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Annual Securities Report

Milbon Co., Ltd.

E01039

The 62nd Fiscal Year (from January 1, 2021 to December 31, 2021)

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, 2022
[Accounting Period]	The 62nd Fiscal Year (from January 1, 2021 to December 31, 2021)
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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		58th	59th	60th	61st	62nd
Year End		Dec. 2017	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021
Net sales	(thousand yen)	33,456,268	33,882,496	36,266,444	35,725,069	41,582,267
Ordinary income	(thousand yen)	4,997,783	5,811,372	6,231,538	5,791,315	7,158,440
Profit attributable to owners of parent	(thousand yen)	3,817,186	4,495,417	4,517,615	4,204,139	5,109,288
Comprehensive income	(thousand yen)	4,715,795	3,689,484	4,601,226	3,776,739	5,754,382
Net assets	(thousand yen)	31,103,366	33,151,797	35,882,612	36,308,349	40,197,181
Total assets	(thousand yen)	37,642,605	39,634,942	41,912,194	43,075,520	48,238,490
Net assets per share	(Yen)	949.99	1,012.58	1,096.02	1,117.10	1,236.41
Basic earnings per share	(Yen)	116.58	137.31	137.99	129.24	157.17
Diluted earnings per share	(Yen)	-	-	-	-	-
Equity ratio	(%)	82.6	83.6	85.6	84.3	83.3
Return on equity	(%)	13.0	14.0	13.1	11.6	13.4
Price earnings ratio	(Times)	32.5	32.6	44.9	50.8	36.3
Cash flows from operating activities	(thousand yen)	4,346,858	6,487,332	4,486,862	6,548,116	6,636,823
Cash flows from investing activities	(thousand yen)	(1,919,858)	(1,202,149)	(2,777,709)	(161,779)	(3,995,279)
Cash flows from financing activities	(thousand yen)	(1,317,850)	(1,639,203)	(1,869,274)	(3,416,124)	(1,919,749)
Cash and cash equivalents at end of period	(thousand yen)	5,928,017	9,541,483	9,376,300	12,307,591	13,312,634
Number of employees	(Persons)	805	856	910	975	1,038

(Notes) 1. Consumption taxes, etc., are not included in net sales.

2. Diluted earnings per share is not shown since there are no dilutive shares.

3. The 58th fiscal year was irregularly closed, and the financial figures are for the 12 months and 11 days from December 21, 2016 to December 31, 2017. In addition, upon consolidation, the figures for overseas consolidated subsidiaries are based on the non-consolidated financial figures for the 15-month period from October 1, 2016 to December 31, 2017.

4. On January 1, 2018, the Company conducted a 2-for-1 stock split of its common stock. Accordingly, net assets per share and basic earnings per share are calculated on the assumption that the stock split was conducted at the beginning of the 58th fiscal year.

5. The “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 30, 2018) and the “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018) were adopted 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 standards.

6. 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		58th	59th	60th	61st	62nd
Year End		Dec. 2017	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021
Net sales	(thousand yen)	30,850,878	31,717,731	34,085,114	33,651,807	39,237,623
Ordinary income	(thousand yen)	4,546,056	5,203,303	5,825,268	5,584,059	6,928,387
Profit	(thousand yen)	3,455,184	4,037,824	4,236,159	3,842,075	4,986,323
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)	16,558,617	33,117,234	33,117,234	33,117,234	33,117,234
Net assets	(thousand yen)	30,917,365	32,841,818	35,120,946	35,243,127	38,128,794
Total assets	(thousand yen)	37,271,321	39,135,985	40,962,412	41,650,835	45,721,261
Net assets per share	(Yen)	944.31	1,003.12	1,072.76	1,084.32	1,172.79
Dividend per share (Interim dividend per share)	(Yen)	92.00 (40.00)	54.00 (24.00)	56.00 (27.00)	56.00 (27.00)	68.00 (30.00)
Basic earnings per share	(Yen)	105.53	123.33	129.39	118.11	153.38
Diluted earnings per share	(Yen)	-	-	-	-	-
Equity ratio	(%)	83.0	83.9	85.7	84.6	83.4
Return on equity	(%)	11.7	12.7	12.5	10.9	13.6
Price earnings ratio	(Times)	35.9	36.2	47.9	55.6	37.2
Dividend payout ratio	(%)	87.2	43.8	43.3	47.4	44.3
Number of employees	(Persons)	633	674	723	765	810
Total shareholder return (Comparison indicators: Dividend Included TOPIX)	(%)	175.1 (119.7)	208.3 (100.6)	289.0 (118.8)	308.3 (127.6)	270.3 (143.9)
Highest share price	(Yen)	8,280 □ 3,890	5,880	6,500	6,690	7,270
Lowest share price	(Yen)	4,235 □ 3,760	3,340	4,245	4,280	5,510

- (Notes) 1. Consumption taxes, etc., are not included in net sales.
2. Diluted earnings per share is not shown since there are no dilutive shares.
3. The 58th fiscal year was irregularly closed, and the financial figures are for the 12 months and 11 days from December 21, 2016 to December 31, 2017.
4. The “□” signs in the 58th fiscal year represent the highest and lowest share prices after ex-rights due to a stock split (2-for-1 stock split on January 1, 2018).
5. On January 1, 2018, the Company conducted a 2-for-1 stock split of its common stock. Accordingly, net assets per share and basic earnings per share are calculated on the assumption that the stock split was conducted at the beginning of the 58th fiscal year.
6. The “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018) and the “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018) were adopted 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 standards.
7. 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.

8. Highest and lowest share prices are those on the First Section of the Tokyo Stock Exchange.

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.
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 to Nishi-ku, Osaka.
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 "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

(Note) Studios are training venue for stylists.

3. Business Description

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

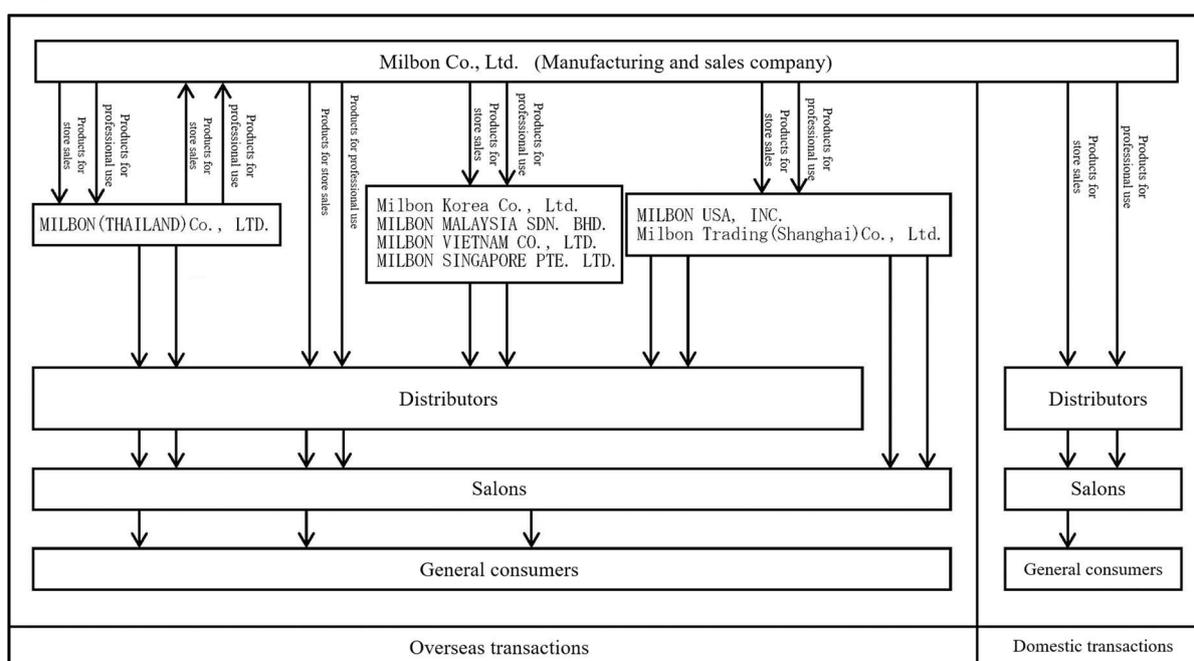
The Group's business is not described in terms of segments, as it consists of the above-mentioned single segment.

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	Rods, rollers, straightening irons, schedule organizers

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

(Diagram of business activities)



- (Notes)
1. Overseas transactions differ in sales channels depending on the country.
 2. The main items for store sales are hair care products.
 3. Milbon (Zhejiang) Cosmetics Co., Ltd. is not shown in the above business diagram because it is not engaged in production or sales as of the end of Fiscal Year 2021.

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 subsidiaries) 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 subsidiaries) 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 subsidiaries) 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. Three executives hold concurrent posts at the Company
(Consolidated subsidiaries) 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 subsidiaries) 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 subsidiaries) MILBON VIETNAM CO., LTD.	Vietnam Ho Chi Minh City	VND 22,594 million	Sale of hair products	100.0	Sells the Company's hair products in Vietnam.
(Consolidated subsidiaries) MILBON SINGAPORE PTE. LTD.	Singapore	SGD 250,000	Sale of hair products	100.0	Sells the Company's hair products in Singapore.
(Consolidated subsidiaries) 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.

(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, 2021

Number of employees
1,038

- (Notes)
1. The number of employees refers to full-time employees and does not include 50 part-time employees, 23 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, 2021

Number of employees	Average age (years old)	Average length of service (years)	Average annual salary (thousand yen)
810	35.2	10.3	6,959

- (Notes)
1. The number of employees refers to full-time employees and does not include 50 part-time employees, 23 associate employees, and 21 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) Basic policy (summary)

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 1) to 3) below.

1) 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.

2) 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.

3) 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) Specific initiatives to realize the basic policy (summary)

Starting from Fiscal Year 2022 (63rd fiscal year), the Group has formulated a new 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 Concept,” a new form of beauty salon, and the “Five Key Sustainability Challenges,” centered on the realization of spiritual enrichment through beauty.

The “Beauty Platform Concept” 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 “Beauty Life Care Strategy,” which is composed of three care concepts: hair care, skin care, and beauty health care.

We have set the following challenges as “Five Key Sustainability Challenges” and are working on them: (1) realize spiritual richness through beauty, (2) promote regenerative and recycling-oriented production and consumption activities, (3) practice people-friendly procurement activities, (4) establish a fair and flexible management structure, and (5) 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.

<Milbon Global Vision>

To become the world’s No. 1 professional hair care manufacturer through our dedication and educational support toward local beauty industries across the globe.

<Greater cause>

By creating a new global field of beauty, Milbon will contribute to solving social problems in countries and regions around the world by creating a society where people can shine and coexist, and where local cultures can flourish.

In other words, we will create sustainable social and economic value and build relationships of trust with all stakeholders.

<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.

The Group implements corporate governance that emphasizes transparency and fairness in management. Furthermore, we believe that proactive disclosure of information will increase trust in the company and lead to higher corporate value.

The Company has adopted an Audit & Supervisory Board Members system and currently has nine Board Directors (including two Outside Board Directors) and three Audit & Supervisory Board Members (including two Outside Audit & Supervisory Board Members). In addition, through an advisory agreement with outside experts, the Company has established a system to incorporate the opinions of outside experts as appropriate.

(3) Issues to be addressed

- 1) In the sales system, to further evolve the Field Person Strategy, we will select and concentrate field activities and promote the creation of Milbon salons that serve as models of activities and results by improving the quality of sales activities and educational support to beauty salons.
- 2) In product development, we will further develop the TAC (Target Authority Customer) Product Development System, which quickly identifies changes in hair design trends and applies them to product development.
- 3) We will improve our product development technologies by identifying potential customer needs and conducting basic fundamental research to meet those needs.
- 4) We will build a product supply system that meets the needs of each region by improving the production capacity of domestic and overseas factories and promoting more efficient logistics systems.
- 5) In order to implement our global vision, we will develop human resources and create a framework that will enable us to be active on a global scale, foster executives with a management mindset, and train specialists.

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.

(1) Risks Related to COVID-19

With the global spread of COVID-19, the Japanese government has taken measures to restrict socio-economic activities in Japan and other countries in which it operates, which could have a significant impact on the Group's operating results and other factors.

In the beauty market in which we operate, the reversal of the flow of people in residential areas and urban centers and changes in consumption behavior are evident. In addition to the urgent issues that originally existed, such as the declining birthrate, the aging of society, and the declining population, structural issues such as the trend toward smaller salons and the prolonged cycle of store visits are becoming more apparent.

Corporate Administration Department plays a central role in gathering and responding to these risks, and we flexibly decide on our response policies while giving top priority to ensuring the health and safety of our business partners and employees in the Group. As part of our efforts to prevent the spread of infections, we are implementing safety measures for all Group employees, including active use of telecommuting and staggered commuting, and online implementation of meetings and other measures. In addition, we formulated guidelines for COVID-19, and established a system to enable swift responses in the event where employees or persons concerned are infected.

(2) Risks associated with global expansion

The Milbon Group is aggressively expanding its business in overseas markets. In overseas business development, there are inherent risks such as risks related to intellectual property rights, including counterfeit products, unexpected changes in laws and regulations in each country, and social turmoil due to terrorism, war, and other factors. These various risks may have a significant impact on the Group's operating results and other factors.

In response to these risks, the Group gathers information on political, economic and social conditions in each country in which it operates, as well as laws and regulations related to the Group's businesses in each country, on a daily basis, and then responds as necessary.

(3) Information security

Through its business activities, the Group possesses important information, such as business-related transaction information and confidential information. With regard to this information, incidents such as unauthorized misappropriation of third parties due to theft or loss, violations of laws and regulations, cyber-attacks that exceed expectations, and other unforeseen situations could result in the destruction or falsification of important data, information leaks, leakage, or system shutdowns. These threats are increasing year by year. As a result, the Group's operating results and other factors could be significantly affected.

In response to this risk, we have established a management system and rules related to information security, and has taken measures to combat cyber-attacks, strengthen IT governance, and take other advanced measures, including employee training to increase information literacy, management of subcontractors, warnings concerning the handling of information, analysis of risk cases, response to stricter laws and regulations, including the protection of personal information, and reinforcement of technical measures.

(4) Risks associated with debt collection

The Milbon Group has credit risk receivables such as trade receivables from customers. Deterioration in the creditworthiness of customers or business failures could have a significant impact on the Group's operating results and other factors.

In response to this risk, the Group strives to minimize the risk of collection of receivables by collecting information, setting certain internal standards, and managing receivables separately from each company in order to strictly manage credit. In addition, the Group takes measures to protect receivables, such as entering into customer credit guarantee agreements with financial institutions.

(5) Risks associated with major accidents

The Milbon Group utilizes company vehicles to carry out sales and other activities to the customers. In the event of a major traffic accident, the trust of customers and social credibility may be lost which could have a significant impact on the Group's

operating results and other factors.

In response to these risks, we are implementing safety measures that give top priority to respect for human life, such as thorough operational management and enhanced safety education.

(6) Risks associated with product-related health hazards

Many Milbon Group products come into direct contact with the scalp and skin of consumers. In the event of an unexpected and serious health hazard or quality defect caused by our products, the trust of our customers and social credibility may be lost, which could have a significant impact on the Group's operating results and other factors.

In response to these risks, we have established a safety management system in which divisions in charge of safety and quality assurance confirm the design and quality control status of products manufactured and sold to related divisions.

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

(1) Overview of Operating Results, etc.

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 is as follows.

(i) Financial position and operating results

During the fiscal year under review, the economy continued to face severe conditions as socioeconomic activities were restricted due to the launch of repeated emergency declarations associated with the spread of COVID-19 from October onwards, the number of people with infections declined due to the spread of vaccines, and there were signs of a recovery in economic activities. However, the number of people with infections of new variant is on the rise recently, and we cannot be optimistic about the future.

In the beauty industry, COVID-19 prompted a rapid surfacing of the importance of incorporating consumers’ perspectives in line with changes in people’s behavioral patterns and values, and the need for digital-based transformation even though salon management is part of the real world. Recognizing the urgent need to respond to this change, our Group has been working on “Change the Stage 18-Month Missions!” as a period to build a foundation for the new Medium-Term Management Plan (2022-2026).

In the fiscal year under review, the domestic market continued to receive a strong reputation for field activities that combine online and brick-and-mortar sales to salons amid COVID-19. In the hair care products category, sales of premium-brand Aujua and milbon were favorable due in part to the introduction of new products that capture demand and the impact of milbon:iD, our official online store. In the hair coloring products category, sales of Ordeve Addicthy fashion color continued to be steady. In overseas markets, sales in China and South Korea continued to be steady, and sales in the U.S. also grew significantly as economic activities resumed and collaboration with distributors progressed.

As a result, the financial position and operating results for the current fiscal year were as follows.

a. Financial position

Total assets at the end of the current fiscal year increased 5,162 million yen from the end of the previous fiscal year to 48,238 million yen.

Total liabilities at the end of the current fiscal year increased 1,274 million yen from the end of the previous fiscal year to 8,041 million yen.

Net assets at the end of the current fiscal year increased 3,888 million yen from the end of the previous fiscal year to 40,197 million yen.

b. Operating results

In terms of the operating results for the current fiscal year, net sales increased 16.4% year on year to 41,582 million yen, operating income increased 22.3% to 7,817 million yen, ordinary income increased 23.6% to 7,158 million yen, and profit attributable to owners of parent increased 21.5% to 5,109 million yen. As for domestic and overseas sales by category, domestic sales increased 12.6% to 33,643 million yen and overseas sales increased 35.8% to 7,938 million yen.

(ii) Cash flows

Cash and cash equivalents (“funds”) at the end of the fiscal year under review increased by 1,005 million yen from the end of the previous fiscal year to 13,312 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 6,636 million yen. This was mainly due to the recording of income before income taxes of 7,133 million yen, depreciation and amortization of 1,777 million yen, equity in losses of affiliates of 151 million yen, an increase in notes and accounts receivable-trade of 467 million yen, an increase in inventories of 612 million yen, and income taxes paid of 195 million yen.

(Cash flows from investing activities)

Net cash used in investing activities was 3,995 million yen. This was mainly due to expenditures of 3,827 million yen for the purchase of tangible fixed assets, 659 million yen for the purchase of intangible fixed assets, proceeds of 200 million yen from the redemption of investment securities, and proceeds of 472 million yen from the sale of investment securities.

(Cash flows from financing activities)

Net cash used in financing activities was 1,919 million yen. This was mainly due to dividends paid to shareholders of 1,916 million yen.

(iii) Production, orders, and sales results

1) 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, 2021 to December 31, 2021)	Change (%)
Hair care products	29,211,908	22.2
Hair coloring products	14,697,843	17.0
Permanent wave products	1,550,630	(11.5)
Other	274,332	28.6
Total	45,734,715	19.0

(Note) Amounts are based on selling prices and do not include consumption taxes, etc.

2) 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, 2021 to December 31, 2021)	Change (%)
Hair care products	24,466,607	15.8
Hair coloring products	14,813,209	17.6
Permanent wave products	1,449,411	5.6
Cosmetic products	579,594	60.6
Other	273,444	4.3
Total	41,582,267	16.4

(Notes) 1. 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, 2020 to December 31, 2020)		Current fiscal year (From January 1, 2021 to December 31, 2021)	
	Amount (million yen)	Ratio (%)	Amount (million yen)	Ratio (%)
Topy Co., Ltd.	4,107	11.5	4,532	10.9
GAMO Co., Ltd.	3,222	9.0	3,628	8.7
BIC HOLDINGS Inc.	3,165	8.9	3,194	7.7

2. The above amounts do not include consumption taxes, etc.

(2) Analysis and Discussion of Operating Results, etc., from Management's Perspective

The following is a summary of recognition, analysis, and discussion of the Group's operating results from the perspective of management.

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.

(i) 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."

(ii) Recognition, analysis and discussion of the status of operating results, etc.

a. Operating results etc.

1) Financial position

Total assets at the end of the fiscal year under review increased 5,162 million yen from the end of the previous fiscal year to 48,238 million yen.

Current assets increased by 2,778 million yen from the end of the previous fiscal year to 24,900 million yen. This was mainly due to increases of 1,005 million yen in cash and deposits, 545 million yen in merchandise and finished goods, 473 million yen in notes and accounts receivable-trade, and 183 million yen in raw materials and supplies.

Non-current assets increased by 2,384 million yen from the end of the previous fiscal year to 23,337 million yen. Major contributing factors included an increase of 2,950 million yen in property, plant and equipment due to the construction of a new factory in China and the expansion of a factory in Milbon Thailand, and a decrease of 1,325 million yen in investment securities due to the sale of a portion of investment securities held and a decrease in unrealized gains on the market value of listed shares.

Current liabilities increased by 1,209 million yen from the end of the previous fiscal year to 7,310 million yen. The main factors for the change were increases of 764 million yen in accounts payable-other, 296 million yen in income taxes payable, and 147 million yen in accounts payable-trade.

Non-current liabilities increased by 64 million yen from the end of the previous fiscal year to 731 million yen.

Net assets increased by 3,888 million yen from the end of the previous fiscal year to 40,197 million yen. The main factors for the change were increases of 3,191 million yen in retained earnings and 702 million yen in foreign currency translation adjustment due to the depreciation of the yen, and a decrease of 305 million yen in valuation difference on available-for-sale securities due to a decrease in unrealized gains on market value of listed stocks.

As a result, the equity ratio changed from 84.3% at the end of the previous fiscal year to 83.3%. Net assets per share based on the total number of shares issued at the end of the fiscal year were 1,236.41 yen, compared to 1,117.10 yen at the end of the previous fiscal year.

2) Operating results

(Net sales and gross profit)

Net sales for the current fiscal year were 41,582 million yen (up 16.4% year on year). This was mainly due to the high evaluation of our market activities in the domestic market, which continued to combine online and real-life activities for beauty salons amid the COVID-19 pandemic. In the hair care products category, sales of premium brands Aujua and milbon were strong, partly due to the introduction of new products that meet the needs of customers and the effect of our official online store milbon:iD, as well as the continuing steady sales of the fashion color Ordeve Addicty in the hair coloring products business. In overseas markets, sales in China and South Korea continued to be steady, and in the U.S., sales grew significantly due to the resumption of economic activities and cooperation with distributors.

Gross profit increased 4,113 million yen from the previous fiscal year to 27,498 million yen (up 17.6% year on year).

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

Selling, general and administrative expenses for the current fiscal year were 19,681 million yen (up 15.8% year on year). This was mainly due to higher selling, general and administrative expenses due to an increase in personnel costs resulting from an increase in headcount and salary raises, increase in distribution costs, as well as the cancellation of events and other activities due to activity restrictions caused by the spread of COVID-19. As a result, operating income was 7,817 million yen (up 22.3% year on year).

(Non-operating income/expenses, ordinary income)

Non-operating income for the current fiscal year was 228 million yen and non-operating expenses were 888 million yen. Non-operating expenses consisted mainly of sales discounts of 733 million yen. As a result, ordinary income was 7,158 million yen (up 23.6% year on year).

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

Extraordinary income for the current fiscal year decreased by 95 million yen from the previous fiscal year, and extraordinary losses increased by 28 million yen from the previous fiscal year. As a result, profit attributable to owners of parent was 5,109 million yen (up 21.5% year on year), and net income per share was 157.17 yen.

Breakdown of net sales by product category and breakdown of net sales into domestic and overseas sales are shown below.

(Breakdown of consolidated 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	21,135	59.2	24,466	58.8	3,331	15.8
Hair coloring products	12,594	35.3	14,813	35.6	2,219	17.6
Permanent wave products	1,372	3.8	1,449	3.5	76	5.6
Cosmetic products	360	1.0	579	1.4	218	60.6
Other	262	0.7	273	0.7	11	4.3
Total	35,725	100.0	41,582	100.0	5,857	16.4

(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	29,880	83.6	33,643	80.9	3,762	12.6
Overseas sales	5,844	16.4	7,938	19.1	2,094	35.8
Total	35,725	100.0	41,582	100.0	5,857	16.4

3) Cash flows

Cash and cash equivalents at the end of the fiscal year under review increased by 1,005 million yen from the end of the previous fiscal year to 13,312 million yen. Status of each cash flow and their factors as of the end of the current fiscal year are described in “II. Overview of Business, 3. Management Analysis of Financial Position, Operating Results and Cash Flows, (1) Overview of Operating Results, etc., (ii) Cash flows.”

b. 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."

c. 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.

d. 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, (2) Specific initiatives to realize the basic policy (summary)."

Regarding the plan for Fiscal Year 2021, the initial plan has been revised due to better-than-expected performance in both the domestic and overseas markets, despite the impact of COVID-19. The revised plan is net sales of 40,600 million yen (up 13.6% year on year), operating income of 7,800 million yen (up 22.0% year on year), ordinary income of 7,120 million yen (up 22.9% year on year), and profit attributable to owners of parent of 5,100 million yen (up 21.3% year on year).

The results for Fiscal Year 2021 and the plan for Fiscal Year 2022 are as follows.

(Million yen)

	FY2021 Adjustments*	FY2021 Composition*	FY2022 Plan	FY2022 Composition	Increase (decrease) amount	Year-on- year change (%)	FY2021 Results	FY2021 Composition
Net sales	40,849	100.0	43,900	100.0	3,050	7.5	41,582	100.0
Domestic	32,938	80.6	35,150	80.1	2,211	6.7	33,643	80.9
Overseas	7,910	19.4	8,750	19.9	839	10.6	7,938	19.1
Gross profit	26,765	65.5	29,140	66.4	2,374	8.9	27,498	66.1
Selling, general and administrative expenses	19,681	48.2	21,590	49.2	1,908	9.7	19,681	47.3
Operating income	7,084	17.3	7,550	17.2	465	6.6	7,817	18.8
Ordinary income	7,158	17.5	7,410	16.9	251	3.5	7,158	17.2
Profit attributable to owners of parent	5,109	12.5	5,230	11.9	120	2.4	5,109	12.3

* Although the sales discount for customers who settled in cash was previously treated as a financial expense (non-operating expense) from the standpoint of materiality, in light of the recent interest rates, this expense will be treated as a rebate and deducted from sales from Fiscal Year 2022. The figures indicated as "FY2021 Adjustments*" are the amount after deducting the sales discount from sales in Fiscal Year 2021, and differ from the actual financial results.

With regard to the Medium-Term Management Plan (2019-2023), the importance of adopting a consumer perspective in line with changes in people's behavioral patterns and values and the need for digital transformation of the real world of beauty salon management have rapidly surfaced in the COVID-19 pandemic. In view of the urgent need to respond to these changes, we have decided to terminate our Medium-Term Management Plan, which began in 2019, in July 2020, and to use the 18-month period through December 2021 as a period of preparation for our new Medium-Term Management Plan (2022-2026), entitled "Change the Stage 18-Month Missions!"

Under "Change the Stage 18-Month Missions!," we have been working on 25 missions in the four stages of product sales, education, products, and in-house measures, and 17 missions were accomplished during the period. Among the major achievements were the start of milbon:iD, our official online store, Education iD, an online learning tool for stylists, and the Milbon Digital Arena, a virtual event space. In research and development, we established our first overseas R&D center in North America, and we are now ready to begin operations in China and Thailand as well. In terms of production system, we were able to expand our factory in Thailand and proceed with the construction of our factory in China at a faster-than-expected pace. Furthermore, as the digitalization in response to the COVID-19 pandemic highlighted the importance of things in the real world, our activities that accompany stylists and beauty salons have strengthened our relationships, and we were able to substantially achieve our goals for the fiscal year ended December 31, 2021.

(New Medium-Term Management Plan (2022-2026) financial targets)

1. Performance forecast

(Million yen)

	FY2021 Adjustments*		New Mid-Term End FY2026		CAGR (%)	FY2021	
	Results	% total sales	Target	% total sales		Results	% total sales
Net sales	40,849	100.0	58,000	100.0	7.3	41,582	100.0
Domestic	32,938	80.6	43,700	75.3	5.8	33,643	80.9
Overseas	7,910	19.4	14,300	24.7	12.6	7,938	19.1
Gross profit	26,765	65.5	38,160	65.8	7.4	27,498	66.1
Selling, general and administrative expenses	19,681	48.2	27,360	47.2	6.8	19,681	47.3
Operating income	7,084	17.3	10,800	18.6	8.8	7,817	18.8
Ordinary income	7,158	17.5	10,810	18.6	8.6	7,158	17.2
Profit attributable to owners of parent	5,109	12.5	7,670	13.2	8.5	5,109	12.3

* Although the sales discount for customers who settled in cash was previously treated as a financial expense (non-operating expense) from the standpoint of materiality, in light of the recent interest rates, this expense will be treated as a rebate and deducted from sales from Fiscal Year 2022. The figures indicated as "FY2021 Adjustments*" are the amount after deducting the sales discount from sales in Fiscal Year 2021, and differ from the actual financial results.

2. Operating cash flow and use

	Initial plan of the previous Medium-Term Management Plan (2019-2023): 5 years	Previous Medium-Term Management Plan and 18-Month Missions Period results (2019-2021): 3 years	New Medium-Term Management Plan targets (2022-2026): 5 years
Operating cash flow	26 billion yen or more	17.7 billion yen	44 billion yen or more
Use			
Capital expenditure	12 billion yen	8.2 billion yen	23 billion yen
Shareholder returns	10 billion yen Stable and sustainable dividends with a target payout ratio of 40%	5.9 billion yen Actual dividend payout ratio 2019: 40.6% 2020: 43.3% 2021: 43.3%	16 billion yen Stable and sustainable dividends with a target payout ratio of 50%
Maintenance of financial base	4 billion yen	3.6 billion yen	5 billion yen
Cash position			
		2021: 13.3 billion yen	18.3 billion yen
ROE Return on equity		2019: 13.1% 2020: 11.6% 2021: 13.4%	13.9%
ROIC Return on invested capital		2021: 12.9%	13.6%

3. Capital expenditure plan

The total amount of capital expenditure under the Medium-Term Management Plan is planned at 23 billion yen, with the main expenditures as follows.

New Medium-Term Capital Expenditure Plan (2022-2026): 5 years	
Sales Offices, Studios	1.9 billion yen
Production system	9.8 billion yen
Training Center	4.8 billion yen
Investment in digital	1.7 billion yen
Others	4.8 billion yen
Total	23 billion yen

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 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 SDGs. In addition, we opened our first R&D center overseas (in the U.S.).

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 1,741 million yen (4.2% 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.

As a representative new product, from the premium brand Aujua, we launched Aujua Repairity, which leads to flexible and soft hair by elucidating the fine structural characteristics inside hair that has become stiff due to bleach damage and developing a technology that makes the proteins in the hair easier to move. From the professional brand Elujuda, we have launched Elujuda Bleach Care by elucidating the cause of swell in hair caused by bleach damage, which is due to hydrophilization of hair and distortion of bonds within hair, and developing a technology that loosens bonds within bleached hair and makes it easy to blend with bleached hair, leading to supple and manageable hair.

(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 have evolved coloring technology and damage resistance by applying the results of basic research we have cultivated, and launched Lucent Line, which offers skin-reflecting hair color in a variety of hues. From the Ordeve Addicty line, in order to expand the range of hair color designs for high-lightness hair color using bleaching agents, which are increasing every year, we launched the Naked Line that achieves transparent beige color expression with its brown-free design, and AC2.5, that reduces alkali, which causes damage, with the power of acid while achieving uniform dyeing.

In addition, for SOPHISTONE, a hair color brand exclusive for European and North American markets, we launched a cool beige color that expands the range of expression of soft blond colors, which was developed through research into local needs.

(3) Basic research field

In order to apply cutting-edge research to the development of cosmetic 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 features of new hair care brand products, such as Aujua and milbon, launched in the current fiscal year.

In addition, as a result of our research on gray hair using big data, which is one of the strengths of our research and development, we have discovered an ingredient that is highly effective in inhibiting graying of hair. This research was presented at the 30th Annual Meeting of the Japanese Society for Pigment Cell Research and received the Best Presentation Award.

III. Information about Facilities

1. Overview of Capital Expenditures

Capital expenditures (property, plant and equipment, and intangible assets) in the current fiscal year totaled 4,644 million yen. The major components of the capital expenditures were the construction of a factory in China, expansion of facilities at Thai Factory, and introduction of cosmetics product production facilities at Yumegaoka Factory.

2. Major Facilities

(1) The Company

Major facilities are as follows.

As of December 31, 2021

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	191,879	-	-	-	319,587	511,467	59
Jingumae Sales Office (Shibuya-ku, Tokyo)	Sales and services	566,973	0	981	1,258,529	252,923	2,078,426	42
Training Center / Dormitory (Joto-ku, Osaka)	New hire training and dormitory	79,708	0	422	39,602	1,085	120,395	9
Central Research Institute (Miyakojima-ku, Osaka)	Research	912,497	15,664	4,100	1,602,859	472,317	3,003,338	180
Yumegaoka Factory (Iga City, Mie)	Manufacture of hair products	2,633,480	1,651,969	58,345	1,555,093	811,546	6,652,089	157
Osaka Branch (Nishi-ku, Osaka)	Sales and services	399,638	-	542	423,809	6,968	830,415	56

(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, 2021

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	110,886	923	-	-	46,592	158,402	18
Milbon Trading (Shanghai) Co., Ltd.	Head office (Shanghai City, China)	Sales and services	7,891	-	-	-	19,372	27,264	45
Milbon Korea Co., Ltd.	Head office (Seoul City, South Korea)	Sales and services	31,208	1,396	-	-	26,611	59,216	42
MILBON (THAILAND) CO., LTD.	Head office (Rayong Pref., Kingdom of Thailand)	Manufacture and sales	854,037	44,098	24,000	115,121	30,058	1,043,315	86
Milbon (Zhejiang) Cosmetics Co., Ltd.	Head office (Zhejiang, China)	Manufacture and sales	1,747,393	943,599	-	-	335,892	3,026,886	17

- (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
Not applicable.
- (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, 2021)	Number of issued shares as of the submission date (March 29, 2022)	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 (First Section)	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, 2021

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	—	32	31	135	178	15	11,645	12,036	—
Number of shares held (Unit)	—	114,966	2,331	41,209	83,617	44	87,078	329,245	192,734
Percentage of shareholdings□(%)	—	34.92	0.71	12.52	25.40	0.01	26.45	100	—

(Notes) 1. There are 606,080 treasury shares, of which 6,060 units are included in “individuals and others” and 80 shares are in “status of shares less than one unit.” The number of treasury shares of 606,080 is the actual number of shares substantially held as of December 31, 2021.

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, 2021

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	4,120	12.67
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)	2,389	7.35
Konoike Asset Management Company	2-1-1, Edobori, Nishi-ku, Osaka City, Osaka	1,920	5.91
Custody Bank of Japan, Ltd. (Trust account 9)	1-8-12, Harumi, Chuo-ku, Tokyo	1,380	4.25
Custody Bank of Japan, Ltd. (Trust account)	1-8-12, Harumi, Chuo-ku, Tokyo	1,328	4.09
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	991	3.05
Sumitomo Mitsui Trust Bank, Limited	1-4-1, Marunouchi, Chiyoda-ku, Tokyo	934	2.87
Kazunobu Konoike	Suita City, Osaka	864	2.66
J.P. MORGAN BANK LUXEMBOURG S.A. 384513 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank, Ltd.)	EUROPEAN BANK AND BUSINESS CENTER 6. ROUTE DE TREVES, L-2633 SENNINGERBERG LUXEMBOURG (2-15-1, Konan, Minato-ku, Tokyo)	692	2.13
Total	—	15,946	49.06

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

Custody Bank of Japan, Ltd.	2,709 thousand shares
The Master Trust Bank of Japan, Ltd.	4,120 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, 2021 states that Sumitomo Mitsui Trust Bank, Limited held the following shares as of March 31, 2021, 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 Bank, Limited	1-4-1, Marunouchi, Chiyoda-ku, Tokyo	934	2.82
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1-1, Shibakoen, Minato-ku, Tokyo	859	2.59
Nikko Asset Management Co., Ltd.	9-7-1, Akasaka, Minato-ku, Tokyo	381	1.15
Total	-	2,174	6.57

3. Although the report of large volume holding (change report) made available for public inspection on December 7, 2021 states that NIPPON LIFE INSURANCE COMPANY held the following shares as of November 30, 2021, 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	951	2.87
Total	-	1,322	3.99

4. Although the report of large volume holding (change report) made available for public inspection on December 8, 2021 states that Clifford Chance Tokyo held the following shares as of December 1, 2021, 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 (%)
Capital Research and Management Company	333 South Hope Street, Los Angeles, CA 90071, U. S. A.	2,238	6.76
Capital International K.K.	14th Floor, Meiji Yasuda Life Building, 2-1-1, Marunouchi, Chiyoda-ku, Tokyo	1,158	3.50
Capital International Inc.	11100 Santa Monica Boulevard, 15th Fl., Los Angeles, CA 90025, U. S. A.	104	0.32
Capital International Sarl.	3 Place des Bergues, 1201 Geneva, Switzerland	87	0.26
Total	-	3,589	10.84

5. Although the report of large volume holding (change report) made available for public inspection on July 20, 2021 states that JPMorgan Securities Japan Co., Ltd. held the following shares as of July 15, 2021, 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 (%)
JPMorgan Asset Management (Japan) Limited	Tokyo Building, 2-7-3, Marunouchi, Chiyoda-ku, Tokyo	1,806	5.45
JPMorgan Asset Management (Asia Pacific) Limited	21st Floor, Charter House, 8 Connaught Road, Central, Hong Kong	58	0.18
JPMorgan Securities Japan Co., Ltd.	Tokyo Building, 2-7-3, Marunouchi, Chiyoda-ku, Tokyo	37	0.11
J.P. Morgan Securities plc	25 Bank Street, Canary Wharf, London E14 5JP, UK	30	0.09
Total	-	1,933	5.84

6. Although the report of large volume holding (change report) made available for public inspection on January 1, 2022 states that Nomura Securities Co., Ltd. held the following shares as of December 31, 2021, 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 (%)
Nomura Securities Co., Ltd.	1-13-1, Nihonbashi, Chuo-ku, Tokyo	43	0.13
Nomura Asset Management Co., Ltd.	21-2-1, Toyosu, Koto-ku, Tokyo	2,671	8.07
Total	-	2,715	8.20

(7) Voting rights
1) Issued shares

As of December 31, 2021

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 606,000	-	Standard shares with no restrictions on shareholder's rights
Shares with full voting rights (Other)	Common stock 32,318,500	323,185	Same as the above
Shares less than one unit	Common stock 192,734	-	-
Total number of issued shares	33,117,234	-	-
Number of voting rights held by all shareholders	-	323,185	-

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

2. The number of shares in "shares less than one unit" includes 80 treasury shares held by the Company.

2) Treasury shares, etc.

As of December 31, 2021

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	606,000	-	606,000	1.83
Total	-	606,000	-	606,000	1.83

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	511	3,244
Treasury shares acquired during the current term	64	358

(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, 2022 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 (Disposal of treasury shares associated with restricted share-based compensation plan)	9,268	31,798	606,144	-
Number of treasury shares held	606,080	-	606,144	-

(Notes) 1. The decrease in "other" for the current fiscal year 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.

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, 2022 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, 2022 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 68 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 43.3%.

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 6, 2021

30 yen per share, totaling 975,344 thousand yen

Year-end dividend

Resolution at the General Meeting of Shareholders: March 29, 2022

38 yen per share, totaling 1,235,423 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 62nd term, 14 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.

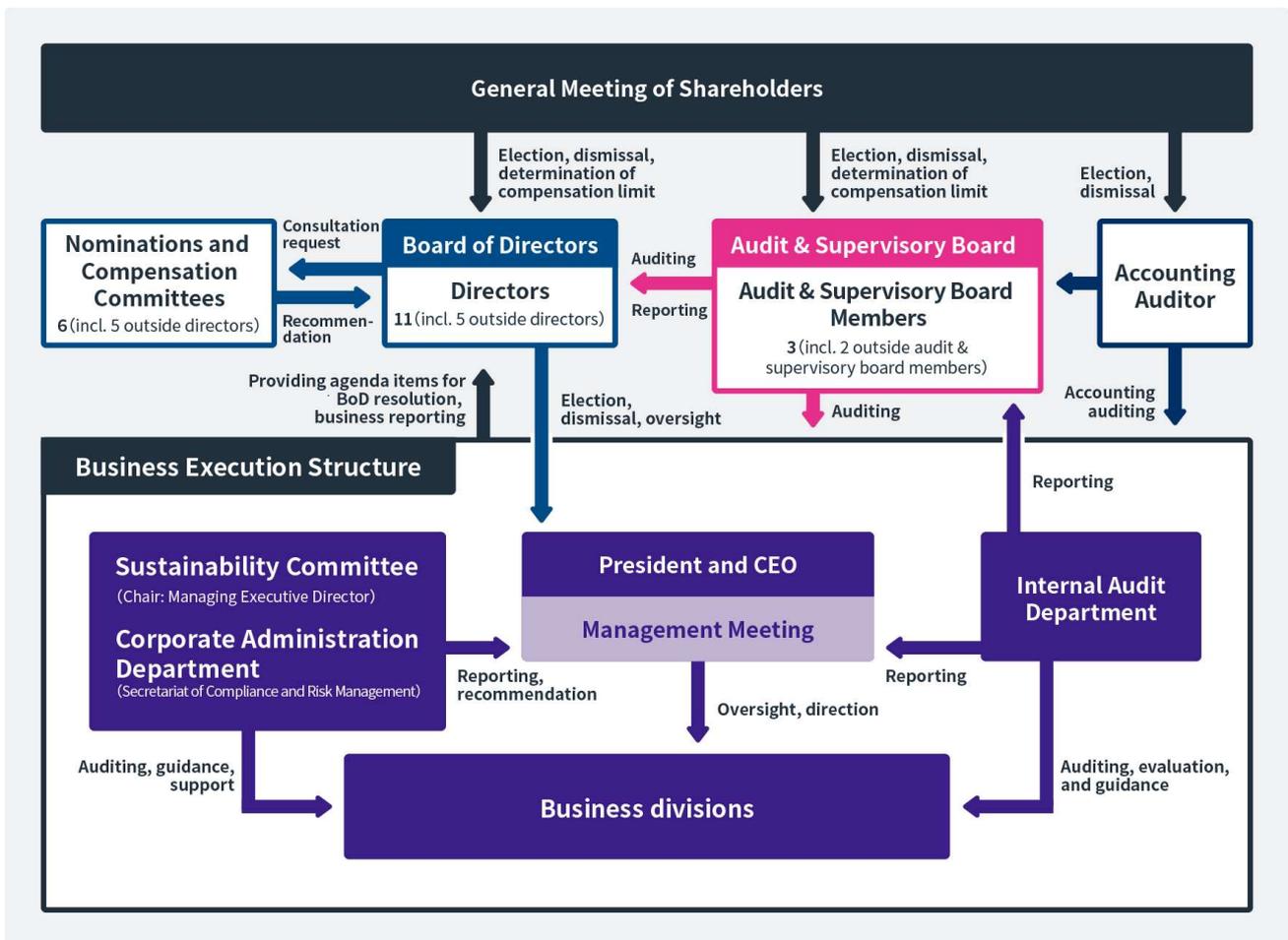
The members of the Nominations and Compensation Committees are as follows:

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

We have elected five Outside Board Directors and two Outside Audit & Supervisory Board Members in order to strengthen the function of management 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 management oversight 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.
- 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 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	22
Managing Executive Director, and in charge of Corporate Administration, Internal Audit, Finance, 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</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 (current position)</p>	(Note) 1	52
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	39

Title and position	Name	Date of birth	Career summary	Term of office	Number of shares held (thousand shares)
Board Director Director of Production Headquarters, and in charge of CS Promotion	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 (current position)</p>	(Note) 1	864
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 Global Sales and Marketing, Education Planning (current position)</p>	(Note) 1	5
Board Director General Manager of Corporate Strategy Development Dept., and in charge of Cosmetics Business Planning, ICT Strategies	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 (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	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 President 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	1
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	1

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 (current position) 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>	(Note) 1	-

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</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. Outside Board Director of the Company (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 of Financial & Accounting Department and Investor Relations Department of Calbee, Inc. (current position)</p> <p>March 2022 Outside Board Director of the Company (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	25

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					1,079

- (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 External Member of the Audit and Supervisory Board of Japan Finance Corporation and an Outside Board Director of Kakuyasu Group Co., 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 is concurrently serving as an Outside Director of SHIBAURA MACHINE CO., LTD. and an Executive Officer, General Manager of the Financial & Accounting Department and Investor Relations Department 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 62nd 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: 30 years

c. Engagement certified public accountants

Engagement partner Takayuki Nakagawa

Engagement partner Tomoko Matano

d. Other personnel engaged in assisting the accounting audit

Ten certified public accountants and five 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	-	25,200	-
Consolidated subsidiaries	-	-	-	-
Total	25,200	-	25,200	-

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 12, 2021, 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 Committee on the details of the resolution to be adopted in advance and received a report from the Nominations and Compensation Committee. 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 Committee 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-linked compensation paid during the current fiscal year>

Performance indicator	Fiscal year ended December 31, 2020			Weight (%)
	Target (Million yen)	Result (Million yen)	Achievement rate (%)	
Consolidated net sales	39,000	35,725	91.6	60.0
Consolidated operating income	7,300	6,394	87.6	30.0
Consolidated profit	4,730	4,204	88.9	10.0

(Note) Target achievement rate for the fiscal year ended December 31, 2020: $91.6\% \times 60\% + 87.6\% \times 30\% + 88.9\% \times 10\% = 90.1\%$

Performance indicator	Fiscal year ended December 31, 2021			Weight (%)
	Target (Million yen)	Result (Million yen)	Achievement rate (%)	
Consolidated net sales	38,200	41,582	108.9	60.0
Consolidated operating income	6,420	7,817	121.8	30.0
Consolidated profit	4,050	5,109	126.2	10.0

(Note) Target achievement rate for the fiscal year ended December 31, 2021: $108.9\% \times 60\% + 121.8\% \times 30\% + 126.2\% \times 10\% = 114.5\%$

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)x20%

(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)	400,117	200,592	149,407	50,118	7
Audit & Supervisory Board Member (excluding Audit & Supervisory Board Member)	34,671	34,671	-	-	2
Outside Officer	43,530	43,530	-	-	5

- (Notes) 1. At the 56th Ordinary General Meeting of Shareholders held on March 17, 2016, it was resolved that the amount of compensation for Board Directors and Audit & Supervisory Board Members shall be "no more than 400 million yen per year (including 50 million yen for Outside Board Directors)" and "no more than 70 million yen per year," respectively.
2. The performance-linked compensation for the current fiscal year includes the performance-linked compensation for the 61st fiscal year (the previous fiscal year) and the performance-linked compensation for the 62nd fiscal year (the current fiscal year). This is due to a change in the timing of recording performance-linked compensation from the current fiscal year, as we believe that it is appropriate to record compensation linked to the performance of each fiscal year during the relevant period.

(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	56,004	39,207	13,957	109,168

- (Notes) 1. The above information only states those whose total amount of compensation, etc., is 100 million yen or more.
2. The performance-linked compensation for the current fiscal year includes the performance-linked compensation for the 61st fiscal year (the previous fiscal year) and the performance-linked compensation for the 62nd fiscal year (the current fiscal year). This is due to a change in the timing of recording performance-linked compensation from the current fiscal year, as we believe that it is appropriate to record compensation linked to the performance of each fiscal year during the relevant period.

(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	1,566,000

(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	1	12,150	To strengthen the business relationship with the issuer.
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	3	472,646

- 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	Purpose of holding, quantitative effect of holding, and reasons for increase in number of shares	Shareholding in the Company
	Number of shares (shares)	Number of shares (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
	1,566,000	2,112,000		
Sumitomo Mitsui Trust Holdings, Inc.	-	102,959	The Company had held these assets for the purpose of strengthening long-term and stable relationships with the banks with which it does business, but sold them in the 62nd fiscal year.	Yes
	-	327,100		
BIKEN TECHNO CORPORATION	-	14,300	The Company had held this asset for the purpose of maintaining and strengthening transactions related to the building maintenance business, but sold it in the 62nd fiscal year.	No
	-	11,068		

(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	4	16,250
Shares other than the above	6	16,207	7	69,231

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	1,715	14,501	13,451

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, 2021 to December 31, 2021 and the financial statements for the fiscal year from January 1, 2021 to December 31, 2021 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, 2020)	Current fiscal year (As of December 31, 2021)
Assets		
Current assets		
Cash and deposits	12,345,024	13,350,147
Notes and accounts receivable - trade	* 4,199,283	* 4,673,258
Securities	-	200,000
Merchandise and finished goods	3,991,946	4,537,613
Work in process	46,317	41,842
Raw materials and supplies	1,177,090	1,360,902
Other	366,288	740,268
Allowance for doubtful accounts	(3,648)	(3,271)
Total current assets	22,122,303	24,900,761
Non-current assets		
Property, plant and equipment		
Buildings and structures	12,223,211	14,865,989
Accumulated depreciation	(5,430,925)	(5,908,390)
Buildings and structures, net	6,792,285	8,957,598
Machinery, equipment and vehicles	7,001,271	8,336,484
Accumulated depreciation	(5,057,731)	(5,495,871)
Machinery, equipment and vehicles, net	1,943,540	2,840,613
Land	4,995,014	4,995,014
Construction in progress	543,159	269,654
Other	2,807,331	3,101,336
Accumulated depreciation	(2,215,534)	(2,347,955)
Other, net	591,796	753,381
Total property, plant and equipment	14,865,795	17,816,262
Intangible assets	1,318,478	1,516,714
Investments and other assets		
Investment securities	2,935,650	1,610,607
Long-term loans receivable	28,906	32,527
Net defined benefit asset	207,475	438,540
Deferred tax assets	395,087	577,944
Other	1,260,203	1,393,519
Allowance for doubtful accounts	(58,381)	(48,387)
Total investments and other assets	4,768,942	4,004,752
Total non-current assets	20,953,217	23,337,729
Total assets	43,075,520	48,238,490

(Thousand yen)

	Previous fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Liabilities		
Current liabilities		
Accounts payable - trade	788,911	936,108
Accounts payable - other	2,730,817	3,495,694
Income taxes payable	1,104,850	1,401,441
Provision for bonuses	436,811	511,612
Other	1,038,850	965,353
Total current liabilities	6,100,241	7,310,210
Non-current liabilities		
Net defined benefit liability	5,216	7,753
Deferred tax liabilities	2,329	595
Asset retirement obligations	546,954	608,139
Other	112,427	114,611
Total non-current liabilities	666,928	731,099
Total liabilities	6,767,170	8,041,309
Net assets		
Shareholders' equity		
Capital stock	2,000,000	2,000,000
Capital surplus	222,490	246,299
Retained earnings	35,643,295	38,834,669
Treasury shares	(2,108,947)	(2,080,393)
Total shareholders' equity	35,756,838	39,000,575
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	405,396	100,262
Deferred gains or losses on hedges	(1,206)	68,821
Foreign currency translation adjustment	147,775	850,537
Remeasurements of defined benefit plans	(454)	176,984
Total accumulated other comprehensive income	551,511	1,196,605
Total net assets	36,308,349	40,197,181
Total liabilities and net assets	43,075,520	48,238,490

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

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Net sales	35,725,069	41,582,267
Cost of sales	12,339,754	14,083,338
Gross profit	23,385,315	27,498,928
Selling, general and administrative expenses	*1, *2 16,990,520	*1, *2 19,681,230
Operating income	6,394,794	7,817,698
Non-operating income		
Interest income	28,306	25,878
Dividend income	49,003	32,409
Company house defrayment income	4,683	3,761
Refund of custom duty	52,410	-
Subsidy income	39,674	53,071
Foreign exchange gains	-	54,621
Other	100,829	59,254
Total non-operating income	274,907	228,997
Non-operating expenses		
Sales discounts	642,698	733,118
Share of loss of entities accounted for using equity method	138,963	151,399
Foreign exchange losses	90,906	-
Other	5,817	3,736
Total non-operating expenses	878,386	888,255
Ordinary income	5,791,315	7,158,440
Extraordinary income		
Gain on sales of non-current assets	-	*3 351
Gain on sales of investment securities	114,578	19,087
Total extraordinary income	114,578	19,438
Extraordinary losses		
Loss on retirement of non-current assets	*4 15,884	*4 517
Loss on sales of investment securities	-	43,959
Total extraordinary losses	15,884	44,477
Profit before income taxes	5,890,009	7,133,401
Income taxes - current	1,740,038	2,183,317
Income taxes - deferred	(54,167)	(159,204)
Total income taxes	1,685,870	2,024,112
Profit	4,204,139	5,109,288
Profit attributable to owners of parent	4,204,139	5,109,288

Consolidated Statements of Comprehensive Income

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Profit	4,204,139	5,109,288
Other comprehensive income		
Valuation difference on available-for-sale securities	(367,685)	(305,133)
Deferred gains or losses on hedges	(1,206)	70,027
Foreign currency translation adjustment	(119,408)	702,761
Remeasurements of defined benefit plans, net of tax	60,900	177,438
Total other comprehensive income	* (427,400)	* 645,093
Comprehensive income	3,776,739	5,754,382
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,776,739	5,754,382
Comprehensive income attributable to non-controlling interests	-	-

3) Consolidated Statements of Changes in Shareholders' Equity
 Previous fiscal year (from January 1, 2020 to December 31, 2020)

(Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	2,000,000	200,742	33,266,155	(563,197)	34,903,700
Changes of items during period					
Dividends of surplus			(1,827,000)		(1,827,000)
Profit attributable to owners of parent			4,204,139		4,204,139
Purchase of treasury shares				(1,591,235)	(1,591,235)
Disposal of treasury shares		21,748		45,485	67,233
Net changes of items other than shareholders' equity					
Total changes of items during period	-	21,748	2,377,139	(1,545,750)	853,137
Balance at end of period	2,000,000	222,490	35,643,295	(2,108,947)	35,756,838

	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	773,082	-	267,184	(61,355)	978,911	35,882,612
Changes of items during period						
Dividends of surplus						(1,827,000)
Profit attributable to owners of parent						4,204,139
Purchase of treasury shares						(1,591,235)
Disposal of treasury shares						67,233
Net changes of items other than shareholders' equity	(367,685)	(1,206)	(119,408)	60,900	(427,400)	(427,400)
Total changes of items during period	(367,685)	(1,206)	(119,408)	60,900	(427,400)	425,736
Balance at end of period	405,396	(1,206)	147,775	(454)	551,511	36,308,349

Current 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

4) Consolidated Statements of Cash Flows

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Cash flows from operating activities		
Profit before income taxes	5,890,009	7,133,401
Depreciation	1,609,008	1,777,323
Increase (decrease) in allowance for doubtful accounts	659	(10,741)
Increase (decrease) in provision for bonuses	39,915	71,943
Decrease (increase) in net defined benefit asset	36,111	24,609
Increase (decrease) in net defined benefit liability	1,122	2,529
Interest and dividend income	(77,309)	(58,287)
Share of loss (profit) of entities accounted for using equity method	138,963	151,399
Foreign exchange losses (gains)	(22,265)	55,540
Loss (gain) on sales of investment securities	(114,578)	24,872
Loss (gain) on sales of non-current assets	-	(351)
Loss on retirement of non-current assets	15,884	517
Decrease (increase) in trade receivables	(28,189)	(467,843)
Decrease (increase) in inventories	(164,891)	(612,402)
Increase (decrease) in trade payables	(4,605)	122,057
Other	677,197	268,588
Subtotal	7,997,031	8,483,156
Interest and dividend income received	78,114	58,805
Income taxes paid	(1,527,029)	(1,905,137)
Net cash provided by (used in) operating activities	6,548,116	6,636,823
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,388,061)	(3,827,976)
Proceeds from sales of property, plant and equipment	-	351
Purchase of intangible assets	(581,146)	(659,900)
Payments of loans receivable	(9,130)	(148,000)
Collection of loans receivable	3,027	2,024
Proceeds from withdrawal of time deposits	1,200,000	-
Purchase of investment securities	-	(12,150)
Proceeds from redemption of investment securities	-	200,000
Proceeds from sales of investment securities	619,587	472,646
Payments for guarantee deposits	(63,105)	(58,435)
Proceeds from collection of guarantee deposits	58,877	28,285
Other	(1,828)	7,875
Net cash provided by (used in) investing activities	(161,779)	(3,995,279)
Cash flows from financing activities		
Net decrease (increase) in treasury shares	(1,590,687)	(3,244)
Cash dividends paid	(1,825,436)	(1,916,504)
Net cash provided by (used in) financing activities	(3,416,124)	(1,919,749)

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Effect of exchange rate change on cash and cash equivalents	(38,921)	283,248
Net increase (decrease) in cash and cash equivalents	2,931,291	1,005,043
Cash and cash equivalents at beginning of period	9,376,300	12,307,591
Cash and cash equivalents at end of period	* 12,307,591	* 13,312,634

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: 8

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.

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

With market value

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

Market value not available

Stated at cost using the moving-average method

(ii) Inventories

Merchandise

Stated primarily at cost using the first-in first-out 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 Company and its overseas consolidated subsidiaries have applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018) and the “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018), and recognized revenue at the amount expected to receive in exchange for promised goods or services at the time of transfer of control of such goods or services to the customer.
- (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.
- (8) Other significant matters for preparation of consolidated financial statements
 - Accounting method for consumption taxes, etc.
 - Consumption taxes, etc., are accounted for by the tax exclusion method.

(Significant accounting estimates)

Valuation of merchandise and finished goods

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

Merchandise and finished goods: 4,537,613 thousand yen

The above figure represents the amount after deducting 78,046 thousand yen 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 recognized as long-term overdue, 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 inventories exceeding the planned shipment volume for a certain period is written down. Even in the case in which the inventory volume does not exceed the planned shipment volume for a certain period, if actual sales significantly deviate from planned sales, the necessity of write-down is examined for individual cases.

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.

(Accounting standards, etc., not yet applied)

“Accounting Standard for Fair Value Measurement,” etc.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)
- “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(1) Outline

With a view to enhancing the comparability with international accounting standards, the “Accounting Standard for Fair Value Measurement” and the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter referred to as the “Fair Value Measurement Accounting Standards”) were developed, and the guidance on the method for fair value measurements, among others, has been established. The Fair Value Measurement Accounting Standards are applied to the calculation of the fair value for the following items:

- Financial instruments subjected to the “Accounting Standard for Financial Instruments”
- Inventories held for trading purposes subjected to the “Accounting Standard for Measurement of Inventories”

In addition, the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” has been revised and stipulated the required disclosure of a breakdown of financial instruments according to their fair value levels among other requirements.

(2) Planned date of application

The Company plans to apply the accounting standards, etc., from the beginning of the fiscal year ending December 31, 2022.

(3) Effects of application of the accounting standards, etc.

Effects of application of the “Accounting Standard for Fair Value Measurement,” etc., on the consolidated financial statements have not been determined at the moment.

(Changes in presentation methods)

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

The Company has applied the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) from the current fiscal year, and provided notes concerning accounting estimates for the consolidated financial statements.

(Consolidated balance sheets)

* 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, 2020)	Current fiscal year (As of December 31, 2021)
Notes receivable - trade	89,335	88,450

(Consolidated statements of earnings)

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

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Remuneration, salaries and allowances	5,059,165	5,447,521
Logistics expenses	2,323,589	3,413,309
Promotion expenses	910,000	1,105,993
Provision for bonuses	312,206	377,488
Retirement benefit expenses	305,865	309,787
Provision of allowance for doubtful accounts	659	(633)

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

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Research and development expenses	1,581,055	1,741,738

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

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Machinery, equipment and vehicles	-	351

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

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Buildings and structures	528	117
Machinery, equipment and vehicles	12,014	400
Other	3,340	0
Total	15,884	517

(Consolidated statements of comprehensive income)

* Reclassification adjustments and tax effects relating to other comprehensive income

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Valuation difference on available-for-sale securities		
Amount arising during the fiscal year	(415,228)	(464,545)
Reclassification adjustments	(114,578)	24,872
Before tax effect adjustments	(529,806)	(439,673)
Tax effects	162,120	134,540
Valuation difference on available-for-sale securities	(367,685)	(305,133)
Deferred gains or losses on hedges		
Amount arising during the fiscal year	(1,738)	100,903
Reclassification adjustments	-	-
Before tax effect adjustments	(1,738)	100,903
Tax effects	532	(30,876)
Deferred gains or losses on hedges	(1,206)	70,027
Foreign currency translation adjustment		
Amount arising during the fiscal year	(119,408)	702,761
Remeasurements of defined benefit plans, net of tax		
Amount arising during the fiscal year	48,820	232,098
Reclassification adjustments	38,933	23,575
Before tax effect adjustments	87,753	255,674
Tax effects	(26,852)	(78,236)
Remeasurements of defined benefit plans, net of tax	60,900	177,438
Total other comprehensive income	(427,400)	645,093

(Consolidated statements of changes in shareholders' equity)

Previous fiscal year (from January 1, 2020 to December 31, 2020)

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)	378,250	249,852	13,265	614,837

(Outline of reasons for changes)

1. The increase was due to an increase of 352 shares from the purchase of shares less than one unit, and an increase of 249,500 shares from the purchase of treasury shares through an off-hour share repurchase transaction pursuant to the resolution of the Board of Directors meeting held on February 12, 2020.
2. The decrease was due to a decrease of 112 shares from the sale of shares less than one unit, and a decrease of 13,153 shares from the disposal of treasury shares pursuant to the resolution of the Board of Directors meeting held on April 10, 2020, 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 26, 2020	Common stock	949,430	29	December 31, 2019	March 27, 2020
Board of Directors meeting held on August 5, 2020	Common stock	877,569	27	June 30, 2020	August 28, 2020

(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 30, 2021	Common stock	Retained earnings	942,569	29	December 31, 2020	March 31, 2021

Current 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)

- The increase is due to the purchase of shares less than one unit.
- 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

(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, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Cash and deposits	12,345,024	13,350,147
Time deposits with deposit terms over three months	(37,432)	(37,512)
Cash and cash equivalents	12,307,591	13,312,634

(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, 2020)	Current fiscal year (As of December 31, 2021)
Within one year	222,009	326,159
Over one year	550,994	926,536
Total	773,004	1,252,695

(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. The following tables do not include financial instruments whose market values are deemed extremely difficult to determine. (Please refer to (Note 2).)

Previous fiscal year (as of December 31, 2020)

(Thousand yen)

	Amounts in the consolidated balance sheets	Market value	Differences
(1) Cash and deposits	12,345,024	12,345,024	-
(2) Notes and accounts receivable - trade	4,199,283	4,199,283	-
(3) Investment securities	2,919,400	2,916,064	(3,336)
Total assets	19,463,707	19,460,371	(3,336)
(1) Accounts payable - trade	788,911	788,911	-
(2) Accounts payable - other	2,730,817	2,730,817	-
(3) Income taxes payable	1,104,850	1,104,850	-
Total liabilities	4,624,579	4,624,579	-

Current fiscal year (as of December 31, 2021)

(Thousand yen)

	Amounts in the consolidated balance sheets	Market value	Differences
(1) Cash and deposits	13,350,147	13,350,147	-
(2) Notes and accounts receivable - trade	4,673,258	4,673,258	-
(3) Securities	200,000	197,806	(2,194)
(4) Investment securities	1,582,207	1,582,207	-
Total assets	19,805,613	19,803,419	(2,194)
(1) Accounts payable - trade	936,108	936,108	-
(2) Accounts payable - other	3,495,694	3,495,694	-
(3) Income taxes payable	1,401,441	1,401,441	-
Total liabilities	5,833,244	5,833,244	-

(Note 1) Matters regarding the method to determine market value of financial instruments and securities

Assets

(1) Cash and deposits, and (2) Notes and accounts receivable - trade

These items are settled within short periods and are recorded at their book value, because their market value approximates to their book value.

(3) Securities, and (4) Investment securities

The market value of shares is based on quoted market prices at stock exchanges, and the market value of bonds is determined based on the price provided by financial institutions, etc., with which the Group has business relationships. Please refer to "Securities" for notes on securities by holding purpose.

Liabilities

(1) Accounts payable - trade, (2) Accounts payable - other, and (3) Income taxes payable

These items are settled within short periods and are recorded at their book value, because their market value approximates to their book value.

(Note 2) Amounts in the consolidated balance sheets of financial instruments whose market values are deemed extremely difficult to determine

(Thousand yen)

Category	Previous fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Unlisted shares	16,250	28,400

These are not included in “(4) Investment securities,” since they have no market price and their market values are deemed extremely difficult to determine.

(Note 3) Scheduled redemption amounts of monetary claims and securities with a maturity period after the consolidated closing date
Previous fiscal year (as of December 31, 2020)

(Thousand yen)

	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and deposits	12,345,024	-	-	-
Notes and accounts receivable - trade	4,199,283	-	-	-
Securities and investment securities				
Held-to-maturity bonds				
(i) Bonds payable	-	-	200,000	-
(ii) Other	-	200,000	-	-
Total	16,544,307	200,000	200,000	-

Current 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				
(i) Bonds payable	-	-	-	-
(ii) Other	200,000	-	-	-
Total	18,223,405	-	-	-

(Securities)

1. Held-to-maturity bonds

Previous fiscal year (as of December 31, 2020)

(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	100,000	100,026	26
	(3) Other	-	-	-
	Subtotal	100,000	100,026	26
Bonds with the market value not exceeding the amount in the consolidated balance sheets	(1) Government and local government bonds, etc.	-	-	-
	(2) Bonds payable	100,000	99,916	(84)
	(3) Other	200,000	196,722	(3,278)
	Subtotal	300,000	296,638	(3,362)
Total		400,000	396,664	(3,336)

Current 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)

2. Available-for-sale securities

Previous fiscal year (as of December 31, 2020)

(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	2,191,764	1,494,554	697,210
	(2) Bonds	-	-	-
	(3) Other	-	-	-
	Subtotal	2,191,764	1,494,554	697,210
Available-for-sale securities with the amount in the consolidated balance sheets not exceeding the acquisition cost	(1) Shares	327,635	440,701	(113,065)
	(2) Bonds	-	-	-
	(3) Other	-	-	-
	Subtotal	327,635	440,701	(113,065)
Total		2,519,400	1,935,255	584,144

(Note) Unlisted shares (the amount in the consolidated balance sheets: 16,250 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, 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.

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

Previous fiscal year (from January 1, 2020 to December 31, 2020)

(Thousand yen)

Type	Sales amount	Total gain on sales	Total loss on sales
(1) Shares	619,587	114,578	-
(2) Bonds	-	-	-
(3) Other	-	-	-
Total	619,587	114,578	-

Current 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

(Note) The sales amount in the above table represents the amount of redemption.

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, 2020)

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, 2021)

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

(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, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Balance of retirement benefit obligations at the beginning of the fiscal year	2,522,792	2,634,269
Service cost	189,121	202,157
Interest cost	12,613	13,171
Actuarial gains and losses generated	16,444	12,347
Retirement benefits paid	(106,702)	(90,821)
Balance of retirement benefit obligations at the end of the fiscal year	2,634,269	2,771,124

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

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Balance of plan assets at the beginning of the fiscal year	2,678,625	2,841,744
Expected return on plan assets	66,965	71,043
Actuarial gains and losses generated	65,265	244,445
Contribution from the employer	137,592	143,251
Retirement benefits paid	(106,702)	(90,821)
Balance of plan assets at the end of the fiscal year	2,841,744	3,209,664

(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, 2020)	Current fiscal year (As of December 31, 2021)
Retirement benefit obligations of funded plans	2,634,269	2,771,124
Plan assets	(2,841,744)	(3,209,664)
Net liabilities and assets recorded in the consolidated balance sheets	(207,475)	(438,540)
Net defined benefit asset	(207,475)	(438,540)
Net liabilities and assets recorded in the consolidated balance sheets	(207,475)	(438,540)

(4) Retirement benefit expenses and breakdown thereof

	(Thousand yen)	
	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Service cost	189,121	202,157
Interest cost	12,613	13,171
Expected return on plan assets	(66,965)	(71,043)
Amortization of actuarial gains and losses	38,933	23,575
Retirement benefit expenses for defined benefit plans	173,703	167,860

(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, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Actuarial gains and losses	(87,753)	(255,674)
Total	(87,753)	(255,674)

(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, 2020)	Current fiscal year (As of December 31, 2021)
Unrecognized actuarial gains and losses	(654)	255,020
Total	(654)	255,020

(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, 2020)	Current fiscal year (As of December 31, 2021)
Japanese bonds	23%	20%
Japanese shares	24%	25%
Foreign bonds	12%	12%
Foreign shares	24%	25%
Other	17%	18%
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, 2020)	Current fiscal year (As of December 31, 2021)
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%	4.7%

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, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Balance of net defined benefit liability at the beginning of the fiscal year	4,290	5,216
Retirement benefit expenses	1,122	2,529
Translation gains or losses	(196)	7
Balance of net defined benefit liability at the end of the fiscal year	5,216	7,753

(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, 2020)	Current fiscal year (As of December 31, 2021)
Retirement benefit obligations of unfunded plans	5,216	7,753
Net liabilities and assets recorded in the consolidated balance sheets	5,216	7,753
Net defined benefit liability	5,216	7,753
Net liabilities and assets recorded in the consolidated balance sheets	5,216	7,753

(3) Retirement benefit expenses

Retirement benefit expenses calculated using the simplified method: Previous fiscal year: 1,122 thousand yen
Current fiscal year: 2,529 thousand yen

4. Defined contribution plans

The required amount of contributions to defined contribution plans of the Company and its consolidated subsidiaries are 85,079 thousand yen for the previous fiscal year and 89,532 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 169,437 thousand yen for the previous fiscal year and 176,159 thousand yen for the current fiscal year.

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

	Previous fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Amount of plan assets	13,846,426	15,897,847
Aggregate actuarial obligation under pension finance calculation and minimum reserve	18,545,691	19,938,577
Difference	(4,699,265)	(4,040,730)

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

Previous fiscal year: 10.9% (as of December 31, 2020)

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

(3) Supplementary explanation

Major factors for the difference in (1) above are the balance of past service liabilities under pension finance calculation (8,776,245 thousand yen for the previous fiscal year, 7,918,856 thousand yen for the current fiscal year) and the general reserve (4,076,980 thousand yen for the previous fiscal year, 3,878,126 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 (115,764 thousand yen in the previous fiscal year, 119,873 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, 2020)	Current fiscal year (As of December 31, 2021)
Deferred tax assets		
Tax loss carryforward (Note)	151,610	160,145
Provision for bonuses	132,372	154,722
Loss on valuation of inventories	19,788	27,056
Accrued enterprise tax and business office tax	77,000	84,449
Accrued social insurance premiums	19,733	23,192
Unrealized income on inventories	165,699	270,895
Depreciation	236,473	231,677
Asset retirement obligations	157,623	175,025
Allowance for doubtful accounts	18,948	15,726
Net defined benefit liability	1,043	1,550
Loss on valuation of investment securities	1,145	43
Retirement benefits for directors (and other officers)	3,905	3,905
Other	97,503	155,629
Subtotal deferred tax assets	1,082,847	1,304,019
Valuation allowance for tax loss carryforward (Note)	(151,610)	(160,145)
Valuation allowance for aggregate deductible temporary differences	(30,627)	(28,545)
Subtotal valuation allowance	(182,238)	(188,691)
Total deferred tax assets	900,609	1,115,329
Deferred tax liabilities		
Net defined benefit asset	(63,487)	(134,193)
Retirement cost for asset retirement obligations	(114,445)	(118,568)
Valuation difference on available-for-sale securities	(178,748)	(44,208)
Retained earnings of overseas subsidiaries	(147,308)	(208,844)
Other	(3,861)	(32,164)
Total deferred tax liabilities	(507,850)	(537,979)
Net deferred tax assets (liabilities)	392,758	577,349

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

Previous fiscal year (as of December 31, 2020)

(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	-	-	-	-	7,725	143,884	151,610
Valuation allowance	-	-	-	-	(7,725)	(143,884)	(151,610)
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, 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 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, 2020)	Current fiscal year (As of December 31, 2021)
Effective statutory tax rate (Adjustments)	30.6%	30.6%
Items permanently excluded from deductible expenses such as entertainment expenses	1.0%	0.8%
Inhabitant tax on per capita basis	0.4%	0.4%
Experimentation and research expenses tax credit	(4.2)%	(3.2)%
Salary increase tax credits	-%	(0.6)%
Other	0.8%	0.4%
Income tax rate after applying tax effect accounting	28.6%	28.4%

(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, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Balance at the beginning of the fiscal year	505,563	546,954
Increase due to the acquisition of property, plant and equipment	41,391	61,184
Adjustments due to passage of time	0	0
Balance at the end of the fiscal year	546,954	608,139

(Real estate for lease, etc.)

Not applicable.

(Revenue recognition)

The Group engages in manufacture and sales of cosmetic products. The Company recognizes revenue at the amount expected to receive in exchange for promised goods at the time of transfer of control of such goods to the customer. The Company deems that the customer obtains control at the time of shipment or delivery.

The revenue is measured at the amount of the promised consideration in the contract concluded with the customer less rebates and returns, etc.

(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, 2020 to December 31, 2020)

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	21,135,444	12,594,137	1,372,412	360,806	262,268	35,725,069

2. Information by geographical area

(1) Net sales

(Thousand yen)

Japan	Other	Total
29,880,790	5,844,278	35,725,069

(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.	4,107,661
GAMO Co., Ltd.	3,222,679
BIC HOLDINGS Inc.	3,165,648

(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, 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.

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, 2020 to December 31, 2020)

Not applicable.

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

Not applicable.

(Per share information)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Net assets per share (yen)	1,117.10	1,236.41
Basic earnings per share (yen)	129.24	157.17

(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, 2020 to December 31, 2020)	Current fiscal year (from January 1, 2021 to December 31, 2021)
Profit attributable to owners of parent (thousand yen)	4,204,139	5,109,288
Amount not attributable to common shareholders (thousand yen)	-	-
Profit attributable to owners of parent related to common stock (thousand yen)	4,204,139	5,109,288
Average number of shares of common stock during the period (shares)	32,529,606	32,508,933

(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	75,733	75,448	0.002	-
Total	75,733	75,448	-	-

(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)	8,989,268	19,558,798	29,718,991	41,582,267
Profit before income taxes (Thousand yen)	1,502,434	3,374,032	5,246,228	7,133,401
Profit attributable to owners of parent (Thousand yen)	1,091,229	2,413,196	3,725,324	5,109,288
Basic earnings per share (Yen)	33.57	74.24	114.60	157.17

(Accounting period)	1st quarter	2nd quarter	3rd quarter	4th quarter
Basic earnings per share (Yen)	33.57	40.66	40.36	42.57

2. Financial Statements, etc.

(1) Financial Statements

1) Balance Sheets

(Thousand yen)

	Previous fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Assets		
Current assets		
Cash and deposits	8,927,272	10,505,512
Notes receivable - trade	*2 195,727	*2 180,771
Accounts receivable - trade	*1 4,099,817	*1 5,211,564
Securities	-	200,000
Merchandise and finished goods	2,959,671	3,031,256
Work in process	45,990	41,084
Raw materials and supplies	1,014,557	1,136,801
Prepaid expenses	145,004	144,426
Other	*1 145,198	*1 192,779
Total current assets	17,533,239	20,644,197
Non-current assets		
Property, plant and equipment		
Buildings	6,149,555	6,085,512
Structures	112,080	103,558
Machinery and equipment	1,858,386	1,836,420
Vehicles	3,047	14,174
Tools, furniture and fixtures	546,672	628,788
Land	4,879,893	4,879,893
Construction in progress	18,700	153,740
Total property, plant and equipment	13,568,336	13,702,088
Intangible assets		
Software	1,059,127	1,151,587
Other	48,481	134,030
Total intangible assets	1,107,609	1,285,618

(Thousand yen)

	Previous fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Investments and other assets		
Investment securities	2,935,650	1,610,607
Shares of subsidiaries and associates	1,995,246	1,995,246
Investments in capital of subsidiaries and associates	2,273,400	3,838,000
Long-term loans receivable from employees	1,020	750
Long-term loans receivable from subsidiaries and associates	643,985	740,030
Prepaid pension costs	208,129	183,519
Deferred tax assets	497,671	728,547
Other	944,928	1,041,044
Allowance for doubtful accounts	(58,381)	(48,387)
Total investments and other assets	9,441,649	10,089,358
Total non-current assets	24,117,596	25,077,064
Total assets	41,650,835	45,721,261
Liabilities		
Current liabilities		
Accounts payable - trade	*1 836,273	*1 989,613
Accounts payable - other	*1 2,620,248	*1 3,273,075
Accrued expenses	407,948	431,993
Income taxes payable	1,040,628	1,332,777
Advances received	1,306	5,125
Deposits received	251,795	268,641
Provision for bonuses	411,799	480,844
Other	245,202	162,971
Total current liabilities	5,815,202	6,945,041
Non-current liabilities		
Asset retirement obligations	515,033	571,978
Other	77,472	75,448
Total non-current liabilities	592,505	647,426
Total liabilities	6,407,707	7,592,467

(Thousand yen)

	Previous fiscal year (As of December 31, 2020)	Current fiscal year (As of December 31, 2021)
Net assets		
Shareholders' equity		
Capital stock	2,000,000	2,000,000
Capital surplus		
Legal capital surplus	199,120	199,120
Other capital surplus	23,370	47,179
Total capital surplus	222,490	246,299
Retained earnings		
Legal retained earnings	300,880	300,880
Other retained earnings		
General reserve	3,500,000	3,500,000
Retained earnings brought forward	30,924,514	33,992,924
Total retained earnings	34,725,394	37,793,804
Treasury shares	(2,108,947)	(2,080,393)
Total shareholders' equity	34,838,937	37,959,710
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	405,396	100,262
Deferred gains or losses on hedges	(1,206)	68,821
Total valuation and translation adjustments	404,189	169,083
Total net assets	35,243,127	38,128,794
Total liabilities and net assets	41,650,835	45,721,261

2) Statements of Earnings

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Net sales	*1 33,651,807	*1 39,237,623
Cost of sales	*1 12,706,887	*1 14,828,677
Gross profit	20,944,920	24,408,945
Selling, general and administrative expenses	*1, *2 14,806,785	*1, *2 16,950,535
Operating income	6,138,134	7,458,410
Non-operating income		
Interest and dividend income	*1 59,122	*1 43,230
Miscellaneous income	*1 90,388	*1 133,867
Total non-operating income	149,511	177,098
Non-operating expenses		
Sales discounts	622,782	704,715
Miscellaneous losses	80,803	2,404
Total non-operating expenses	703,586	707,120
Ordinary income	5,584,059	6,928,387
Extraordinary income		
Gain on sales of non-current assets	52	56
Gain on sales of investment securities	114,578	19,087
Total extraordinary income	114,631	19,143
Extraordinary losses		
Loss on retirement of non-current assets	14,682	517
Loss on valuation of shares of subsidiaries and associates	386,837	43,959
Total extraordinary losses	401,520	44,477
Profit before income taxes	5,297,170	6,903,054
Income taxes - current	1,612,720	2,043,942
Income taxes - deferred	(157,625)	(127,211)
Total income taxes	1,455,094	1,916,730
Profit	3,842,075	4,986,323

Schedule of manufacturing costs

Category	Note	Previous fiscal year (From January 1, 2020 to December 31, 2020)		Current fiscal year (From January 1, 2021 to December 31, 2021)	
		Amount (Thousand yen)	Ratio (%)	Amount (Thousand yen)	Ratio (%)
I. Cost of raw materials		7,044,150	65.4	8,211,825	68.7
II. Cost of outsourced processing		1,376,965	12.8	1,390,343	11.6
III. Labor cost		1,021,333	9.5	975,609	8.2
(Provision for bonuses)		(60,657)		(65,006)	11.5
IV. Expenses		1,320,568	12.3	1,367,462	
(Depreciation)		(680,466)		(729,431)	
(Repair expenses)		(108,155)		(111,417)	
(Utility expenses)		(87,988)		(89,284)	
(Supplies expenses)		(88,067)		(95,680)	
Gross manufacturing cost for the fiscal year		10,763,018	100.0	11,945,240	100.0
Beginning of work in process		34,781		45,990	
Total		10,797,799		11,991,230	
Transfer to other account	*1	15,357		63,183	
Ending of work in process		45,990		41,084	
Cost of products manufactured		10,736,451		11,886,963	

(Footnote)

Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)														
<p>*1 Breakdown of the transfer to other account is as follows:</p> <table> <tr> <td>Research and development expenses</td> <td>11,672 thousand yen</td> </tr> <tr> <td>Other</td> <td>3,685 thousand yen</td> </tr> <tr> <td><u>Total</u></td> <td><u>15,357 thousand yen</u></td> </tr> </table>	Research and development expenses	11,672 thousand yen	Other	3,685 thousand yen	<u>Total</u>	<u>15,357 thousand yen</u>	<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>
Research and development expenses	11,672 thousand yen														
Other	3,685 thousand yen														
<u>Total</u>	<u>15,357 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>														
<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, 2020 to December 31, 2020)

(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	1,622	200,742	300,880	3,500,000	28,909,439	32,710,319
Changes of items during period								
Dividends of surplus							(1,827,000)	(1,827,000)
Profit							3,842,075	3,842,075
Purchase of treasury shares								
Disposal of treasury shares			21,748	21,748				
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	21,748	21,748	-	-	2,015,075	2,015,075
Balance at end of period	2,000,000	199,120	23,370	222,490	300,880	3,500,000	30,924,514	34,725,394

	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	(563,197)	34,347,864	773,082	-	773,082	35,120,946
Changes of items during period						
Dividends of surplus		(1,827,000)				(1,827,000)
Profit		3,842,075				3,842,075
Purchase of treasury shares	(1,591,235)	(1,591,235)				(1,591,235)
Disposal of treasury shares	45,485	67,233				67,233
Net changes of items other than shareholders' equity			(367,685)	(1,206)	(368,892)	(368,892)
Total changes of items during period	(1,545,750)	491,073	(367,685)	(1,206)	(368,892)	122,180
Balance at end of period	(2,108,947)	34,838,937	405,396	(1,206)	404,189	35,243,127

Current 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

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

With market value

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)

Market value not available

Stated at cost using the moving-average method

(2) Valuation standards and methods for inventories

(i) Merchandise

Stated at cost using the first-in first-out 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 Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018) and the “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018), and recognized revenue at the amount expected to receive in exchange for promised goods or services at the time of transfer of control of such goods or services to the customer.

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

(1) 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.

(2) Accounting method for consumption taxes, etc.

Consumption taxes, etc., are accounted for by the tax exclusion method.

(Significant accounting estimates)

Valuation of merchandise and finished goods

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

Merchandise and finished goods: 3,031,256 thousand yen

The above figure represents the amount after deducting 78,046 thousand yen 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 recognized as long-term overdue, 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 inventories exceeding the planned shipment volume for a certain period is written down. Even in the case in which the inventory volume does not exceed the planned shipment volume for a certain period, if actual sales significantly deviate from planned sales, the necessity of write-down is examined for individual cases.

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 presentation methods)

(Application of “Accounting Standard for Disclosure of Accounting Estimates”)

The Company has applied the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) from the current fiscal year, and provided notes concerning accounting estimates for the financial statements.

(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, 2020)	Current fiscal year (As of December 31, 2021)
Shot-term monetary receivables	233,030	643,962
Shot-term monetary payables	168,547	217,957

*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, 2020)	Current fiscal year (As of December 31, 2021)
Notes receivable - trade	89,335	88,450

(Statements of earnings)

*1 Transactions with subsidiaries and associates

(Thousand yen)

	Previous fiscal year (From January 1, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Amount of operating transactions		
Net sales	2,905,205	4,691,979
Purchase amount	1,532,941	2,300,470
Other	1,665	15,324
Amount of non-operating transactions	17,652	49,291

*2 Approximate ratios of expenses included in selling expenses are 9.6% for the previous fiscal year and 9.7% for the current fiscal year, and those included in general and administrative expenses are 90.4% for the previous fiscal year and 90.3% 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, 2020 to December 31, 2020)	Current fiscal year (From January 1, 2021 to December 31, 2021)
Remuneration, salaries and allowances	4,305,863	4,598,139
Logistics expenses	1,923,405	2,858,206
Research and development expenses	1,581,055	1,744,223
Promotion expenses	733,819	829,828
Depreciation	685,334	778,770
Provision for bonuses	287,194	346,719
Retirement benefit expenses	289,306	293,508
Provision of allowance for doubtful accounts	-	115

(Securities)

Previous fiscal year (as of December 31, 2020)

The description of shares of subsidiaries and shares of associates (amounts in the balance sheets: 1,946,246 thousand yen of shares of subsidiaries, 2,273,400 thousand yen of investments in capital of subsidiaries and associates, and 49,000 thousand yen of shares of associates) is omitted, since they have no market price and their market values are deemed extremely difficult to determine.

Current fiscal year (as of December 31, 2021)

The description of shares of subsidiaries and shares of 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 have no market price and their market values are deemed extremely difficult to determine.

(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, 2020)	Current fiscal year (As of December 31, 2021)
Deferred tax assets		
Provision for bonuses	126,010	147,138
Loss on valuation of inventories	16,932	23,882
Accrued enterprise tax and business office tax	77,000	84,449
Accrued social insurance premiums	19,733	23,192
Depreciation	236,356	231,209
Allowance for doubtful accounts	17,864	14,806
Loss on valuation of investment securities	1,145	43
Loss on valuation of shares of subsidiaries and associates	179,738	179,738
Retirement benefits for directors (and other officers)	3,905	3,905
Asset retirement obligations	157,600	175,025
Restricted share-based compensation	15,304	33,167
Performance-linked compensation	-	30,420
Other	2,962	30,846
Total deferred tax assets	854,552	977,825
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(178,748)	(44,208)
Deferred gains or losses on hedges	-	(30,344)
Retirement cost for asset retirement obligations	(114,445)	(118,568)
Prepaid pension costs	(63,687)	(56,157)
Total deferred tax liabilities	(356,880)	(249,278)
Net deferred tax assets (liabilities)	497,671	728,547

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, 2020)	Current fiscal year (As of December 31, 2021)
Effective statutory tax rate	30.6%	30.6%
(Adjustments)		
Items permanently excluded from deductible expenses such as entertainment expenses	1.1%	0.9%
Inhabitant tax on per capita basis	0.5%	0.4%
Experimentation and research expenses tax credit	(4.6)%	(3.3)%
Salary increase tax credits	-%	(0.6)%
Other	(0.1)%	(0.2)%
Income tax rate after applying tax effect accounting	27.5%	27.8%

(Revenue recognition)

The Company engages in manufacture and sales of cosmetic products. The Company recognizes revenue at the amount expected to receive in exchange for promised goods at the time of transfer of control of such goods to the customer. The Company deems that the customer obtains control at the time of shipment or delivery.

The revenue is measured at the amount of the promised consideration in the contract concluded with the customer less rebates and returns, etc.

(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	6,149,555	336,129	117	400,055	6,085,512	5,306,103
	Structures	112,080	7,851	-	16,372	103,558	256,470
	Machinery and equipment	1,858,386	478,689	400	500,255	1,836,420	5,184,265
	Vehicles	3,047	14,254	0	3,126	14,174	34,090
	Tools, furniture and fixtures	546,672	356,951	0	274,835	628,788	2,238,707
	Land	4,879,893	-	-	-	4,879,893	-
	Construction in progress	18,700	556,767	421,727	-	153,740	-
	Total	13,568,336	1,750,642	422,244	1,194,645	13,702,088	13,019,636
Intangible assets	Software	1,059,127	532,281	-	439,822	1,151,587	2,515,697
	Other	48,481	456,732	370,851	332	134,030	8,927
	Total	1,107,609	989,014	370,851	440,154	1,285,618	2,524,625

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

1. Major components of an increase in buildings of 336,129 thousand yen are 187,434 thousand yen of construction work for the new establishment of the Aoyama Sales Office, 41,368 thousand yen of air conditioning equipment construction work at the Yumegaoka Factory, and 12,390 thousand yen of interior construction at the Jingumae Sales Office.
2. A major component of an increase in machinery and equipment of 478,689 thousand yen is 477,921 thousand yen of cosmetics products production facilities at the Yumegaoka Factory.
3. A major component of an increase in tools, furniture and fixtures of 356,951 thousand yen is 45,691 thousand yen of fixtures associated with the new establishment of the Aoyama Sales Office.
4. A major component of an increase in construction in progress of 556,767 thousand yen is 245,996 thousand yen of expenses associated with the new establishment of the Aoyama Sales Office.
5. A major component of a decrease in construction in progress of 421,727 thousand yen is 252,596 thousand yen of transfer associated with the new establishment of the Aoyama Sales Office.
6. Major components of an increase in software of 532,281 thousand yen are 142,000 thousand yen for establishing the platform of the Milbon Digital Arena, 78,997 thousand yen for establishing the EC website, 51,405 thousand yen for building the education:iD, and 40,950 thousand yen for establishing the platform for beauty salons.

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	58,381	115	10,108	48,387
Provision for bonuses	411,799	480,844	411,799	480,844

(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 (61st Term) (From January 1, 2020 to December 31, 2020) Submitted to the Director-General of the Kinki Local Finance Bureau on March 30, 2021
- (2) Internal control report and attached documents
Submitted to the Director-General of the Kinki Local Finance Bureau on March 30, 2021
- (3) Quarterly securities reports and confirmation documents
(The 1st Quarter of 62nd Term) (From January 1, 2021 to March 31, 2021) Submitted to the Director-General of the Kinki Local Finance Bureau on May 14, 2021

(The 2nd Quarter of 62nd Term) (From April 1, 2021 to June 30, 2021) Submitted to the Director-General of the Kinki Local Finance Bureau on August 11, 2021

(The 3rd Quarter of 62nd Term) (From July 1, 2021 to September 30, 2021) Submitted to the Director-General of the Kinki Local Finance Bureau on November 12, 2021
- (4) Extraordinary report
Submitted to the Director-General of the Kinki Local Finance Bureau on March 31, 2021.
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.
- (5) Securities Registration Statement
Submitted to the Director-General of the Kinki Local Finance Bureau on April 9, 2021.

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, 2022

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	Tomoko Matano

<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, 2021 to December 31, 2021, 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, 2021, 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, 4,537,613 thousand yen has been reported under merchandise and finished goods, of which the merchandise and finished goods of Milbon Co., Ltd. account for 3,031,256 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 such factors as market demand and competition from peers, and for such merchandise and finished goods, a decision is made mainly to terminate their manufacture and sale.</p> <p>The Company, as stated in its (Significant Accounting Estimates), has primarily been reducing the carrying amounts of the portion of inventory that exceeds the sales forecast, and this sales forecast 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 sales forecasts of prior years with the sales forecast for the current year and examined the reasons for their difference. • We obtained the sales forecast for each merchandise and finished goods for the following year, questioned management on the risk factors which could impact the achievability of this sales forecast, and carried out a trend analysis based on past results as well as a comparative study with available outside data. • We verified that the sales forecast 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.

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, 2021 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, 2021 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, 2022

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	Tomoko Matano

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, 2021 to December 31, 2021, 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, 2021, 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.	
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 balance sheets for the current fiscal year, 3,031,256 thousand yen has been reported under merchandise and finished goods.</p> <p>The balance sheet value of merchandise and finished goods is calculated using the inventory write-down method based on decreased profitability, as stated in 1. (2) Valuation standards and methods for inventories under Significant accounting policies.</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 such factors as market demand and competition from peers, and for such merchandise and finished goods, a decision is made mainly to terminate their manufacture and sale.</p> <p>The Company, as stated in its Significant accounting estimates, has primarily been reducing the carrying amounts of the portion of inventory that exceeds the sales forecast, and this sales forecast 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 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 sales forecasts of prior years with the sales forecast for the current year and examined the reasons for their difference. • We obtained the sales forecast for each merchandise and finished goods for the following year, questioned management on the risk factors which could impact the achievability of this sales forecast, and carried out a trend analysis based on past results as well as a comparative study with available outside data. • We verified that the sales forecast 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.

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.