

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.....	3
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.).....	9

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, 2023), the global economy, amid Russia's continued military invasion of Ukraine, saw rising uncertainty surrounding monetary policy, including a continuation of measures to stop inflation by raising interest rates, especially in the United States, and the bankruptcies of certain financial institutions.

The Japanese economy is beginning to see positive signs in some areas as the non-manufacturing industry experienced more dynamic sales activities in terms of travel and restaurants amid the easing of COVID-19 pandemic related restrictions, but the manufacturing industry continued to experience weakness in shipments caused by the impacts of production cuts of electronic and electrical products from the second half of the previous year.

Against that backdrop, Toagosei Group commenced its newly created Medium-Term Management Plan 2025. As a result, the Group recorded the following financial results for the period under review.

Net sales: ¥38,198 million (+1.2% YOY)

Operating income: ¥2,587 million (-37.0% YOY)

Ordinary profit: ¥2,974 million (-36.1% YOY)

Net income attributable to owners of parent: ¥2,185 million (-45.6% YOY)

(b) Performance by Segment

Following changes in the Company's organizational structure and management classification effective January 1, 2023, sustainability related businesses previously included in the Commodity Chemicals segment have been transferred to the Other segment from the first quarter under review. 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 overall saw sales volume decline, but sales revenue increased because of price hikes from last year. Acrylic monomer products posted a decline in sales revenue owing to reduced sales volume for acrylic resins and adhesives. The sales volume of industrial gas declined, but sales revenue was largely unchanged from the previous year thanks to price hikes. As a result of the above, this segment posted net sales of ¥17,243 million (+8.2% YOY).

Operating income from electrolysis products declined after being largely affected by reduced sales volume despite upward revisions to selling prices based on rising raw material and fuel prices. Acrylic monomer products also saw a downturn in operating income amid diminished sales volume and a significant downturn in market conditions overseas. As a result of the above, this segment posted an operating income of ¥1,165 million (-34.1% YOY).

II. Polymer & Oligomer

Acrylic polymers recorded an increase in sales revenue amid high sales volume of certain products. Acrylic oligomers posted a decline in sales revenue owing to weaker sales volume for electronic materials. Polymer flocculants also saw a decline in sales revenue due to diminished sales volume for export and civil engineering. As a result of these factors, this segment posted net sales of ¥8,525 million (-6.5% YOY).

Operating income totaled ¥809 million (-38.5% YOY) because of the decline in sales volume of acrylic oligomers and polymer flocculants.

III. Adhesive Material

Instant glues for consumers posted lower sales revenue on weaker sales volume due to the impacts of reduced customer traffic at home improvement stores, etc. Industrial instant glues also recorded a decrease in sales revenue for automotive applications and in the United States. Functional adhesives saw sales volume increase for batteries for automotive applications, but sales revenue declined due to weaker sales volume for smartphone related applications. As a result, this segment posted net sales of ¥2,680 million (-2.8% YOY).

Operating income declined ¥193 million, resulting in an operating loss of ¥116 million, because of reduced sales volume, which offset efforts to continuously hike prices from the previous year to restore profitability.

IV. Performance Chemicals

High-purity inorganic chemicals saw sales revenue overall increase thanks to price hikes based on higher raw material and fuel prices, which offset lower sales volume due to the impacts of weaker semiconductor market conditions. Inorganic functional materials saw strong shipments of antimicrobial agents, but sales revenue overall declined due to diminished sales volume of ion-trapping agents for electronics and deodorants. As a result, this segment posted net sales of ¥2,517 million (+1.9% YOY).

Operating income totaled ¥478 million (-17.2% YOY) due to reduced sales volume and higher fixed costs including technological research costs.

V. Plastics

Piping equipment posted a decline in sales revenue due to weaker sales volume caused by sluggish growth in housing starts. Nursing care products recorded an increase in sales revenue amid strong sales of new products. Elastomer compounds saw sales revenue increase amid higher shipment volume for medical products. As a result, this segment posted net sales of ¥6,775 million (-3.4% YOY).

Operating income totaled ¥283 million (-40.3% YOY) because of diminished shipment volume of piping equipment and higher raw material and fuel prices for elastomer compounds.

VI. Other Businesses

This segment covers sustainability related businesses as well as goods transportation and trading-house operations. The segment posted net sales of ¥455 million (+1.2% YOY) and an operating loss of ¥41 million.

(2) Explanation of Financial Position

Status of assets, liabilities, and net assets

Total assets amounted to ¥256,434 million, down ¥8,701 million (3.3%) from the previous year-end. The main contributors to this decrease were the decrease in “cash and deposits” and “securities.”

Total liabilities amounted to ¥51,495 million, down ¥2,833 million (5.2%) from the previous year-end. The main contributors to this decrease were the decrease in “notes and accounts payable” and “accrued income taxes.”

Total net assets amounted to ¥204,938 million, down ¥5,868 million (2.8%) from the previous fiscal year-end. The main contributors to this decrease were the increase in “treasury stock” due to share buybacks and the decrease in “non-controlling interests” from the increase in the Company’s shareholding ratio of MT AquaPolymer, Inc., a consolidated subsidiary. Net worth ratio amounted to 79.5%.

(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.

Many products have experienced diminished sales volume amid rising uncertainty about the political and economic outlook, such as intensifying disputes between the United States and China and high interest rates to combat inflation. The Group will conduct business activities to increase profits by focusing on continuation of price hikes, striving to lower costs, and closely monitoring user trends.

Under these circumstances, it is difficult to rationally estimate various events; therefore, we will maintain the full-year consolidated earnings forecast for fiscal 2023 announced on February 10, 2023 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 2022 (as of December 31, 2022)	First quarter of fiscal 2023 (as of March 31, 2023)
Assets		
Current assets		
Cash and deposits	40,366	35,472
Notes and accounts receivable	49,848	47,207
Securities	18,000	14,000
Inventories	25,511	25,784
Other current assets	5,309	6,030
Allowance for doubtful receivables	(50)	(49)
Total current assets	138,985	128,445
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	27,467	27,159
Machinery, equipment and other, net	24,399	23,553
Land	29,146	29,172
Other, net	9,761	10,615
Total property, plant and equipment	90,774	90,501
Intangible fixed assets	1,592	1,630
Investments and other assets		
Investment securities	28,472	30,521
Net defined benefit asset	2,704	2,773
Other assets	2,612	2,568
Allowance for doubtful receivables	(6)	(6)
Total investments and other assets	33,782	35,856
Total fixed assets	126,150	127,988
Total assets	265,135	256,434

(Millions of yen)

	Fiscal 2022 (as of December 31, 2022)	First quarter of fiscal 2023 (as of March 31, 2023)
Liabilities		
Current liabilities		
Notes and accounts payable	19,653	17,456
Short-term bank loans	2,475	2,475
Accrued income taxes	2,176	342
Provisions	16	683
Other current liabilities	13,470	13,302
Total current liabilities	37,792	34,259
Long-term liabilities		
Long-term debt	8,590	8,590
Net defined benefit liability	117	116
Other long-term liabilities	7,828	8,529
Total long-term liabilities	16,535	17,235
Total liabilities	54,328	51,495
Net assets		
Shareholders' equity		
Common stock	20,886	20,886
Capital surplus	15,095	14,166
Retained earnings	158,154	158,156
Treasury stock	(1,081)	(3,485)
Total shareholders' equity	193,053	189,724
Accumulated other comprehensive income		
Unrealized holding gain on available-for-sale securities	9,598	10,953
Translation adjustment	3,471	3,470
Remeasurements of defined benefit plans	(154)	(155)
Total accumulated other comprehensive income	12,915	14,268
Non-controlling interests	4,837	945
Total net assets	210,807	204,938
Total liabilities and net assets	265,135	256,434

(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, 2022 to March 31, 2022)	First quarter under review (January 1, 2023 to March 31, 2023)
Net sales	37,750	38,198
Cost of sales	26,887	28,712
Gross profit	10,862	9,485
Selling, general, and administrative expenses	6,753	6,898
Operating income	4,109	2,587
Non-operating income		
Interest income	10	48
Dividend income	56	63
Equity in earnings of affiliates	86	81
Insurance claim income	–	192
Rent income on non-current assets	83	49
Foreign currency exchange gains	398	30
Other	20	36
Total non-operating income	656	503
Non-operating expenses		
Interest expenses	20	32
Environment readiness fee	64	25
Inactive facilities expenses	9	3
Other	15	55
Total non-operating expenses	110	116
Ordinary profit	4,654	2,974
Extraordinary income		
Subsidy income	280	72
Gain on sales of investment securities	1,000	–
Total extraordinary gains	1,281	72
Extraordinary losses		
Loss on disposal of non-current assets	238	42
Loss on valuation of investment securities	104	–
Total extraordinary losses	342	42
Income before income taxes	5,593	3,003
Income taxes	1,483	806
Net income	4,110	2,196
Net income attributable to non-controlling interests	95	10
Net income attributable to owners of parent	4,015	2,185

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

(Millions of yen)

	Previous first quarter (January 1, 2022 to March 31, 2022)	First quarter under review (January 1, 2023 to March 31, 2023)
Net income	4,110	2,196
Other comprehensive income		
Unrealized holding gain on available-for-sale securities	351	1,355
Translation adjustments	657	0
Remeasurements of defined benefit plans, net of tax	(14)	(0)
Total other comprehensive income	995	1,355
Comprehensive income	5,105	3,551
Comprehensive income attributable to:		
Owners of parent	4,983	3,538
Non-controlling interests	122	13

(3) Notes

(Notes on Going Concern Assumption)

None

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

The Company acquired 2,002,900 treasury shares pursuant to a resolution passed by the Board of Directors at its meeting held on February 10, 2023. As a result, during the period under review, treasury stock increased by ¥2,403 million, bringing the total of treasury stock to ¥3,485 million as of the end of the period under review.

(Changes in Accounting Policies)

(Application of Implementation Guidance on Accounting Standard for Fair Value Measurement)

We applied "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021) from the beginning of the first quarter under review. In accordance with the transitional handling stipulated in Paragraph 27-2 of Implementation Guidance on Accounting Standard for Fair Value Measurement, we have decided to apply the new accounting policy established by the Implementation Guidance on Accounting Standard for Fair Value Measurement into the future. The Company's first quarter financial statements were not affected by this application.

(Segment Information, etc.)

[Segment Information]

I. Previous First Quarter (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	15,941	9,116	2,758	2,470	7,013	37,299	450	37,750	—	37,750
Intersegment sales or transfers	1,357	357	18	67	93	1,894	376	2,271	(2,271)	—
Total	17,298	9,474	2,777	2,538	7,106	39,194	827	40,021	(2,271)	37,750
Segment profit	1,769	1,317	77	578	474	4,217	(110)	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 new product research and development, goods transportation, and trading-house operations.
- 2 Adjusted segment profit primarily 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, 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 operations related to new product research and development, sustainability related businesses, goods transportation, and trading-house operations.
- 2 Adjusted segment profit (loss) primarily takes into account elimination of intersegment transactions.
- 3 Segment profit (loss) 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)

Following changes in the Company’s organizational structure and management classification effective January 1, 2023, sustainability related businesses previously included in the Commodity Chemicals segment have been transferred to the Other Businesses segment from the first quarter under review.

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

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

The disclosure is omitted due to the immateriality.