

Attached Documents

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1. Financial Performance

(1) Explanation of Financial Performance

(a) Financial Performance during the First Three Quarters of Fiscal 2022

During the period under review (January 1 to September 30, 2022), the global economy experienced rising prices of many products including energy and countries including the United States began raising policy rates to dampen inflation. In addition, China's economic growth rate slowed. As a result, uncertainty toward the future persists worldwide.

Meanwhile, Japan's economy continued to face challenging conditions amid rising import costs caused by yen depreciation, elevated energy prices, and little growth in automobile production. At the same time, there is growing expectations of more active consumption, including in the tourism industry thanks to nationwide travel support programs, underpinned by diminishing case counts of COVID-19.

Against this backdrop, the Group continues to engage in business activities while addressing rising raw material and fuel prices by increasing product selling prices and other measures. As a result, Toagosei Group recorded the following financial results for the period under review.

Net sales: ¥118,717 million (+4.7% YOY)

Operating income: ¥12,054 million (-11.4% YOY)

Ordinary profit: ¥13,773 million (-4.5% YOY)

Net income attributable to owners of parent: ¥10,294 million (-3.4% YOY)

Furthermore, net sales declined by ¥5,920 million and operating income by ¥46 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

(b) Performance by Segment

I. Commodity Chemicals

Electrolysis products experienced a downturn in sales volume but selling prices were increased to cope with higher raw material and fuel prices, leading to increased sales revenue. Acrylic monomer products saw a downturn in sales volume, but price hikes based on higher raw material and fuel prices resulted in higher sales revenue. Industrial gases posted a decline in sales revenue due to a decrease in sales volume to automotive parts markets. As a result of the above, this segment posted net sales of ¥54,567 million (+8.1% YOY). Furthermore, net sales declined by ¥1,667 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

Despite rising variable costs due to soaring raw material prices, ongoing progress with price hikes resulted in operating income totaling ¥5,947 million (+1.3% YOY). Furthermore, operating income decreased by ¥2 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

II. Polymer & Oligomer

Acrylic polymers saw a decline in sales revenue on lower sales volume of automotive related products. Acrylic oligomers posted a downturn in sales volume for displays and other products amid the slowdown in stay-at-home demand, but net sales were largely on par with the previous year thanks to the impacts of gains on foreign currency exchange attributed to overseas sales from the weak yen. Polymer flocculants saw increased sales revenue on higher demand owing to the recovery in consumption activities. As a result of these factors, this segment posted net sales of ¥26,921 million (+6.0% YOY). Furthermore, net sales declined by ¥1,592 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

We are moving ahead with price hikes in response to rising raw material and fuel prices, but diminished sales volume and other factors caused operating income to total ¥3,369 million (-17.6% YOY). Furthermore, operating income decreased by ¥27 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

III. Adhesive Material

Instant glues for consumers recorded domestic and overseas shipments roughly unchanged from the previous fiscal year, but the effects of the weaker yen helped to increase sales revenue. Functional adhesives posted lower sales volume amid the impacts of reduction production of automobiles and smartphones, resulting in a decline in sales revenue. As a result, this segment posted net sales of ¥8,242 million (-2.0% YOY). Furthermore, net sales declined by ¥293 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

In addition to lower sales volume for smartphone and automotive related applications, there were higher technological research costs, depreciation, and overseas advertising expenses, causing operating income to fall significantly at ¥33 million (-96.0% YOY). Furthermore, operating income decreased by ¥6 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

IV. Performance Chemicals

High-purity inorganic chemicals recorded increased sales revenues amid higher sales volume of products for semiconductors. Inorganic functional materials saw net sales on par with the previous year as strong shipments of deodorants offset the decreased sales volume of ion scavengers caused by reduced production of smartphones. As a result, this segment posted net sales of ¥7,426 million (+3.6% YOY). Furthermore, net sales decreased by ¥16 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

Operating income came to ¥1,676 million (-10.8% YOY) amid higher depreciation and research and development costs. Furthermore, operating income decreased by ¥10 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

V. Plastics

Piping equipment posted increased sales revenue on price hikes. Nursing care products also saw higher sales revenue from the effects of new product introduction. Products for construction and civil engineering recorded sales revenue similar to the previous year. Elastomer compounds had increased sales revenue thanks to increased sales in Thailand. As a result, this segment posted net sales of ¥20,502 million (+7.5% YOY). Furthermore, net sales declined by ¥505 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

Operating income totaled ¥1,398 million (+27.7% YOY) buoyed by price hikes implemented in response to higher raw material and fuel prices. Furthermore, operating income decreased by amounts of less than ¥1 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

VI. Other Businesses

This segment covers product development, goods transportation, and trading-house operations. The segment posted net sales of ¥1,056 million (-63.2% YOY). Furthermore, net sales declined by ¥1,845 million due to the application of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29).

The operating loss totaled ¥388 million. Furthermore, there were no effects on operating income from 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 ¥263,348 million, up ¥4,392 million (1.7%) from the previous year-end amid an increase in “land” and “inventories.”

Total liabilities amounted to ¥52,733 million, up ¥390 million (0.7%) from the previous year-end, as “other long-term liabilities” in “long-term liabilities” increased due to higher lease obligations, which offset a decrease in accrued income taxes.

Total net assets amounted to ¥210,614 million, up ¥4,001 million (1.9%) 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 78.1%.

(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.

The economic situation in the fourth quarter of fiscal 2022 and beyond is expected to remain unpredictable due to rising interest rates, elevated raw material and fuel prices, along with growing concerns of a slowdown in the economies of China and Europe.

Under these circumstances, we will carefully monitor raw material and fuel prices, product market conditions, and international political developments, and strive to secure profitability by addressing the situation with flexibility, including cost reductions and price hikes.

Furthermore, we have revised the full-year consolidated earnings forecast for fiscal 2022 announced on July 29, 2022 based on trends and developments seen in the first three quarters of fiscal 2022.

Consolidated forecasts for fiscal 2022 (full-year: January 1 to December 31, 2022)

(Millions of yen)

| | Net sales | Operating income | Ordinary profit | Net income attributable to owners of parent | Net income per share |
|--|-----------|------------------|-----------------|---|----------------------|
| Previous forecasts (A) | 160,000 | 17,000 | 18,500 | 13,000 | 105.38 yen |
| Revised forecasts (B) | 160,000 | 16,000 | 17,500 | 13,000 | 105.44 yen |
| Amount of change (B-A) | - | (1,000) | (1,000) | - | |
| Rate of change (%) | - | (5.9%) | (5.4%) | - | |
| (Reference) Fiscal 2021 results (year ended December 31, 2021) | 156,313 | 17,676 | 18,983 | 13,771 | 108.14 yen |

2. Quarterly Consolidated Financial Statements, Notes

(1) Quarterly Consolidated Balance Sheet

(Millions of yen)

| | Fiscal 2021 (as of December 31, 2021) | First Three Quarters of Fiscal 2022 (as of September 30, 2022) |
|--|--|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 52,457 | 39,711 |
| Notes and accounts receivable | 48,456 | 49,190 |
| Securities | 23,000 | 19,000 |
| Inventories | 19,387 | 25,280 |
| Other current assets | 1,913 | 3,471 |
| Allowance for doubtful receivables | (46) | (48) |
| Total current assets | 145,168 | 136,604 |
| Fixed assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 28,034 | 28,013 |
| Machinery, equipment and other, net | 26,392 | 23,751 |
| Land | 17,969 | 29,779 |
| Other, net | 5,798 | 9,974 |
| Total property, plant and equipment | 78,193 | 91,519 |
| Intangible fixed assets | 1,669 | 1,557 |
| Investments and other assets | | |
| Investment securities | 28,722 | 27,758 |
| Net defined benefit asset | 3,165 | 3,378 |
| Other assets | 2,044 | 2,537 |
| Allowance for doubtful receivables | (8) | (6) |
| Total investments and other assets | 33,924 | 33,667 |
| Total fixed assets | 113,787 | 126,743 |
| Total assets | 258,955 | 263,348 |

(Millions of yen)

| | Fiscal 2021 (as of December 31, 2021) | First Three Quarters of Fiscal 2022 (as of September 30, 2022) |
|--|--|--|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable | 18,391 | 18,990 |
| Short-term bank loans | 2,477 | 2,475 |
| Accrued income taxes | 3,728 | 737 |
| Provisions | 13 | 751 |
| Other current liabilities | 12,126 | 12,781 |
| Total current liabilities | 36,737 | 35,736 |
| Long-term liabilities | | |
| Long-term debt | 8,730 | 8,660 |
| Net defined benefit liability | 140 | 142 |
| Other long-term liabilities | 6,735 | 8,195 |
| Total long-term liabilities | 15,605 | 16,997 |
| Total liabilities | 52,343 | 52,733 |
| Net assets | | |
| Shareholders' equity | | |
| Common stock | 20,886 | 20,886 |
| Capital surplus | 15,046 | 15,046 |
| Retained earnings | 153,693 | 159,325 |
| Treasury stock | (230) | (3,473) |
| Total shareholders' equity | 189,396 | 191,785 |
| Accumulated other comprehensive income | | |
| Unrealized holding gain on available-for-sale securities | 9,749 | 9,024 |
| Translation adjustment | 2,199 | 4,376 |
| Remeasurements of defined benefit plans | 419 | 377 |
| Total accumulated other comprehensive income | 12,367 | 13,778 |
| Non-controlling interests | 4,848 | 5,050 |
| Total net assets | 206,612 | 210,614 |
| Total liabilities and net assets | 258,955 | 263,348 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

(Quarterly Consolidated Statement of Income)

(First Three Quarters of Fiscal 2022)

(Millions of yen)

| | First Three Quarters of Fiscal 2021 (January 1, 2021 to September 30, 2021) | First Three Quarters of Fiscal 2022 (January 1, 2022 to September 30, 2022) |
|--|--|--|
| Net sales | 113,395 | 118,717 |
| Cost of sales | 79,629 | 85,646 |
| Gross profit | 33,765 | 33,071 |
| Selling, general, and administrative expenses | 20,154 | 21,017 |
| Operating income | 13,611 | 12,054 |
| Non-operating income | | |
| Interest income | 25 | 40 |
| Dividend income | 646 | 673 |
| Equity in earnings of affiliates | 138 | 163 |
| Foreign currency exchange gains | - | 822 |
| Rent income on non-current assets | 198 | 145 |
| Other | 233 | 206 |
| Total non-operating income | 1,242 | 2,050 |
| Non-operating expenses | | |
| Interest expenses | 71 | 69 |
| Environment readiness fee | 65 | 199 |
| Inactive facilities expenses | 25 | 19 |
| Foreign currency exchange losses | 152 | - |
| Other | 112 | 42 |
| Total non-operating expenses | 426 | 330 |
| Ordinary profit | 14,426 | 13,773 |
| Extraordinary income | | |
| Gain on sales of investment securities | 690 | 1,003 |
| Subsidy income | 26 | 283 |
| Total extraordinary gains | 716 | 1,286 |
| Extraordinary losses | | |
| Loss on disposal of non-current assets | 303 | 417 |
| Expenses of soil pollution measures | - | 358 |
| Loss on valuation of investment securities | - | 109 |
| Total extraordinary losses | 303 | 885 |
| Income before income taxes | 14,839 | 14,174 |
| Income taxes | 3,985 | 3,640 |
| Net income | 10,853 | 10,534 |
| Net income attributable to non-controlling interests | 191 | 240 |
| Net income attributable to owners of parent | 10,661 | 10,294 |

(Quarterly Consolidated Statement of Comprehensive Income)

(First Three Quarters of Fiscal 2022)

(Millions of yen)

| | First Three Quarters of Fiscal 2021 (January 1, 2021 to September 30, 2021) | First Three Quarters of Fiscal 2022 (January 1, 2022 to September 30, 2022) |
|--|--|--|
| Net income | 10,853 | 10,534 |
| Other comprehensive income | | |
| Unrealized holding gain on available-for-sale securities | 4,039 | (727) |
| Translation adjustments | 680 | 2,239 |
| Remeasurements of defined benefit plans, net of tax | 17 | (42) |
| Total other comprehensive income | 4,738 | 1,469 |
| Comprehensive income | 15,592 | 12,004 |
| Comprehensive income attributable to: | | |
| Owners of parent | 15,348 | 11,705 |
| Non-controlling interests | 243 | 299 |

(3) Notes

(Notes on Going Concern Assumption)

None

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

The Company acquired 3,122,700 treasury shares pursuant to a resolution passed by the Board of Directors at its meeting held on January 31, 2022 and July 29, 2022. As a result, during the period under review, treasury stock increased by ¥3,242 million, bringing the total of treasury stock to ¥3,473 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 three quarters of fiscal 2022 (nine months ended September 30, 2022) decreased by ¥5,920 million, cost of sales by ¥5,463 million, selling, general, and administrative expenses by ¥411 million, respectively, while operating income, ordinary profit, and income before income taxes decreased by ¥46 million, respectively. Retained earnings decreased by ¥54 million at the beginning of the fiscal year. Furthermore, in accordance with the transitional treatment stipulated in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, we have not reorganized the previous consolidated fiscal year using a new

presentation method.

(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 first quarter of fiscal 2022. 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 of fiscal 2022, we have changed to a market value method based on market price as of the end of the fiscal year.

(Segment Information, etc.)

I. First Three Quarters of Fiscal 2021 (January 1, 2021 to September 30, 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 | 50,464 | 25,403 | 8,409 | 7,167 | 19,080 | 110,525 | 2,870 | 113,395 | - | 113,395 |
| Intersegment sales or transfers | 2,684 | 1,021 | 66 | 131 | 177 | 4,081 | 1,089 | 5,170 | (5,170) | - |
| Total | 53,148 | 26,425 | 8,476 | 7,298 | 19,257 | 114,606 | 3,959 | 118,566 | (5,170) | 113,395 |
| Segment profit | 5,872 | 4,088 | 849 | 1,880 | 1,095 | 13,786 | (178) | 13,607 | 4 | 13,611 |

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 Three Quarters of Fiscal 2022 (January 1, 2022 to September 30, 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 | 54,567 | 26,921 | 8,242 | 7,426 | 20,502 | 117,661 | 1,056 | 118,717 | - | 118,717 |
| Intersegment sales or transfers | 3,701 | 1,117 | 68 | 184 | 221 | 5,291 | 1,139 | 6,431 | (6,431) | - |
| Total | 58,268 | 28,038 | 8,310 | 7,610 | 20,724 | 122,953 | 2,195 | 125,148 | (6,431) | 118,717 |
| Segment profit | 5,947 | 3,369 | 33 | 1,676 | 1,398 | 12,426 | (388) | 12,037 | 16 | 12,054 |

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 of fiscal 2022. 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 first three quarters of fiscal 2021 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, net sales for each reportable segment in the first three quarters of fiscal 2022 declined by ¥1,667 million for Commodity Chemicals, by ¥1,592 million for Polymer & Oligomer, by ¥293 million for Adhesive Material, by ¥16 million for Performance Chemicals, by ¥505 million for Plastics and by ¥1,845 million for Other Businesses compared to the previous method.

Additionally, segment profit decreased by ¥2 million for Commodity Chemicals, by ¥27 million for Polymer & Oligomer, by ¥6 million for Adhesive Material, by ¥10 million for Performance Chemicals, and by amounts of less than ¥1 million for Plastics.

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

The disclosure is omitted due to the immateriality.