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1. Financial Performance

(1) Explanation of Financial Performance

(a) Financial Performance during the First Quarter

During the period under review (January 1 to March 31, 2024), the global economy stumbled. The European economy did not recover, inflation failed to subside, especially in the United States, and policy interest rates remained high. In addition, the recovery of the Chinese economy has been delayed due to the worsening of the downturn in the country's real estate market.

The Japanese economy saw strong inbound tourism demand due to the depreciation of the yen, but consumer prices rose on higher raw material and fuel prices. In addition, due to the worsening labor shortage and the government's promotion of wage increases, the rate of wage increases has been significantly higher than the previous year, and there is growing awareness of a gradual transition to inflation.

Under these circumstances, the Group focused on sales expansion activities and cost reductions while steadily advancing R&D, capital investment, and preparations for the establishment of overseas bases aimed at future growth. As a result, the Group recorded the following financial results for the period under review.

Net sales:	¥39,014 million (+2.1% YOY)
Operating income:	¥3,552 million (+37.3% YOY)
Ordinary profit:	¥4,027 million (+35.4% YOY)
Net income attributable to owners of parent:	¥2,717 million (+24.3% YOY)

(b) Performance by Segment

I. Commodity chemicals

Electrolysis products recorded higher sales revenue amid a recovery trend in sales volume and revisions to selling prices to cope with higher raw material and fuel prices from last year. Acrylic monomer products saw an increase in sales revenue on larger sales volume of acrylic acid. Industrial gases posted higher sales revenue following price hikes initiated in response to rising raw material and fuel prices from last year. As a result of the above, this segment posted net sales of ¥17,875 million (+3.7% YOY).

Operating income totaled ¥1,961 million (+68.3% YOY) due to increased overall sales volume and revisions to selling prices to cope with higher raw material and fuel prices from last year.

II. Polymer & oligomer

Acrylic polymers saw lower sales revenue on weaker sales volume. Acrylic oligomers recorded higher sales revenue amid increased sales volume for displays and other products. Polymer flocculants posted a decrease in sales revenue due to lower sales volume overseas. As a result of these factors, this segment posted net sales of ¥8,523 million (-0.0% YOY).

Operating income jumped 34.7% year on year to ¥1,090 million following revisions to selling prices of polymer flocculants to cope with higher raw material and fuel prices, which offset increased expenses from the inclusion of Toagosei (Shanghai) Management Co., Ltd.

III. Adhesive material

For consumers, sales revenue increased owing to higher sales volume in Japan and the United States. Functional adhesives saw a substantial increase in sales volume for batteries for automotive applications, resulting in an increase in sales revenue. As a result, this segment posted net sales of ¥3,157 million (+17.8% YOY).

Operating income totaled ¥77 million, compared to an operating loss of ¥116 million in the same period of the previous fiscal year, amid higher sales volume of adhesives for batteries for automotive applications.

IV. Performance chemicals

High-purity inorganic chemicals posted a decline in sales revenue owing to the impacts of the downturn in semiconductor market conditions. Inorganic functional materials posted higher sales revenue amid increased sales volume of antimicrobial agents. As for development of new products, revenue declined due to diminished sales volume of medical care products. As a result, this segment posted net sales of ¥2,534 million (+0.7% YOY).

Operating income fell 36.8% year on year to ¥302 million resulting from an increase in depreciation for high-purity inorganic chemicals and diminished sales volume of medical care products.

V. Plastics

Piping equipment saw sales revenue fall amid lower sales volume caused by the slump in housing starts. Nursing care products posted a decline in sales revenue as a result of diminished overall sales volume. Elastomer compounds experienced a downturn in sales revenue amid diminished sales volume caused by inventory adjustments of customers. As a result, this segment posted net sales of ¥6,465 million (-4.6% YOY).

Operating income rose 3.2% year on year to ¥292 million owing to price setting in response to higher raw materials prices from the previous year, despite a decrease in sales volume.

VI. Other businesses

This segment, which consists of the research and development business for new products, goods transportation, and trading-house operations, recorded sales on par with the previous year, as net sales rose slightly 0.8% year on year to ¥459 million.

The operating loss totaled ¥173 million, compared to an operating loss of ¥41 million in the same period of the previous fiscal year, partly because of preparatory costs for the opening of the Kawasaki Frontience R&D Center.

(2) Explanation of Financial Position

Status of assets, liabilities, and net assets

Total assets: Total assets amounted to ¥271,534 million, down ¥751 million (0.3%) from the previous fiscal year-end. The main contributor to this decrease was a decrease in current assets including “cash and deposits”, compared to an increase in “investment securities” resulting from the higher market value of shareholdings.

Total liabilities: Total liabilities amounted to ¥59,805 million, up ¥38 million (0.1%) from the previous fiscal year-end. The main contributor to this increase was an increase in “other long-term liabilities” under long-term liabilities owing to the increase in deferred tax liabilities, compared to a decrease in current liabilities including “notes and accounts payable.”

Total net assets: Total net assets amounted to ¥211,728 million, down ¥789 million (0.4%) from the previous fiscal year-end. The main contributor to this decrease was an increase in “treasury stock” due to share buybacks, compared to an increase in “unrealized holding gain on available-for-sale securities.”

Net worth ratio: Net worth ratio amounted to 77.6%.

(3) Explanation of Forward-looking Statements such as Consolidated Earnings Forecasts

There is no change in the consolidated earnings forecast for the fiscal year ending December 31, 2024 announced on February 13, 2024. In addition, if it is necessary to change the earnings forecast, the Company will promptly disclose it.

2. Quarterly Consolidated Financial Statements, Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Fiscal 2023 (as of December 31, 2023)	First quarter of fiscal 2024 (as of March 31, 2024)
Assets		
Current assets		
Cash and deposits	39,108	33,392
Notes and accounts receivable	51,102	48,012
Securities	17,000	15,000
Inventories	24,792	25,050
Other current assets	2,904	3,712
Allowance for doubtful receivables	(47)	(50)
Total current assets	134,860	125,118
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	26,998	26,914
Machinery, equipment and other, net	25,451	24,477
Land	29,249	29,307
Other, net	14,834	18,820
Total property, plant and equipment	96,532	99,520
Intangible fixed assets	1,579	1,674
Investments and other assets		
Investment securities	32,912	38,562
Net defined benefit asset	3,736	3,731
Other assets	2,671	2,932
Allowance for doubtful receivables	(6)	(6)
Total investments and other assets	39,313	45,220
Total fixed assets	137,425	146,415
Total assets	272,285	271,534

(Millions of yen)

	Fiscal 2023 (as of December 31, 2023)	First quarter of fiscal 2024 (as of March 31, 2024)
Liabilities		
Current liabilities		
Notes and accounts payable	19,091	17,559
Short-term bank loans	2,499	2,515
Accrued income taxes	2,281	960
Accrued bonuses for employees	14	783
Provision for product recalls	308	214
Other current liabilities	17,284	17,393
Total current liabilities	41,480	39,427
Long-term liabilities		
Long-term debt	8,595	8,694
Net defined benefit liability	119	118
Provision for share awards	145	183
Other long-term liabilities	9,426	11,382
Total long-term liabilities	18,287	20,378
Total liabilities	59,767	59,805
Net assets		
Shareholders' equity		
Common stock	20,886	20,886
Capital surplus	14,166	14,166
Retained earnings	159,562	158,423
Treasury stock	(786)	(5,094)
Total shareholders' equity	193,828	188,381
Accumulated other comprehensive income		
Unrealized holding gain on available-for-sale securities	13,319	17,258
Translation adjustment	3,992	4,722
Remeasurements of defined benefit plans	369	360
Total accumulated other comprehensive income	17,681	22,341
Non-controlling interests	1,008	1,005
Total net assets	212,518	211,728
Total liabilities and net assets	272,285	271,534

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statement of Income

(First Quarter under Review)

(Millions of yen)

	Previous first quarter (January 1, 2023 to March 31, 2023)	First quarter under review (January 1, 2024 to March 31, 2024)
Net sales	38,198	39,014
Cost of sales	28,712	28,209
Gross profit	9,485	10,805
Selling, general, and administrative expenses	6,898	7,253
Operating income	2,587	3,552
Non-operating income		
Interest income	48	89
Dividend income	63	269
Equity in earnings of affiliates	81	49
Foreign currency exchange gains	30	117
Rent income on non-current assets	49	46
Insurance claim income	192	–
Other	36	17
Total non-operating income	503	590
Non-operating expenses		
Interest expenses	32	35
Loss on investments in partnerships	21	35
Environment readiness fee	25	30
Inactive facilities expenses	3	3
Other	33	9
Total non-operating expenses	116	115
Ordinary profit	2,974	4,027
Extraordinary income		
Gain on sale of non-current assets	–	6
Subsidy income	72	59
Total extraordinary gains	72	66
Extraordinary losses		
Loss on disposal of non-current assets	42	398
Loss on disaster	–	29
Total extraordinary losses	42	427
Income before income taxes	3,003	3,666
Income taxes	806	928
Net income	2,196	2,737
Net income attributable to non-controlling interests	10	20
Net income attributable to owners of parent	2,185	2,717

Quarterly Consolidated Statement of Comprehensive Income
(First Quarter under Review)

(Millions of yen)

	Previous first quarter (January 1, 2023 to March 31, 2023)	First quarter under review (January 1, 2024 to March 31, 2024)
Net income	2,196	2,737
Other comprehensive income		
Unrealized holding gain on available-for-sale securities	1,355	3,942
Translation adjustments	0	742
Remeasurements of defined benefit plans, net of tax	(0)	(8)
Total other comprehensive income	1,355	4,676
Comprehensive income	3,551	7,414
Comprehensive income attributable to:		
Owners of parent	3,538	7,377
Non-controlling interests	13	36

(3) Notes

(Notes on Going Concern Assumption)

None

(Notes in Case of Significant Changes in the Amount of Shareholders' Equity)

The Company acquired 2,784,800 treasury shares pursuant to a resolution passed by the Board of Directors at its meeting held on February 13, 2024. As a result, during the period under review, treasury stock increased by ¥4,308 million, bringing the total of treasury stock to ¥5,094 million as of the end of the period under review.

(Additional Information)

(Employee Stock Compensation Plan)

In April 2023, the Company introduced an employee stock compensation plan (hereinafter, the "Plan") with the purpose of enhancing the welfare and benefits plan for the Company's employees (hereinafter, the "Employees"), to further promote the execution of business operations aiming to improve business performance by further increasing the Employees' awareness toward the Company's business performance and increasing the share price, and to enhance the Company's corporate value over the medium to long term.

(1) Overview of Transaction

The Plan is an incentive plan whereby money contributed by the Company will be used to establish a trust (hereinafter, the "Trust"), and the Trust will acquire the common stock (hereinafter, the "Company Shares"), and then the Company Shares will be granted to the Employees through the Trust based on points awarded to the Employees who satisfy certain conditions. The points shall be awarded to the Employees based on his/her job title/duties pursuant to the Share Granting Regulations established by the Company's Board of Directors. The number of the Company Shares to be granted to each of the Employees will be determined based on the number of points he/she was awarded.

The funds used to acquire the Company Shares by the Trust will be provided in full by the Company; thus, the Employees do not bear any burden.

(2) The Company's Remaining Shares in Trust

The Company's remaining shares in the Trust will be recorded as treasury stock in the net assets section based on the book value in the Trust (excluding the amount of ancillary expenses). The book value and number of these treasury stock were ¥474 million and 386 thousand shares, respectively, at the end of the previous fiscal year, and ¥472 million and 384 thousand shares, respectively, at the end of the period under review.

(Segment Information, etc.)

[Segment Information]

I. Previous First Quarter (January 1, 2023 to March 31, 2023)

1 Further Information about Segment Sales and Segment Profit/Loss

(Millions of yen)

	Reportable segment						Other businesses ¹	Total	Adjusted ²	Consolidated book value ³
	Commodity chemicals	Polymer & oligomer	Adhesive material	Performance chemicals	Plastics	Total				
Net sales										
External sales	17,243	8,525	2,680	2,517	6,775	37,742	455	38,198	–	38,198
Intersegment sales or transfers	1,117	412	43	70	146	1,790	388	2,178	(2,178)	–
Total	18,360	8,937	2,724	2,588	6,922	39,533	844	40,377	(2,178)	38,198
Segment profit (loss)	1,165	809	(116)	478	283	2,621	(41)	2,579	7	2,587

Notes:

- 1 “Other businesses” is a miscellaneous segment covering businesses that do not belong to any reportable segment. It includes research and development business for new products, goods transportation, and trading-house operations, among others.
- 2 Adjusted segment profit or loss primarily takes into account elimination of intersegment transactions.
- 3 Segment profit or loss represents operating income as stated on the quarterly consolidated statement of income with the adjustment.

2 Impairment of Fixed Assets or Goodwill, etc. by Reportable Segment

The disclosure is omitted due to the immateriality.

II. First Quarter under Review (January 1, 2024 to March 31, 2024)

1 Further Information about Segment Sales and Segment Profit/Loss

(Millions of yen)

	Reportable segment						Other businesses ¹	Total	Adjusted ²	Consolidated book value ³
	Commodity chemicals	Polymer & oligomer	Adhesive material	Performance chemicals	Plastics	Total				
Net sales										
External sales	17,875	8,523	3,157	2,534	6,465	38,555	459	39,014	–	39,014
Intersegment sales or transfers	954	383	14	72	266	1,690	395	2,086	(2,086)	–
Total	18,829	8,906	3,171	2,606	6,731	40,246	855	41,101	(2,086)	39,014
Segment profit (loss)	1,961	1,090	77	302	292	3,724	(173)	3,550	1	3,552

Notes:

- 1 “Other businesses” is a miscellaneous segment covering businesses that do not belong to any reportable segment. It includes research and development business for new products, goods transportation, and trading-house operations, among others.
- 2 Adjusted segment profit or loss primarily takes into account elimination of intersegment transactions.
- 3 Segment profit or loss represents operating income as stated on the quarterly consolidated statement of income with the adjustment.

2 Impairment of Fixed Assets or Goodwill, etc. by Reportable Segment

The disclosure is omitted due to the immateriality.