

Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2022 <Under Japanese GAAP>

February 9, 2022

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

NAGASE & CO., LTD.

Stock exchange listing: Tokyo (First Section)

Code number: 8012 URL (<https://www.nagase.co.jp/english/>)

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Filing of quarterly report (scheduled): February 14, 2022

Start of distribution of dividends (scheduled): -

Supplementary documents of quarterly financial results: Yes

Quarterly investors' meeting: No

(Note: Amounts have been rounded down to the nearest million yen.)

1. Consolidated Results for the Third Quarter of the Fiscal Year Ending March 31, 2022

(April 1, 2021 to December 31, 2021)

(1) Consolidated Operating Results

(% = year-on-year change)

| | Net sales | | Gross profit | | Operating income | | Ordinary income | | Profit attributable to owners of the parent | |
|-----------------------------|-----------------|------|-----------------|------|------------------|------|-----------------|------|---|------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| For the third quarter ended | | | | | | | | | | |
| December 31, 2021 | 574,139 | 26.5 | 104,107 | 24.4 | 28,151 | 75.2 | 30,170 | 75.8 | 22,230 | 34.3 |
| December 31, 2020 | 453,993 | — | 83,714 | 7.6 | 16,065 | 6.7 | 17,159 | 9.2 | 16,556 | 37.4 |

(Notes) 1. Comprehensive income Third quarter ended December 31, 2021: ¥27,354 million (9.1% decrease)

Third quarter ended December 31, 2020: ¥30,089 million (102.4%)

2. At the beginning of the first quarter of the fiscal year ending March 2022, the Company adopted the *Accounting Standard for Revenue Recognition* (Accounting Standards Board of Japan (ASBJ) Statement No. 29, March 31, 2020). Results for the third quarter of the fiscal year ended March 2021 reflect a retroactive application of this accounting standard. As a result, net sales affected by this retroactive application do not show the year-on-year rate of change in the third quarter of the fiscal year ended March 2021.

| | Earnings per share | | Earnings per share (diluted) | |
|-----------------------------|--------------------|--|------------------------------|--|
| | Yen | | Yen | |
| For the third quarter ended | | | | |
| December 31, 2021 | 182.40 | | — | |
| December 31, 2020 | 133.51 | | — | |

(2) Consolidated Financial Position

| | Total assets | Net assets | Shareholders' equity ratio | Net assets per share |
|-------------------|-----------------|-----------------|----------------------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| December 31, 2021 | 725,313 | 354,866 | 47.5 | 2,855.86 |
| March 31, 2021 | 640,587 | 338,431 | 51.5 | 2,670.09 |

(Reference) Equity capital As of December 31, 2021: ¥ 344,403 million

As of March 31, 2021: ¥ 329,687 million

2. Dividends

| | Annual Dividends per Share | | | | |
|--------------------------------|----------------------------|-------|----|-----------------|--------|
| | 1Q | 2Q | 3Q | Fiscal year end | Annual |
| For the year ended (or ending) | Yen | | | | |
| March 2021 | — | 22.00 | — | 24.00 | 46.00 |
| March 2022 | — | 24.00 | — | — | — |
| March 2022 (forecast) | — | — | — | 30.00 | 54.00 |

(Note) Revisions to the latest dividends forecast: Yes

**3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2022
(April 1, 2021 to March 31, 2022)**

(% = year-on-year change)

| | Gross profit | | Operating income | | Ordinary income | | Profit attributable to owners of the parent | | Earnings per share |
|------------------|-----------------|------|------------------|------|-----------------|------|---|------|--------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Full fiscal year | 138,000 | 20.4 | 35,000 | 59.7 | 36,500 | 59.7 | 25,000 | 32.8 | 205.73 |

- (Notes) 1. Revisions to the latest consolidated earnings forecast: Yes
2. For details, please refer to 1. *Qualitative Information*, (3) *Qualitative Information Related to Consolidated Earnings Forecasts*, on P.6 of this document.

*** Notes**

- (1) Changes in major subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): No

New: — (Company name:) Excluded: — (Company name:)

- (2) Application of special accounting methods to the preparation of quarterly financial statements: Yes

(Note) For details, please refer to 2. *Quarterly Consolidated Financial Statements and Notes*, (3) *Notes Related to Quarterly Consolidated Financial Statements (Special Accounting Treatment Applied in the Preparation of Quarterly Consolidated Financial Statements)*, on P.11 of this document.

- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

- i. Changes in accordance with revisions to accounting and other standards: Yes
ii. Changes in items other than (i) above: Yes
iii. Changes in accounting estimates: No
iv. Restatement of prior period financial statements after error corrections: No

(Note) For details, please refer to 2. *Quarterly Consolidated Financial Statements and Notes* (3) *Notes Related to Quarterly Consolidated Financial Statements (Change in Accounting Policy)*, on P.11 of this document.

- (4) Number of shares issued and outstanding (common stock)

- i. Number of shares issued and outstanding as of the fiscal period end (including treasury stock)

| | | | |
|-------------------|--------------------|----------------|--------------------|
| December 31, 2021 | 124,408,285 shares | March 31, 2021 | 124,408,285 shares |
|-------------------|--------------------|----------------|--------------------|

- ii. Number of treasury stock as of the fiscal period end

| | | | |
|-------------------|------------------|----------------|----------------|
| December 31, 2021 | 3,812,728 shares | March 31, 2021 | 933,995 shares |
|-------------------|------------------|----------------|----------------|

- iii. Average number of shares during the period

| | | | |
|-------------------|--------------------|-------------------|--------------------|
| December 31, 2021 | 121,878,419 shares | December 31, 2020 | 124,011,458 shares |
|-------------------|--------------------|-------------------|--------------------|

*** Quarterly financial statements are not subject to quarterly review.**

*** Cautionary Statement with Respect to Forecasts of Consolidated Business Results**

The earnings forecasts presented in this document are based upon currently available information and assumptions deemed rational. A variety of factors could cause actual results to differ materially from forecasts.

For matters related to earnings forecasts, please refer to 1. *Qualitative Information*, (3) *Qualitative Information Related to Consolidated Earnings Forecasts*, on P.6 of this document.

Attachments

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1. Qualitative Information

(1) Review of Business Performance

a. General Summary of Results

The global economy for the cumulative consolidated third quarter of the current fiscal year showed overall improvement, though unpredictable circumstances remain regarding the economic impact of COVID-19, including the recent spread of a highly infectious new variant.

Among the regions where the NAGASE Group operates, economic activity was strong in Greater China due to solid domestic demand and rising resin market conditions. In Europe, the Americas and ASEAN, despite a fundamental trend toward recovery, the degree of recovery varied from region to region and country to country due to labor shortages in North America, rising energy prices, and worldwide supply chain disruptions centered on global semiconductor shortages. In Japan, there was a general trend toward recovery in economic activities due to a rebound in personal consumption as the state of emergency was lifted after falling COVID-19 case counts, as well as a recovery in production activities in the manufacturing industry.

In this environment, earnings for the cumulative consolidated third quarter of the current fiscal year are as follows.

| (Millions of yen) | | | | |
|--|---|---|---------|------------|
| | Nine-month period ended December 31, 2020 | Nine-month period ended December 31, 2021 | Change | Change (%) |
| Net sales | 453,993 | 574,139 | 120,145 | 26.5 |
| Gross profit | 83,714 | 104,107 | 20,393 | 24.4 |
| Operating income | 16,065 | 28,151 | 12,086 | 75.2 |
| Ordinary income | 17,159 | 30,170 | 13,010 | 75.8 |
| Profit before income taxes | 25,298 | 31,831 | 6,532 | 25.8 |
| Profit attributable to owners of the parent | 16,556 | 22,230 | 5,674 | 34.3 |

- * At the beginning of the first quarter of the current consolidated fiscal year, the Company adopted the *Accounting Standard for Revenue Recognition* (ASBJ Statement No. 29, March 31, 2020). Indicators for the cumulative consolidated third quarter of the previous fiscal year reflect a retroactive application of this accounting standard.
- For performance in the cumulative consolidated third quarter of the current fiscal year, higher profit in all segments resulted in all stages of profit below gross profit reaching record highs for the third quarter.
 - Factors behind the higher profits were the recovery of the automobile-related business, which was greatly affected by COVID-19 in the first half of the prior consolidated fiscal year, the continued strong performance of the electronics-related business and resins business from the second half of the prior consolidated fiscal year, and performance of the Prinova Group in the Life & Healthcare Segment driving up profits. For details, see *b. Segment Summary*.
 - Profit attributable to owners of the parent amounted to ¥22.2 billion, up ¥5.6 billion mainly due to a reactionary bounce from recording profits stemming from the sales of certain shares owned by the Company during the cumulative consolidated third quarter of the previous fiscal year, despite an increase in ordinary income of ¥13.0 billion.

b. Segment Summary

The following describes performance by segment.

Note that as of the first quarter of the current fiscal year under review, the names and categorizations for reportable segments have been partially amended. Year-on-year amounts and ratios for the cumulative consolidated third quarter of the previous fiscal year are calculated after rearranging reportable segment classifications to match those of the cumulative consolidated second quarter of the current fiscal year.

Functional Materials

(Millions of yen)

| | Nine-month period ended December 31, 2020 | Nine-month period ended December 31, 2021 | Change | Change (%) |
|------------------|---|---|--------|------------|
| Net sales | 53,979 | 74,412 | 20,432 | 37.9 |
| Gross profit | 11,233 | 14,721 | 3,488 | 31.1 |
| Operating income | 3,325 | 5,956 | 2,631 | 79.1 |

The major factors behind performance were as follows.

- Raw materials sales recovered for coating and urethane raw materials as well as those related to processing industrial oil solutions and plastic materials, driven by a recovery in automobile production
- Sales trended strong in areas like electronics chemicals for the electronics industry, such as for semiconductor-related products
- Operating income increased due to an increase in gross profit

Advanced Materials & Processing

(Millions of yen)

| | Nine-month period ended December 31, 2020 | Nine-month period ended December 31, 2021 | Change | Change (%) |
|------------------|---|---|--------|------------|
| Net sales | 152,245 | 191,861 | 39,615 | 26.0 |
| Gross profit | 19,597 | 24,539 | 4,941 | 25.2 |
| Operating income | 5,235 | 8,894 | 3,659 | 69.9 |

The major factors behind performance were as follows.

- Sales increased for resins in the office equipment, appliance, and video game device markets due to increased demand in Japan and overseas, mainly in China, and profitability improved due to soaring market conditions
- Sales increased for resins for industrial and packaging applications, as well as dyes and additives, due to recovery in demand
- Sales decreased for digital print processing materials and conductive materials
- Operating income increased due to an increase in gross profit

Electronics & Energy

(Millions of yen)

| | Nine-month period ended December 31, 2020 | Nine-month period ended December 31, 2021 | Change | Change (%) |
|------------------|---|---|--------|------------|
| Net sales | 79,393 | 95,643 | 16,250 | 20.5 |
| Gross profit | 18,176 | 22,531 | 4,355 | 24.0 |
| Operating income | 5,810 | 7,945 | 2,134 | 36.7 |

The major factors behind performance were as follows.

- Sales increased for display materials and related to precision processing materials for semiconductors
- Sales related to formulated epoxy resins increased, primarily for mobile devices and semiconductors
- Sales related to photolithography materials increased with increased demand for displays
- Operating income increased due to an increase in gross profit

Mobility

(Millions of yen)

| | Nine-month period ended December 31, 2020 | Nine-month period ended December 31, 2021 | Change | Change (%) |
|------------------|---|---|--------|------------|
| Net sales | 55,133 | 73,890 | 18,757 | 34.0 |
| Gross profit | 6,150 | 9,321 | 3,171 | 51.6 |
| Operating income | 1,104 | 3,109 | 2,004 | 181.4 |

The major factors behind performance were as follows.

- In the resins business, sales increased domestically and overseas, primarily in ASEAN, due to recovery in automobile production, and profitability increased owing to rising market conditions
- Sales increased in functional materials and functional components for interior and exterior fittings and electrification
- Operating income increased due to an increase in gross profit

Life & Healthcare

(Millions of yen)

| | Nine-month period ended December 31, 2020 | Nine-month period ended December 31, 2021 | Change | Change (%) |
|------------------|---|---|--------|------------|
| Net sales | 112,958 | 138,150 | 25,191 | 22.3 |
| Gross profit | 28,373 | 32,915 | 4,542 | 16.0 |
| Operating income | 5,145 | 7,365 | 2,219 | 43.1 |

The major factors behind performance were as follows.

- Materials sales, manufacturing, and processing all trended strongly in the nutrition-related business
- Sales increased related to food materials, primarily TREHA™, and in cosmetics materials, primarily AA2G™, owing to recovery in demand
- Sales increased for pharmaceutical raw materials and intermediates
- Operating income increased due to an increase in gross profit

Others

No special matters to disclose.

(2) Review of Financial Position

(Millions of yen)

| | Prior Consolidated Fiscal Year (March 31, 2021) | Third Quarter, Current Consolidated Fiscal Year (December 31, 2021) | Change | Change (%) |
|--------------------------------|---|--|---------|------------|
| Current assets | 401,751 | 486,399 | 84,648 | 21.1 |
| Non-current assets | 238,835 | 238,913 | 78 | 0.0 |
| Total assets | 640,587 | 725,313 | 84,726 | 13.2 |
| Liabilities | 302,155 | 370,447 | 68,292 | 22.6 |
| Net assets | 338,431 | 354,866 | 16,434 | 4.9 |
| Shareholders' equity ratio (%) | 51.5 | 47.5 | (4.0) p | — |

- Current assets increased mainly due to an increase in inventories and accounts receivable, despite a decrease in cash and deposits
- Non-current assets increased slightly due to an increase in intangible fixed assets, despite lower fair values of investments in securities
- Liabilities increased mainly due to an increase in accounts payable and short-term loans
- Net assets increased due to the recording of quarterly profit attributable to owners of the parent and an increase in translation adjustments, despite decreases from purchases of treasury stock and payments of dividends
- As a result, the Company recorded a shareholders' equity ratio of 47.5%, down 4.0 points compared to 51.5% from the end of the prior consolidated fiscal year

(3) Qualitative Information Related to Consolidated Earnings Forecasts

During the cumulative consolidated third quarter of the fiscal year ending March 2022, there were signs of a rebound in economic activity in Japan and other countries due to factors such as the progress in COVID-19 vaccinations, although this rebound varied in degree from region to region. Amid this scenario, the automobile-related business recovered beyond the previously announced forecast, and the resins business increased its profitability thanks to rising market conditions. Furthermore, the electronics-related business, with its focus on mobile devices, displays and semiconductors, maintained strong performance mainly thanks to increased demand for digital devices due to lifestyle changes, trending above the previously announced forecast.

We forecast a decline in profitability in the resins business and an increase in general and administrative expenses due to strong earnings performance in the consolidated fourth quarter of the current fiscal year. However, we have upwardly revised our full-year earnings forecast due to the expectation of maintaining strong performance in our businesses overall and of achieving a certain level of profit.

As a result, we forecast that each stage of profit will mark new record highs.

We have changed our assumed foreign exchange rates from ¥109.5 to ¥111.9 to the U.S. dollar and from ¥16.9 to ¥17.4 to the RMB.

a. Revision to full-year earnings forecast (April 1, 2021 - March 31, 2022) (Millions of yen)

| | Previous Forecast (A) | Revised Forecast (B) | Change (B-A) | Change (%) |
|---|-----------------------|----------------------|--------------|------------|
| Gross profit | 130,000 | 138,000 | 8,000 | 6.2 |
| Operating income | 30,000 | 35,000 | 5,000 | 16.7 |
| Ordinary income | 31,000 | 36,500 | 5,500 | 17.7 |
| Profit attributable to owners of the parent | 22,500 | 25,000 | 2,500 | 11.1 |

b. Revised gross profit and operating income forecasts by segment (April 1, 2021 - March 31, 2022)

Gross profit by segment (Millions of yen)

| | Previous Forecast (A) | Revised Forecast (B) | Change (B-A) | Change (%) |
|---------------------------------|-----------------------|----------------------|--------------|------------|
| Functional Materials | 17,700 | 19,500 | 1,800 | 10.2 |
| Advanced Materials & Processing | 29,500 | 31,900 | 2,400 | 8.1 |
| Electronics & Energy | 27,400 | 29,800 | 2,400 | 8.8 |
| Mobility | 11,200 | 12,400 | 1,200 | 10.7 |
| Life & Healthcare | 43,700 | 43,900 | 200 | 0.5 |
| Others & Corporate | 500 | 500 | - | - |
| Total gross profit | 130,000 | 138,000 | 8,000 | 6.2 |

Operating income by segment

(Millions of yen)

| | Previous Forecast (A) | Revised Forecast (B) | Change (B-A) | Change (%) |
|---------------------------------|-----------------------|----------------------|--------------|------------|
| Functional Materials | 6,600 | 7,800 | 1,200 | 18.2 |
| Advanced Materials & Processing | 9,600 | 10,800 | 1,200 | 12.5 |
| Electronics & Energy | 8,800 | 10,000 | 1,200 | 13.6 |
| Mobility | 3,400 | 4,100 | 700 | 20.6 |
| Life & Healthcare | 9,300 | 9,300 | - | - |
| Others & Corporate | (7,700) | (7,000) | 700 | - |
| Total operating income | 30,000 | 35,000 | 5,000 | 16.7 |

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

| | Prior Consolidated Fiscal Year (March 31, 2021) | Third Quarter, Current Consolidated Fiscal Year (December 31, 2021) |
|--------------------------------------|--|---|
| ASSETS | | |
| Current assets | | |
| Cash and time deposits | 49,254 | 48,813 |
| Notes and accounts receivable | 242,558 | 289,029 |
| Merchandise and finished goods | 88,130 | 123,567 |
| Work in process | 1,654 | 1,860 |
| Raw materials and supplies | 7,457 | 10,559 |
| Other | 13,259 | 13,709 |
| Less allowance for doubtful accounts | (563) | (1,138) |
| Total current assets | 401,751 | 486,399 |
| Non-current assets | | |
| Property, plant and equipment | 70,896 | 70,977 |
| Intangible fixed assets | | |
| Goodwill | 30,216 | 30,722 |
| Technology-based assets | 7,488 | 6,306 |
| Other | 26,893 | 30,525 |
| Total intangible fixed assets | 64,598 | 67,554 |
| Investments and other assets | | |
| Investments in securities | 93,719 | 89,420 |
| Retirement benefit asset | 2,929 | 3,257 |
| Deferred tax assets | 1,903 | 1,840 |
| Other | 4,900 | 5,974 |
| Less allowance for doubtful accounts | (112) | (112) |
| Total investments and other assets | 103,340 | 100,381 |
| Total non-current assets | 238,835 | 238,913 |
| Total assets | 640,587 | 725,313 |

(Millions of yen)

| | Prior Consolidated Fiscal Year (March 31, 2021) | Third Quarter, Current Consolidated Fiscal Year (December 31, 2021) |
|--|--|---|
| LIABILITIES | | |
| Current liabilities | | |
| Notes and accounts payable | 119,941 | 150,868 |
| Short-term loans | 33,050 | 62,541 |
| Current portion of long-term loans | 12,025 | 9,490 |
| Commercial paper | 8,000 | 20,000 |
| Current portion of bonds | — | 10,000 |
| Accrued income taxes | 3,565 | 4,715 |
| Accrued bonuses for employees | 6,042 | 4,800 |
| Accrued bonuses for directors | 203 | 221 |
| Other | 23,310 | 25,657 |
| Total current liabilities | 206,139 | 288,294 |
| Long-term liabilities | | |
| Bonds | 30,000 | 20,000 |
| Long-term loans | 34,514 | 31,945 |
| Deferred tax liabilities | 16,077 | 14,009 |
| Retirement benefit liability | 13,292 | 13,624 |
| Other | 2,131 | 2,573 |
| Total long-term liabilities | 96,016 | 82,152 |
| Total liabilities | 302,155 | 370,447 |
| NET ASSETS | | |
| Shareholders' equity | | |
| Common stock | 9,699 | 9,699 |
| Capital surplus | 10,646 | 10,639 |
| Retained earnings | 265,920 | 282,282 |
| Less treasury stock, at cost | (1,503) | (6,482) |
| Total shareholders' equity | 284,763 | 296,139 |
| Accumulated other comprehensive income | | |
| Net unrealized holding gain on securities | 43,576 | 39,727 |
| Deferred gain on hedges | 72 | 38 |
| Translation adjustments | 1,006 | 8,437 |
| Remeasurements of defined benefit plans | 268 | 59 |
| Total accumulated other comprehensive income | 44,924 | 48,263 |
| Non-controlling interests | 8,743 | 10,462 |
| Total net assets | 338,431 | 354,866 |
| Total liabilities and net assets | 640,587 | 725,313 |

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

(Quarterly Consolidated Statements of Income)

Nine-month periods ended December 31, 2021 and 2020

(Millions of yen)

| | Nine-month period ended December 31, 2020 (April 1, 2020 – December 31, 2020) | Nine-month period ended December 31, 2021 (April 1, 2021 – December 31, 2021) |
|--|---|---|
| Net sales | 453,993 | 574,139 |
| Cost of sales | 370,279 | 470,031 |
| Gross profit | 83,714 | 104,107 |
| Selling, general and administrative expenses | 67,648 | 75,955 |
| Operating income | 16,065 | 28,151 |
| Non-operating income | | |
| Interest income | 101 | 108 |
| Dividend income | 1,023 | 1,240 |
| Rent income | 199 | 206 |
| Equity in earnings of affiliates | — | 118 |
| Foreign exchange gains | 518 | 964 |
| Other | 493 | 561 |
| Total non-operating income | 2,336 | 3,199 |
| Non-operating expenses | | |
| Interest expenses | 770 | 861 |
| Equity in losses of affiliates | 189 | — |
| Other | 283 | 319 |
| Total non-operating expenses | 1,242 | 1,181 |
| Ordinary income | 17,159 | 30,170 |
| Extraordinary gains | | |
| Gain on sales of non-current assets | 70 | 12 |
| Gain on sales of investment securities | 5,769 | 2,324 |
| Gain on sales of shares of subsidiaries and affiliates | 2,657 | — |
| Gain on sales of investments in capital of subsidiaries and affiliates | — | 42 |
| Other | — | 304 |
| Total extraordinary gains | 8,497 | 2,684 |
| Extraordinary losses | | |
| Loss on sales of non-current assets | 7 | 176 |
| Loss on disposal of non-current assets | 64 | 407 |
| Impairment losses | 29 | — |
| Loss on sales of investment securities | 10 | 6 |
| Loss on valuation of investment securities | 163 | 171 |
| Loss on sales of shares of subsidiaries and affiliates | 1 | 59 |
| Other | 82 | 201 |
| Total extraordinary losses | 359 | 1,023 |
| Income before income taxes | 25,298 | 31,831 |
| Income taxes | 8,187 | 8,544 |
| Profit for the period | 17,110 | 23,286 |
| Profit attributable to non-controlling interests | 553 | 1,056 |
| Profit attributable to owners of the parent | 16,556 | 22,230 |

(Quarterly Consolidated Statements of Comprehensive Income)

Nine-month periods ended December 31, 2021 and 2020

(Millions of yen)

| | Nine-month period ended December 31, 2020 (April 1, 2020 – December 31, 2020) | Nine-month period ended December 31, 2021 (April 1, 2021 – December 31, 2021) |
|--|---|---|
| Profit for the period | 17,110 | 23,286 |
| Other comprehensive income | | |
| Net unrealized holding gain (loss) on securities | 14,838 | (3,849) |
| Deferred loss on hedges | (48) | (33) |
| Translation adjustments | (2,113) | 7,919 |
| Remeasurements of defined benefit plans | 414 | (208) |
| Share of other comprehensive (loss) income of affiliates accounted for by the equity method | (112) | 240 |
| Total other comprehensive income | 12,979 | 4,067 |
| Comprehensive income | 30,089 | 27,354 |
| Comprehensive income attributable to: | | |
| Shareholders of the parent | 29,494 | 25,596 |
| Non-controlling interests | 594 | 1,758 |

(3) Notes Related to Quarterly Consolidated Financial Statements

(Assumption for Going Concern)

No matters to report.

(Significant Fluctuations in Shareholders' Equity)

Following a resolution by the Company's board of directors at a meeting held February 5, 2021, the Company acquired 2,878,600 shares of treasury stock in the cumulative third quarter of the current consolidated fiscal year. As a result, treasury stock increased by ¥4,978 million, with treasury stock holdings of ¥6,482 million as of the end of the consolidated third quarter.

(Special Accounting Treatment Applied in the Preparation of Quarterly Consolidated Financial Statements)

(Calculation of Tax Expenses)

Tax expenses are calculated by rationally estimating an effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year, including the current second quarter, and multiplying profit before income taxes for the second quarter by the estimated effective tax rate.

In the event that the calculated tax expenses using this estimated effective tax rate lead to significantly unreasonable results, this shall be calculated by multiplying the statutory effective tax rate after adjusting significant non-temporary differences by the profit before income taxes.

Deferred income taxes are included in income taxes.

(Change in Accounting Policy)

(Change in Calculation Method of Tax Expenses)

While tax expenses had previously been calculated using principle-based methods, in order to rapidly and efficiently address this in quarterly financial settlements, the method for calculating tax expenses for the Company and its domestic consolidated subsidiaries have been changed to that listed in (Special Accounting Treatment Applied in the Preparation of Quarterly Consolidated Financial Statements) from the consolidated first quarter of the current fiscal year.

Note that as impact from this change is minor, the change is not applied retroactively.

(Application of Accounting Standards for Revenue Recognition)

At the beginning of the consolidated first quarter of the current fiscal year, the Company adopted the *Accounting Standard for Revenue Recognition* (ASBJ Statement No. 29, March 31, 2020). As a result, revenue is now recognized as the amount expected to be received in exchange for promised goods or services at the time of the transfer of their control to the customer.

As a result, in transactions for which the Company's performance obligations in its contracts with customers are determined to be services as an agent arranging provision of goods or services by another party, the sales to customers previously recorded on a gross basis shall be offset by the corresponding cost of sales, and revenue shall be stated on a net basis.

Since these changes in accounting methods shall be applied retroactively as a rule, consolidated financial statements for the same period in the prior fiscal year and for the end of the prior fiscal year shall be presented with retroactive application.

As a result, net sales and cost of sales each were reduced by ¥150,548 million in the cumulative consolidated third quarter of the previous fiscal year and ¥181,735 million in the cumulative consolidated third quarter of the current fiscal year. Note that this change has no impact on any stage of profits below gross profit for either of the aforementioned periods, nor on the amount of net assets.

(Application of Accounting Standard for Fair Value Measurement)

As of the beginning of the consolidated first quarter of the current fiscal year, the Company has applied the *Accounting Standard for Fair Value Measurement* (ASBJ Statement No. 30, July 4, 2019). In accordance with the transitional treatment prescribed in Paragraph 19 of the *Accounting Standard for Fair Value Measurement* and Paragraph 44-2 of *Accounting Standard for Financial Instruments* (ASBJ Statement No. 10, July 4, 2019), new accounting policies prescribed by the *Accounting Standard for Fair Value Measurement* have been adopted prospectively. There is no effect by this change on the consolidated financial statements.

(Additional Information)

(Application of Tax Effect Accounting for Transition from Consolidated Taxation System to Group Tax Sharing System)

The Company and certain domestic consolidated subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities in accordance with the provisions of tax laws in Japan prior to the amendments based on the treatments stipulated in Paragraph 3 of *Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System* (ASBJ Practical Issues Task Force No. 39, March 31, 2020) instead of applying the provision of Paragraph 44 of *Implementation Guidance on Tax Effect Accounting* (ASBJ Guidance No. 28, February 16, 2018), regarding the transition to group tax sharing system provided for in *Act for Partial Amendment of the Income Tax Act, etc.* (Act No. 8 of 2020), and items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.

(Effects of COVID-19 Pandemic When Making Accounting Estimates)

There are no significant changes to the assumption of estimates related to the impact of COVID-19 stated in Additional Information of the securities report for the fiscal year ended March 31, 2021.

(Segment Information, etc.)

Segment Information

I Nine-month period ended December 31, 2020 (consolidated)

1. Information related to net sales and income (loss) by reportable segment

(Millions of yen)

| | Reportable Segments | | | | | | Others (Note) 1 | Total | Corporate (Note) 2 | Adjustments (Note) 3 | Consolidated (Note) 4 |
|------------------------------|-------------------------|---------------------------------------|-------------------------|----------|----------------------|---------|--------------------|---------|-----------------------|-------------------------|--------------------------|
| | Functional Materials | Advanced Materials & Processing | Electronics & Energy | Mobility | Life & Healthcare | Total | | | | | |
| Net sales | | | | | | | | | | | |
| Sales to customers | 53,979 | 152,245 | 79,393 | 55,133 | 112,958 | 453,710 | 282 | 453,993 | — | — | 453,993 |
| Intersegment sales/transfers | 313 | 1,146 | 1,124 | 1,389 | 241 | 4,214 | 4,160 | 8,374 | — | (8,374) | — |
| Total | 54,292 | 153,392 | 80,517 | 56,522 | 113,200 | 457,924 | 4,443 | 462,367 | — | (8,374) | 453,993 |
| Segment income (loss) | 3,325 | 5,235 | 5,810 | 1,104 | 5,145 | 20,622 | 280 | 20,902 | (5,198) | 362 | 16,065 |

(Note) 1. “Others” is a business segment consisting of businesses not included in Reportable Segments, and includes logistics services, information processing services, and professional services.

2. Corporate segment income (loss) represents expenses not allocated to Reportable Segments or Others.

3. Adjustments are eliminations of intersegment transactions.

4. The sum of segment income (loss) Total, Corporate, and Adjustments is equivalent to operating income as presented in “Consolidated”.

II Nine-month period ended December 31, 2021 (consolidated)

1. Information related to net sales and income (loss) by reportable segment

(Millions of yen)

| | Reportable Segments | | | | | | Others (Note) 1 | Total | Corporate (Note) 2 | Adjustments (Note) 3 | Consolidated (Note) 4 |
|------------------------------|-------------------------|---------------------------------------|-------------------------|----------|----------------------|---------|--------------------|---------|-----------------------|-------------------------|--------------------------|
| | Functional Materials | Advanced Materials & Processing | Electronics & Energy | Mobility | Life & Healthcare | Total | | | | | |
| Net sales | | | | | | | | | | | |
| Sales to customers | 74,412 | 191,861 | 95,643 | 73,890 | 138,150 | 573,958 | 180 | 574,139 | — | — | 574,139 |
| Intersegment sales/transfers | 528 | 570 | 1,789 | 1,752 | 333 | 4,974 | 3,443 | 8,418 | — | (8,418) | — |
| Total | 74,940 | 192,431 | 97,433 | 75,643 | 138,483 | 578,933 | 3,624 | 582,557 | — | (8,418) | 574,139 |
| Segment income (loss) | 5,956 | 8,894 | 7,945 | 3,109 | 7,365 | 33,271 | 139 | 33,411 | (5,517) | 258 | 28,151 |

(Note) 1. “Others” is a business segment consisting of businesses not included in Reportable Segments, and includes information processing services and professional services.

2. Corporate segment income (loss) represents expenses not allocated to Reportable Segments or Others.

3. Adjustments are eliminations of intersegment transactions.

4. The sum of segment income (loss) Total, Corporate, and Adjustments is equivalent to operating income as presented in “Consolidated”.

2. Matters Related to Changes in Reportable Segments

(Change in Business Segments)

From the consolidated first quarter of the current fiscal year, the Electronics Segment has been renamed to the Electronics & Energy Segment, and the Mobility & Energy Segment has been renamed to the Mobility Segment, with changes to business segmentation as follows.

For the purpose of promoting development of new businesses, the Energy Business Office previously classified under the Mobility & Energy Segment, as well as the Advanced Information and Communications Project Team previously classified under the Others/Corporate category, have been unified in the newly established Information and Communication • Energy Office, classified under the Electronics & Energy Segment. In addition, for the purpose of expanding market share and improving synergies, the fluorine business in the Specialty Chemicals Division, which was previously classified under the Functional Materials Segment, has been moved to the Electronics & Energy Segment.

Segment information provided for the cumulative consolidated third quarter of the previous fiscal year is based on post-change classification methods.

The following describes the major products and services handled by each reportable segment.

The Functional Materials segment is engaged in the sales of materials for paints/inks, and adhesives, urethane materials and auxiliary materials, plastic materials, plastic additives, industrial oil solutions, water processing raw materials, surfactant raw materials, fluorochemicals, encapsulant materials, 5G materials, silicone materials, environmental solutions and environment-related commercial products, sintered metal filters, and more for the paints/inks, resins, urethane foam, organic synthesis, surfactants, electronics chemicals, communications equipment, water processing, metal processing, plastic and film processing, and other industries.

The Advanced Materials & Processing Segment is engaged in the sales of dyestuffs, pigments, functional pigments, digital print processing products, thermoplastic resins, thermosetting resins, automobile refinish paints, conductive coatings, synthetic rubber, inorganic materials, plastics products, resin molding tools/dies, and more for the dye/additive, digital print processing material, fiber processing, raw resin material, resin molding, functional film and sheet, appliance and office automation device, electronics, packaging material, construction material, and other industries.

The Electronics & Energy Segment is engaged in the sales of formulated epoxy resins, fluorine products, precision abrasives, semiconductor assembly materials and devices, adhesives and encapsulant materials, display panel components and devices, chemical management equipment for display manufacturing processes, low-temperature/vacuum equipment, LEDs, 3D printing products, design and manufacture of storage battery systems, solar panels, optical wireless communication equipment, and other products for the semiconductor, electronic component, AR/VR, environmental energy, 3D printing, heavy electrical and light electrical, HDD, automotive and aircraft, display, touch panel, housing, lighting, storage battery, energy, renewable energy, security device, large-scale commercial facility, and other industries. Its main services include energy management system proposals and battery assessments.

The Mobility Segment is engaged in the sales of plastic products in general, materials for secondary batteries, interior and exterior materials and components, materials for functional components, products for electrification, sensor components, in-vehicle electronics products, in-vehicle display-related components, self-driving-related products, and other products for the overall mobility industry and related industries.

The Life & Healthcare segment is engaged in the sale of pharmaceutical/agricultural chemicals and materials, research products, in vitro diagnostics, enzymes, food additives, food ingredients, sports nutrition products, nutrient premixes, additives for cosmetics, feeds, and surfactants for the pharmaceutical, food and beverage, cosmetics, agricultural, toiletries, and health care industries. The segment offers radiation measurement as one of its main services. In addition, this segment sells cosmetics, health foods, and beauty foods directly to consumers.

(Application of Accounting Standards for Revenue Recognition)

As described in (Change in Accounting Policy), at the beginning of the first consolidated quarter for the current fiscal year, the Company adopted the *Accounting Standard for Revenue Recognition* (ASBJ Statement No. 29, March 31, 2020), changing its accounting method for revenue recognition. As a result, measurement methods have similarly been changed for business segment profit and loss.

Segment information provided for the cumulative consolidated third quarter of the previous fiscal year is based on the changed profit or loss measurement method.

(Significant Subsequent Events)

(Purchase of Treasury Stock)

At a meeting held February 9, 2022, the Company's board of directors resolved to purchase treasury stock based on the provisions of Article 156 of the Companies Act, applied mutatis mutandis to Article 165, Paragraph 3 of the same Act.

(1) Reasons for the purchase of treasury stock

As part of the Company's efforts to improve capital efficiency from both business and financial perspectives under the Medium-term Management Plan **ACE 2.0**, which started in fiscal 2021, the Company determined to acquire treasury stock. This aims to enhance its corporate value through greater capital efficiency as a result of comprehensive consideration of the current valuation of its shares in the capital market, financial soundness and investment capacity for growth, and other factors.

(2) Details of shares to be purchased

| | |
|---|--|
| a. Class of shares to be purchased | Common shares |
| b. Total number of shares that may be purchased | 4,300,000 shares (maximum) (Equivalent to 3.57% of outstanding shares, excluding treasury stock) |
| c. Total value of shares that may be purchased | 6 billion yen (maximum) |
| d. Purchase period | From February 10, 2022 to February 8, 2023 |
| e. Purchase method | Market purchases |

(Cancellation of Treasury Stock)

At a meeting held February 9, 2022, the Company's board of directors resolved to cancel treasury stock based on the provisions of Article 178 of the Companies Act.

| | |
|---------------------------------------|--|
| a. Class of shares to be canceled | Common shares |
| b. Number of shares to be canceled | 3,500,000 shares (Equivalent to 2.81% of outstanding shares, including treasury stock) |
| c. Effective date of the cancellation | February 28, 2022 |

*Reference: Treasury stock held as of January 31, 2022

| | |
|--|--------------------|
| Total number of shares issued (excluding treasury stock) | 120,558,859 shares |
| Total number of treasury stock | 3,849,426 shares |