

Table of Contents

1. Financial Performance	2
(1) Explanation of Financial Performance	2
(2) Explanation of Financial Position.....	3
(3) Explanation of Forward-looking Statements such as Consolidated Earnings Forecasts.....	4
2. Quarterly Consolidated Financial Statements, Notes	5
(1) Quarterly Consolidated Balance Sheet	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income.....	7
(3) Notes.....	9
(Notes on Going Concern Assumption).....	9
(Notes in Case of Significant Changes in the Amount of Shareholders' Equity)	9
(Changes in Accounting Policies).....	9
(Segment Information, etc.).....	10

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, 2022), the global economy saw an increasing sense of uncertainty toward the future amid the spread of the Omicron variant of COVID-19, further increases in energy prices caused by Russia's invasion of Ukraine, unstable procurement of raw materials and parts, and rising inflationary pressures.

Against that backdrop, Toagosei Group continued to implement thorough infection control measures and continued its business activities while addressing rising prices for raw materials and other factors. As a result, Toagosei Group recorded the following financial results for the period under review.

Net sales: ¥37,750 million (+5.0% YOY)

Operating income: ¥4,109 million (-12.3% YOY)

Ordinary profit: ¥4,654 million (-10.2% YOY)

Net income attributable to owners of parent: ¥4,015 million (+9.8% YOY)

Furthermore, net sales declined by ¥2,089 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

(b) Performance by Segment

We have partially changed the classification of reportable segments from the first quarter under review. Some of the developed products previously included in the Adhesive Material segment have been transferred to the Performance Chemicals segment. This change is in line with organizational changes aimed at promoting cross-functional development activities and is intended to properly present the actual state of the Group's business management. Year-on-year change is compared to the figures for the previous first quarter prepared according to the revised classification method.

I. Commodity Chemicals

Electrolysis products posted shipments on par with the previous year. Acrylic monomer products experienced a downturn in sales volume in Japan due to the impacts of production adjustments in the automobile industry, but overseas market conditions remained strong leading to increased sales. Industrial gas recorded shipments largely unchanged from the previous year. As a result of the above, this segment posted net sales of ¥16,018 million (+2.7% YOY). Furthermore, net sales declined by ¥370 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

Operating income declined by a large amount due to the impacts on rising raw material and fuel prices for inorganic products such as caustic soda. In contrast, acrylic monomer products driven by strong market conditions overseas boosted operating income. As a result of the above, this segment posted an operating income of ¥1,770 million (-4.3% YOY).

II. Polymer & Oligomer

Acrylic polymers posted a downturn in sales revenue owing to lower sales volume caused by the impacts of production adjustments in the automobile industry. Acrylic oligomers saw increased sales revenue amid ongoing strong shipments for electronic materials. Polymer flocculants recorded increased sales revenue, partly because we inherited a sales business from another company. As a result of these factors, this segment posted net sales of ¥9,116 million (+12.8% YOY). Furthermore, net sales declined by ¥754 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

Operating income totaled ¥1,317 million (-2.3% YOY) due to reduced sales volume of acrylic polymers, which offset the increase from higher sales volume of polymer flocculants.

III. Adhesive Material

Instant glues for consumers experienced a downturn in sales volume following the reduced customer traffic at home improvement stores, etc., due to the cold snap and heavy snowfall in Japan. Overseas, sales volume declined due to a slowdown in economic activities caused by COVID-19 countermeasures. Industrial instant glues also saw a downturn in sales volume attributed to the slowdown in production activities in China due to COVID-19 countermeasures. Functional adhesives recorded a drop in sales volume owing to the slowdown in production activities in China due to COVID-19 countermeasures, in addition to shortages of semiconductors for electronic devices, but sales volume increased for batteries for automotive applications amid a steady increase in new projects. As a result, this segment posted net sales of ¥2,758 million (-0.5% YOY). Furthermore, net sales declined by ¥144 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

Operating income totaled ¥77 million (-77.0% YOY) due to increased depreciation from improvements made to production facilities and decreased sales revenue on lower sales volume.

IV. Performance Chemicals

High-purity inorganic chemicals posted an increase in sales revenue amid brisk demand among semiconductor manufacturers. Inorganic functional materials saw higher sales revenue on strong shipments of deodorants and antimicrobial agents. As a result of the above, this segment posted net sales of ¥2,470 million (+9.8% YOY). Furthermore, net sales declined by ¥24 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

Operating income totaled ¥578 million (-5.0% YOY) due to an increase in depreciation and repair costs.

V. Plastics

Piping equipment saw increased sales revenue amid demand for boosting inventories. Products for construction and civil engineering and nursing care products recorded shipments on par with the previous year. Elastomer compounds posted decreased sales revenue on the downturn in shipments for home electronics overseas which were impacted by the semiconductor shortage. As a result, this segment posted net sales of ¥7,013 million (+9.9% YOY). Furthermore, net sales declined by ¥195 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

Operating income totaled ¥474 million (-15.6% YOY) owing to the impacts of rising raw materials costs.

VI. Other Businesses

This segment covers product development, goods transportation, and trading-house operations. The segment posted net sales of ¥373 million (-57.5% YOY) and an operating loss of ¥111 million. Furthermore, net sales declined by ¥600 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

(2) Explanation of Financial Position

Status of assets, liabilities, and net assets

Total assets amounted to ¥258,643 million, down ¥312 million (0.1%) from the previous year-end. The main contributors to this decrease were the decrease in “cash and deposits,” “securities” and “notes and accounts receivable,” which offset the increase in fixed assets caused by the increase in “land.”

Total liabilities amounted to ¥50,064 million, down ¥2,279 million (4.4%) from the previous year-end. The main contributor to this decrease was the decrease in “accrued income taxes.”

Total net assets amounted to ¥208,579 million, up ¥1,966 million (1.0%) from the previous year-end. This increase was attributable to an increase in “retained earnings” following the recognition of net income attributable to owners of parent. Net worth ratio amounted to 78.8%.

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

All forward-looking statements herein represent assumptions that we considered reasonable as of the day this document was published.

In addition to the COVID-19 pandemic, Russia's military invasion of Ukraine has rapidly increased uncertainty about the political and economic outlook. For this reason, the business environment has fluctuated greatly, such as the rise in resource and raw material prices and the weakening of the yen, but we will continue working to secure earnings by flexibly responding to future changes in the environment, including revising product prices.

Under these circumstances, it is difficult to rationally estimate various events; therefore, we will maintain the full-year consolidated earnings forecast for fiscal 2022 announced on February 10, 2022 and promptly disclose any changes to the earnings forecast when it is judged such changes are necessary.

2. Quarterly Consolidated Financial Statements, Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

	Fiscal 2021 (as of December 31, 2021)	First quarter of fiscal 2022 (as of March 31, 2022)
Assets		
Current assets		
Cash and deposits	52,457	42,443
Notes and accounts receivable	48,456	46,495
Securities	23,000	20,000
Inventories	19,387	20,996
Other current assets	1,913	2,930
Allowance for doubtful receivables	(46)	(42)
Total current assets	145,168	132,824
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	28,034	27,829
Machinery, equipment and other, net	26,392	25,162
Land	17,969	29,530
Other, net	5,798	6,638
Total property, plant and equipment	78,193	89,161
Intangible fixed assets	1,669	1,664
Investments and other assets		
Investment securities	28,722	29,064
Net defined benefit asset	3,165	3,235
Other assets	2,044	2,699
Allowance for doubtful receivables	(8)	(6)
Total investments and other assets	33,924	34,992
Total fixed assets	113,787	125,818
Total assets	258,955	258,643

(Millions of yen)

	Fiscal 2021 (as of December 31, 2021)	First quarter of fiscal 2022 (as of March 31, 2022)
Liabilities		
Current liabilities		
Notes and accounts payable	18,391	17,726
Short-term bank loans	2,477	2,478
Accrued income taxes	3,728	1,296
Provisions	13	789
Other current liabilities	12,126	11,839
Total current liabilities	36,737	34,129
Long-term liabilities		
Long-term debt	8,730	8,730
Net defined benefit liability	140	140
Other long-term liabilities	6,735	7,063
Total long-term liabilities	15,605	15,934
Total liabilities	52,343	50,064
Net assets		
Shareholders' equity		
Common stock	20,886	20,886
Capital surplus	15,046	15,046
Retained earnings	153,693	155,277
Treasury stock	(230)	(849)
Total shareholders' equity	189,396	190,361
Accumulated other comprehensive income		
Unrealized holding gain on available-for-sale securities	9,749	10,098
Translation adjustment	2,199	2,831
Remeasurements of defined benefit plans	419	405
Total accumulated other comprehensive income	12,367	13,335
Non-controlling interests	4,848	4,882
Total net assets	206,612	208,579
Total liabilities and net assets	258,955	258,643

(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, 2021 to March 31, 2021)	First quarter under review (January 1, 2022 to March 31, 2022)
Net sales	35,953	37,750
Cost of sales	24,814	26,887
Gross profit	11,138	10,862
Selling, general, and administrative expenses	6,451	6,753
Operating income	4,687	4,109
Non-operating income		
Interest income	8	10
Dividend income	167	56
Equity in earnings of affiliates	88	86
Foreign currency exchange gains	202	398
Rent income on non-current assets	77	83
Other	32	20
Total non-operating income	576	656
Non-operating expenses		
Interest expenses	23	20
Environment readiness fee	24	64
Inactive facilities expenses	6	9
Other	27	15
Total non-operating expenses	81	110
Ordinary profit	5,182	4,654
Extraordinary income		
Gain on sales of investment securities	–	1,000
Subsidy income	26	280
Total extraordinary gains	26	1,281
Extraordinary losses		
Loss on disposal of non-current assets	26	238
Loss on valuation of investment securities	–	104
Total extraordinary losses	26	342
Income before income taxes	5,181	5,593
Income taxes	1,481	1,483
Net income	3,700	4,110
Net income attributable to non-controlling interests	44	95
Net income attributable to owners of parent	3,656	4,015

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

(Millions of yen)

	Previous first quarter (January 1, 2021 to March 31, 2021)	First quarter under review (January 1, 2022 to March 31, 2022)
Net income	3,700	4,110
Other comprehensive income		
Unrealized holding gain on available-for-sale securities	2,860	351
Translation adjustments	520	657
Remeasurements of defined benefit plans, net of tax	5	(14)
Total other comprehensive income	3,386	995
Comprehensive income	7,086	5,105
Comprehensive income attributable to:		
Owners of parent	7,010	4,983
Non-controlling interests	76	122

(3) Notes

(Notes on Going Concern Assumption)

None

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

The Company acquired 574,100 treasury shares pursuant to a resolution passed by the Board of Directors at its meeting held on January 31, 2022. As a result, during the period under review, treasury stock increased by ¥619 million, bringing the total of treasury stock to ¥849 million as of the end of the period under review.

(Changes in Accounting Policies)

(Application of Accounting Standard for Revenue Recognition [ASBJ Statement No. 29])

We have applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) from the beginning of the first quarter under review. As a result, we have decided to recognize revenue when the control of the promised goods or services is transferred to the customer by the amount expected to be received in exchange for said goods or services. The main changes made are as follows:

1. Revenue recognition related to export transactions

In the past, we have recognized the revenue of export transactions of the Company and our domestic consolidated subsidiaries based on shipping standards, but we have changed the method of recognizing revenue at the time the goods or services are transferred to customers and the performance obligations are satisfied.

2. Revenue recognition related to agency transactions

In the past, we have recognized the total amount of consideration received from customers with regard to the purchase and sale of goods or services in trading-house operations, but as a result of determining the role (person or agent) in providing goods or services to customers, for transactions that fall under an agent, we have changed to a method of recognizing revenue by the net amount minus the amount paid to the vendor from the amount received from the customer.

3. Revenue recognition related to chargeable transactions

In the past, we have recognized extinguishment of chargeable goods, but in case of an obligation to buy back chargeable goods, we have changed to a method that does not recognize the extinguishment of the chargeable goods.

The application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) follows the transitional treatment stipulated in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition, and the cumulative impact of retroactively applying the new accounting policy prior to the beginning of the first quarter consolidated accounting period has been applied to the new accounting policy from the balance of the beginning of the fiscal year after adjusting the retained earnings at the beginning of the first quarter of the fiscal year. However, the new accounting policy has not been retroactively applied to contracts that apply the method stipulated in Paragraph 86 of the Accounting Standard for Revenue Recognition and that recognize almost all amounts of revenue in accordance with the previous handling prior to the beginning of the first quarter.

As a result, net sales for the first quarter decreased by ¥2,089 million, cost of sales by ¥1,899 million, selling, general, and administrative expenses by ¥163 million, respectively, while operating income, ordinary profit, and income before income taxes decreased by ¥27 million, respectively. Retained earnings decreased by ¥54 million at the beginning of the fiscal year.

(Application of Accounting Standard for Fair Value Measurement)

We applied “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) from the beginning of the first quarter under review. In accordance with the transitional handling stipulated in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), we have decided to apply the new accounting policy established by the Accounting Standard for Fair Value Measurement into the future. In the past, the market value method based on the average market price one month prior to the end of the fiscal year had been adopted for securities with market value among other securities, but from the first quarter under review, we have changed to a market value method based on market price as of the end of the fiscal year.

(Segment Information, etc.)

[Segment Information]

I Previous First Quarter (January 1, 2021 to March 31, 2021)

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	15,590	8,081	2,771	2,249	6,382	35,075	878	35,953	—	35,953
Intersegment sales or transfers	931	322	22	46	42	1,365	361	1,726	(1,726)	—
Total	16,521	8,404	2,793	2,296	6,425	36,440	1,239	37,680	(1,726)	35,953
Segment profit	1,850	1,348	335	608	562	4,706	(19)	4,686	0	4,687

Notes:

- 1 “Other businesses” is a miscellaneous segment covering businesses that do not belong to any reportable segment. It includes operations related to product development, goods transportation, and trading-house operations.
- 2 Adjusted segment profit takes into account elimination of intersegment transactions.
- 3 Segment profit 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, 2022 to March 31, 2022)

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	16,018	9,116	2,758	2,470	7,013	37,376	373	37,750	—	37,750
Intersegment sales or transfers	1,357	357	18	67	93	1,894	376	2,271	(2,271)	—
Total	17,375	9,474	2,777	2,538	7,106	39,271	750	40,021	(2,271)	37,750
Segment profit	1,770	1,317	77	578	474	4,217	(111)	4,106	2	4,109

Notes:

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

2. Matters concerning changes in reportable segments

(Changes in reportable segment classification)

We have partially changed the classification of reportable segments from the first quarter under review. Some of the developed products previously included in the Adhesive Material segment have been transferred to the Performance Chemicals segment. This change is in line with organizational changes aimed at promoting cross-functional development activities and is intended to properly present the actual state of the Group's business management.

Furthermore, segment information for the previous first quarter is prepared and presented according to the revised classification method.

(Application of Accounting Standard for Revenue Recognition [ASBJ Statement No. 29])

As described in “(Changes in Accounting Policies),” we applied Accounting Standard for Revenue Recognition (ASBJ Statement No. 29) from the first quarter under review and similarly we have changed the measurement method of profit and loss of reportable segments because of changes in the accounting treatment of revenue recognition.

Due to this change, first quarter net sales for each reportable segment declined by ¥370 million for Commodity Chemicals, by ¥754 million for Polymer & Oligomer, by ¥144 million for Adhesive Material, by ¥24 million for Performance Chemicals, by ¥195 million for Plastics and by ¥600 million for Other Businesses compared to the previous method.

Additionally, segment profit decreased by ¥8 million for Commodity Chemicals, by ¥11 million for Polymer & Oligomer, and by ¥6 million for Adhesive Material, while segment profit decreased by amounts of less than ¥1 million for Performance Chemicals, and Plastics.

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

The disclosure is omitted due to the immateriality.