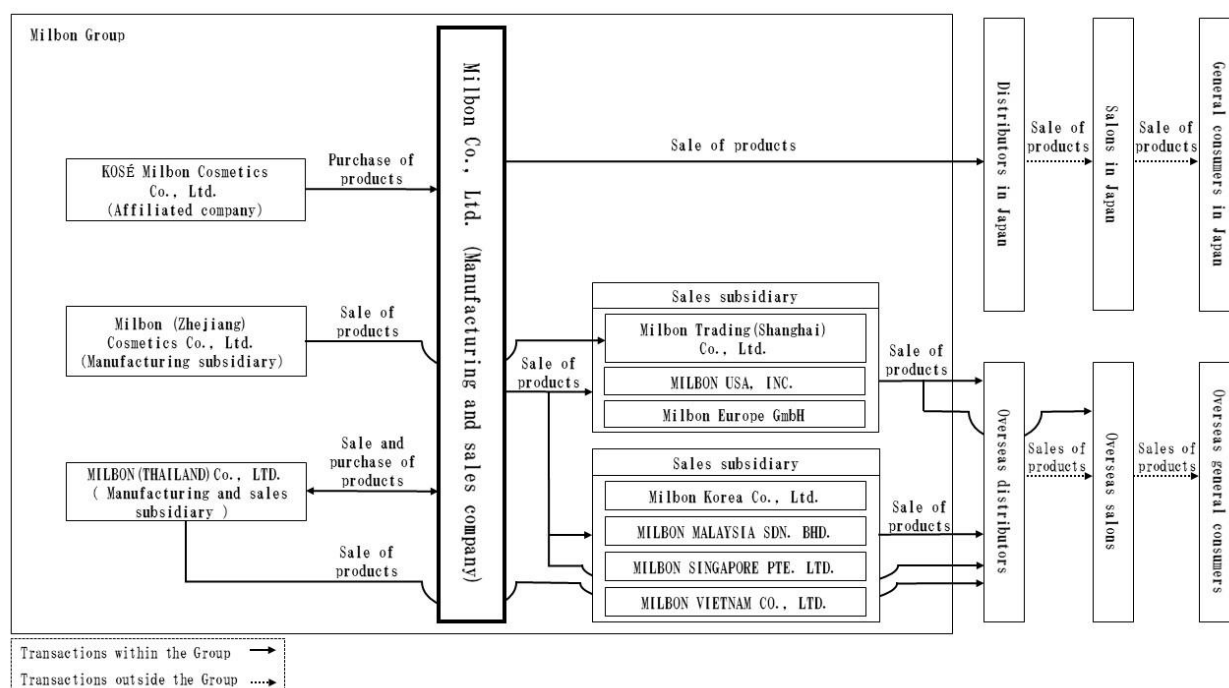
The Group's business is not described in terms of segments, as it consists of the above-mentioned single segment.

The Group classifies the products it manufactures or handles into the following five categories.

Category	Major items
Hair care products	Shampoo, conditioner, hair treatment, hair tonic, hair cream, liquid and foam hairdressing product, set lotion, hair spray
Hair coloring products	Oxidative hair dye, acid hair dye, hair dye, hair bleach
Permanent wave products	Thioglycolic acid-based permanent wave product Cysteine-based permanent wave product, hair straightening product
Cosmetic products	Skincare, make-up cosmetics
Other	Beauty equipment, etc.

The following diagram shows the positioning of the Milbon Group companies and the Group's businesses.

(Diagram of business activities)



(Note) Overseas transactions differ in sales channels depending on the country.

4. Subsidiaries and Other Affiliated Entities

Company name	Location	Capital stock or capital contribution	Main business	Share of voting rights percentage	Relationship with the Company
(Consolidated subsidiary) MILBON USA, INC. (Note 1)	United States New York	USD 2 million	Sale of hair products	100.0	Sells the Company's hair products in the U.S.
(Consolidated subsidiary) Milbon Trading (Shanghai) Co., Ltd. (Note 1)	China Shanghai City	JPY 430 million	Sale of hair products	100.0	Sells the Company's hair products in China. Two executives hold concurrent posts at the Company.
(Consolidated subsidiary) Milbon Korea Co., Ltd. (Note 1)	South Korea Seoul City	KRW 3,000 million	Sale of hair products	100.0	Sells the Company's hair products in South Korea. Two executives hold concurrent posts at the Company
(Consolidated subsidiary) MILBON (THAILAND) CO., LTD. (Note 1)	Kingdom of Thailand Rayong Pref.	THB 450 million	Manufacture and sale of hair products	100.0	Manufactures and sells the Company's hair products in Thailand.
(Consolidated subsidiary) MILBON MALAYSIA SDN. BHD.	Malaysia Kuala Lumpur	MYR 1.5 million	Sale of hair products	100.0	Sells the Company's hair products in Malaysia.
(Consolidated subsidiary) MILBON VIETNAM CO., LTD. (Note 1)	Vietnam Ho Chi Minh City	VND 46,380 million	Sale of hair products	100.0	Sells the Company's hair products in Vietnam.
(Consolidated subsidiary) MILBON SINGAPORE PTE. LTD.	Singapore	SGD 250,000	Sale of hair products	100.0	Sells the Company's hair products in Singapore.
(Consolidated subsidiary) Milbon (Zhejiang) Cosmetics Co., Ltd. (Note 1)	China Zhejiang	CNY 240 million	Manufacture and sale of hair products	100.0	Manufactures and sells the Company's hair products in China. Two executives hold concurrent posts at the Company.
(Consolidated subsidiary) Milbon Europe GmbH (Note 1)	Germany Dusseldorf	EUR 2 million	Sale of hair products	100.0	Sells the Company's hair products in Germany.

(Notes) 1. The company falls under the category of "specified subsidiary."

2. In addition to the companies noted above, the Group has one equity-method affiliate.

5. Employees

(1) Consolidated Companies

As of December 31, 2022

Number of employees
1,097

- (Notes)
1. The number of employees refers to full-time employees and does not include 53 part-time employees, 25 associate employees.
 2. The Group is composed of a single segment, the manufacture and sale of cosmetics, and therefore, no segment-related information is presented.

(2) The Company

As of December 31, 2022

Number of employees	Average age (years old)	Average length of service (years)	Average annual salary (thousand yen)
842	35.5	10.8	7,190

- (Notes)
1. The number of employees refers to full-time employees and does not include 53 part-time employees, 25 associate employees, and 24 employees seconded from the Company to subsidiaries and affiliates.
 2. The average annual salary includes bonuses and extra wages.

(3) Status of Labor Union

Although no labor union has been formed, the relationship between labor and management is amicable.

II. Overview of Business

1. Management Policy, Business Environment, Issues to Address

Matters related to future developments that are mentioned in this section are judgments of the Group that were made as of the end of the fiscal year under review.

(1) Management policy

The Group is in the business of supporting beautiful lifestyles through hairstylists.

In order to establish long-term relationships of trust with its customers, the Group expresses its promise to them in its corporate statement and the slogan has been established as a symbol of this.

Corporate Statement

To live beautifully.

It's how we approach the world. It's the one, single idea that drives us.

Our hair frames our personal beauty how it's styled, how it feels, how it flows.

It sets the stage for the inner self we radiate. Everyone's hair is unique, and everyone's beauty is, too. Our purpose is to help people find, embrace, and express their individuality to head out into each day confidently and gracefully, and to live vibrantly.

For more than 50 years, professional stylists have been Milbon's partners: we learn from and inspire each other.

What unites us is our passion for transforming everything we touch into something beautiful. Together, we constantly push the boundaries of the global hair care industry.

Together, we help give people the confidence, sophistication, and grace with which they inspire the world.

Corporate Slogan

Find Your Beauty

We believe that the sources of corporate value for the Group are (i) to (iii) below.

(i) Sales capability = Field Person System

The Group has established a unique sales structure to support beauty salons and hairstylists. Rather than simply selling products, we listen sincerely to the voices of beauty salons and end users, identify issues, and propose solutions. With educational activities for beauty salons at the core, we contribute to the increase in sales and profits of beauty salons. We call the sales department members who conduct such activities "Field Persons."

In order to develop Field Persons, the Group conducts in-house training programs that last for nine months. In addition to basic beauty techniques such as hair care, coloring, and perms, Field Persons develop various skills such as acquiring a broad knowledge of the beauty industry, business analysis, and planning. This is the Group's unique business model that competitors cannot imitate.

(ii) Product development capability = TAC Product Development System

The Group's unique "TAC (Target Authority Customer) Product Development System" develops beauty software and products while learning from successful hairstylists at beauty salons and end users.

Beauty salons and hairstylists that are by far the most popular with their customers by theme, such as salons with more hair color customers than other salons, salons with more hair care customers than other salons have successful techniques (philosophy, way of thinking, hair design, and beauty techniques). We standardize these successful techniques so that they can be used in general beauty salons, and create products to support them.

(iii) Market strategy = Field Activity System

Growing beauty salons exist in any market environment. By concentrating the activities of Field Persons in beauty salons that are growing or have great potential for growth, we are developing marketing that allows the Group to grow with them even when market conditions deteriorate.

(2) Medium-Term Management Plan (2022-2026)

Starting from Fiscal Year 2022 (63rd fiscal year), the Group has formulated a Medium-Term Management Plan (2022-2026), “Stage for the Future,” looking ahead to the next future, and announced it on February 10, 2022.

The Group’s mid-term goal is to “become the leading manufacturer in Asia and top 5 in the world by elevating the value of industry professionals in the eyes of consumers and society at large.”

To realize our mid-term goal, in our global strategy, we view the global market as seven regions (Japan, Korea, Chinese cultural sphere, ASEAN, North America, EU, and the Middle East), and as a long-term global strategy, we will work to establish a development and production system for each region, responding to differences in hair quality, culture, and values, and contributing to the development of the local beauty industry.

On the other hand, in the Japanese market, in order to strengthen our business foundation, we will implement “Salon-based Social Innovation,” a reform of the way beauty salons should be in response to the times, and will implement the “Beauty Platform Plan,” a new form of beauty salon, and the “Sustainability Commitment: Five Key Challenges,” centered on the realization of spiritual enrichment through beauty.

The “Beauty Platform Plan” will be achieved through the promotion of the “Smart Salon Strategy,” which creates a place for customer experience that integrates digital and real life, and the “Lifetime Beauty Care Strategy,” which is composed of three care concepts: hair care, skin care, and beauty health care.

We have set the following challenges as “Sustainability Commitment: Five Key Challenges” and are working on them: I. Realize spiritual richness through beauty, II. Promote regenerative and recycling-oriented production and consumption activities, III. Practice people-friendly procurement activities, IV. Establish a fair and flexible management structure, and V. Realize work environments with enhanced job satisfaction.

Beyond the achievement of these goals, Milbon strives to achieve a sustainable community and society for people to live beautifully, through collaboration with salons.

<Mid-term goal>

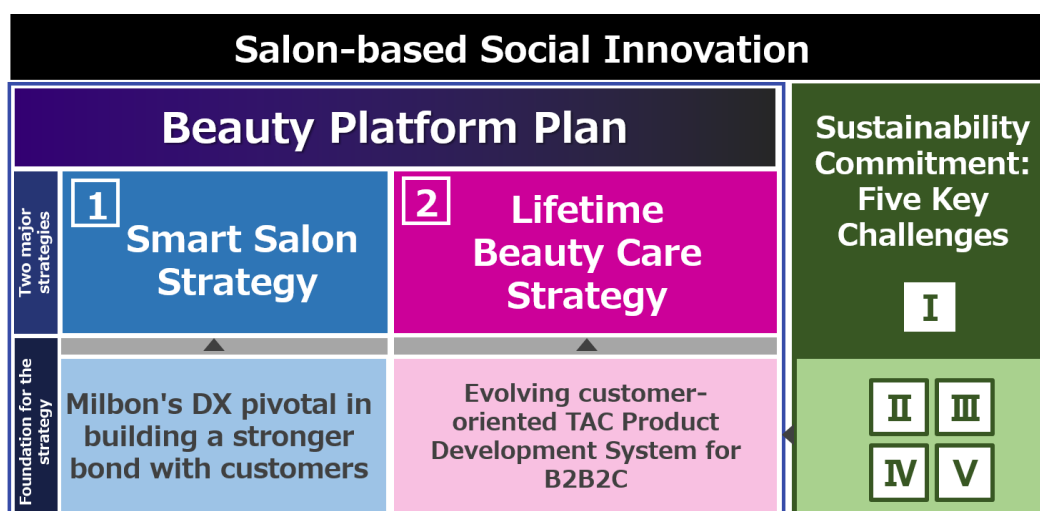
Aim to become the leading manufacturer in Asia and top 5 in the world by elevating the value of industry professionals in the eyes of consumers and society at large.

<Mid-term policy>

Stage for the Future

“Salon-based Social Innovation” × “Sustainability Commitment”

Milbon strives to achieve a sustainable community and society for people to live beautifully, through collaboration with salons.



- I. Realize spiritual richness through beauty
- II. Promote regenerative and recycling-oriented production and consumption activities
- III. Practice people-friendly procurement activities
- IV. Establish a fair and flexible management structure
- V. Realize work environments with enhanced job satisfaction

(3) Issues to be addressed

The outlook for the economic environment is uncertain due to the prolonged situation in Ukraine and the impact of rising energy costs and high prices, although a pick-up is expected, mainly in consumption activities, due to developments in social and economic activities and the effects of various policies.

Under these circumstances, we are proceeding with the Medium-Term Management Plan (2022-2026).

In the global market, we view the global market as seven regions (Japan, Korea, the Chinese cultural sphere, ASEAN, North America, EU, and the Middle East), and by advancing our system of local production and local consumption, we aim to minimize geopolitical and other risks and to provide products matched to the values and hair qualities of each region.

In the domestic market, we recognize the ongoing shrinking of the population, the acceleration of the digitalization of the social environment, and the changes in consumer mentalities resulting from the COVID-19 pandemic as issues which are important to address. The core of our domestic strategy is our “Beauty Platform Plan,” a new model for beauty salons. To achieve this strategy, we are promoting specific measures under our two major strategies, the “Smart Salon Strategy” and “Lifetime Beauty Care Strategy.”

Under our “Smart Salon Strategy,” in January 2023 we will launch “Smart Salons,” a salon format that provides a new product buying experience through diverse content that integrate digital technology and the real world. We plan to roll out a multi-stage Smart Salon project nationwide in collaboration with beauty salons with which Milbon’s new salon approach has resonated.

Under our “Lifetime Beauty Care Strategy,” we are going beyond hair care alone, entering the skin care field in 2019 and progressing into the beauty health care field. In this field, we plan to use our framework for collaborating with other companies which possess unique skills and knowledge to create new beauty salon products and services.

At the same time, we will continue to promote initiatives aimed at realizing our “Sustainability Commitment: Five Key Challenges” and work to resolve social issues.

Our results for the fiscal year under review and our targets for the final year of the Medium-Term Management Plan (FY2026) are as shown below.

(Million yen)

	FY2022		Mid-Term End FY2026	
	Results	% total sales	Target	% total sales
Net sales	45,238	100.0	58,000	100.0
Domestic	35,334	78.1	43,700	75.3
Overseas	9,904	21.9	14,300	24.7
Gross profit	29,509	65.2	38,160	65.8
Selling, general and administrative expenses	21,957	48.5	27,360	47.2
Operating income	7,551	16.7	10,800	18.6
Ordinary income	7,829	17.3	10,810	18.6
Profit attributable to owners of parent	5,577	12.3	7,670	13.2

2. Business Risks

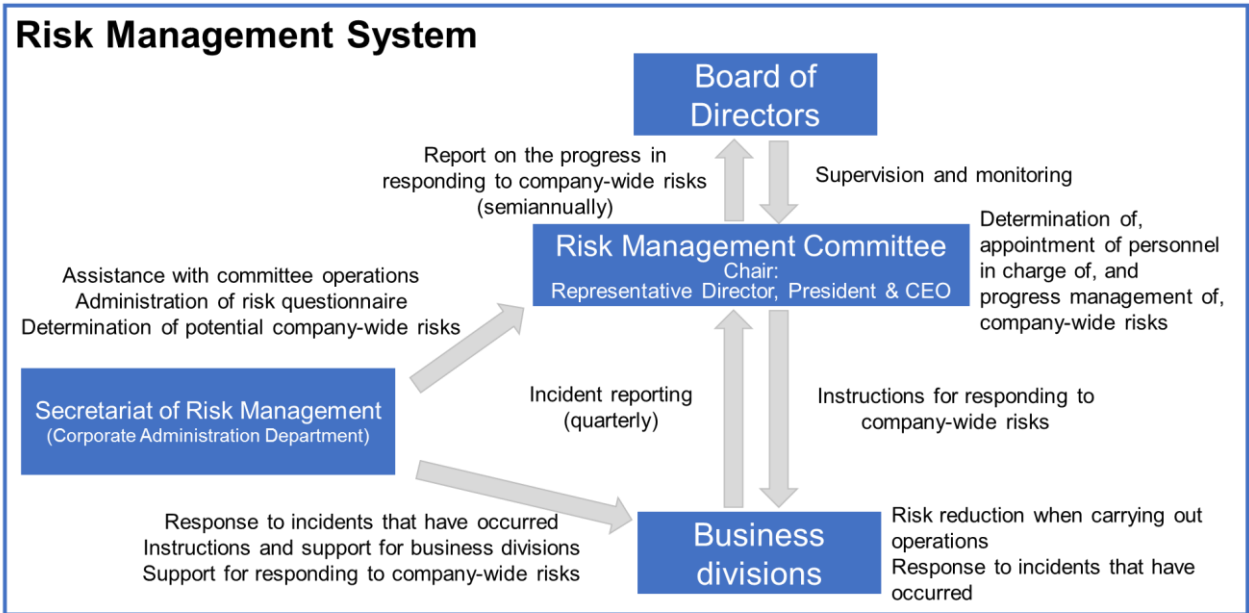
Among the matters related to the business and financial status described in this document, the following are the main risks that the management recognizes as having the potential to exert a significant impact on the financial position, operating results, and cash flows of the Group.

The forward-looking statements in the text are based on judgments made by the Group as of the end of the fiscal year under review, but are not limited to the items listed herein.

The Group defines matters with the potential to have a significant negative impact on the realization of our management philosophy or our business continuity as “risks,” and has established a basic risk management policy to reduce the likelihood of these risks manifesting themselves and to prevent the expansion of damage in the event that a risk materializes and a crisis occurs. The Group is working to develop and improve its risk management promotion system and framework.

Based on this policy, each business division and subsidiary reviews the “List of Risk Matters,” which summarizes the risks that may arise in the Group. In addition, the Group identifies and responds to incidents arising from the conduct of business and reports them on a quarterly basis to the Management Meeting, which is composed of the Internal Board Directors, the Standing Audit & Supervisory Board Member and the Executive Officers. During the fiscal year under review, the Corporate Administration Department and business divisions worked together to address risks related to the global COVID-19 pandemic, protecting personal information, ensuring product quality, sharing information appropriately with customers, difficulties with the procuring of raw materials, rising costs, and the like. They prepared a system for reducing risk and they conducted activities such as clarifying and revising rules and providing training to employees.

In addition, the Group has established the Risk Management Committee, which is chaired by the Representative Director, President & CEO and composed of the Internal Board Directors, the Standing Audit & Supervisory Board Member and Executive Officers. As a general rule, this committee meets three times per year. This committee identifies “company-wide risks,” i.e., risks that should be addressed on a company-wide basis, taking into account the significance and priority of the risks surrounding the Group, the likelihood and timing of the materialization of risks, the likelihood and impact of impeding the achievement of the Medium-Term Management Plan, etc., and appoints a person in charge of each company-wide risk from among the members of the Risk Management Committee to implement countermeasures on a company-wide basis. The Risk Management Committee reports to the Board of Directors semiannually on the progress made in responding to company-wide risks, and the Committee is subject to the supervision and monitoring of the Board of Directors.



The table below shows the company-wide risks which may affect the Group's operating results, share price, financial position, etc., and the Risk Management Committee has selected as risks requiring company-wide deliberation and for which the committee has considered countermeasures during the fiscal year under review.

Risk	Details of Risks	Main Initiatives
Risks Related to Confidential Information Management	<p>The Group possesses important information, such as business-related transaction information and confidential information, through its business activities. Unauthorized use of such information by third parties due to theft or loss, violations of laws and regulations, and other unforeseen circumstances could result in incidents such as the disposal or corruption of important data, information leakage, or system failure, which could have a material impact on the Group's operating results and other matters.</p>	<p>The Group strives to maintain credibility by, for example, responding quickly to the occurrence of information leaks and other risks and making public announcements when necessary.</p> <p>In the current fiscal year, we have reviewed and developed internal regulations and clarified internal rules on the handling of confidential information.</p>
Risks Related to the Governance of Overseas Subsidiaries	<p>The Group's inadequate development of the Group and governance system, such as the formulation of Group strategies and the monitoring and supervision of Group companies, and the failure to fully demonstrate the effects of the management of Group companies, could have a material impact on the Group's operating results and other factors.</p>	<p>The Group collects information on the laws and regulations of each country in which our overseas subsidiaries are expanding, identifies issues that need to be addressed in order to advance our business, and cooperates and shares this information with our subsidiaries as necessary.</p> <p>In the current fiscal year, we have established a system in which the parent company regularly identifies issues specific to each subsidiary to ensure smooth information exchange between the parent company and its subsidiaries.</p>
Risks Related to Appropriate Information Dissemination to Consumers	<p>The Group strives to earn the trust of customers and consumers by complying with various laws and regulations, developing and providing safe and high-quality products and services that meet the needs of customers and consumers, and providing accurate information that customers can use safely and with confidence. However, if inappropriate expressions or inaccurate information are disseminated in the Group's advertisements, etc., it may damage the Group's reputation and materially affect the Group's operating results, etc.</p>	<p>The Group strives to maintain the trust of the public by responding promptly to the occurrence of inappropriate information dissemination and other risks, and making public announcements when necessary.</p> <p>In the current fiscal year, the Company has strengthened internal training and revised its system of prior review as an initiative to prevent inappropriate expressions in the use of advertising and social networking sites.</p>

Risk	Details of Risks	Main Initiatives
Risks Related to Large-Scale Earthquakes and Business Continuity	<p>If a natural disaster such as a major earthquake were to occur, or if unforeseen circumstances were to cause a business continuity crisis, the Group's operating results could be materially affected by such factors as the shutdown of the Group's factory, research institutes or offices, the loss of the Group's human resources, delays in the production and shipment of our products, delays in the development of new products, and a decline in product sales due to our inability to provide our products to salons.</p>	<p>We have formulated a Business Continuity Plan (BCP) aimed at quickly restoring production and logistics operations in the event of a natural disaster such as a major earthquake or a business continuity crisis due to unforeseen circumstances, and we regularly review the plan.</p> <p>In the current fiscal year, the Production Headquarters reviewed the BCP for production and logistics and improved the content to be effective in the event of an emergency.</p>

3. Management Analysis of Financial Position, Operating Results and Cash Flows

The summary of the financial position, operating results, and cash flows (below, “operating results, etc.”) of the Group (the Company, its consolidated subsidiaries, and its equity-method affiliates) for the current fiscal year and analysis and discussion of the Group’s operating results, etc., from the perspective of management are as follows.

Matters related to future developments that are mentioned in this section are judgments that were made as of the end of the fiscal year under review.

(1) Analysis of operating results

(i) Net sales and gross profit

Net sales for the current fiscal year were 45,238 million yen (up 8.8% year on year). This was primarily due to the growing popularity in the domestic market of bleach-on-color and other double-process coloring, among people of a wide range of ages, and the growth of hair care needs resulting from this trend. In the hair care products category, sales of the premium brand Aujua and of Global Milbon continued to be steady. In the hair coloring products category, sales rose significantly, driven by Ordeve Addictly and by the new ENOG brand, which was launched in June and which has succeeded in reaching a new demographic of users highly focused on design. In overseas markets, although sales in China were sluggish due to lockdowns, our market activities such as going onsite together with distributors and accompanied salon visits were well received, and sales in the U.S. and Korea grew significantly.

Gross profit rose to 29,509 million yen (up 7.3% year on year). The ratio of gross profit to net sales was 65.2% (down 0.9% year on year) due to improvements in the productivity of domestic plants and the depreciation of the yen, despite the impact of soaring raw material prices.

(ii) Selling, general and administrative expenses, and operating income

Selling, general and administrative expenses for the current fiscal year were 21,957 million yen (up 11.6% year on year). This was mainly due to higher personnel costs resulting from an increase in headcount and salary raises, together with increases in research and development expenses with the launch of R&D centers in China and Thailand. As a result, operating income was 7,551 million yen (down 3.4% year on year).

(iii) Non-operating income/expenses, ordinary income

Non-operating income for the current fiscal year was 399 million yen and non-operating expenses were 121 million yen. As a result, ordinary income was 7,829 million yen (up 9.4% year on year).

(iv) Extraordinary income/loss, profit attributable to owners of parent

Extraordinary income for the current fiscal year amounted to 1 million yen and extraordinary losses amounted to 7 million yen. As a result, profit attributable to owners of parent was 5,577 million yen (up 9.2% year on year), and net income per share was 171.49 yen.

A breakdown of net sales by product category, a breakdown of net sales into domestic and overseas sales, and production, orders, and sales results are shown below.

(Net sales by product category)

(Million yen)

Category	Previous fiscal year		Current fiscal year		Increase (decrease) amount	Year-on-year change (%)
	Amount	Ratio (%)	Amount	Ratio (%)		
Hair care products	24,466	58.8	26,312	58.2	1,846	7.5
Hair coloring products	14,813	35.6	16,631	36.7	1,817	12.3
Permanent wave products	1,449	3.5	1,450	3.2	0	0.0
Cosmetic products	579	1.4	572	1.3	(7)	(1.3)
Other	273	0.7	272	0.6	(1)	(0.5)
Total	41,582	100.0	45,238	100.0	3,656	8.8

(Breakdown of net sales into domestic and overseas sales)

(Million yen)

	Previous fiscal year		Current fiscal year		Increase (decrease) amount	Year-on-year change (%)
	Amount	Ratio (%)	Amount	Ratio (%)		
Domestic sales	33,643	80.9	35,334	78.1	1,690	5.0
Overseas sales	7,938	19.1	9,904	21.9	1,965	24.8
Total	41,582	100.0	45,238	100.0	3,656	8.8

(Production, orders, and sales results)

(i) Production results

The following is a breakdown by product category for the current fiscal year.

(Thousand yen)

Product category	Current fiscal year (From January 1, 2022 to December 31, 2022)	Change (%)
Hair care products	31,732,862	8.6
Hair coloring products	17,591,814	19.7
Permanent wave products	1,679,159	8.3
Other	254,724	(7.1)
Total	51,258,561	12.1

(Note) Amounts are based on selling prices.

(ii) Order results

There are no applicable items because the Group conducts production on a prospective basis.

3) Sales results

The following is a breakdown by product category for the current fiscal year.

(Thousand yen)

Product category	Current fiscal year (From January 1, 2022 to December 31, 2022)	Change (%)
Hair care products	26,312,862	7.5
Hair coloring products	16,631,187	12.3
Permanent wave products	1,450,096	0.0
Cosmetic products	572,085	(1.3)
Other	272,146	(0.5)
Total	45,238,377	8.8

(Note) Sales results by the major counterparty and the ratio of such sales results to total sales results for the two most recent fiscal years are as follows.

Counterparty	Previous fiscal year (From January 1, 2021 to December 31, 2021)		Current fiscal year (From January 1, 2022 to December 31, 2022)	
	Amount (million yen)	Ratio (%)	Amount (million yen)	Ratio (%)
Topy Co., Ltd.	4,532	10.9	4,804	10.6
GAMO Co., Ltd.	3,628	8.7	3,810	8.4
BIC HOLDINGS Inc.	3,194	7.7	3,396	7.5

(2) Explanation of Financial Position

Total assets at the end of the fiscal year increased by 4,521 million yen from the end of the previous fiscal year to 52,760 million yen.

Current assets increased by 1,797 million yen from the end of the previous fiscal year to 26,698 million yen. The main factors for the change were increases of 582 million yen in notes and accounts receivable - trade, 1,781 million yen in merchandise and finished goods, and 638 million yen in raw materials and supplies, despite decreases of 1,050 million yen in cash and deposits.

Non-current assets increased by 2,724 million yen from the end of the previous fiscal year to 26,061 million yen. This was mainly due to an increase in land of 1,457 million yen associated with the purchase of land for the Human Resources Development Center.

Current liabilities increased by 685 million yen from the end of the previous fiscal year to 7,996 million yen. The main factor for the change was an increase of 526 million yen in accounts payable - other.

Non-current liabilities increased by 41 million yen from the end of the previous fiscal year to 772 million yen.

Net assets increased by 3,794 million yen from the end of the previous fiscal year to 43,991 million yen. The main factors for the change were increases of 3,040 million yen in retained earnings and 915 million yen in foreign currency translation adjustment due to the depreciation of the yen.

As a result, the equity ratio changed from 83.3% at the end of the previous fiscal year to 83.4%. Net assets per share based on the total number of shares outstanding at the end of the period were 1,352.52 yen, compared with 1,236.41 yen at the end of the previous fiscal year.

(3) Cash Flows

Cash and cash equivalents (hereinafter, “funds”) at the end of the current fiscal year decreased by 1,054 million yen from the end of the previous fiscal year to 12,258 million yen.

The status of cash flows during the current fiscal year and the factors responsible are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was 5,008 million yen. This was mainly due to profit before income taxes of 7,823 million yen, depreciation of 2,080 million yen, share of loss of entities accounted for using equity method of 112 million yen, an increase in notes and accounts receivable-trade of 546 million yen, an increase in inventories of 2,148 million yen, and income taxes paid of 2,456 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 3,865 million yen. This was mainly due to purchase of property, plant and equipment of 3,061 million yen and purchase of intangible assets of 761 million yen, which were proceeds from redemption of investment securities of 200 million yen and payments for guarantee deposits of 285 million yen.

(Cash flows from financing activities)

Net cash used in financing activities was 2,578 million yen. This was mainly due to cash dividends paid of 2,534 million yen.

(4) Significant accounting policies and estimates

The Group’s consolidated financial statements have been prepared based on accounting principles generally accepted in Japan.

In preparing the consolidated financial statements, the Group continually evaluates the estimates and judgments that affect the reported items of assets and liabilities and the disclosure of contingent liabilities as of the balance sheet date, as well as the reported figures of revenues and expenses during the consolidated accounting period. However, actual results may differ from current estimates due to the occurrence of unforeseeable events and other factors.

Significant accounting policies adopted in the Group’s consolidated financial statements are described in Notes to the Consolidated Financial Statements (Significant matters that serve as the basis for preparation of consolidated financial statements) of “V. Financial Information, 1. Consolidated Financial Statements, etc., (1) Consolidated Financial Statements.”

(5) Recognition, analysis and discussion of the status of operating results

Factors affecting the Group’s management are described in “II. Overview of Business, 2. Business Risks.”

(6) Sources of capital and liquidity of funds

The Group’s capital needs are primarily working capital needs and capital expenditure needs.

The working capital needs are mainly due to the Group’s production costs, such as the purchase of raw materials, and operating expenses, such as selling, general and administrative expenses. Capital expenditure needs are mainly for the purchase of fixed assets for the establishment of new bases, relocation and expansion of existing bases, and acquisition of production facilities. For general investment of surplus funds, the Company selects investment instruments with safety as the primary consideration.

(7) Objective indicators for judging the achievement of management policy, management strategy, or management objectives

The Group’s management policy is described in “II. Overview of Business, 1. Management Policy, Business Environment, Issues to Address, (1) Management policy.”

The results for Fiscal Year 2022 are net sales of 45,238 million yen (3.0% up from the target), operating income of 7,551 million yen (0.0% up from the target), ordinary income of 7,829 million yen (5.7% up from the target), and profit attributable to owners of parent of 5,577 million yen (6.6% up from the target).

The plan for Fiscal Year 2023 is net sales of 49,200 million yen (up 8.8% year on year), operating income of 8,300 million yen (up 9.9% year on year), ordinary income of 8,250 million yen (up 5.4% year on year), and profit attributable to owners of parent of 5,800 million yen (up 4.0% year on year).

The plan and results for Fiscal Year 2022 and the plan for Fiscal Year 2023 are as follows.

(Million yen)

	FY2022 Plan	Composition (%)	FY2022 Results	Composition (%)	Increase (decrease) amount	Year-on- year change (%)	FY2023 Plan	Composition (%)
Net sales	43,900	100.0	45,238	100.0	1,338	3.0	49,200	100.0
Domestic	35,150	80.1	35,334	78.1	184	0.5	38,021	77.3
Overseas	8,750	19.9	9,904	21.9	1,154	13.2	11,179	22.7
Gross profit	29,140	66.4	29,509	65.2	369	1.3	32,160	65.4
Selling, general and administrative expenses	21,590	49.2	21,957	48.5	367	1.7	23,860	48.5
Operating income	7,550	17.2	7,551	16.7	1	0.0	8,300	16.9
Ordinary income	7,410	16.9	7,829	17.3	419	5.7	8,250	16.8
Profit attributable to owners of parent	5,230	11.9	5,577	12.3	347	6.6	5,800	11.8

Information regarding the Medium-Term Management Plan is indicated in “II. Overview of Business, 1. Management Policy, Business Environment, Issues to Address, (2) Medium-Term Management Plan (2022-2026).”

4. Material Contracts, etc.

There were no significant decisions or agreements on material contracts, etc., during the current fiscal year.

5. Research and Development Activities

The Group conducts product development under the “TAC Product Development System,” a structure in which persons with a high level of beauty expertise, such as hairstylists who are supported by customers, are invited to participate as representatives of their customers. The Group uses scientific methods to elucidate the sensible beauty know-how of hairstylists, such as design creation, and create products that reflect this know-how using formulation technology.

In the current fiscal year, we strengthened business in the hair care field by focusing on basic and fundamental research, and we also engaged in research and development activities with an emphasis on environmental friendliness from the perspective of the sustainability. In addition, we opened two more R&D centers, in China and Thailand. These join our Central Research Institute in Japan and the U.S. R&D center, which was established Fiscal Year 2021, bringing our total number of global R&D centers to four.

Going forward, we intend to respond to the changes in the world accelerated by the spread of COVID-19 and to develop local products for overseas markets that match the characteristics of each region, in addition to our existing global products from Japan, in order to create products that will please stylists and their customers around the world.

Total research and development expenses for the current fiscal year amounted to 2,074 million yen (4.6% of net sales), and the main research and development activities and achievements are as follows.

(1) Hair care field

By combining the latest hair research results with innovative formulation development technologies, we are developing salon care products that achieve salon quality and essentially solve problems through stylists’ treatments, as well as home care products that propose the realization of beautiful hair in accordance with customers’ values and lifestyles.

Recently, we have been developing products that focus on hair damage caused by bleaching in line with the trend toward high-brightness hair color designs. We have launched Mizulisse, a liquid treatment that instantly untangles bleached hair, and COLOR GADGET Color Shampoo, which easily and beautifully dyes bleached hair. For wavy hair, we have launched MYFORCE heat memory care, a treatment product that helps create manageable hair through day-to-day hair iron use. From the premium brand Aujua, we launched Aujua EXSHIELD, which protects hair from the damage caused by everyday particulate fouling, helps repair cuticle, and leads to glossy, supple hair. From Global Milbon, we have launched ENHANCING VIVACITY, which addresses five different factors that cause hair loss.

(2) Hair color field

We are developing additional items that provide customers with new hair color designs and developing high-value-added formulations based on the latest hair research results.

In the Ordeve hair color brand, we launched Glow line, which helps users shine while staying true to themselves through the line’s translucent yet deep colors. From Villa Lodola COLOR, we have released PALETTE series, which can be used to achieve translucent, vivid colors with less of a brown tone. For stylists who want to create their own unique hair color designs, we have launched the new ENOG hair color brand, which enables stylists to control colors as they wish, just like mixing paint.

(3) Basic research field

In order to apply cutting-edge research to the development of products, we are actively promoting the use of SPring-8, a large synchrotron radiation experimental facility that enables observation of hair and cells at the nano-level, as well as joint research with universities. The results are utilized in the development of new hair care brand products, such as Aujua and Global Milbon products. As part of our Lifetime Beauty Care Strategy, we are also conducting research in the area of beauty health care, one of our core fields.

III. Information about Facilities

1. Overview of Capital Expenditures

Capital expenditures (property, plant and equipment, and intangible assets) in the current fiscal year totaled 4,097 million yen. The major components of the capital expenditures were the cost of acquiring land for the construction of the new Human Resources Development Center, and the introduction of production facilities at Yumegaoka Factory.

2. Major Facilities

(1) The Company

Major facilities are as follows.

As of December 31, 2022

Office name (Location)	Description of facilities	Book value (thousand yen)						Number of employees
		Buildings and structures	Machinery, equipment and vehicles	Land		Other	Total	
				Area (m ²)	Amount			
Head Office (Chuo-ku, Tokyo)	Companywide administration	180,378	-	-	-	496,964	677,342	57
Jingumae Sales Office (Shibuya-ku, Tokyo)	Sales and services	536,170	0	981	1,258,529	280,923	2,075,623	41
Training Center / Dormitory (Joto-ku, Osaka City)	New hire training and dormitory	76,442	0	422	39,602	1,533	117,577	10
Central Research Institute (Miyakojima-ku, Osaka City)	Research	880,507	11,308	4,100	1,602,859	443,246	2,937,921	183
Yumegaoka Factory (Iga City, Mie)	Manufacture of hair products	2,524,490	1,927,584	58,345	1,555,093	801,621	6,808,789	162
Osaka Branch (Nishi-ku, Osaka City)	Sales and services	379,582	-	542	423,809	8,460	811,852	61

(Notes) 1. "Other" under book value includes tool, furniture and fixtures, construction in progress, software and software in progress.

2. The number of employees refers to full-time employees and does not include employees concurrently serving as officers, part-time employees, associate employees, and employees seconded from the Company to subsidiaries and affiliates.
3. There are no major leased facilities under lease contracts.

(2) Overseas subsidiaries

As of December 31, 2022

Company Name	Office name (Location)	Description of facilities	Book value (thousand yen)						Number of employees
			Buildings and structures	Machinery, equipment and vehicles	Land		Other	Total	
					Area (m ²)	Amount			
MILBON USA, INC.	Head office (New York, the United States)	Sales and services	118,787	532	-	-	74,936	194,256	19
Milbon Trading (Shanghai) Co., Ltd.	Head office (Shanghai City, China)	Sales and services	5,720	-	-	-	19,180	24,900	45
Milbon Korea Co., Ltd.	Head office (Seoul City, South Korea)	Sales and services	22,281	493	-	-	27,101	49,876	50
MILBON (THAILAND) CO., LTD.	Head office (Rayong Pref., Kingdom of Thailand)	Manufacture and sales	986,645	34,313	24,000	128,135	162,463	1,311,557	91
Milbon (Zhejiang) Cosmetics Co., Ltd.	Head office (Zhejiang, China)	Manufacture and sales	1,815,463	926,885	-	-	391,062	3,133,411	23

- (Notes) 1. "Other" under book value includes tool, furniture and fixtures, construction in progress, leasehold interests in land and software in progress.
2. The number of employees does not include the number of associate employees and part-time staff.
3. There are no major leased facilities under lease contracts.

3. Planned Addition, Retirement, and Other Changes of Facilities

The Group's capital expenditures are planned by each group company based on future demand forecasts and new product plans. Facility plans are formulated by consolidated companies in principle, while the overall plan is coordinated by the reporting company.

Significant plans for the addition, refurbishment and retirement of facilities as of the end of the current fiscal year are as follows.

(1) Significant addition of facilities

Company name Office name	Location	Description of facilities	Planned capital expenditures (million yen)		Method of fund procurement	Planned start date	Planned end date
			Total amount	Amount already paid			
Milbon Co., Ltd.	Miyakojima-ku, Osaka City	Land and building for Human Resources Development Center	TBD	1,444	Own funds	TBD	TBD

(2) Significant refurbishment

Not applicable.

(3) Significant retirement of facilities

Not applicable.

IV. Information about Reporting Company

1. Company's Shares, etc.

(1) Total number of shares, etc.

1) Total number of shares

Class	Total number of shares authorized to be issued (shares)
Common stock	120,408,000
Total	120,408,000

2) Issued shares

Class	Number of issued shares as of the end of the current fiscal year (December 31, 2022)	Number of issued shares as of the submission date (March 29, 2023)	Name of financial instruments exchange on which securities are listed or authorized financial instruments business association to which securities are registered	Description
Common stock	33,117,234	33,117,234	Tokyo Stock Exchange (Prime Market)	Standard shares with no restrictions on shareholder's rights Number of shares per unit: 100 shares
Total	33,117,234	33,117,234	-	-

(2) Share Acquisition Rights

1) Stock options

Not applicable.

2) Rights plans

Not applicable.

3) Other share acquisition rights

Not applicable.

(3) Exercises of bonds with share acquisition rights containing a clause for exercise price amendment

Not applicable.

(4) Changes in total number of issued shares, share capital and others

Date	Changes in total number of issued shares (shares)	Balance of total number of issued shares (shares)	Changes in share capital (thousand yen)	Balance of share capital (thousand yen)	Changes in legal capital surplus (thousand yen)	Balance of legal capital surplus (thousand yen)
January 1, 2018 (Note)	16,558,617	33,117,234	-	2,000,000	-	199,120

(Note) The increase was due to the 2-for-1 stock split.

(5) Shareholding by shareholder category

As of December 31, 2022

Category	Status of shares (Number of shares constituting one unit: 100 shares)								Status of shares less than one unit (shares)
	Government and local municipalities	Financial institutions	Financial service providers	Other corporations	Foreign corporations		Individuals and others	Total	
					Other than individuals	Individuals			
Number of shareholders	-	26	18	146	183	22	12,740	13,135	-
Number of shares held (Unit)	-	106,575	2,792	41,225	88,882	63	89,763	329,300	187,234
Percentage of shareholdings (%)	-	32.36	0.85	12.52	26.99	0.02	27.26	100	-

(Notes) 1. There are 591,511 treasury shares, of which 5,915 units are included in “individuals and others” and 11 shares are in “status of shares less than one unit.” The number of treasury shares of 591,511 is the actual number of shares substantially held as of December 31, 2022.

2. The figures in “other corporations” and “status of shares less than one unit” above include 20 units and 68 shares, respectively, held under the name of Japan Securities Depository Center, Inc.

(6) Major shareholders

As of December 31, 2022

Name/company name	Address	Number of shares held (thousand shares)	Percentage of shares held to the total number of issued shares (excluding treasury shares) (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	2-11-3, Hamamatsucho, Minato-ku, Tokyo	5,783	17.78
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: Custody Services Department, Tokyo Branch, The Hongkong and Shanghai Banking Corporation Limited)	One Lincoln Street, Boston, MA U.S.A. 02111 (3-11-1, Nihombashi, Chuo-ku, Tokyo)	2,571	7.91
Konoike Asset Management Company	2-1-1, Edobori, Nishi-ku, Osaka City, Osaka	1,920	5.90
Custody Bank of Japan, Ltd. (Trust account)	1-8-12, Harumi, Chuo-ku, Tokyo	1,683	5.17
SMBC Trust Bank Ltd. Designated Securities Trust	1-3-2, Marunouchi, Chiyoda-ku, Tokyo	1,328	4.08
MILBON Cooperating Companies Shareholding Association	2-3-35, Zengenji-cho, Miyakojima-ku, Osaka City, Osaka	1,004	3.09
Kazunobu Konoike	Suita City, Osaka	865	2.66
MILBON Employee Stock Ownership Association	2-2-1, Kyobashi, Chuo-ku, Tokyo	605	1.86
Keiko Murai	Miyakojima-ku, Osaka City, Osaka	483	1.49
Maiko Kitajima	Toyonaka City, Osaka	482	1.48
Total	-	16,727	51.42

(Notes) 1. The above numbers of shares held by banks include the following shares held in connection with their trust business.

The Master Trust Bank of Japan, Ltd.	5,783 thousand shares
Custody Bank of Japan, Ltd.	1,683 thousand shares
SMBC Trust Bank Ltd.	1,328 thousand shares

2. Although the report of large volume holding (change report) made available for public inspection on April 6, 2022 states that Sumitomo Mitsui Trust Bank, Limited held the following shares as of March 31, 2022, since the Company is not able to confirm the actual number of shares held as of the end of the current fiscal year, these shares are not included in the status of major shareholders above.

The details of the report of large volume holding (change report) are as follows:

Name/company name	Address	Number of share certificates, etc. held (thousand shares)	Percentage of shares held (%)
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1-1, Shibakoen, Minato-ku, Tokyo	959	2.90
Nikko Asset Management Co., Ltd.	9-7-1, Akasaka, Minato-ku, Tokyo	399	1.21
Total	-	1,358	4.10

3. Although the report of large volume holding (change report) made available for public inspection on April 22, 2022 states that NIPPON LIFE INSURANCE COMPANY held the following shares as of April 15, 2022, since the Company is not able to confirm the actual number of shares held as of the end of the current fiscal year, these shares are not included in the status of major shareholders above.

The details of the report of large volume holding (change report) are as follows:

Name/company name	Address	Number of share certificates, etc. held (thousand shares)	Percentage of shares held (%)
NIPPON LIFE INSURANCE COMPANY	3-5-12, Imabashi, Chuo-ku, Osaka City, Osaka	371	1.12
Nissay Asset Management Corporation	1-6-6, Marunouchi, Chiyoda-ku, Tokyo	1,399	4.23
Total	-	1,770	5.35

(7) Voting rights
1) Issued shares

As of December 31, 2022

Category	Number of shares (shares)	Number of voting rights	Description
Shares with no voting rights	-	-	-
Shares with restricted voting rights (Treasury shares, etc.)	-	-	-
Shares with restricted voting rights (Other)	-	-	-
Shares with full voting rights (Treasury shares, etc.)	(Treasury shares) Common stock 591,500	-	Standard shares with no restrictions on shareholder's rights
Shares with full voting rights (Other)	Common stock 32,338,500	323,385	Same as the above
Shares less than one unit	Common stock 187,234	-	-
Total number of issued shares	33,117,234	-	-
Number of voting rights held by all shareholders	-	323,385	-

(Notes) 1. The figures in “shares with full voting rights (other)” and “shares less than one unit” include 2,000 shares (20 voting rights) and 68 shares, respectively, held under the name of Japan Securities Depository Center, Inc.

2. The number of shares in “shares less than one unit” includes 11 treasury shares held by the Company.

2) Treasury shares, etc.

As of December 31, 2022

Name/company name of shareholder	Address of shareholder	Number of shares held under own name (shares)	Number of shares held under the names of others (shares)	Total number of shares held (shares)	Ratio of number of shares held to total number of issued shares (%)
(Treasury shares) Milbon Co., Ltd.	2-3-35, Zengenji-cho, Miyakojima-ku, Osaka City	591,500	-	591,500	1.79
Total	-	591,500	-	591,500	1.79

2. Acquisition and Disposal of Treasury Shares

Class of Shares, etc.: Redemption of common stock in accordance with Article 155, Item 7 of the Companies Act

(1) Acquisition by resolution of General Meeting of Shareholders

Not applicable.

(2) Acquisition by resolution of Board of Directors' Meeting

Not applicable.

(3) Acquisition not based on resolution of General Meeting of Shareholders or Board of Directors' Meeting

Redemption in accordance with Article 155, Item 7 of the Companies Act

Category	Number of shares (shares)	Total amount (thousand yen)
Treasury shares acquired during the current fiscal year	238	1,350
Treasury shares acquired during the current term	82	466

(Note) The number of treasury shares acquired during the current term does not include the number of shares acquired as a result of the purchase of shares less than one unit during the period from March 1, 2023 to the date of filing of this annual securities report.

(4) Disposal of acquired treasury shares and number of treasury shares held

Category	Current fiscal year		Current term	
	Number of shares (shares)	Total amount of disposition (thousand yen)	Number of shares (shares)	Total amount of disposition (thousand yen)
Acquired treasury shares for which subscribers were solicited	-	-	-	-
Acquired treasury shares that were canceled	-	-	-	-
Acquired treasury shares that were transferred due to merger, share exchange, share issuance, or company split	-	-	-	-
Other	14,807	50,832	-	-
Number of treasury shares held	591,511	-	591,593	-

(Notes) 1. The decrease in "other" for the current fiscal year is due to the disposal of treasury shares (number of shares: 14,787 shares, total amount of disposition: 50,763 thousand yen) pursuant to the resolution of the Board of Directors meeting held on April 15, 2022, accompanying the introduction of the restricted share-based compensation plan, and due to the sale of shares less than one unit (number of shares: 20 shares, total amount of disposition: 68 thousand yen).

2. The status of disposal during the current term does not include the sale of shares less than one unit during the period from March 1, 2023 to the date of filing of this annual securities report.

3. The number of treasury shares held during the current term does not include the purchase or sale of shares less than one unit during the period from March 1, 2023 to the date of filing of this annual securities report.

3. Dividend Policy

The Company considers the return of profits to its shareholders as one of the management priorities, and upholds the basic policy of carrying out the performance-based distribution while working to reinforce its corporate structure by maintaining internal reserves for achieving higher profitability in the future.

The decision-making body is the Board of Directors for the interim dividend and the General Meeting of Shareholders for the year-end dividend, and the Company conducts two dividend payments per fiscal year.

With respect to the dividends for the current fiscal year, the Company decided to pay an annual dividend of 86 yen per share after comprehensively considering its financial position and profit level, among others. As a result, the payout ratio on a consolidated basis for the current fiscal year was 50.2%.

The internal reserve will be used for enhancing the production capability and establishing and reinforcing new sales offices in order to further strengthen the corporate structure.

The Company stipulates in its Articles of Incorporation that it is able to pay an interim dividend pursuant to the provisions in Article 454, Paragraph 5 of the Companies Act.

(Note) Dividend of surplus distributed in the current fiscal year pursuant to Article 453 of the Companies Act

Interim dividend

Resolution by the Board of Directors: August 10, 2022

40 yen per share, totaling 1,301,032 thousand yen

Year-end dividend

Resolution at the General Meeting of Shareholders: March 29, 2023

46 yen per share, totaling 1,496,183 thousand yen

4. Corporate Governance

(1) Overview of corporate governance

(i) Basic views on corporate governance

a. Basic approach to corporate governance

Maintaining a sound corporate governance framework and making improvements is one of the highest priorities of Milbon. We have a strong commitment to upgrading the transparency, fairness and efficiency of management in order to achieve steady growth in corporate value.

b. Fundamental policy

1) Shareholder rights and equality

We will disclose in a timely and accurate manner the information required for shareholders to exercise their rights. We will also maintain a proper environment for shareholders to submit votes on resolutions and protect the rights and equality of foreign shareholders (including beneficial shareholders), minority shareholders, and all other shareholders.

2) Proper relationships with stakeholders other than shareholders

We will maintain proper relationships with customers, suppliers, employees, creditors, communities, the beauty salon industry and all other stakeholders. We will also show respect for the rights, perspectives and ethical business operations of stakeholders.

3) Suitable information disclosure and transparency

We will supply information about our financial condition, results of operations and other aspects of business operations on a quarterly basis as prescribed in laws and regulations. We will also disclose all pertinent information about our strategies, medium-term vision and other non-financial subjects. We will do everything possible to ensure that all of this information is accurate and easy to understand for the purpose of facilitating a constructive dialogue with shareholders.

4) Responsibilities of the Board of Directors

The Board of Directors has an obligation to operate in the best interests of shareholders and to provide explanations for their actions. Consequently, the Board Directors are responsible for the following roles and duties, as well as other items, for the purpose of achieving sustained growth, a consistent increase in corporate value, and improvements in earnings and the return on capital.

- The Board Directors establish a corporate philosophy and medium-term vision, clearly define strategic goals and supervise the necessary actions.
- The Board Directors establish frameworks for internal controls and risk management and provide support for appropriate risk exposure decisions by senior executives.
- Milbon has an Audit & Supervisory Board. Audits are performed by the members of this Board, where the majority of the members are from outside the Milbon Group. There is also a Nominations Committee and Compensation Committee, each with a majority of Independent Outside Board Directors. The use of Independent Outside Audit & Supervisory Board Members and Independent Outside Board Directors makes it possible to perform highly effective audits of the Board Directors from an objective standpoint.

5) Dialogues with shareholders

To contribute to the consistent growth of the Milbon Group and its corporate value, the Representative Director and the Board Director in charge of Finance conduct a variety of investor relations activities. The objective is constructive dialogues with shareholders and other stakeholders.

(ii) Overview of corporate governance system and reasons for adopting the system

We have adopted the company with an Audit & Supervisory Board as our corporate governance structure. The basis of the structure lies in the supervision and audits of the status of business execution of the Board of Directors by five Outside Board Directors and Audit & Supervisory Board Members including two Outside Audit & Supervisory Board Members who attend important meetings such as the Board of Directors meetings. During the 63rd term, 13 Board of Directors meetings were held.

Finely detailed control activities are made possible through the coordination of the Internal Audit Department and the Corporate Administration Department to promote companywide risk management activities and engage in activities to develop and evaluate internal controls over financial reporting, thereby responding to the risks of each business division while auditing and evaluating the status of business execution and making reports to the President and CEO.

We have also concluded advisory and other agreements with outside experts in each field and have been making efforts to promote corporate governance and gather the information and know-how necessary to bolster its framework. Furthermore, the Audit & Supervisory Board Members, the Internal Audit Department, the Corporate Administration

Department, and the Accounting Auditor have strengthened their cooperation by engaging in exchanges of information, when necessary, and voicing their views from their unique standpoints, and engaged in the establishment and reinforcement of an effective and efficient corporate governance structure.

We have established the Nominations and Compensation Committees as voluntary committees, the majority of the members of which comprise Independent Outside Board Directors. The Nominations and Compensation Committees deliberate executive appointments and executive compensation, and make recommendations to the Board of Directors, after which the Board of Directors deliberates and determines the nomination and compensation proposals based on such recommendations.

The members of the Nominations and Compensation Committees are as follows:

Chairman: Shoichiro Takahata, Board Director

Members: Masahiro Murai, Managing Executive Director; Taizo Hamaguchi, Board Director; Tsuneko Murata, Board Director; Etsuhiro Takato, Board Director; and Chisa Hayakawa, Board Director

Furthermore, in Fiscal Year 2022, we established the Governance Committee as a new voluntary committee, in addition to the above Nominations and Compensation Committees. The Governance Committee conducts deliberations regarding medium- and long-term themes in order to contribute to the improvement of our corporate governance, reports its progress, and submits matters to be discussed as necessary, to the Board of Directors.

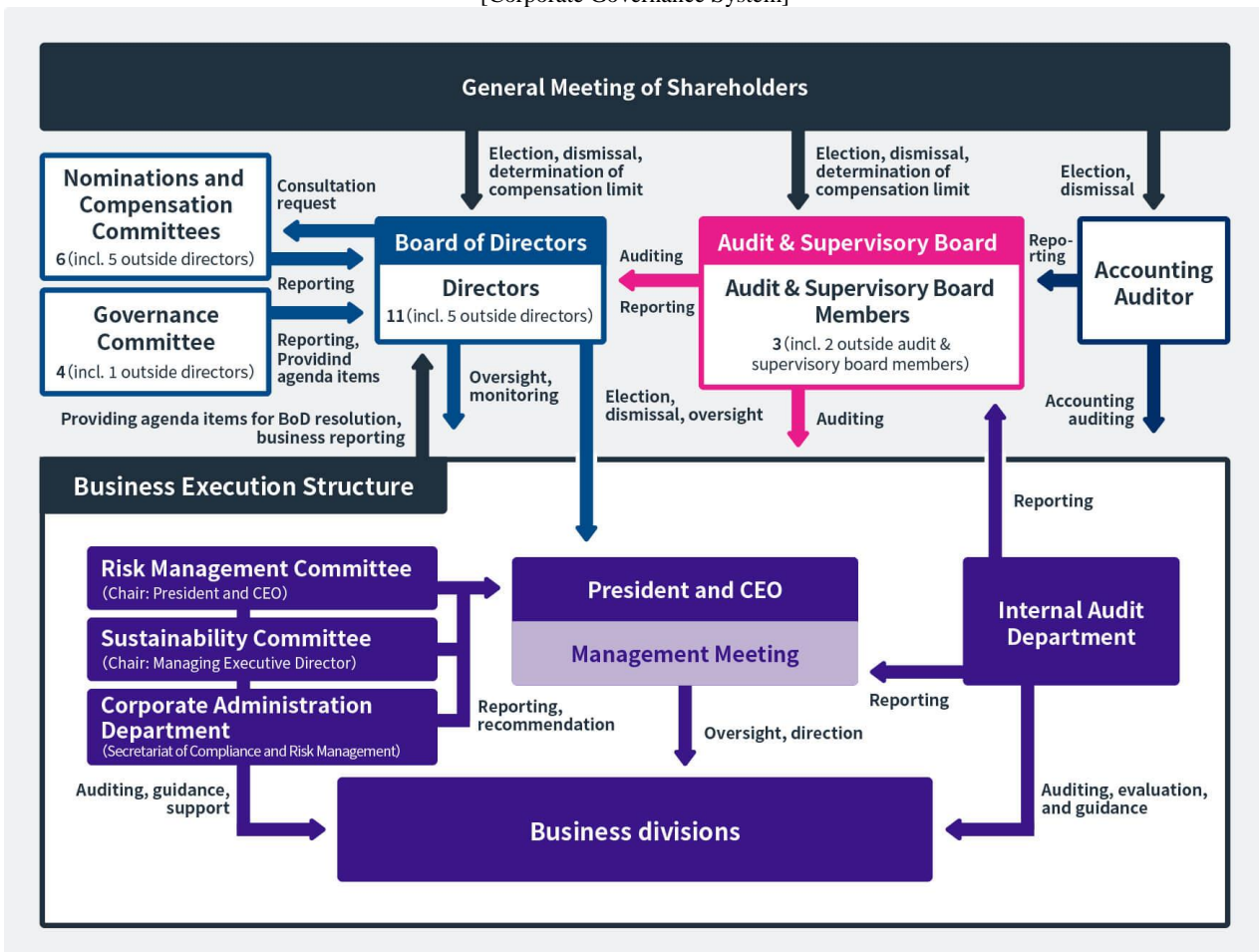
The members of the Governance Committee are as follows:

Chairman: Ryuji Sato, President & CEO

Members: Masahiro Murai, Managing Executive Director; Hidenori Sakashita, Board Director; and Etsuhiro Takato, Board Director

We have elected five Outside Board Directors and two Outside Audit & Supervisory Board Members in order to strengthen the function of oversight of the Board of Directors, which has been entrusted with the function of management decision-making. In terms of corporate governance, we recognize that the function of objective and neutral monitoring from the outside is essential and has thus maintained the current structure in the belief that the function of monitoring from the outside has become fully functional as a result of the oversight and auditing by the five Outside Board Directors and the two Outside Audit & Supervisory Board Members.

[Corporate Governance System]



(iii) Other matters regarding corporate governance

a. Development status of the internal control system and the risk management framework

Based on the Basic Policy for the Establishment of the Internal Control System, we manage various risks that impact the efficiency and the effectiveness of management, while ensuring the reliability of financial reporting and making efforts to promote compliance.

1) Risk management

Based on the Basic Rules of Risk Management, we have designated the Corporate Administration Department as the secretariat to promote activities to monitor, evaluate, and respond to risks that impact the efficiency and effectiveness of management, risks that inhibit the reliability and appropriateness of financial reporting, and compliance-related risks.

In Fiscal Year 2022, we established the Risk Management Committee, which is chaired by the President and CEO, and composed of the Internal Board Directors, the Standing Audit & Supervisory Board Member, and Executive Officers. Based on the Risk Management Basic Policy defined in the Basic Rules of Risk Management, the Risk Management Committee identifies company-wide risks, i.e., risks that should be addressed on a company-wide basis, and appoints a person in charge of each company-wide risk from among the members of the Risk Management Committee to implement countermeasures on a company-wide basis.

2) Ensuring the reliability of financial reporting

We are engaged in the development of internal controls over financial reporting by designating the Internal Audit Department as the secretariat. In addition, by utilizing the information acquired through such activities, we are proposing and promoting improvements to the operational and information systems, in an effort to further enhance reliability.

3) Promotion of compliance

In addition to the audit conducted by the Audit & Supervisory Board Members on the legal compliance of the Board of Directors, the Internal Audit Department and the Corporate Administration Department are promoting activities to grasp the status of compliance in the business execution of each business division. Furthermore, the points for improvement that have come to light are reported to the Board of Directors as necessary, and incorporated into the aforementioned risk management activities, in an effort to further strengthen compliance.

b. System for ensuring the adequacy of Group operations, including the Company, its parent, and its subsidiaries

1) System for reporting to Milbon on matters related to the execution of duties by the Board Directors, etc., of the subsidiaries

A system for reporting matters related to the execution of duties by the subsidiaries to Milbon has been established through the periodic submission of financial reports and activity reports to the Board of Directors of Milbon from each subsidiary.

2) Regulations and other systems concerning the management of the risk of loss of subsidiaries

The Corporate Administration Department serves as the division in charge, pursuant to the Basic Rules of Risk Management and the Rules on the Management of Subsidiaries, to gather information and analyze the risks of each subsidiary and report to the Board of Directors. The Corporate Administration Department develops rules, conducts training, and prepares and distributes manuals, as necessary. Each subsidiary also updates the risk management table each year and formulates policies to mitigate risk. In the event that a material risk emerges, each subsidiary immediately notifies the Corporate Administration Department, which will implement responses including the establishment of a task force, as necessary.

3) System for ensuring the efficient execution of duties by the Board Directors, etc., of subsidiaries

By implementing the Rules on the Division of Duties, a system is established to enable the appropriate and efficient execution of duties by the Board Directors, etc., of the subsidiaries. Furthermore, pursuant to the Rules on the Management of Subsidiaries, subsidiaries are required to obtain the approval of their business plans from Milbon's Board of Directors each year and periodically submit financial reports and activity reports to Milbon's Board of Directors. Milbon provides various support to the subsidiaries as necessary, and ensures the efficiency of the duties of the Board Directors, etc., of the subsidiaries.

4) System for ensuring that the execution of duties by the Board Directors, etc., and the employees of the subsidiaries comply with laws, regulations, and the Articles of Incorporation

Pursuant to the Rules on the Management of Subsidiaries and the employment regulations of each subsidiary, the rules concerning compliance serve as the code of conduct in taking actions in compliance with laws, regulations, the Articles of Incorporation and social norms by the executives and employees, and are thoroughly communicated to all executives and employees, while training is conducted as necessary, to ensure compliance. The Corporate Administration Division monitors the compliance-related problems and issues of each subsidiary and provides support as necessary. In addition,

the Audit & Supervisory Board Members and the Internal Audit Department conduct auditing activities on the subsidiaries and make efforts for the early detection of compliance-related problems.

c. Overview of the liability limitation agreement

In accordance with the provisions of Article 427, paragraph 1 of the Companies Act and Article 34 paragraph 2 of the Articles of Incorporation, we have entered into an agreement with all Outside Board Directors and all Audit & Supervisory Board Members to limit their liability provided for in Article 423, paragraph 1 of the Companies Act. The maximum amount of liability for damages under this agreement is the minimum liability amount set forth in Article 425, paragraph 1 of the Companies Act.

d. Overview of the indemnification agreement

We have entered into an indemnification agreement with all Board Directors and all Audit & Supervisory Board Members in accordance with the provisions of Article 430-2, paragraph 1 of the Companies Act. The agreement indemnifies them against the expenses indicated in Item 1 and the losses indicated in Item 2 of Article 430-2, paragraph 1 of the Companies Act. However, to ensure that the Board Directors and Audit & Supervisory Board Members execute their duties in an appropriate manner, the agreement does not provide coverage in the case of malice or gross negligence during the execution of their duties.

e. Overview of the Board Directors and officers liability insurance contract

We have entered into a Directors and Officers liability insurance with an insurance company in accordance with the provisions of Article 430-3, paragraph 1 of the Companies Act, in which insurance shall cover damages and costs of dispute resolutions that the Board Directors and Audit & Supervisory Board Members, who are the insured party, are otherwise to bear under law. All insurance premiums are paid by the company and will be renewed with the same coverage at the next renewal.

- (iv) Matters to be resolved by the General Meeting of Shareholders that may be resolved by the Board of Directors
 - a. Acquisition of treasury shares

The Company's Articles of Incorporation provide that the Company may redeem its treasury shares by resolution of the Board of Directors through market transactions or other means pursuant to Article 165, Paragraph 2 of the Companies Act, in order to flexibly carry out its management policies including capital policy in response to changes in the business environment.
 - b. Exemption of liability of Board Directors and Audit & Supervisory Board Members

Pursuant to the provisions of Article 426, paragraph 1 of the Companies Act, to ensure that Board Directors and Audit & Supervisory Board Members fully perform their expected roles, the Company's Articles of Incorporation stipulate that Board Directors (including former Board Directors) and Audit & Supervisory Board Members (including former Audit & Supervisory Board Members) may be exempted from liability for damages referred to in Article 423, paragraph 1 of the same Act, to the extent provided by laws and regulations by resolution of the Board of Directors.
 - c. Decision-making body for interim dividends

To flexibly distribute earnings to shareholders, the Company's Articles of Incorporation stipulate that interim dividends may be paid by resolution of the Board of Directors.
- (v) Maximum number of Board Directors

The Company's Articles of Incorporation stipulate that the number of Board Directors shall be no more than 15.
- (vi) Requirements for resolution regarding election of Board Directors

The Company's Articles of Incorporation provide that resolution for the election of Board Directors requires attendance by shareholders with more than one-third of the voting rights of shareholders entitled to exercise voting rights, and is adopted by a majority of the votes of the shareholders present, and that the election of Board Directors shall not be conducted by cumulative voting.
- (vii) Requirements for special resolution at the General Meetings of Shareholders

The Company's Articles of Incorporation provide that the special resolution at a General Meeting of Shareholders pursuant to Article 309, Paragraph 2 of the Companies Act requires attendance by shareholders with more than one-third of the voting rights of shareholders entitled to exercise voting rights, and is adopted by a majority, representing two-thirds or more of the votes of the shareholders present. This arrangement aims to smoothly operate General Meetings of Shareholders by relaxing the quorum for special resolution at general meetings of shareholders.

(2) Board Directors

(i) List of Board Directors

12 male Board Directors and two female Board Directors (Ratio of female Board Directors: 14.3%)

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Representative Director, President & CEO	Ryuji Sato	October 18, 1959	<p>April 1981 December 1999 December 2000 March 2002 December 2003 March 2008</p> <p>Joined the Company General Manager of Products Produce Dept. General Manager of Marketing Dept. Board Director and General Manager of Marketing Dept. Managing Executive Director Representative Director, President & CEO (current position)</p>	(Note) 1	26
Managing Executive Director, and in charge of Corporate Administration, Internal Audit, Finance, Corporate Communication, Quality Assurance, and Sustainability Promotion	Masahiro Murai	April 28, 1959	<p>March 1992 December 2001 March 2007 December 2009 December 2014 January 2018 January 2020 January 2022 January 2023</p> <p>Joined the Company General Manager of Corporate Administration Dept. Board Director and General Manager of Corporate Administration Dept. Managing Executive Director, and in charge of Corporate Administration Managing Executive Director, and in charge of Corporate Administration, Corporate Strategy Development, and CS Promotion Managing Executive Director, and in charge of Corporate Administration, Corporate Strategy Development, and Internal Audit Managing Executive Director, and in charge of Corporate Administration, Corporate Strategy Development, Internal Audit, Finance, and Cosmetics Business Planning Managing Executive Director, and in charge of Corporate Administration, Internal Audit, Finance, and Sustainability Promotion Managing Executive Director, and in charge of Corporate Administration, Internal Audit, Finance, Corporate Communication, Quality Assurance, and Sustainability Promotion (current position)</p>	(Note) 1	55
Board Director Director of Development Headquarters, and in charge of Organic Business	Yasufumi Takeda	January 19, 1959	<p>April 1981 December 2006 March 2012 December 2014 January 2021 January 2022</p> <p>Joined the Company General Manager of Central Research Institute Board Director and General Manager of Central Research Institute Board Director and General Manager of Development Headquarters Board Director and General Manager of Development Headquarters, and in charge of Business Development Board Director and General Manager of Development Headquarters, and in charge of Organic Business (current position)</p>	(Note) 1	41

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Board Director Director of Production Headquarters	Kazunobu Konoike	November 8, 1969	<p>April 1992 Joined the Company</p> <p>March 2004 President of MILBON USA, INC.</p> <p>October 2010 General Manager of Corporate Planning Dept.</p> <p>December 2011 General Manager of Corporate Strategy Development Dept.</p> <p>March 2012 Board Director and General Manager of Corporate Strategy Development Dept.</p> <p>December 2013 Board Director and General Manager of International Sales Dept. II</p> <p>January 2018 Board Director and General Manager of Information System Dept. and in charge of CS Promotion</p> <p>January 2022 Board Director and Director of Production Headquarters, and in charge of CS Promotion</p> <p>January 2023 Board Director and Director of Production Headquarters (current position)</p>	(Note) 1	865
Board Director Director of FP Headquarters, and in charge of FP Global Sales and Marketing, Education Planning	Junji Morimoto	July 17, 1967	<p>April 1992 Joined the Company</p> <p>December 2005 General Manager of Tokyo Branch</p> <p>December 2007 General Manager of Osaka Branch</p> <p>December 2009 General Manager of Tokyo Branch</p> <p>January 2019 Executive Officer, General Manager of Tokyo Aoyama Branch, FP Headquarters</p> <p>January 2021 Executive Officer, Director of FP Headquarters</p> <p>March 2022 Board Director and Director of FP Headquarters, and in charge of FP Global Sales and Marketing, Education Planning (current position)</p>	(Note) 1	6
Board Director, and in charge of Corporate Strategy Development, ICT Strategies, KOSÉ Milbon Cosmetics	Hidenori Sakashita	February 3, 1976	<p>April 2001 Joined the Company</p> <p>October 2010 President of MILBON USA, INC.</p> <p>January 2018 General Manager of Corporate Strategy Development Dept.</p> <p>March 2022 Board Director and General Manager of Corporate Strategy Development Dept., and in charge of Cosmetics Business Planning, ICT Strategies</p> <p>January 2023 Board Director, and in charge of Corporate Strategy Development, ICT Strategies, KOSÉ Milbon Cosmetics (current position)</p>	(Note) 1	1

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Board Director	Shoichiro Takahata	January 4, 1953	<p>April 1975 Joined Japan Finance Corporation for Small and Medium Enterprise</p> <p>October 1986 Registered as certified public accountant</p> <p>April 1993 General Manager of Corporate Strategy Research Institute (current position)</p> <p>March 2005 Audit & Supervisory Board Member of the Company</p> <p>March 2016 Outside Board Director of the Company (current position)</p>	(Note) 1	2
Board Director	Taizo Hamaguchi	October 29, 1950	<p>April 1973 Joined Ataka & Co., Ltd.</p> <p>October 1977 Joined ITOCHU Corporation</p> <p>June 2004 Executive Officer of ITOCHU Corporation</p> <p>December 2004 President and CEO of ITOCHU-SHOKUHIN Co., Ltd.</p> <p>June 2014 Chairman, Director and Executive Officer of ITOCHU-SHOKUHIN Co., Ltd.</p> <p>June 2015 Chairman of ITOCHU-SHOKUHIN Co., Ltd.</p> <p>March 2016 Outside Board Director of the Company (current position)</p> <p>June 2016 Representative Director, President and Executive Officer of ITOCHU-SHOKUHIN Co., Ltd.</p> <p>June 2017 Director and Advisor of ITOCHU-SHOKUHIN Co., Ltd.</p> <p>June 2019 Executive Director of ITOCHU-SHOKUHIN Co., Ltd.</p> <p>Outside Director of EPARK, Inc.</p>	(Note) 1	2

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Board Director	Tsuneko Murata	September 27, 1958	<p>April 1982 Joined Matsushita Electric Industrial Co., Ltd. (currently Panasonic Corporation)</p> <p>May 2003 General Manager, Legal Affairs Department, Panasonic System Solutions of Matsushita Electric Industrial Co., Ltd.</p> <p>April 2007 Senior Councilor & General Manager, Legal Affairs & CSR Department of Home Appliances Company of Matsushita Electric Industrial Co., Ltd.</p> <p>June 2008 Member of Board of Directors of Matsushita Facilities Net Services Co., Ltd. (currently Panasonic Appliances Safety Service Co., Ltd.)</p> <p>February 2010 Director for Lifelong Learning Policy, Ministry of Education, Culture, Sports, Science & Technology Japan</p> <p>July 2013 Senior Councilor of Corporate Legal Affairs Division of Panasonic Corporation</p> <p>January 2014 Executive Director of Japan Pension Service</p> <p>January 2016 Auditor of Japan Pension Service</p> <p>June 2018 Member of the Audit and Supervisory Board of Japan Finance Corporation Outside Director and Audit and Supervisory Committee member of ADVANTEST CORPORATION</p> <p>June 2019 Director (Outside director), Audit & Supervisory Committee Member of Fujikura Ltd.</p> <p>March 2021 Outside Board Director of the Company (current position)</p> <p>June 2021 Outside Director of Kakuyasu Group Co., Ltd. (current position)</p> <p>June 2022 External Director serving as Audit and Supervisory Committee Member of TOKYO SEIMITSU CO., LTD. (current position) Outside Director, Audit & Supervisory Committee Member of Sun Frontier Fudousan Co., Ltd. (current position)</p>	(Note) 1	0

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Board Director	Etsuhiro Takato	February 6, 1957	<p>April 1979 August 2002 July 2007 June 2009 June 2013 January 2015 June 2015 June 2016 September 2016 June 2017 June 2019 June 2021 March 2022 April 2022 June 2022</p> <p>Joined Ajinomoto Co., Inc. President of PT AJINOMOTO INDONESIA General Manager of Umami Seasoning for Processing at Amino Acid Company Division of Ajinomoto Co., Inc. Executive Officer of Ajinomoto Co., Inc. President of AJINOMOTO DO BRASIL INDÚSTRIA E COMÉRCIO DE ALIMENTOS LTDA. Director and Managing Executive Officer of Ajinomoto Co., Inc. President of AJINOMOTO CO. (THAILAND) LTD. President of ASEAN Region Management Company of Ajinomoto Co., Inc. Executive Officer & Senior Vice President of Ajinomoto Co., Inc. General Manager, Food Products Division of Ajinomoto Co., Inc. Outside Director of TOKAI DENPUN CO., LTD. Representative Director of Ajinomoto Co., Inc. Director of Ajinomoto Co., Inc. Advisor of Ajinomoto Co., Inc. (current position) Outside Board Director of the Company (current position) Outside Director of TOKYO VERDY, Inc. (current position) Outside Director of Seven Bank, Ltd. (current position)</p>	(Note) 1	-

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Board Director	Chisa Hayakawa	June 27, 1968	<p>April 1991 Joined Sanyo Securities Company Limited</p> <p>March 1998 Joined FANCL CORPORATION</p> <p>November 2002 Registered as tax accountant</p> <p>July 2009 Joined Calbee, Inc.</p> <p>April 2011 Manager of Investor Relations Group of Calbee, Inc.</p> <p>April 2013 Executive Officer and General Manager of Investor Relations Department of Calbee, Inc.</p> <p>April 2014 General Manager of Corporate Planning Department and Investor Relations Department of Calbee, Inc.</p> <p>April 2016 Deputy General Manager of East Japan Sales Department of Calbee, Inc.</p> <p>April 2017 General Manager of East Japan Sales Department of Calbee, Inc.</p> <p>April 2019 General Manager of Financial & Accounting Department of Calbee, Inc.</p> <p>June 2020 Outside Director of SHIBAURA MACHINE CO., LTD. (current position)</p> <p>April 2021 Executive Officer and General Manager, Investor Relations, Finance and Accounting Division of Calbee, Inc.</p> <p>March 2022 Outside Board Director of the Company (current position)</p> <p>April 2022 Managing Executive Officer & CFO, General Manager, Investor Relations, Finance and Accounting Division of Calbee, Inc. (current position)</p>	(Note) 1	0
Standing Audit & Supervisory Board Member	Mitsuru Oshio	December 16, 1965	<p>April 1988 Joined the Company</p> <p>December 2006 General Manager of Osaka Branch</p> <p>December 2007 General Manager of Fukuoka Branch</p> <p>December 2009 General Manager of Nagoya Branch</p> <p>December 2011 General Manager of Nagoya Branch and Business Development Dept.</p> <p>March 2012 Board Director and General Manager of Nagoya Branch and Business Development Dept.</p> <p>December 2013 Board Director and General Manager of Corporate Strategy Development Dept. and Business Development Dept.</p> <p>December 2014 Board Director and General Manager of Business Development Dept.</p> <p>January 2018 Board Director and in charge of Business Development</p> <p>March 2021 Standing Audit & Supervisory Board Member (current position)</p>	(Note) 2	26

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Audit & Supervisory Board Member	Keisuke Endo	November 27, 1951	March 1998 Completed legal training at the Legal Training and Research Institute of the Supreme Court April 1998 Registered as attorney-at-law March 2001 Outside Audit & Supervisory Board Member of the Company (current position) April 2008 FY2008 Vice Chairman of Wakayama Bar Association April 2011 FY2011 Vice Chairman of Wakayama Bar Association July 2018 Human Rights Volunteers (The Ministry of Justice) March 2019 Chairman of Wakayama Public Works Bid Surveillance Committee	(Note 3)	66
Audit & Supervisory Board Member	Yoshihiko Okuda	August 20, 1957	March 1976 Joined Fukuoka Regional Taxation Bureau July 2004 Associate Appeals Judge, Fukuoka Regional Tax Tribunal July 2006 Deputy District Director, Kokura Tax Office July 2009 Professor, Technical Education Department, National Tax College July 2013 District Director, Kanoya Tax Office April 2015 Director (Appeals Judge), Yokohama Branch, Tokyo Regional Tax Tribunal April 2017 Director, Takamatsu Regional Tax Tribunal March 2018 Attached to the Commissioner's Secretariat, National Tax Agency June 2018 Registered as tax accountant March 2020 Outside Audit & Supervisory Board Member of the Company (current position)	(Note 3)	-
Total					1,093

- (Notes)
1. As of the conclusion of the Ordinary General Meeting of Shareholders relating to the last fiscal year ending within two years after March 29, 2022.
 2. As of the conclusion of the Ordinary General Meeting of Shareholders relating to the last fiscal year ending within four years after March 30, 2021.
 3. As of the conclusion of the Ordinary General Meeting of Shareholders relating to the last fiscal year ending within four years after March 26, 2020.
 4. Board Directors Shoichiro Takahata, Taizo Hamaguchi, Tsuneko Murata, Etsuhiro Takato and Chisa Hayakawa are Outside Board Directors.
 5. Audit & Supervisory Board Members Keisuke Endo and Yoshihiko Okuda are Outside Audit & Supervisory Board Members.
 6. Board Director Kazunobu Konoike is the younger brother of the spouse of Managing Executive Director Masahiro Murai.

(ii) Outside officers

The Company has five Outside Board Directors and two Outside Audit & Supervisory Board Members. There is no special interest between any of these outside officers and the Company except for having an ownership of the Company's shares described in (i) Board Directors and Officers.

Outside Board Director Shoichiro Takahata is a certified public accountant and he concurrently serves as the President of the Corporate Strategy Research Institute. There is no capital relationship, important business relationship or any other special interest between the research institute and the Company.

Outside Board Director Tsuneko Murata concurrently serves as an Outside Board Director of Kakuyasu Group Co., Ltd., an External Director serving as an Audit and Supervisory Committee Member of TOKYO SEIMITSU CO., LTD., and an Outside Director, Audit & Supervisory Committee Member of Sun Frontier Fudousan Co., Ltd. There is no capital relationship, important business relationship or any other special interest between these companies and the Company.

Outside Board Director Etsuhiro Takato concurrently serves as an Advisor of Ajinomoto Co., Inc., an Outside Director of TOKYO VERDY, Inc., and an Outside Director of Seven Bank, Ltd. There is no capital relationship, important business relationship or any other special interest between these companies and the Company.

Outside Board Director Chisa Hayakawa concurrently serves as an Outside Director of SHIBAURA MACHINE CO., LTD. and the Managing Executive Officer & CFO, General Manager, Investor Relations, Finance and Accounting Division of Calbee, Inc. There is no capital relationship, important business relationship or any other special interest between these companies and the Company.

Outside Audit & Supervisory Board Member Keisuke Endo is an attorney-at-law. There is no capital relationship, important business relationship or any other special interest between him and the Company.

Outside Audit & Supervisory Board Member Yoshihiko Okuda is a certified public accountant and he concurrently serves as the representative of Yoshihiko Okuda Tax Accountant Office. There is no capital relationship, important business relationship or any other special interest between the tax accountant office and the Company.

The Company's independence criteria for appointing Outside Board Directors and Outside Audit & Supervisory Board Members are as follows: they must not have any special interest in other Directors, Audit & Supervisory Board Members, or the Company; they must be independent; there must be no possibility of a conflict of interest with general shareholders; and they must meet the independence criteria stipulated by the Companies Act and the Tokyo Stock Exchange. There is no special interest between the five Outside Board Directors and two Outside Audit & Supervisory Board Members and the Company.

The five Outside Board Directors and two Outside Audit & Supervisory Board Members have been determined to have no potential conflicts of interest with general shareholders and have been registered with the Tokyo Stock Exchange, Inc. as independent officers as stipulated by the exchange.

(iii) Relationship between supervision or auditing by Outside Board Directors or Outside Audit & Supervisory Board Members and mutual coordination with internal audits, audits by Audit & Supervisory Board Members, and accounting audits, as well as the relationship with the internal control division

At Board of Directors meetings and other important meetings attended by Outside Board Directors and Outside Audit & Supervisory Board Members, important matters concerning the status of business execution by Board Directors, including internal audits, accounting audits, results of internal control development and evaluation, and the status of risk management and compliance, are proposed and reported. As necessary, the Board Director in charge of Corporate Administration and the Standing Audit & Supervisory Board Member provide information to Outside Board Directors and Outside Audit & Supervisory Board Members in the form of materials for the Board of Directors meetings.

(3) Audits

(i) Status of audits by Audit & Supervisory Board Members

As of the date of submission of the Annual Securities Report, the Audit & Supervisory Board of the Company consists of one Standing Audit & Supervisory Board Member and two Outside Audit & Supervisory Board Members who have no special interest in the Company.

The Audit & Supervisory Board met eight times during the 63rd fiscal year, and both Standing and Outside Audit & Supervisory Board Members attended all of the meetings.

Outside Audit & Supervisory Board Member Keisuke Endo is an attorney-at-law and has a significant level of legal knowledge. Outside Audit & Supervisory Board Member Yoshihiko Okuda is a certified public accountant and has a significant level of knowledge of finance and accounting.

(ii) Status of internal audits

The Company has set up the Internal Audit Department and its three staff members conduct audits of organizational systems and business operations, as well as audits with a special mission directed by the President based on an annual internal audit plan, and report to the President.

The Internal Audit Department and the Administration Department work together to formulate policies and specific measures for the development and operation of internal controls, conduct evaluation activities, support necessary improvement activities in each department, and report their status to the Audit & Supervisory Board Members. In addition, the Company confirms the adequacy of the maintenance and operation of internal controls through internal control audits.

Furthermore, the Company is working to strengthen the management oversight function and ensure objectivity and neutrality by regularly holding joint meetings of the Audit & Supervisory Board Members, Accounting Auditors, and Internal Audit Department to enhance the three-party audit.

(iii) Accounting audits

a. Name of audit firm

GYOSEI & CO.

b. Continuous audit period: 31 years

c. Engagement certified public accountants

Engagement partner Takayuki Nakagawa

Engagement partner Toshiya Shinshima

d. Other personnel engaged in assisting the accounting audit

Eleven certified public accountants and seven personnel who have passed the certified public accountant exam engage in assisting the accounting audit of the Company.

e. Policy and reasons for selecting audit firm

The Audit & Supervisory Board of the Company comprehensively evaluates and makes a decision on the selection of the accounting auditor based on the "Practical Guidelines for Audit & Supervisory Board Members on the Evaluation of Accounting Auditors and the Establishment of Selection Standards" published by the Japan Audit & Supervisory Board Members Association, confirming the status of quality control, independence and expertise of the accounting auditor, the establishment of an audit system, the specific audit plan and whether audit fees are reasonable and appropriate, as well as audit results.

GYOSEI & CO. ensures the adequacy of the audit plan, audit method and audit implementation system, as well as smooth communication with the Company's management (Board Directors, etc.), Audit & Supervisory Board and Internal Audit Department.

The Audit & Supervisory Board will dismiss the Accounting Auditor with the unanimous consent of the Audit & Supervisory Board Member if the Accounting Auditor is deemed to fall under any of the items of Article 340, Paragraph 1 of the Companies Act. In this case, the Audit & Supervisory Board Member selected by the Audit & Supervisory Board will report the dismissal of the accounting auditor and the reasons for the dismissal at the first General Meeting of Shareholders convened after the dismissal.

f. Evaluation of the audit firm by Audit & Supervisory Board Members and the Audit & Supervisory Board

The Audit & Supervisory Board of the Company has established standards for the evaluation and appointment of accounting auditors, and evaluates the work of the accounting auditor in each fiscal year in accordance with the standards. The criteria set by the Company were met in the results of the evaluation.

(iv) Audit fees, etc.

a. Fees paid to the certified public accountants, etc.

Category	Previous fiscal year		Current fiscal year	
	Fees for audit services (thousand yen)	Fees for non-audit services (thousand yen)	Fees for audit services (thousand yen)	Fees for non-audit services (thousand yen)
Reporting company	25,200	-	26,000	-
Consolidated subsidiaries	-	-	-	-
Total	25,200	-	26,000	-

b. Fees for member firms of certified public accountants, etc. (excluding a.)

Not applicable.

c. Other important details of fees for audit service

(Previous fiscal year)

Not applicable.

(Current fiscal year)

Not applicable.

d. Policy for determining audit fees

The Company's audit fees to certified public accountants is determined by taking into consideration the reasonable number of audit days, etc., based on the scale of the Company's business.

e. Reasons the Audit & Supervisory Board's consent to the fees, etc., of the accounting auditor

Based on the "Practical Guidelines for Cooperation with Accounting Auditors" of the Japan Audit & Supervisory Board Members Association, the Audit & Supervisory Board has analyzed and evaluated the audit results for the previous fiscal year and reviewed the audit fees and audit plan for the current fiscal year presented by the accounting auditor, and as a result, has determined that the said fees, etc., are appropriate and gave consent to the terms of Article 399, Paragraph 1 of the Companies Act.

(4) Compensation for Board Directors

(i) Policy for determining amount or calculation method of compensation for Board Directors

a. Policy for determining amount of compensation for Board Directors

At its meeting held on March 11, 2022, the Company's Board of Directors approved a policy for determining the details of individual Board Director compensation. The Board of Directors consults the Nominations and Compensation Committees on the details of the resolution to be adopted in advance and received a report from the Nominations and Compensation Committees. In addition, the Board of Directors has confirmed that the method of determining the details of compensation, etc., and the details of compensation, etc., determined for each individual Board Director for the relevant fiscal year are consistent with such determination policy and that the report from the Nominations and Compensation Committees is respected, and the Board of Directors has determined that such determination policy is in line with such policy.

The details of the Company's policy for determining the details of compensation, etc., for each individual Board Director are as follows.

1) Basic policy for Board Director compensation

Compensation for Board Directors (excluding Outside Board Directors) shall consist of base compensation, performance-linked compensation, and stock-based compensation as an incentive to continuously increase corporate value, in order to encourage each Board Director to perform his/her duties with an awareness of business performance and sustainable improvement of corporate value. The Board of Directors also consults the Nominations and Compensation Committees, which are comprised mainly of Outside Board Directors, on proposed compensation amounts, and determines individual compensation amounts after obtaining advice as necessary. Outside Board Directors and Audit & Supervisory Board Members shall receive only base compensation, as they are independent from the execution of business operations, and compensation linked to performance is not appropriate for them.

b. Method of calculating compensation for Board Directors (excluding Outside Board Directors)

1) Basic compensation

The amount of basic compensation is determined in accordance with the Board Director's position and paid in cash.

2) Performance-linked compensation

In order to raise awareness of the need to improve the Company's performance in each fiscal year, performance-linked compensation is calculated by adding up the percentage of achievement of each performance indicator target multiplied by the weighting ratio, and then multiplying the performance-linked coefficient corresponding to the percentage of achievement of the target by the performance-linked standard amount corresponding to the position, and is paid in cash. The performance indicators, performance-linked coefficients and actual performance-linked compensation are as follows.

<Performance indicator>

Consolidated net sales: Weight 60% / Consolidated operating profit: 30% / Consolidated profit: Weight 10%

<Performance-linked coefficient>

Target achievement	Performance-linked coefficient
Over 120%	200%
Over 115%, less than 120%	175%
Over 110%, less than 115%	150%
Over 105%, less than 110%	125%
Over 100%, less than 105%	100%
Over 95%, less than 100%	80%
Over 90%, less than 95%	50%
Less than 90%	0%

Performance indicator	Fiscal year ended December 31, 2022			Weight (%)
	Target (Million yen)	Result (Million yen)	Achievement rate (%)	
Consolidated net sales	43,900	45,238	103.0	60.0
Consolidated operating income	7,550	7,551	100.0	30.0
Consolidated profit	5,230	5,577	106.6	10.0

(Note) Target achievement rate for the fiscal year ended December 31, 2022: $103.0\% \times 60\% + 100.0\% \times 30\% + 106.6\% \times 10\% = 102.5\%$

3) Stock-based compensation

Stock-based compensation is granted once a year (around May) with a restriction on transfer until retirement of the Company's shares equivalent to the amount obtained by multiplying the base compensation plus the performance-linked compensation by 20%.

4) Ratio of compensation, etc., by type

The ratio of each type of compensation for Board Directors (excluding Outside Board Directors) is as follows:

Basic compensation : Performance-linked compensation = 70% : 30%

Stock-based compensation = (Basic compensation + Performance-linked compensation) x 20%

(ii) Total amount of compensation, etc., by category of Board Director, total amount of compensation, etc., by type of compensation, and number of recipients of reporting company

Officer category	Total amount of compensation (thousand yen)	Total amount of compensation, etc., by type of compensation (thousand yen)			Number of recipients (persons)
		Basic compensation	Performance-linked compensation	Stock-based compensation	
Board Director (excluding Outside Board Director)	359,971	227,579	78,600	53,792	8
Audit & Supervisory Board Member (excluding Audit & Supervisory Board Member)	32,004	32,004	-	-	1
Outside Officer	61,044	61,044	-	-	7

(Note) At the 62nd Ordinary General Meeting of Shareholders held on March 29, 2022, it was resolved that the amount of cash compensation for Board Directors shall be “no more than 500 million yen per year (including 70 million yen for Outside Board Directors)” (not including employee salaries paid to Board Directors who concurrently serve as employees). The number of Board Directors as of the conclusion of said Ordinary General Meeting of Shareholders was 11 (including five Outside Board Directors).

(iii) Total amount of consolidated compensation, etc., by Board Director of the reporting company

Name	Officer category	Company category	Total amount of compensation, etc., by type of compensation (thousand yen)			Total amount of compensation (thousand yen)
			Basic compensation	Performance-linked compensation	Stock-based compensation	
Ryuji Sato	Board Director	Reporting Company	66,951	24,000	17,221	108,172

(Note) The above information only states those whose total amount of compensation, etc., is 100 million yen or more.

(5) Shareholdings

(i) Criteria for and approach to investment shares

The Company classifies shares as investment shares held for pure investment if they are held for the purpose of making profit from changes in the value of shares or dividends on shares, and other shares as investment shares held for purposes other than pure investment.

(ii) Investment shares held for purposes other than pure investment

a. Policy of shareholding, method for verifying the rationality of shareholding, and details of verification of the suitability of holding individual shares by the Board of Directors, etc.

The Company's policy is to hold only shares of business partners for which there is a rational reason, such as strengthening ties in anticipation of business expansion. For rationality of holdings these shares, the Board of Directors makes a comprehensive judgment, and if the Board of Directors determines that there is no rationality in holding these shares, it will consider such measures as reducing the number of shares held.

b. Number of individual shares and carrying amount

	Number of individual shares	Carrying amount (thousand yen)
Unlisted shares	-	-
Shares other than the above	1	1,730,400

(Stocks whose number of shares increased in the current fiscal year)

	Number of individual shares	Total acquisition cost related to increase in number of shares (thousand yen)	Reasons for an increase in number of shares
Unlisted shares	-	-	-
Shares other than the above	-	-	-

(Stocks whose number of shares decreased in the current fiscal year)

	Number of individual shares	Total sale price related to decrease in number of shares (thousand yen)
Unlisted shares	-	-
Shares other than the above	-	-

- c. Information on number of shares, amounts in the balance sheet, etc., of specified investment shares and deemed investment shares by individual shares

Specified investment shares

Issuing company	Current fiscal year		Previous fiscal year		Shareholding in the Company
	Number of shares (shares)	Number of shares (shares)	Purpose of holding, quantitative effect of holding, and reasons for increase in number of shares		
	Amounts in the consolidated balance sheets (thousand yen)	Amounts in the consolidated balance sheets (thousand yen)			
KOSÉ Corporation	120,000	120,000	Strengthening collaboration for future business expansion		Yes
	1,730,400	1,566,000			

(Note) Although it is difficult to describe the quantitative holding effect, a comprehensive study of the holding effect was conducted, taking into account a review of the cost of capital.

(iii) Investment shares held for pure investment

Category	Current fiscal year		Previous fiscal year	
	Number of individual shares (Individual shares)	Carrying amount (thousand yen)	Number of individual shares (Individual shares)	Carrying amount (thousand yen)
Unlisted shares	5	28,400	5	28,400
Shares other than the above	5	16,934	6	16,207

Category	Current fiscal year		
	Total dividend income (thousand yen)	Total income (loss) from sales (thousand yen)	Total unrealized gains (loss) (thousand yen)
Unlisted shares	192	-	-
Shares other than the above	188	448	14,276

V. Financial Information

1. Method of Preparing Consolidated Financial Statements and Financial Statements

- (1) The Company prepares its consolidated financial statements in accordance with the “Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance Order No. 28 of 1976).
- (2) The Company prepares its financial statements in accordance with the “Regulation on Terminology, Forms, and Preparation Methods of Financial Statements” (Ministry of Finance Order No. 59 of 1963; hereinafter referred to as the “Regulation on Financial Statements”).

In addition, the Company falls under a special company submitting financial statements, and prepares its financial statements pursuant to the provisions of Article 127 of the Regulation on Financial Statements.

2. Audit Certification

The Company’s consolidated financial statements for the fiscal year from January 1, 2022 to December 31, 2022 and the financial statements for the fiscal year from January 1, 2022 to December 31, 2022 have been audited by GYOSEI & CO. in accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Special Efforts to Ensure the Appropriateness of Consolidated Financial Statements, etc.

The Company has undertaken special efforts to ensure the appropriateness of its consolidated financial statements, etc. Specifically, in order to develop a system for gaining proper understanding of the details of accounting standards, etc., or appropriately responding to changes in such standards, the Company has joined the Financial Accounting Standards Foundation and regularly collects information.

1. Consolidated Financial Statements, etc.

(1) Consolidated Financial Statements

1) Consolidated Balance Sheets

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	13,350,147	12,300,053
Notes and accounts receivable - trade	*1, *2 4,673,258	*1, *2 5,255,686
Securities	200,000	-
Merchandise and finished goods	4,537,613	6,319,121
Work in process	41,842	39,927
Raw materials and supplies	1,360,902	1,999,103
Other	740,268	784,924
Allowance for doubtful accounts	(3,271)	(185)
Total current assets	24,900,761	26,698,631
Non-current assets		
Property, plant and equipment		
Buildings and structures	14,865,989	15,437,304
Accumulated depreciation	(5,908,390)	(6,423,189)
Buildings and structures, net	8,957,598	9,014,115
Machinery, equipment and vehicles	8,336,484	9,088,926
Accumulated depreciation	(5,495,871)	(6,006,867)
Machinery, equipment and vehicles, net	2,840,613	3,082,059
Land	4,995,014	6,452,228
Construction in progress	269,654	453,754
Other	3,101,336	3,331,141
Accumulated depreciation	(2,347,955)	(2,513,398)
Other, net	753,381	817,742
Total property, plant and equipment	17,816,262	19,819,899
Intangible assets	1,516,714	1,902,217
Investments and other assets		
Investment securities	1,610,607	1,775,734
Long-term loans receivable	32,527	7,425
Net defined benefit asset	438,540	56,180
Deferred tax assets	577,944	826,583
Other	1,393,519	1,719,802
Allowance for doubtful accounts	(48,387)	(46,087)
Total investments and other assets	4,004,752	4,339,639
Total non-current assets	23,337,729	26,061,755
Total assets	48,238,490	52,760,387

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Liabilities		
Current liabilities		
Accounts payable - trade	936,108	1,133,259
Accounts payable - other	3,495,694	4,022,247
Income taxes payable	1,401,441	1,334,496
Provision for bonuses	511,612	591,582
Other	*3 965,353	*3 914,619
Total current liabilities	7,310,210	7,996,205
Non-current liabilities		
Net defined benefit liability	7,753	10,628
Deferred tax liabilities	595	610
Asset retirement obligations	608,139	643,317
Other	114,611	117,875
Total non-current liabilities	731,099	772,431
Total liabilities	8,041,309	8,768,636
Net assets		
Shareholders' equity		
Capital stock	2,000,000	2,000,000
Capital surplus	246,299	274,537
Retained earnings	38,834,669	41,875,487
Treasury shares	(2,080,393)	(2,030,911)
Total shareholders' equity	39,000,575	42,119,113
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	100,262	214,928
Deferred gains or losses on hedges	68,821	-
Foreign currency translation adjustment	850,537	1,766,040
Remeasurements of defined benefit plans	176,984	(108,331)
Total accumulated other comprehensive income	1,196,605	1,872,637
Total net assets	40,197,181	43,991,750
Total liabilities and net assets	48,238,490	52,760,387

2) Consolidated Statements of Earnings and Consolidated Statements of Comprehensive Income
Consolidated Statements of Earnings

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Net sales	*1 41,582,267	*1 45,238,377
Cost of sales	14,083,338	15,729,160
Gross profit	27,498,928	29,509,216
Selling, general and administrative expenses	*2, *3 19,681,230	*2, *3 21,957,505
Operating income	7,817,698	7,551,711
Non-operating income		
Interest income	25,878	21,212
Dividend income	32,409	15,980
Company house defrayment income	3,761	3,890
Subsidy income	53,071	101,506
Foreign exchange gains	54,621	152,574
Other	59,254	104,327
Total non-operating income	228,997	399,491
Non-operating expenses		
Sales discounts	733,118	-
Share of loss of entities accounted for using equity method	151,399	112,392
Other	3,736	9,530
Total non-operating expenses	888,255	121,922
Ordinary income	7,158,440	7,829,279
Extraordinary income		
Gain on sales of non-current assets	*4 351	*4 949
Gain on sales of investment securities	19,087	448
Total extraordinary income	19,438	1,397
Extraordinary losses		
Loss on retirement of non-current assets	*5 517	*5 7,060
Loss on sales of investment securities	43,959	-
Total extraordinary losses	44,477	7,060
Profit before income taxes	7,133,401	7,823,617
Income taxes - current	2,183,317	2,387,643
Income taxes - deferred	(159,204)	(141,300)
Total income taxes	2,024,112	2,246,342
Profit	5,109,288	5,577,274
Profit attributable to owners of parent	5,109,288	5,577,274

Consolidated Statements of Comprehensive Income

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Profit	5,109,288	5,577,274
Other comprehensive income		
Valuation difference on available-for-sale securities	(305,133)	114,665
Deferred gains or losses on hedges	70,027	(68,821)
Foreign currency translation adjustment	702,761	915,502
Remeasurements of defined benefit plans, net of tax	177,438	(285,315)
Total other comprehensive income	* 645,093	* 676,032
Comprehensive income	5,754,382	6,253,306
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	5,754,382	6,253,306
Comprehensive income attributable to non-controlling interests	-	-

3) Consolidated Statements of Changes in Shareholders' Equity
 Previous fiscal year (from January 1, 2021 to December 31, 2021)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,000,000	222,490	35,643,295	(2,108,947)	35,756,838
Changes of items during period					
Dividends of surplus			(1,917,914)		(1,917,914)
Profit attributable to owners of parent			5,109,288		5,109,288
Purchase of treasury shares				(3,244)	(3,244)
Disposal of treasury shares		23,809		31,798	55,608
Net changes of items other than shareholders' equity					
Total changes of items during period	-	23,809	3,191,374	28,553	3,243,737
Balance at end of period	2,000,000	246,299	38,834,669	(2,080,393)	39,000,575

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	405,396	(1,206)	147,775	(454)	551,511	36,308,349
Changes of items during period						
Dividends of surplus						(1,917,914)
Profit attributable to owners of parent						5,109,288
Purchase of treasury shares						(3,244)
Disposal of treasury shares						55,608
Net changes of items other than shareholders' equity	(305,133)	70,027	702,761	177,438	645,093	645,093
Total changes of items during period	(305,133)	70,027	702,761	177,438	645,093	3,888,831
Balance at end of period	100,262	68,821	850,537	176,984	1,196,605	40,197,181

Current fiscal year (from January 1, 2022 to December 31, 2022)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,000,000	246,299	38,834,669	(2,080,393)	39,000,575
Changes of items during period					
Dividends of surplus			(2,536,456)		(2,536,456)
Profit attributable to owners of parent			5,577,274		5,577,274
Purchase of treasury shares				(1,350)	(1,350)
Disposal of treasury shares		28,237		50,832	79,069
Net changes of items other than shareholders' equity					
Total changes of items during period	-	28,237	3,040,818	49,482	3,118,537
Balance at end of period	2,000,000	274,537	41,875,487	(2,030,911)	42,119,113

	Accumulated other comprehensive income					Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance at beginning of period	100,262	68,821	850,537	176,984	1,196,605	40,197,181
Changes of items during period						
Dividends of surplus						(2,536,456)
Profit attributable to owners of parent						5,577,274
Purchase of treasury shares						(1,350)
Disposal of treasury shares						79,069
Net changes of items other than shareholders' equity	114,665	(68,821)	915,502	(285,315)	676,032	676,032
Total changes of items during period	114,665	(68,821)	915,502	(285,315)	676,032	3,794,569
Balance at end of period	214,928	-	1,766,040	(108,331)	1,872,637	43,991,750

4) Consolidated Statements of Cash Flows

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Cash flows from operating activities		
Profit before income taxes	7,133,401	7,823,617
Depreciation	1,777,323	2,080,891
Increase (decrease) in allowance for doubtful accounts	(10,741)	(5,856)
Increase (decrease) in provision for bonuses	71,943	77,241
Decrease (increase) in net defined benefit asset	24,609	(28,757)
Increase (decrease) in net defined benefit liability	2,529	1,951
Interest and dividend income	(58,287)	(37,193)
Share of loss (profit) of entities accounted for using equity method	151,399	112,392
Foreign exchange losses (gains)	55,540	(30,521)
Loss (gain) on sales of investment securities	24,872	(448)
Loss (gain) on sales of non-current assets	(351)	(949)
Loss on retirement of non-current assets	517	7,060
Decrease (increase) in trade receivables	(467,843)	(546,020)
Decrease (increase) in inventories	(612,402)	(2,148,445)
Increase (decrease) in trade payables	122,057	108,264
Other	268,588	16,726
Subtotal	8,483,156	7,429,954
Interest and dividend income received	58,805	34,812
Income taxes paid	(1,905,137)	(2,456,758)
Net cash provided by (used in) operating activities	6,636,823	5,008,008
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,827,976)	(3,061,820)
Proceeds from sales of property, plant and equipment	351	1,003
Purchase of intangible assets	(659,900)	(761,154)
Payments of loans receivable	(148,000)	(73,500)
Collection of loans receivable	2,024	3,454
Purchase of investment securities	(12,150)	-
Proceeds from redemption of investment securities	200,000	200,000
Proceeds from sales of investment securities	472,646	546
Payments for guarantee deposits	(58,435)	(285,452)
Proceeds from collection of guarantee deposits	28,285	115,978
Other	7,875	(4,277)
Net cash provided by (used in) investing activities	(3,995,279)	(3,865,221)
Cash flows from financing activities		
Increase (decrease) in notes and short-term borrowings - trade	-	(42,631)
Net decrease (increase) in treasury shares	(3,244)	(1,243)
Cash dividends paid	(1,916,504)	(2,534,587)
Net cash provided by (used in) financing activities	(1,919,749)	(2,578,462)

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Effect of exchange rate change on cash and cash equivalents	283,248	381,279
Net increase (decrease) in cash and cash equivalents	1,005,043	(1,054,396)
Cash and cash equivalents at beginning of period	12,307,591	13,312,634
Cash and cash equivalents at end of period	* 13,312,634	* 12,258,237

Notes to the Consolidated Financial Statements

(Significant matters that serve as the basis for preparation of consolidated financial statements)

1. Matters regarding the scope of consolidation

Number of consolidated subsidiaries: 9

Names of consolidated subsidiaries

MILBON USA, INC.

Milbon Trading (Shanghai) Co., Ltd.

Milbon Korea Co., Ltd.

MILBON (THAILAND) CO., LTD.

MILBON MALAYSIA SDN. BHD.

MILBON VIETNAM CO., LTD.

MILBON SINGAPORE PTE. LTD.

Milbon (Zhejiang) Cosmetics Co., Ltd.

Milbon Europe GmbH

Changes in the scope of consolidation

Milbon Europe GmbH was newly established and included in the scope of consolidation for the current fiscal year.

2. Matters regarding the application of equity method

Number of associates accounted for by the equity method: 1

Names of companies, etc.

KOSÉ Milbon Cosmetics Co., Ltd.

3. Matters regarding fiscal years, etc., of consolidated subsidiaries

The account closing dates of consolidated subsidiaries are the same as the consolidated account closing date.

4. Matters regarding accounting policies

(1) Valuation standards and methods for significant assets

(i) Securities

1) Held-to-maturity bonds

Stated using the amortized cost method

2) Available-for-sale securities

Other than shares, etc., without market price

Stated at market value (unrealized gains and losses are reported as a separate component of net assets, and cost of sales is calculated by the moving-average method)

Shares, etc., without market price

Stated at cost using the moving-average method

(ii) Inventories

Merchandise

Stated primarily at cost using the weighted average method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

Finished goods and work in process

Stated primarily at cost using the weighted average method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

Raw materials

Stated primarily at cost using the weighted average method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

Supplies

Stated at cost using the last-purchase-price method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

(2) Depreciation and amortization methods for significant depreciable assets

(i) Property, plant and equipment

They are depreciated using the straight-line method.

Useful lives of principal assets are as follows:

Buildings and structures: 31 to 50 years

Machinery, equipment and vehicles: 6 to 8 years

(ii) Intangible assets

They are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over the estimated period of internal use (3 to 5 years).

(3) Accounting standards for significant allowances

(i) Allowance for doubtful accounts

To prepare for losses arising from uncollectible receivables, the Company and its overseas consolidated subsidiaries record an allowance for doubtful accounts at an estimated uncollectible amount based on the historical rate of credit losses with respect to general receivables, and in consideration of individual collectability with respect to doubtful accounts and other specific receivables.

(ii) Provision for bonuses

To provide for payment of bonuses to employees (including those for employees also serving as officers), the Company and its overseas consolidated subsidiaries record a provision for bonuses based on the estimated payment amount.

(4) Accounting methods for retirement benefits

(i) Method of attributing expected retirement benefits to periods

In calculating retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the current fiscal year based on the benefit formula basis.

(ii) Method of amortizing actuarial differences and past service costs

Actuarial gains and losses are amortized using the straight-line method over a certain number of years (5 years) within the average remaining years of service of the eligible employees at the time of occurrence, starting from the fiscal year following the occurrence.

Prior service cost is amortized using the straight-line method over a certain number of years (5 years) within the average remaining years of service of the eligible employees at the time of occurrence.

(iii) Adoption of a simplified method in small companies, etc.

Certain overseas consolidated subsidiaries apply a simplified method to calculate net defined benefit liability and retirement benefit expenses based on the method where the amount of retirement benefits to be paid for voluntary retirement at the end of the fiscal year represents the amount of retirement benefit obligations.

(5) Accounting standards for significant revenue and expenses

The principal performance obligations relating to revenue from contracts with customers of the Group, as well as the standard point at which such obligations are satisfied (i.e., the point at which revenue is recognized) are explained as follows.

The Group is engaged in the manufacturing and sale of cosmetic products. In terms of the sale of such goods or products, revenue is recognized upon delivery of the goods or products to customers. However, revenue is recognized at the time of shipment if the period from the time of shipment to the point at which control of the goods or products is transferred to the customer is the standard period.

Revenue is measured by the amount of consideration promised in the contract with the customer, less any applicable rebates and returns.

The transaction consideration is typically received within one month of the fulfillment of the performance obligation and does not contain any significant financial elements.

(6) Translation standards of significant assets and liabilities denominated in foreign currencies into Japanese yen

Foreign currency denominated monetary receivables and payables are translated into Japanese yen at the spot exchange rate on the consolidated closing date, and foreign exchange gains and losses from translation are recognized as profit or loss. The assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen at the spot exchange rate on the local account closing dates of overseas consolidated subsidiaries, while revenue and expenses are translated into Japanese yen at the average exchange rate for the period, and foreign exchange gains and losses from translation are recorded in foreign currency translation adjustment under net assets.

(7) Scope of funds in the consolidated statements of cash flows

Funds (cash and cash equivalents) in the consolidated statements of cash flows comprise cash on hand, deposits available for withdrawal as needed, and short-term investments due for redemption within three months from the date of acquisition, which are easily cashable and are subject to minimal risk of fluctuations in value.

(Significant accounting estimates)

Valuation of merchandise and finished goods

(1) Amount recorded in consolidated financial statements for the current fiscal year

(Thousand yen)

	Previous fiscal year	Current fiscal year
Merchandise and finished goods	4,537,613	6,319,121
Loss on valuation of inventories	78,046	254,786

(Note) The amount of loss on valuation of inventories represents the amount of write-down due to decreased profitability.

(2) Information to aid in understanding the details of accounting estimates

In the calculation using the method of write-down based on decreased profitability, regarding merchandise and finished goods, a method, in which the planned annual shipment volume and the inventory volume at the end of the fiscal year are compared for each merchandise and finished good, and the amount of slow-moving inventories exceeding the planned shipment volume for a certain period is written down, and other methods are adopted.

These accounting estimates may differ from the actual profitability if assumed circumstances change as they can be affected by changes in the future uncertain market environment and other factors.

(Changes in accounting policies)

(Change in valuation method for inventories)

The Company used the first-in first-out method for the valuation of merchandise; however, from the current fiscal year, we have changed to the cost method based on the weighted average method. This change in the valuation method is aimed at realizing a more appropriate calculation of periodic profit and loss by smoothing out the impact of fluctuations in purchase prices, triggered by an increase in overseas product purchases, etc.

As the impact of this change is immaterial, it has not been applied retrospectively.

(Application of accounting standard for fair value measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the “Fair Value Measurement Standard”), etc., from the beginning of the current fiscal year, and under the transitional treatment stipulated in paragraph 19 of the Fair Value Measurement Standard and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the new accounting policies stipulated by the Fair Value Measurement Standard, etc., will be applied in the future.

In addition, the Company will include the notes to matters regarding the breakdown of the market value of financial instruments by appropriate level, etc., in “Notes to the Consolidated Financial Statements (Financial instruments).” However, in accordance with the transitional treatment provided in Paragraph 7-4 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, July 4, 2019), notes pertaining to the previous fiscal year are not presented.

There is no impact on the consolidated financial statements.

(Changes in presentation methods)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the “Revenue Recognition Standard”), etc., from the beginning of the current fiscal year. With regard to the Revenue Recognition Standard, etc., issued on March 30, 2018, the Company applied them from the beginning of the fiscal year ended December 31, 2019.

In line with this, the Company has provided useful information in understanding revenue from contracts with customers in “Notes to the Consolidated Financial Statements (Revenue recognition).”

(Consolidated balance sheets)

*1 Treatment of notes due at the fiscal year-end

Notes due at the end of the fiscal year are treated as settled on the due date.

As the fiscal year-end fell on a holiday for financial institutions, the following notes due at the fiscal year-end are treated as settled on the due date.

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Notes receivable - trade	88,450	80,781

*2 Receivables from contracts with customers in notes and accounts receivable - trade are as follows:

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Notes receivable - trade	180,771	170,637
Accounts receivable - trade	4,492,486	5,085,049

*3 “Contract liabilities” are included in “other” under “current liabilities.” The amount of the “contract liabilities” is as described in “Notes to the Consolidated Financial Statements (Revenue recognition), 3. Information on the reconciliation of satisfaction of performance obligations within contracts with customers and cash flows arising from such contracts, and information on the amount and timing of revenue that is expected to be recognized after the following fiscal year arising from contracts with customers that exist at the end of the current fiscal year, (1) Balance of contract liabilities, etc.”

(Consolidated statements of earnings)

*1 Revenue from contracts with customers

The Company does not disaggregate revenues from contracts with customers and other sources of revenue. The amount of revenue from contracts with customers is presented in “Notes to the Consolidated Financial Statements (Revenue recognition), 1. Disaggregation of revenue from contracts with customers” in the consolidated financial statements.

*2 Major expenses included in selling, general and administrative expenses and their amounts

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Remuneration, salaries and allowances	5,447,521	5,858,488
Logistics expenses	3,413,309	3,543,161
Promotion expenses	1,105,993	1,177,111
Provision for bonuses	377,488	422,032
Retirement benefit expenses	309,787	307,677
Provision of allowance for doubtful accounts	(633)	(3,566)

*3 The total amount of research and development expenses included in general and administrative expenses

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Research and development expenses	1,741,738	2,074,942

*4 Breakdown of gain on sales of non-current assets

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Machinery, equipment and vehicles	351	949

*5 Breakdown of loss on retirement of non-current assets

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Buildings and structures	117	5,230
Machinery, equipment and vehicles	400	872
Other	0	186
Intangible assets	-	771
Total	517	7,060

(Consolidated statements of comprehensive income)

* Reclassification adjustments and tax effects relating to other comprehensive income

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Valuation difference on available-for-sale securities		
Amount arising during the fiscal year	(464,545)	165,672
Reclassification adjustments	24,872	(448)
Before tax effect adjustments	(439,673)	165,224
Tax effects	134,540	(50,558)
Valuation difference on available-for-sale securities	(305,133)	114,665
Deferred gains or losses on hedges		
Amount arising during the fiscal year	100,903	(99,165)
Reclassification adjustments	-	-
Before tax effect adjustments	100,903	(99,165)
Tax effects	(30,876)	30,344
Deferred gains or losses on hedges	70,027	(68,821)
Foreign currency translation adjustment		
Amount arising during the fiscal year	702,761	915,502
Remeasurements of defined benefit plans, net of tax		
Amount arising during the fiscal year	232,098	(383,108)
Reclassification adjustments	23,575	(28,008)
Before tax effect adjustments	255,674	(411,117)
Tax effects	(78,236)	125,801
Remeasurements of defined benefit plans, net of tax	177,438	(285,315)
Total other comprehensive income	645,093	676,032

(Consolidated statements of changes in shareholders' equity)

Previous fiscal year (from January 1, 2021 to December 31, 2021)

1. Matters regarding issued shares

Class of shares	Beginning of the fiscal year	Increase	Decrease	End of the fiscal year
Common stock (shares)	33,117,234	-	-	33,117,234

2. Matters regarding treasury shares

Class of shares	Beginning of the fiscal year	Increase	Decrease	End of the fiscal year
Common stock (shares)	614,837	511	9,268	606,080

(Outline of reasons for changes)

1. The increase is due to the purchase of shares less than one unit.
2. The decrease is due to the disposal of treasury shares pursuant to the resolution of the Board of Directors meeting held on April 9, 2021, accompanying the introduction of the restricted share-based compensation plan.

3. Matters regarding dividends

(1) Amount of dividends paid

Resolution	Class of shares	Total amount of dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 30, 2021	Common stock	942,569	29	December 31, 2020	March 31, 2021
Board of Directors meeting held on August 6, 2021	Common stock	975,344	30	June 30, 2021	August 16, 2021

(2) Dividend for which the record date falls in the fiscal year under review but the effective date falls in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 29, 2022	Common stock	Retained earnings	1,235,423	38	December 31, 2021	March 30, 2022

Current fiscal year (from January 1, 2022 to December 31, 2022)

1. Matters regarding issued shares

Class of shares	Beginning of the fiscal year	Increase	Decrease	End of the fiscal year
Common stock (shares)	33,117,234	-	-	33,117,234

2. Matters regarding treasury shares

Class of shares	Beginning of the fiscal year	Increase	Decrease	End of the fiscal year
Common stock (shares)	606,080	238	14,807	591,511

(Outline of reasons for changes)

1. The increase is due to the purchase of shares less than one unit.
2. The decrease was due to a decrease of 20 shares from the sale of shares less than one unit, and a decrease of 14,787 shares from the disposal of treasury shares pursuant to the resolution of the Board of Directors meeting held on April 15, 2022, accompanying the introduction of the restricted share-based compensation plan.

3. Matters regarding dividends

(1) Amount of dividends paid

Resolution	Class of shares	Total amount of dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 29, 2022	Common stock	1,235,423	38	December 31, 2021	March 30, 2022
Board of Directors meeting held on August 10, 2022	Common stock	1,301,032	40	June 30, 2022	August 16, 2022

(2) Dividend for which the record date falls in the fiscal year under review but the effective date falls in the following fiscal year

Resolution	Class of shares	Source of dividends	Total amount of dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on March 29, 2023	Common stock	Retained earnings	1,496,183	46	December 31, 2022	March 30, 2023

(Consolidated statements of cash flows)

* Reconciliation between the balance of cash and cash equivalents at the end of the fiscal year and the amount of accounts presented in the consolidated balance sheets

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Cash and deposits	13,350,147	12,300,053
Time deposits with deposit terms over three months	(37,512)	(41,815)
Cash and cash equivalents	13,312,634	12,258,237

(Lease transactions)

1. Operating lease transactions

(Lessor)

Remaining lease payments for non-cancelable operating lease transactions

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Within one year	326,159	366,385
Over one year	926,536	942,027
Total	1,252,695	1,308,413

(Financial instruments)

1. Matters regarding financial instruments

(1) Policy for financial instruments

The Group manages its funds in principle for the purpose of maintaining its assets, and only manages highly secured funds.

The Group also has a policy of not engaging in derivative transactions for speculative purposes.

(2) Content of financial instruments and risks thereof, and risk management systems

Notes and accounts receivable - trade, which are trade receivables, are exposed to customer credit risks. For such risks, the Group controls the due dates and balances by business partner.

Securities and investment securities are primarily shares of companies with which the Group has business relationships and held-to-maturity bonds, and are exposed to market price fluctuation risks. For such risks, the Group regularly understands and manages their market value and issuers' financial conditions, etc., and regularly reports the identified market value to the Board of Directors.

Accounts payable - trade, which are trade payables, are mostly due within one month.

(3) Supplementary explanation on market value, etc., of financial instruments

The market value of financial instruments is calculated based on their market prices. If a market price is not available, the value is calculated in a reasonable manner. As the market value calculation incorporates fluctuating factors, the value may differ if different assumptions are used in calculation.

2. Matters regarding market value, etc., of financial instruments

The amounts in the consolidated balance sheets, market value of financial instruments, and their differences are shown below.

Previous fiscal year (as of December 31, 2021)

(Thousand yen)

	Amounts in the consolidated balance sheets	Market value	Differences
Investment securities			
Securities	200,000	197,806	
Available-for-sale securities	1,582,207	1,582,207	(2,194)
Total assets	1,782,207	1,780,013	(2,194)

Current fiscal year (as of December 31, 2022)

(Thousand yen)

	Amounts in the consolidated balance sheets	Market value	Differences
Investment securities			
Available-for-sale securities	1,747,334	1,747,334	-
Total assets	1,747,334	1,747,334	-

(Note 1) “Cash and deposits,” “notes and accounts receivable - trade,” “accounts payable - trade,” “accounts payable - other,” and “income taxes payable” are omitted, because they comprise cash and short-term instruments whose carrying amount approximates their market value.

(Note 2) Shares, etc., without market price are not included in “investment securities.” The amount of the financial instrument in the consolidated balance sheets is as follows:

(Thousand yen)

Category	Previous fiscal year	Current fiscal year
Unlisted shares	28,400	28,400

(Note 3) Scheduled redemption amounts of monetary claims after the consolidated closing date

Previous fiscal year (as of December 31, 2021)				(Thousand yen)
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	13,350,147	-	-	-
Notes and accounts receivable - trade	4,673,258	-	-	-
Securities and investment securities		-	-	-
Held-to-maturity bonds				
Other	200,000	-	-	-
Total	18,223,405	-	-	-

Current fiscal year (as of December 31, 2022)				(Thousand yen)
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	12,300,053	-	-	-
Notes and accounts receivable - trade	5,255,686	-	-	-
Total	17,555,740	-	-	-

3. Matters regarding the breakdown of the market value of financial instruments by level

The market value of financial instruments is classified into the following three levels according to the observability and materiality of the inputs used to measure market value.

Level 1 market value: Market value measured using observable inputs, i.e., quoted prices in active markets for assets or liabilities that are the subject of the measurement.

Level 2 market value: Market value measured using observable inputs other than Level 1 inputs.

Level 3 market value: Market value measured using unobservable inputs.

If multiple inputs are used that are significant to the market value measurement, the market value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(1) Financial instruments measured at market value in the consolidated financial statements

Current fiscal year (as of December 31, 2022)				(Thousand yen)
Category	Market value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Shares	1,747,334	-	-	1,747,334
Total assets	1,747,334	-	-	1,747,334

(Note) A description of the valuation techniques and inputs used in the market value measurements

Investment securities

Listed shares are valued using quoted prices. As listed shares are traded in active markets, their market value is classified as Level 1.

(Securities)

1. Held-to-maturity bonds

Previous fiscal year (as of December 31, 2021)

(Thousand yen)

	Type	Amounts in the consolidated balance sheets	Market value	Differences
Bonds with the market value exceeding the amount in the consolidated balance sheets	(1) Government and local government bonds, etc.	-	-	-
	(2) Bonds payable	-	-	-
	(3) Other	-	-	-
	Subtotal	-	-	-
Bonds with the market value not exceeding the amount in the consolidated balance sheets	(1) Government and local government bonds, etc.	-	-	-
	(2) Bonds payable	-	-	-
	(3) Other	200,000	197,806	(2,194)
	Subtotal	200,000	197,806	(2,194)
Total		200,000	197,806	(2,194)

Current fiscal year (as of December 31, 2022)

(Thousand yen)

	Type	Amounts in the consolidated balance sheets	Market value	Differences
Bonds with the market value exceeding the amount in the consolidated balance sheets	(1) Government and local government bonds, etc.	-	-	-
	(2) Bonds payable	-	-	-
	(3) Other	-	-	-
	Subtotal	-	-	-
Bonds with the market value not exceeding the amount in the consolidated balance sheets	(1) Government and local government bonds, etc.	-	-	-
	(2) Bonds payable	-	-	-
	(3) Other	-	-	-
	Subtotal	-	-	-
Total		-	-	-

2. Available-for-sale securities

Previous fiscal year (as of December 31, 2021)

(Thousand yen)

	Type	Amounts in the consolidated balance sheets	Acquisition cost	Differences
Available-for-sale securities with the amount in the consolidated balance sheets exceeding the acquisition cost	(1) Shares	1,581,665	1,437,118	144,546
	(2) Bonds	-	-	-
	(3) Other	-	-	-
	Subtotal	1,581,665	1,437,118	144,546
Available-for-sale securities with the amount in the consolidated balance sheets not exceeding the acquisition cost	(1) Shares	542	618	(76)
	(2) Bonds	-	-	-
	(3) Other	-	-	-
	Subtotal	542	618	(76)
Total		1,582,207	1,437,736	144,470

(Note) Unlisted shares (the amount in the consolidated balance sheets: 28,400 thousand yen) are not included in the available-for-sale securities in the table above, since they have no market price and their market values are deemed extremely difficult to determine.

Current fiscal year (as of December 31, 2022)

(Thousand yen)

	Type	Amounts in the consolidated balance sheets	Acquisition cost	Differences
Available-for-sale securities with the amount in the consolidated balance sheets exceeding the acquisition cost	(1) Shares	1,746,801	1,437,020	309,780
	(2) Bonds	-	-	-
	(3) Other	-	-	-
	Subtotal	1,746,801	1,437,020	309,780
Available-for-sale securities with the amount in the consolidated balance sheets not exceeding the acquisition cost	(1) Shares	533	618	(85)
	(2) Bonds	-	-	-
	(3) Other	-	-	-
	Subtotal	533	618	(85)
Total		1,747,334	1,437,638	309,695

(Note) Unlisted shares (the amount in the consolidated balance sheets: 28,400 thousand yen) are not included in the available-for-sale securities in the table above, since they have no market price and their market values are deemed extremely difficult to determine.

3. Available-for-sale securities sold during the fiscal year

Previous fiscal year (from January 1, 2021 to December 31, 2021)

(Thousand yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Shares	472,646	19,087	43,959
(2) Bonds	200,000	-	-
(3) Other	-	-	-
Total	672,646	19,087	43,959

Current fiscal year (from January 1, 2022 to December 31, 2022)

(Thousand yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Shares	538	448	-
(2) Bonds	-	-	-
(3) Other	-	-	-
Total	538	448	-

4. Impairment losses on securities

Not applicable.

Impairment losses are fully recognized for securities whose market value declined 50% or more compared to the acquisition cost. For securities whose market value declined 30% or more but less than 50%, impairment losses are determined by judging the individual recoverability.

(Derivative transactions)

1. Derivative transactions for which hedge accounting is applied

Currency-related transactions

Previous fiscal year (as of December 31, 2021)

The Company engages in forward exchange contracts for currency-related transactions. However, this information is omitted due to lack of materiality.

Current fiscal year (as of December 31, 2022)

Not applicable.

(Retirement benefits)

1. Outline of retirement benefit plans adopted

The Company has both a defined benefit corporate pension plan as the defined benefit plan and a defined contribution pension plan.

Some of the consolidated subsidiaries have adopted a lump-sum retirement payment plan as the defined benefit plan and a defined contribution plan.

For the lump-sum retirement payment plan adopted by some of the consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are calculated using a simplified method.

The Company participates in the employees' pension fund plan, which is a multi-employer plan. The same accounting as for the defined contribution plan is adopted for the plans for which the amount of plan assets corresponding to the Company's contribution cannot be reasonably calculated.

2. Defined benefit plan (excluding plans that adopt the simplified method)

(1) Reconciliation of retirement benefit obligations at the beginning and end of the fiscal year

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Balance of retirement benefit obligations at the beginning of the fiscal year	2,634,269	2,771,124
Service cost	202,157	214,520
Interest cost	13,171	14,066
Actuarial gains and losses generated	12,347	12,798
Past service costs generated	-	111,974
Retirement benefits paid	(90,821)	(135,047)
Balance of retirement benefit obligations at the end of the fiscal year	2,771,124	2,989,436

(2) Reconciliation of plan assets at the beginning and end of the fiscal year

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Balance of plan assets at the beginning of the fiscal year	2,841,744	3,209,664
Expected return on plan assets	71,043	80,241
Actuarial gains and losses generated	244,445	(258,335)
Contribution from the employer	143,251	149,095
Retirement benefits paid	(90,821)	(135,047)
Balance of plan assets at the end of the fiscal year	3,209,664	3,045,617

(3) Reconciliation of retirement benefit obligations and plan assets at the end of the fiscal year and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheets

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Retirement benefit obligations of funded plans	2,771,124	2,989,436
Plan assets	(3,209,664)	(3,045,617)
Net liabilities and assets recorded in the consolidated balance sheets	(438,540)	(56,180)
Net defined benefit asset	(438,540)	(56,180)
Net liabilities and assets recorded in the consolidated balance sheets	(438,540)	(56,180)

(4) Retirement benefit expenses and breakdown thereof

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Service cost	202,157	214,520
Interest cost	13,171	14,066
Expected return on plan assets	(71,043)	(80,241)
Amortization of actuarial gains and losses	23,575	(33,607)
Amortization of past service costs	-	5,598
Retirement benefit expenses for defined benefit plans	167,860	120,337

(5) Remeasurements of defined benefit plans, net of tax

Components of remeasurements of defined benefit plans, net of tax (before tax effects) are as follows:

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Actuarial gains and losses	(255,674)	304,741
Past service costs	-	106,375
Total	(255,674)	411,117

(6) Remeasurements of defined benefit plans

Components of remeasurements of defined benefit plans (before tax effects) are as follows:

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Unrecognized actuarial gains and losses	255,020	(49,721)
Unrecognized past service costs	-	(106,375)
Total	255,020	(156,096)

(7) Matters regarding plan assets

(i) Major components of plan assets

Ratios by major category of the total plan assets are as follows:

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Japanese bonds	20%	23%
Japanese shares	25%	24%
Foreign bonds	12%	10%
Foreign shares	25%	23%
Other	18%	20%
Total	100%	100%

(ii) Method of determining expected long-term rate of return on plan assets

The current and expected allocation of plan assets, and the current and expected future long-term rate of return on diverse assets comprising plan assets are taken into account in determining expected long-term rate of return on plan assets.

(8) Matters regarding basis for actuarial assumptions

Major actuarial assumptions (in weighted average)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Discount rate	0.5%	0.5%
Expected long-term rate of return on plan assets	2.5%	2.5%
Expected rate of increase in salary	4.7%	5.9%

3. Defined benefit plans that apply the simplified method

(1) Reconciliation of net defined benefit liability at the beginning and end of the fiscal year under the plans that apply the simplified method

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Balance of net defined benefit liability at the beginning of the fiscal year	5,216	7,753
Retirement benefit expenses	2,529	1,951
Translation gains or losses	7	923
Balance of net defined benefit liability at the end of the fiscal year	7,753	10,628

(2) Reconciliation of retirement benefit obligations and plan assets at the end of the fiscal year and net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheets

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Retirement benefit obligations of unfunded plans	7,753	10,628
Net liabilities and assets recorded in the consolidated balance sheets	7,753	10,628
Net defined benefit liability	7,753	10,628
Net liabilities and assets recorded in the consolidated balance sheets	7,753	10,628

(3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method: Previous fiscal year: 2,529 thousand yen
Current fiscal year: 1,951 thousand yen

4. Defined contribution plans

The required amount of contributions to defined contribution plans of the Company and its consolidated subsidiaries are 89,532 thousand yen for the previous fiscal year and 110,148 thousand yen for the current fiscal year.

5. Multi-employer plans

The required amount of contributions to the employees' pension fund plan and corporate pension fund plan, which are multi-employer plans and adopt the same accounting method as that for defined contribution plans, are 176,159 thousand yen for the previous fiscal year and 185,256 thousand yen for the current fiscal year.

(1) The latest status of funding of multi-employer plans

	(Thousand yen)	
	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Amount of plan assets	15,897,847	16,951,908
Aggregate actuarial obligation under pension finance calculation and minimum reserve	19,938,577	19,873,038
Difference	(4,040,730)	(2,921,130)

(2) Ratio of contributions by the Company in multi-employer plans

Previous fiscal year: 10.9% (as of December 31, 2021)

Current fiscal year: 11.6% (as of December 31, 2022)

(3) Supplementary explanation

Major factors for the difference in (1) above are the balance of past service liabilities under pension finance calculation (7,918,856 thousand yen for the previous fiscal year, 6,938,156 thousand yen for the current fiscal year) and the general reserve (3,878,126 thousand yen for the previous fiscal year, 4,017,026 thousand yen for the current fiscal year). Past service liabilities under the plan are amortized using the straight-line method over a period of 8 years. The Company has amortized special contribution in the consolidated financial statements (119,873 thousand yen in the previous fiscal year, 126,896 thousand yen in the current fiscal year).

The ratios in (2) above do not correspond to the actual ratios of the contribution by the Company.

(Stock options, etc.)

Not applicable.

(Tax effect accounting)

1. Breakdown of major causes for deferred tax assets and deferred tax liabilities

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Deferred tax assets		
Tax loss carryforward (Note)	160,145	342,943
Provision for bonuses	154,722	174,159
Loss on valuation of inventories	27,056	89,986
Accrued enterprise tax and business office tax	84,449	86,245
Accrued social insurance premiums	23,192	26,071
Unrealized income on inventories	270,895	435,069
Depreciation	231,677	227,383
Asset retirement obligations	175,025	184,536
Allowance for doubtful accounts	15,726	14,102
Net defined benefit liability	1,550	2,125
Loss on valuation of investment securities	43	-
Retirement benefits for directors (and other officers)	3,905	3,709
Other	155,629	108,938
Subtotal deferred tax assets	1,304,019	1,695,270
Valuation allowance for tax loss carryforward (Note)	(160,145)	(342,943)
Valuation allowance for aggregate deductible temporary differences	(28,545)	(24,295)
Subtotal valuation allowance	(188,691)	(367,238)
Total deferred tax assets	1,115,329	1,328,032
Deferred tax liabilities		
Net defined benefit asset	(134,193)	(17,191)
Retirement cost for asset retirement obligations	(118,568)	(113,579)
Valuation difference on available-for-sale securities	(44,208)	(94,766)
Retained earnings of overseas subsidiaries	(208,844)	(275,911)
Other	(32,164)	(610)
Total deferred tax liabilities	(537,979)	(502,057)
Net deferred tax assets (liabilities)	577,349	825,975

(Note) Tax loss carryforward and corresponding deferred tax assets by carryforward period

Previous fiscal year (as of December 31, 2021)

(Thousand yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carryforward	-	-	-	8,733	7,164	144,248	160,145
Valuation allowance	-	-	-	(8,733)	(7,164)	(144,248)	(160,145)
Deferred tax assets	-	-	-	-	-	-	-

(Note) Tax loss carryforward is the amount obtained by multiplying it with the effective statutory tax rate.

Current fiscal year (as of December 31, 2022)

(Thousand yen)

	Within one year	Over one year within two years	Over two years within three years	Over three years within four years	Over four years within five years	Over five years	Total
Tax loss carryforward	-	-	9,698	7,955	7,549	317,739	342,943
Valuation allowance	-	-	(9,698)	(7,955)	(7,549)	(317,739)	(342,943)
Deferred tax assets	-	-	-	-	-	-	-

(Note) Tax loss carryforward is the amount obtained by multiplying them with the effective statutory tax rate.

2. Breakdown by item of major causes of significant difference between the effective statutory tax rate and the income tax rate after applying tax effect accounting

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Effective statutory tax rate (Adjustments)	30.6%	30.6%
Items permanently excluded from deductible expenses such as entertainment expenses	0.8%	1.0%
Exclusion of dividend income from taxable income	0.0%	(0.8)%
Inhabitant tax on per capita basis	0.4%	0.3%
Experimentation and research expenses tax credit	(3.2)%	(4.1)%
Salary increase tax credits	(0.6)%	(0.6)%
Allowance	0.1%	2.3%
Other	0.3%	(0.0)%
Income tax rate after applying tax effect accounting	28.4%	28.7%

(Business combinations, etc.)

Not applicable.

(Asset retirement obligations)

Asset retirement obligations recorded in the consolidated balance sheets

(1) Outline of the asset retirement obligations

These are the restoration obligation under real estate lease contracts of branch offices and sales offices.

(2) Calculation method of the amount of the asset retirement obligations

The amount of asset retirement obligations is calculated by using the government bond yield as the discount rate based on the estimated period of use of 10 to 15 years from the acquisition.

(3) Changes in the total amount of the asset retirement obligations

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Balance at the beginning of the fiscal year	546,954	608,139
Increase due to the acquisition of property, plant and equipment	61,184	58,055
Adjustments due to passage of time	0	0
Decrease due to the performance of asset retirement obligations	-	(22,877)
Balance at the end of the fiscal year	608,139	643,317

(Real estate for lease, etc.)

Not applicable.

(Revenue recognition)

1. Disaggregation of revenue from contracts with customers

(Thousand yen)

Category	Previous fiscal year (From January 1, 2021 to December 31, 2021)		Current fiscal year (From January 1, 2022 to December 31, 2022)	
	Amount	Ratio (%)	Amount	Ratio (%)
Hair care products	24,466,607	58.8	26,312,862	58.2
Hair coloring products	14,813,209	35.6	16,631,187	36.7
Permanent wave products	1,449,411	3.5	1,450,096	3.2
Cosmetic products	579,594	1.4	572,085	1.3
Other	273,444	0.7	272,146	0.6
Revenue from contracts with customers	41,582,267	100.0	45,238,377	100.0
Revenue from other sources	-	-	-	-
Net sales to external customers	41,582,267	100.0	45,238,377	100.0

2. Useful information in understanding revenue from contracts with customers

The description of useful information in understanding revenue from contracts with customers is omitted as it is provided in “Notes to the Consolidated Financial Statements (Significant matters that serve as the basis for preparation of consolidated financial statements), 4. Matters regarding accounting policies, (5) Accounting standards for significant revenue and expenses.”

3. Information on the reconciliation of satisfaction of performance obligations within contracts with customers and cash flows arising from such contracts, and information on the amount and timing of revenue that is expected to be recognized after the following fiscal year arising from contracts with customers that exist at the end of the current fiscal year

(1) Balance of contract liabilities, etc.

Previous fiscal year (from January 1, 2021 to December 31, 2021)

(Thousand yen)

	Beginning of the fiscal year (As of January 1, 2021)	End of the fiscal year (As of December 31, 2021)
Receivables from contracts with customers	4,199,283	4,673,258
Contract liabilities	27,598	21,901

(Note) Contract liabilities are advances received from customers and are reversed upon recognition of revenue.

Current fiscal year (from January 1, 2022 to December 31, 2022)

(Thousand yen)

	Beginning of the fiscal year (As of January 1, 2022)	End of the fiscal year (As of December 31, 2022)
Receivables from contracts with customers	4,673,258	5,255,686
Contract liabilities	21,901	4,612

(Note) Contract liabilities are advances received from customers and are reversed upon recognition of revenue.

(2) Transaction price allocated to the remaining performance obligations

The description of information on the remaining performance obligations is omitted since there are no significant contracts with an original expected duration of more than one year and the Company has applied the practical expedient to the notes on transaction prices allocated to the remaining performance obligations.

(Segment information, etc.)

Segment information

This information is omitted since the Group has a single segment of manufacture and sales of cosmetic products.

Related information

Previous fiscal year (from January 1, 2021 to December 31, 2021)

1. Information by product and service

(Thousand yen)

	Hair care products	Hair coloring products	Permanent wave products	Cosmetic products	Other	Total
Net sales to external customers	24,466,607	14,813,209	1,449,411	579,594	273,444	41,582,267

2. Information by geographical area

(1) Net sales

(Thousand yen)

Japan	Other	Total
33,643,710	7,938,557	41,582,267

(Note) Net sales are based on locations of customers and classified by country or region.

(2) Property, plant and equipment

This information is omitted since the amount of property, plant and equipment located in Japan accounts for more than 90% of the amount of property, plant and equipment in the consolidated balance sheets.

3. Information by major customer

(Thousand yen)

Name of customer	Net sales
Topy Co., Ltd.	4,532,368
GAMO Co., Ltd.	3,628,949
BIC HOLDINGS Inc.	3,194,447

(Note) The description of related segments is omitted since the Group has a single segment of manufacture and sales of cosmetic products.

Current fiscal year (from January 1, 2022 to December 31, 2022)

1. Information by product and service

(Thousand yen)

	Hair care products	Hair coloring products	Permanent wave products	Cosmetic products	Other	Total
Net sales to external customers	26,312,862	16,631,187	1,450,096	572,085	272,146	45,238,377

2. Information by geographical area

(1) Net sales

(Thousand yen)

Japan	Other	Total
35,334,124	9,904,253	45,238,377

(Note) Net sales are based on locations of customers and classified by country or region.

(2) Property, plant and equipment

(Thousand yen)

Japan	China	Other	Total
15,422,742	2,886,791	1,510,364	19,819,899

3. Information by major customer

(Thousand yen)

Name of customer	Net sales
Topy Co., Ltd.	4,804,640
GAMO Co., Ltd.	3,810,883
BIC HOLDINGS Inc.	3,396,274

(Note) The description of related segments is omitted since the Group has a single segment of manufacture and sales of cosmetic products.

Information regarding impairment losses on non-current assets by reportable segment

Not applicable.

Information regarding amortization and unamortized balance of goodwill by reportable segment

Not applicable.

Information regarding gain on bargain purchase by reportable segment

Not applicable.

Related party information

Previous fiscal year (from January 1, 2021 to December 31, 2021)

Not applicable.

Current fiscal year (from January 1, 2022 to December 31, 2022)

Not applicable.

(Per share information)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Net assets per share (yen)	1,236.41	1,352.52
Basic earnings per share (yen)	157.17	171.49

(Notes) 1. Diluted earnings per share are not presented because there are no dilutive shares.

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

	Previous fiscal year (from January 1, 2021 to December 31, 2021)	Current fiscal year (from January 1, 2022 to December 31, 2022)
Profit attributable to owners of parent (thousand yen)	5,109,288	5,577,274
Amount not attributable to common shareholders (thousand yen)	-	-
Profit attributable to owners of parent related to common stock (thousand yen)	5,109,288	5,577,274
Average number of shares of common stock during the period (shares)	32,508,933	32,521,551

(Significant subsequent events)

Not applicable.

5) Consolidated supplementary schedules

Schedule of corporate bonds

Not applicable.

Schedule of borrowings, etc.

Category	Balance at beginning of period (Thousand yen)	Balance at end of period (Thousand yen)	Average interest rate (%)	Repayment due date
Short-term borrowings	-	-	-	-
Current portion of long-term borrowings	-	-	-	-
Current portion of lease obligations	-	-	-	-
Long-term borrowings (except for the current portion)	-	-	-	-
Lease obligations (except for the current portion)	-	-	-	-
Other interest-bearing liabilities	75,448	74,032	0.002	-
Total	75,448	74,032	-	-

(Notes) 1. The average interest rate shows the weighted average interest rate applicable to the balance at end of period.

2. Other interest-bearing liabilities are guarantee deposits received from customers with no prescribed repayment due date.

Schedule of asset retirement obligations

The description of matters to be reported in the schedule of asset retirement obligations is omitted, because relevant information is provided as notes pursuant to Article 15-23 of the Regulation on Consolidated Financial Statements.

(2) Other

Quarterly information, etc., for the current fiscal year

(Cumulative accounting period)	1st quarter	2nd quarter	3rd quarter	Current fiscal year
Net sales (Thousand yen)	9,635,091	21,467,252	32,407,657	45,238,377
Profit before income taxes (Thousand yen)	1,633,692	4,138,326	6,043,023	7,823,617
Profit attributable to owners of parent (Thousand yen)	1,166,773	2,875,154	4,310,982	5,577,274
Basic earnings per share (Yen)	35.89	88.42	132.56	171.49

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Basic earnings per share (Yen)	35.89	52.53	44.14	38.93

2. Financial Statements, etc.

(1) Financial Statements

1) Balance Sheets

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	10,505,512	9,399,665
Notes receivable - trade	*2 180,771	*2 170,637
Accounts receivable - trade	*1 5,211,564	*1 5,654,505
Securities	200,000	-
Merchandise and finished goods	3,031,256	4,034,129
Work in process	41,084	39,422
Raw materials and supplies	1,136,801	1,645,261
Prepaid expenses	144,426	182,762
Other	*1 192,779	*1 223,645
Total current assets	20,644,197	21,350,030
Non-current assets		
Property, plant and equipment		
Buildings	6,085,512	5,958,847
Structures	103,558	89,773
Machinery and equipment	1,836,420	2,106,899
Vehicles	14,174	10,288
Tools, furniture and fixtures	628,788	642,177
Land	4,879,893	6,324,093
Construction in progress	153,740	277,940
Total property, plant and equipment	13,702,088	15,410,019
Intangible assets		
Software	1,151,587	1,194,130
Other	134,030	315,446
Total intangible assets	1,285,618	1,509,577

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Investments and other assets		
Investment securities	1,610,607	1,775,734
Shares of subsidiaries and associates	1,995,246	2,213,793
Investments in capital of subsidiaries and associates	3,838,000	4,457,200
Long-term loans receivable from employees	750	-
Long-term loans receivable from subsidiaries and associates	740,030	828,000
Prepaid pension costs	183,519	212,277
Deferred tax assets	728,547	911,607
Other	1,041,044	1,248,689
Allowance for doubtful accounts	(48,387)	(408,501)
Total investments and other assets	10,089,358	11,238,801
Total non-current assets	25,077,064	28,158,398
Total assets	45,721,261	49,508,428
Liabilities		
Current liabilities		
Accounts payable - trade	*1 989,613	*1 1,159,984
Accounts payable - other	*1 3,273,075	*1 3,797,900
Accrued expenses	431,993	454,798
Income taxes payable	1,332,777	1,263,767
Advances received	5,125	4,357
Deposits received	268,641	329,607
Provision for bonuses	480,844	549,238
Other	162,971	22,327
Total current liabilities	6,945,041	7,581,981
Non-current liabilities		
Asset retirement obligations	571,978	602,626
Other	75,448	74,032
Total non-current liabilities	647,426	676,659
Total liabilities	7,592,467	8,258,641

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Net assets		
Shareholders' equity		
Capital stock	2,000,000	2,000,000
Capital surplus		
Legal capital surplus	199,120	199,120
Other capital surplus	47,179	75,417
Total capital surplus	246,299	274,537
Retained earnings		
Legal retained earnings	300,880	300,880
Other retained earnings		
General reserve	3,500,000	3,500,000
Retained earnings brought forward	33,992,924	36,990,353
Total retained earnings	37,793,804	40,791,233
Treasury shares	(2,080,393)	(2,030,911)
Total shareholders' equity	37,959,710	41,034,858
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	100,262	214,928
Deferred gains or losses on hedges	68,821	-
Total valuation and translation adjustments	169,083	214,928
Total net assets	38,128,794	41,249,787
Total liabilities and net assets	45,721,261	49,508,428

2) Statements of Earnings

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Net sales	*1 39,237,623	*1 41,780,945
Cost of sales	*1 14,828,677	*1 16,215,637
Gross profit	24,408,945	25,565,308
Selling, general and administrative expenses	*1, *2 16,950,535	*1, *2 18,157,310
Operating income	7,458,410	7,407,997
Non-operating income		
Interest and dividend income	*1 43,230	*1 226,638
Foreign exchange gains	-	157,434
Miscellaneous income	*1 133,867	*1 168,387
Total non-operating income	177,098	552,460
Non-operating expenses		
Sales discounts	704,715	-
Miscellaneous losses	2,404	472
Total non-operating expenses	707,120	472
Ordinary income	6,928,387	7,959,986
Extraordinary income		
Gain on sales of non-current assets	56	684
Gain on sales of investment securities	19,087	448
Total extraordinary income	19,143	1,132
Extraordinary losses		
Loss on retirement of non-current assets	517	6,262
Loss on valuation of shares of subsidiaries and associates	43,959	49,000
Provision of allowance for doubtful accounts of loans receivable from subsidiaries and associates	-	362,414
Total extraordinary losses	44,477	417,676
Profit before income taxes	6,903,054	7,543,443
Income taxes - current	2,043,942	2,212,832
Income taxes - deferred	(127,211)	(203,274)
Total income taxes	1,916,730	2,009,557
Profit	4,986,323	5,533,885

Schedule of manufacturing costs

Category	Note	Previous fiscal year (From January 1, 2021 to December 31, 2021)		Current fiscal year (From January 1, 2022 to December 31, 2022)	
		Amount (Thousand yen)	Ratio (%)	Amount (Thousand yen)	Ratio (%)
I. Cost of raw materials		8,211,825	68.7	9,740,305	69.5
II. Cost of outsourced processing		1,390,343	11.6	1,659,198	11.8
III. Labor cost		975,609	8.2	1,035,166	7.4
(Provision for bonuses)		(65,006)		(75,208)	
IV. Expenses		1,367,462	11.5	1,572,281	11.2
(Depreciation)		(729,431)		(760,879)	
(Repair expenses)		(111,417)		(98,181)	
(Utility expenses)		(89,284)		(130,522)	
(Supplies expenses)		(95,680)		(98,494)	
Gross manufacturing cost for the fiscal year		11,945,240	100.0	14,006,951	100.0
Beginning of work in process		45,990		41,084	
Total		11,991,230		14,048,035	
Transfer to other account	*1	63,183		102,924	
Ending of work in process		41,084		39,422	
Cost of products manufactured		11,886,963		13,905,688	

(Footnote)

Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)																
<p>*1 Breakdown of the transfer to other account is as follows:</p> <table> <tr> <td>Promotion expenses</td> <td>56,604 thousand yen</td> </tr> <tr> <td>Research and development expenses</td> <td>6,174 thousand yen</td> </tr> <tr> <td>Other</td> <td>404 thousand yen</td> </tr> <tr> <td><u>Total</u></td> <td><u>63,183 thousand yen</u></td> </tr> </table>	Promotion expenses	56,604 thousand yen	Research and development expenses	6,174 thousand yen	Other	404 thousand yen	<u>Total</u>	<u>63,183 thousand yen</u>	<p>*1 Breakdown of the transfer to other account is as follows:</p> <table> <tr> <td>Promotion expenses</td> <td>92,920 thousand yen</td> </tr> <tr> <td>Research and development expenses</td> <td>8,333 thousand yen</td> </tr> <tr> <td>Other</td> <td>1,669 thousand yen</td> </tr> <tr> <td><u>Total</u></td> <td><u>102,924 thousand yen</u></td> </tr> </table>	Promotion expenses	92,920 thousand yen	Research and development expenses	8,333 thousand yen	Other	1,669 thousand yen	<u>Total</u>	<u>102,924 thousand yen</u>
Promotion expenses	56,604 thousand yen																
Research and development expenses	6,174 thousand yen																
Other	404 thousand yen																
<u>Total</u>	<u>63,183 thousand yen</u>																
Promotion expenses	92,920 thousand yen																
Research and development expenses	8,333 thousand yen																
Other	1,669 thousand yen																
<u>Total</u>	<u>102,924 thousand yen</u>																
<p>2. Method of calculation of costs</p> <p>The continuous process cost system is adopted.</p>	<p>2. Method of calculation of costs</p> <p>Same as the previous fiscal year</p>																

3) Statements of Changes in Shareholders' Equity

Previous fiscal year (from January 1, 2021 to December 31, 2021)

(Thousand yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at beginning of period	2,000,000	199,120	23,370	222,490	300,880	3,500,000	30,924,514	34,725,394
Changes of items during period								
Dividends of surplus							(1,917,914)	(1,917,914)
Profit							4,986,323	4,986,323
Purchase of treasury shares								
Disposal of treasury shares			23,809	23,809				
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	23,809	23,809	-	-	3,068,409	3,068,409
Balance at end of period	2,000,000	199,120	47,179	246,299	300,880	3,500,000	33,992,924	37,793,804

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of period	(2,108,947)	34,838,937	405,396	(1,206)	404,189	35,243,127
Changes of items during period						
Dividends of surplus		(1,917,914)				(1,917,914)
Profit		4,986,323				4,986,323
Purchase of treasury shares	(3,244)	(3,244)				(3,244)
Disposal of treasury shares	31,798	55,608				55,608
Net changes of items other than shareholders' equity			(305,133)	70,027	(235,105)	(235,105)
Total changes of items during period	28,553	3,120,772	(305,133)	70,027	(235,105)	2,885,666
Balance at end of period	(2,080,393)	37,959,710	100,262	68,821	169,083	38,128,794

Current fiscal year (from January 1, 2022 to December 31, 2022)

(Thousand yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						General reserve	Retained earnings brought forward	
Balance at beginning of period	2,000,000	199,120	47,179	246,299	300,880	3,500,000	33,992,924	37,793,804
Changes of items during period								
Dividends of surplus							(2,536,456)	(2,536,456)
Profit							5,533,885	5,533,885
Purchase of treasury shares								
Disposal of treasury shares			28,237	28,237				
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	28,237	28,237	-	-	2,997,429	2,997,429
Balance at end of period	2,000,000	199,120	75,417	274,537	300,880	3,500,000	36,990,353	40,791,233

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of period	(2,080,393)	37,959,710	100,262	68,821	169,083	38,128,794
Changes of items during period						
Dividends of surplus		(2,536,456)				(2,536,456)
Profit		5,533,885				5,533,885
Purchase of treasury shares	(1,350)	(1,350)				(1,350)
Disposal of treasury shares	50,832	79,069				79,069
Net changes of items other than shareholders' equity			114,665	(68,821)	45,844	45,844
Total changes of items during period	49,482	3,075,148	114,665	(68,821)	45,844	3,120,993
Balance at end of period	(2,030,911)	41,034,858	214,928	-	214,928	41,249,787

Notes to the Financial Statements

(Significant accounting policies)

1. Valuation standards and methods for assets

(1) Valuation standard and method for securities

(i) Held-to-maturity bonds

Stated using the amortized cost method

(ii) Shares of subsidiaries and shares of associates

Stated at cost using the moving-average method

(iii) Available-for-sale securities

Other than shares, etc., without market price

Stated at market value based on the market price, etc., at the fiscal year-end (unrealized gains and losses are reported as a separate component of net assets, and cost of sales is calculated by the moving-average method)

Shares, etc., without market price

Stated at cost using the moving-average method

(2) Valuation standards and methods for inventories

(i) Merchandise

Stated at cost using the weighted average method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

(ii) Finished goods and work in process

Stated at cost using the weighted average method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

(iii) Raw materials

Stated at cost using the weighted average method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

(iv) Supplies

Stated at cost using the last-purchase-price method (the balance sheet value is calculated using the inventory write-down method based on decreased profitability)

2. Depreciation and amortization methods for non-current assets

(1) Property, plant and equipment

They are depreciated using the straight-line method.

Useful lives of principal assets are as follows:

Buildings: 31 to 50 years

Machinery and equipment: 8 years

(2) Intangible assets

They are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over the estimated period of internal use (5 years).

3. Translation standards of assets and liabilities denominated in foreign currencies into Japanese yen

Foreign currency denominated monetary receivables and payables are translated into Japanese yen at the spot exchange rate at the fiscal year-end, and foreign exchange gains and losses from translation are recognized as profit or loss.

4. Accounting standards for allowances

(1) Allowance for doubtful accounts

To prepare for losses arising from uncollectible receivables, an allowance for doubtful accounts is recorded at an estimated uncollectible amount based on the historical rate of credit losses with respect to general receivables, and in consideration of individual collectability with respect to doubtful accounts and other specific receivables.

(2) Provision for bonuses

To provide for payment of bonuses to employees (including those for employees also serving as officers), a provision for bonuses is recorded based on the estimated payment amount.

(3) Provision for retirement benefits

To prepare for the payment of retirement benefits to employees, a provision for retirement benefits is recorded based on the estimated amount of retirement benefit obligations and plan assets at the end of the current fiscal year.

(i) Method of attributing expected retirement benefits to periods

In calculating retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the current fiscal year based on the benefit formula basis.

(ii) Method of amortizing actuarial differences and past service costs

Actuarial gains and losses are amortized using the straight-line method over a certain number of years (5 years) within the average remaining years of service of the eligible employees at the time of occurrence, starting from the fiscal year following the occurrence.

Prior service cost is amortized using the straight-line method over a certain number of years (5 years) within the average remaining years of service of the eligible employees at the time of occurrence.

5. Accounting standards for significant revenue and expenses

The principal performance obligations relating to revenue from contracts with customers of the Company, as well as the standard point at which such obligations are satisfied (i.e., the point at which revenue is recognized) are explained as follows.

The Company is engaged in the manufacturing and sale of cosmetic products. In terms of the sale of such goods or products, for domestic sales, revenue is recognized upon delivery of the goods or products to customers. For export sales, it is considered that the customer has acquired control over the products and goods when the risk burden is transferred to the customer based on the terms of trade stipulated by Incoterms, etc., and that the performance obligation has been satisfied; accordingly, revenue is recognized upon such transfer of the risk burden. However, for domestic sales, revenue is recognized at the time of shipment if the period from the time of shipment to the point at which control of the goods or products is transferred to the customer is the standard period.

Revenue is measured by the amount of consideration promised in the contract with the customer, less any applicable rebates and returns.

The transaction consideration is typically received within one month of the fulfillment of the performance obligation and does not contain any significant financial elements.

6. Other significant matters that serve as the basis for preparation of financial statements

Accounting methods for retirement benefits

The accounting methods for unrecognized actuarial gains and losses and unrecognized past service cost used for retirement benefits are different from those used in the consolidated financial statements.

(Significant accounting estimates)

Valuation of merchandise and finished goods

(1) Amount recorded in consolidated financial statements for the current fiscal year

(Thousand yen)

	Previous fiscal year	Current fiscal year
Merchandise and finished goods	3,031,256	4,034,129
Loss on valuation of inventories	78,046	254,786

(Note) The amount of loss on valuation of inventories represents the amount of write-down due to decreased profitability.

(2) Information to aid in understanding the details of accounting estimates

In the calculation using the method of write-down based on decreased profitability, regarding merchandise and finished goods, the planned annual shipment volume and the inventory volume at the end of the fiscal year are compared for each merchandise and finished good, and the amount of slow-moving inventories exceeding the planned shipment volume for a certain period is written down.

These accounting estimates may differ from the actual profitability if assumed circumstances change as they can be affected by changes in the future uncertain market environment and other factors.

(Changes in accounting policies)

(Change in valuation method for inventories)

The Company used the first-in first-out method for the valuation of merchandise; however, from the current fiscal year, we have changed to the cost method based on the weighted average method. This change in the valuation method is aimed at realizing a more appropriate calculation of periodic profit and loss by smoothing out the impact of fluctuations in purchase prices, triggered by an increase in overseas product purchases, etc.

As the impact of this change is immaterial, it has not been applied retrospectively.

(Application of accounting standard for fair value measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019; hereinafter referred to as the “Fair Value Measurement Standard”), etc., from the beginning of the current fiscal year, and under the transitional treatment stipulated in paragraph 19 of the Fair Value Measurement Standard and paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the new accounting policies stipulated by the Fair Value Measurement Standard, etc., will be applied in the future.

There is no impact on the financial statements.

(Changes in presentation methods)

(Application of accounting standard for revenue recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020; hereinafter referred to as the “Revenue Recognition Standard”), etc., from the beginning of the current fiscal year. With regard to the Revenue Recognition Standard, etc., issued on March 30, 2018, the Company applied them from the beginning of the fiscal year ended December 31, 2019.

In line with this, the Company has provided useful information in understanding revenue from contracts with customers in “Notes to the Consolidated Financial Statements (Revenue recognition).”

(Balance sheets)

*1 Monetary receivables and monetary payables related to subsidiaries and associates

Monetary receivables and monetary payables included in each account other than those presented separately are as follows:

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Shot-term monetary receivables	643,962	911,799
Shot-term monetary payables	217,957	218,889

*2 Treatment of notes due at the fiscal year-end

Notes due at the end of the fiscal year are treated as settled on the due date.

As the fiscal year-end fell on a holiday for financial institutions, the following notes due at the fiscal year-end are treated as settled on the due date.

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Notes receivable - trade	88,450	80,781

(Statements of earnings)

*1 Transactions with subsidiaries and associates

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Amount of operating transactions		
Net sales	4,691,979	5,333,992
Purchase amount	2,300,470	2,542,278
Other	15,324	311,952
Amount of non-operating transactions	49,291	275,531

*2 Approximate ratios of expenses included in selling expenses are 9.7% for the previous fiscal year and 9.8% for the current fiscal year, and those included in general and administrative expenses are 90.3% for the previous fiscal year and 90.2% for the current fiscal year.

Major expenses included in selling, general and administrative expenses and their amounts are as follows:

(Thousand yen)

	Previous fiscal year (From January 1, 2021 to December 31, 2021)	Current fiscal year (From January 1, 2022 to December 31, 2022)
Remuneration, salaries and allowances	4,598,139	4,798,376
Logistics expenses	2,858,206	2,743,662
Research and development expenses	1,744,223	2,108,860
Promotion expenses	829,828	932,097
Depreciation	778,770	823,036
Provision for bonuses	346,719	390,067
Retirement benefit expenses	293,508	273,695
Provision of allowance for doubtful accounts	115	-

(Securities)

Previous fiscal year (as of December 31, 2021)

The description of the market values of shares of subsidiaries and associates (amounts in the balance sheets: 1,946,246 thousand yen of shares of subsidiaries, 3,838,000 thousand yen of investments in capital of subsidiaries and associates, and 49,000 thousand yen of shares of associates) is omitted since they are shares, etc., without market price.

Current fiscal year (as of December 31, 2022)

The description of the market values of shares of subsidiaries and associates (amounts in the balance sheets: 2,213,793 thousand yen of shares of subsidiaries and 4,457,200 thousand yen of investments in capital of subsidiaries and associates) is omitted since they are shares, etc., without market price.

(Tax effect accounting)

1. Breakdown of major causes for deferred tax assets and deferred tax liabilities

(Thousand yen)

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Deferred tax assets		
Provision for bonuses	147,138	168,066
Loss on valuation of inventories	23,882	77,964
Accrued enterprise tax and business office tax	84,449	86,245
Accrued social insurance premiums	23,192	26,071
Depreciation	231,209	227,369
Allowance for doubtful accounts	14,806	125,001
Loss on valuation of investment securities	43	-
Loss on valuation of shares of subsidiaries and associates	179,738	194,732
Retirement benefits for directors (and other officers)	3,905	3,709
Asset retirement obligations	175,025	184,403
Restricted share-based compensation	33,167	40,422
Performance-linked compensation	30,420	24,051
Other	30,846	26,872
Total deferred tax assets	977,825	1,184,911
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(44,208)	(94,766)
Deferred gains or losses on hedges	(30,344)	-
Retirement cost for asset retirement obligations	(118,568)	(113,579)
Prepaid pension costs	(56,157)	(64,956)
Total deferred tax liabilities	(249,278)	(273,303)
Net deferred tax assets (liabilities)	728,547	911,607

2. Breakdown by item of major causes of significant difference between the effective statutory tax rate and the income tax rate after applying tax effect accounting

	Previous fiscal year (As of December 31, 2021)	Current fiscal year (As of December 31, 2022)
Effective statutory tax rate	30.6%	30.6%
(Adjustments)		
Items permanently excluded from deductible expenses such as entertainment expenses	0.9%	1.1%
Dividend income excluded from gross revenue	0.0%	(0.8)%
Inhabitant tax on per capita basis	0.4%	0.3%
Experimentation and research expenses tax credit	(3.3)%	(4.2)%
Salary increase tax credits	(0.6)%	(0.6)%
Other	(0.2)%	0.2%
Income tax rate after applying tax effect accounting	27.8%	26.6%

(Revenue recognition)

The description of useful information in understanding revenue from contracts with customers is omitted as it is provided in “Notes to the Financial Statements (Significant accounting policies), 5. Accounting standards for significant revenue and expenses.”

(Significant subsequent events)

Not applicable.

4) Supplementary schedules

Schedule of property, plant and equipment, etc.

(Thousand yen)

Category	Type of assets	Balance at beginning of period	Increase during period	Decrease during period	Depreciation (amortization) during period	Balance at end of period	Accumulated depreciation (amortization)
Property, plant and equipment	Buildings	6,085,512	296,307	83,090	407,087	5,958,847	5,645,984
	Structures	103,558	2,270	-	16,054	89,773	272,524
	Machinery and equipment	1,836,420	798,398	173,033	527,047	2,106,899	5,539,152
	Vehicles	14,174	4,234	3,662	5,485	10,288	38,549
	Tools, furniture and fixtures	628,788	325,922	207,154	312,373	642,177	2,344,086
	Land	4,879,893	1,444,199	-	-	6,324,093	-
	Construction in progress	153,740	2,281,371	2,157,170	-	277,940	-
	Total	13,702,088	5,152,703	2,624,111	1,268,049	15,410,019	13,840,297
Intangible assets	Software	1,151,587	503,101	2,452	460,558	1,194,130	2,973,803
	Other	134,030	518,101	336,441	245	315,446	9,172
	Total	1,285,618	1,021,203	338,894	460,803	1,509,577	2,982,976

(Note) Significant changes in non-current assets are as follows:

1. Major components of an increase in buildings of 296,307 thousand yen are 144,991 thousand yen of construction work for relocation of the Kobe Sales Office, 39,000 thousand yen of construction work for repair of unimplemented rooms on the first floor of the North Wing of the Yumegaoka Factory, and 32,324 thousand yen of construction work for renovation of the Saitama Sales Office.
2. A major component of an increase in machinery and equipment of 798,398 thousand yen is 369,273 thousand yen of wrapping and filling facilities at the Yumegaoka Factory.
3. A major component of an increase in tools, furniture and fixtures of 325,922 thousand yen is 22,145 thousand yen of fixtures associated with the relocation of the Kobe Sales Office.
4. An increase in land of 1,444,199 thousand yen is 1,444,199 thousand yen of expenses associated with the purchase of the land for the Human Resources Development Center.
5. A major component of an increase in construction in progress of 2,281,371 thousand yen is 1,453,696 thousand yen of expenses associated with the purchase of the land for the Human Resources Development Center.
6. A major component of a decrease in construction in progress of 2,157,170 thousand yen is 1,453,696 thousand yen of transfer associated with the purchase of the land for the Human Resources Development Center.
7. Major components of an increase in software of 503,101 thousand yen are 122,625 thousand yen for upgrading the sales management system, 102,225 thousand yen for the production instruction system, and 20,700 thousand yen for replacing the accounting system.

Schedule of provisions

(Thousand yen)

Account	Balance at beginning of period	Increase during period	Decrease during period	Balance at end of period
Allowance for doubtful accounts	48,387	362,414	2,300	408,501
Provision for bonuses	480,844	549,238	480,844	549,238

(2) Components of major assets and liabilities

This information is omitted since the Company prepares the consolidated financial statements.

(3) Others

Not applicable.

VI. Outline of Share-Related Administration of Reporting Company

Fiscal year	From January 1 to December 31
Ordinary General Meeting of Shareholders	During March
Record date	December 31
Record date for distribution of surplus	June 30 and December 31
Number of shares constituting one unit	100 shares
Purchase and sale of shares less than one unit	
Handling office	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Administrator of shareholder registry	(Special account) 1-4-1 Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Transfer office	-
Purchase / sale fee	An amount set separately equivalent to the amount of brokerage commission
Method of public notice	The method of public notice of the Company shall be by electronic public notice. However, in the event that electronic public notice becomes impossible due to unavoidable circumstances, announcements will be published in the Nikkei. Electronic public notices are posted on the Company's website, which may be accessed with the following URL. https://www.milbon.com/en/
Shareholder benefits	We have a shareholder benefit program where bonus points are awarded based on the number of shares held and the holding period of the shares.

(Note) We have stipulated in our Articles of Incorporation that shareholders of shares constituting less than one unit may not exercise some or all rights, other than the following rights.

- (1) The rights which cannot be restricted by the Articles of Incorporation in accordance with relevant laws and ordinances.
- (2) The right to receive an allotment of shares or share purchase options in proportion to the number of shares owned by shareholders.
- (3) The right to request the purchase of shares constituting less than one unit.

VII. Reference Information of Reporting Company

1. Information about Parent of Reporting Company

Not applicable.

2. Other Reference Information

The Company submitted the following documents during the period from the beginning of the current fiscal year to the date of submission of the annual securities report.

- (1) Annual securities report and attached documents, and confirmation document
Fiscal year (62nd Term) (From January 1, 2021 to December 31, 2021) Submitted to the Director-General of the Kinki Local Finance Bureau on March 29, 2022
- (2) Internal control report and attached documents
Submitted to the Director-General of the Kinki Local Finance Bureau on March 29, 2022
- (3) Quarterly securities reports and confirmation documents
(The 1st Quarter of 63rd Term) (From January 1, 2022 to March 31, 2022) Submitted to the Director-General of the Kinki Local Finance Bureau on May 13, 2022

(The 2nd Quarter of 63rd Term) (From April 1, 2022 to June 30, 2022) Submitted to the Director-General of the Kinki Local Finance Bureau on August 10, 2022

(The 3rd Quarter of 63rd Term) (From July 1, 2022 to September 30, 2022) Submitted to the Director-General of the Kinki Local Finance Bureau on November 11, 2022
- (4) Extraordinary report
 - (i) Submitted to the Director-General of the Kinki Local Finance Bureau on March 30, 2022.
The extraordinary report was submitted based on the provisions of Article 19, Paragraph 2, Item 9-2 (Results of exercise of voting rights at a general meeting of shareholders) of the Cabinet Office Order on Disclosure of Corporate Affairs.
 - (ii) Submitted to the Director-General of the Kinki Local Finance Bureau on June 2, 2022.
The extraordinary report was submitted based on the provisions of Article 19, Paragraph 2, Item 3 (Change to a specified subsidiary company) of the Cabinet Office Order on Disclosure of Corporate Affairs.

Part 2 Information about Reporting Company's Guarantor, etc.

Not applicable.

Independent Auditor's Report on the Financial Statements
and Internal Control Over Financial Reporting

March 29, 2023

To the Board of Directors of Milbon Co., Ltd.

GYOSEI & CO.
Tokyo Office

Designated partner Engagement partner	Certified public accountant	Takayuki Nakagawa
Designated partner Engagement partner	Certified public accountant	Toshiya Shinshima

<Audit of Financial Statements>

Opinion

We have audited Milbon Co., Ltd.'s consolidated financial statements referred to in the Financial Information section of this annual securities report for the consolidated fiscal year from January 1, 2022 to December 31, 2022, which comprise the consolidated balance sheets, consolidated statement of income, consolidated statement of comprehensive income, consolidated statements of changes in net assets, consolidated statements of cash flows, material matters that serve as the basis for preparation of consolidated financial statements, other notes, and annexed consolidated detailed schedules, in order to certify the audit pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Milbon Co., Ltd. and its consolidated subsidiaries as of December 31, 2022, and the results of its operations and cash flows for the consolidated fiscal year then ended, in accordance with accounting principles generally accepted in Japan.

Basis for the Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in Auditor's Responsibility for the Audit of the Consolidated Financial Statements. We are independent of the Company and its consolidated subsidiaries in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Key Audit Matter

A key audit matter is a matter, in our professional judgments, which is of most significance in our audit of the consolidated financial statements for the current consolidated fiscal year. The key audit matter is addressed in the context of our audit of the consolidated financial statements as a whole, and informing our opinion thereon, and we do not provide a separate opinion on this matter.

Valuation of the merchandise and finished goods of Milbon Co., Ltd.	
Description of the key audit matter and reason for determination as key audit matter	How the key audit matter was addressed in the audit
<p>In the consolidated balance sheets for the current fiscal year, 6,319,121 thousand yen has been reported under merchandise and finished goods, of which the merchandise and finished goods of Milbon Co., Ltd. account for 4,034,129 thousand yen.</p> <p>The balance sheet value of merchandise and finished goods was calculated using the inventory write-down method based on decreased profitability, as stated in 4 (1) Valuation standards and methods for significant assets under Significant matters that serve as the basis for preparation of consolidated financial statements.</p> <p>The Company manufactures and sells hair care products, hair coloring products, permanent wave products, etc., and holds various types of merchandise and finished goods. In certain cases, merchandise and finished goods fail to sell as planned and remain due to market demand, competition from peers and other factors.</p> <p>The Company, as stated in its (Significant accounting estimates), has primarily been reducing the carrying amounts of slow-moving inventory that exceeds the planned shipment volume for a certain period, and this shipping plan carries a high level of uncertainty, thus requiring the subjective judgment of management.</p> <p>We, therefore, determined that the valuation of the merchandise and finished goods of Milbon Co., Ltd. was a particularly important element in the audit of the consolidated financial statements for the current fiscal year and hence a key audit matter.</p>	<p>To verify the validity of the valuation of the merchandise and finished goods, we primarily implemented the following audit procedures.</p> <p>(1) Assessment of internal controls</p> <ul style="list-style-type: none"> We assessed the status of design and operation of internal controls related to the valuation of slow-moving inventory. <p>(2) Examination of the validity of the valuation of slow-moving inventory</p> <ul style="list-style-type: none"> We assessed the accuracy of management's estimates by comparing the shipping plans of prior years with the actual shipment volume for the current year and examined the reasons for their difference. We obtained the shipping plan for each merchandise and finished goods for the following year, questioned management on the risk factors which could impact the achievability of this shipping plan. We also carried out a trend analysis based on past results as well as a comparative study with available outside data. We verified that the shipping plan for each merchandise and finished goods was consistent with next year's budget approved by the Board of Directors and the Medium-Term Management Plan. By carrying out a recalculation based on the valuation method used by the Company, we verified the validity of the amount reported as a valuation loss.

Other Information

The other information comprises the information included in the annual securities report other than the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and disclosure of the other information. The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Board Directors' performance of their duties with regard to the design and operation of the reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility in our audit of the consolidated financial statements is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, the Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the presentation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the execution of the

duties of Executive Officers and Board Directors related to designing and operating the financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on the consolidated financial statements from an independent standpoint in an audit report, based on our audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or collectively, influence the decisions of users taken on the basis of the consolidated financial statements.

We make professional judgments in the audit process in accordance with auditing standards generally accepted in Japan, and perform the following while maintaining professional skepticism.

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for the audit opinion.
- In making those risk assessments, the auditor considers internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate for management to prepare the consolidated financial statements on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the consolidated financial statements in the audit report, or if the notes to the consolidated financial statements pertaining to the significant uncertainty are inappropriate, issue a modified opinion on the consolidated financial statements. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.
- Besides assessing whether the presentation of and notes to the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, assess the presentation, structure, and content of the consolidated financial statements including related notes, and whether the consolidated financial statements fairly present the transactions and accounting events on which they are based.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries in order to express an opinion on the consolidated financial statements. The auditor is responsible for instructing, supervising, and implementing the audit of the consolidated financial statements, and is solely responsible for the audit opinion.

The auditor reports to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the scope and timing of implementation of the planned audit, material audit findings including material weaknesses in internal control identified in the course of the audit, and other matters required under the auditing standards.

The auditor reports to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the observance of provisions related to professional ethics in Japan as well as matters that are reasonably considered to have an impact on the auditor's independence and any safeguards that are in place to reduce or eliminate obstacles.

From the matters discussed with the Audit & Supervisory Board Members and the Audit & Supervisory Board, the auditor judges the matter that is of most significance in the audit of the consolidated financial statements of the current consolidated fiscal year and determines it as the key audit matter, and describes the matter in the auditor's report. However, in the event that laws and regulations preclude public disclosure about the matter or when, in extremely rare circumstances, the auditor determined that a matter should not be reported in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such report, such matter shall not be described in the report.

<Audit of Internal Control>

Opinion

We have audited the internal control report over financial reporting of Milbon Co., Ltd. as of December 31, 2022 in order to certify the audit pursuant to Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act.

In our opinion, the report on internal control over financial reporting referred to above, which shows that the internal control over financial reporting of Milbon Co., Ltd. as of December 31, 2022 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for the Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibility under the auditing standards for internal control over financial reporting is stated in Auditors' Responsibilities for the Internal Audit. We are independent of the Company and its consolidated subsidiaries in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Responsibilities of Management, Audit & Supervisory Board Member and the Audit & Supervisory Board for Report on Internal Control Management is responsible for designing and operating effective internal control over financial reporting and for the preparation and fair representation of the internal control report in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring and verifying the design and operating status of internal control over financial reporting.

There is a possibility that misstatements may not be completely prevented or detected by internal control over financial reporting.

Auditor's Responsibility for the Audit of the Internal Control

Our responsibility is to obtain reasonable assurance about whether the internal control report is free from material misstatement, and to express an opinion on the internal control report from an independent standpoint in an audit report on the internal control over financial reporting, based on our audit.

We make professional judgments in the audit process in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, and perform the following while maintaining professional skepticism.

- Perform audit procedures to obtain audit evidence regarding the results of the assessment of internal control over financial reporting in the internal control report. Audit procedures for internal control audits are selected and applied at the auditor's discretion, based on the materiality of the effect on the reliability of financial reporting.
- Examine representations on the scope, procedures, and results of the assessment of internal control over financial reporting made by management, as well as consider the overall presentation of the internal control report.
- Obtain sufficient and appropriate audit evidence regarding the results of the assessment of internal control over financial reporting in the internal control report. The auditor is responsible for instructing, supervising, and implementing the audit of the internal control report, and is solely responsible for the audit opinion.

The auditor reports to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the scope and timing of implementation of the planned internal control audit, the results of internal control audit, material weaknesses identified which should be disclosed, the results of their remediation, and other matters required under the internal control auditing standards.

The auditor reports to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the observance of provisions related to professional ethics in Japan as well as matters that are reasonably considered to have an impact on the auditor's independence and any safeguards that are in place to reduce or eliminate obstacles.

Interest

Our firm and engagement partners have no interests in the Company or its consolidated subsidiaries requiring disclosure under the provisions of the Certified Public Accountants Act of Japan.

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- (Notes)
1. The above is the digitized form of the matters described in the original audit report, and the original copy is in the custody of the Company (the company submitting the annual securities report).
 2. XBRL data are not in the audit scope of the Independent Auditor.
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Independent Auditor's Report

March 29, 2023

To the Board of Directors of Milbon Co., Ltd.

GYOSEI & CO.

Tokyo Office

Designated partner Engagement partner	Certified public accountant	Takayuki Nakagawa
Designated partner Engagement partner	Certified public accountant	Toshiya Shinshima

Opinion

We have audited Milbon Co., Ltd.'s financial statements referred to in the Financial Information section of this annual securities report for the fiscal year from January 1, 2022 to December 31, 2022, which comprise the balance sheets, statement of income, statements of changes in net assets, significant accounting policies, other notes, and annexed detailed schedules, in order to certify the audit pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Milbon Co., Ltd. as of December 31, 2022, and the results of its operations for the fiscal year then ended, in accordance with accounting principles generally accepted in Japan.

Basis for the Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in Auditor's Responsibility for the Audit of the Financial Statements. We are independent of the Company in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

Key Audit Matter

A key audit matter is a matter, in our professional judgments, which is of most significance in our audit of the financial statements for the current fiscal year. The key audit matter is addressed in the context of our audit of the financial statements as a whole, and informing our opinion thereon, and we do not provide a separate opinion on the matter.

Valuation of the merchandise and finished goods of Milbon Co., Ltd.

The description is omitted since it is the same as the description of the key audit matter (Valuation of the merchandise and finished goods of Milbon Co., Ltd.) in the Independent Auditor's Report on the consolidated financial statements.
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Other Information

The other information comprises the information included in the annual securities report other than the consolidated financial statements, the financial statements, and our auditor's reports thereon. Management is responsible for the preparation and disclosure of the other information. The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for overseeing the Board Directors' performance of their duties with regard to the design and operation of the reporting process of the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

Our responsibility in our audit of the financial statements is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing whether it is appropriate to prepare the financial statement in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

The Audit & Supervisory Board Members and the Audit & Supervisory Board are responsible for monitoring the execution of the duties of Executive Officers and Board Directors related to designing and operating the financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on the financial statements from an independent standpoint in an audit report, based on our audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or collectively, influence the decisions of users taken on the basis of the consolidated financial statements.

We make professional judgments in the audit process in accordance with auditing standards generally accepted in Japan, and perform the following while maintaining professional skepticism.

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for the audit opinion.
- In making those risk assessments, the auditor considers internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the financial statements is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate for management to prepare the financial statements on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the financial statements in the audit report, or if the notes to the financial statements pertaining to the significant uncertainty are inappropriate, issue a modified opinion on the financial statements. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.
- Besides assessing whether the presentation of and notes to the financial statements are in accordance with accounting principles generally accepted in Japan, assess the presentation, structure, and content of the financial statements including related notes, and whether the financial statements fairly present the transactions and accounting events on which they are based.

The auditor reports to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the scope and timing of implementation of the planned audit, material audit findings including material weaknesses in internal control identified in the course of the audit, and other matters required under the auditing standards.

The auditor reports to the Audit & Supervisory Board Members and the Audit & Supervisory Board regarding the observance of provisions related to professional ethics in Japan as well as matters that are reasonably considered to have an impact on the auditor's independence and any safeguards that are in place to reduce or eliminate obstacles.

From the matters discussed with the Audit & Supervisory Board Members and the Audit & Supervisory Board, the auditor judges the matter that is of most significance in the audit of the financial statements of the current fiscal year and determines it as the key audit matter, and describes the matter in the auditor's report. However, in the event that laws and regulations preclude public disclosure about the matter or when, in extremely rare circumstances, the auditor determined that a matter should not be reported in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such report, such matter shall not be described in the report.

Interest

Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Act of Japan.

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- (Notes) 1. The above is the digitized form of the matters described in the original audit report, and the original copy is in the custody of the Company (the company submitting the annual securities report).
2. XBRL data are not in the audit scope of the Independent Auditor.