

66th 2Q Business Report

Mar. 1, 2023 - Aug. 31, 2023

The way forward CEO Interview

Making upgraded overseas bases and bolstered environmental management the drivers for accelerating further growth.

In the first quarter of the 66th reporting period, net sales were up 6% YoY and operating profit rose 79% YoY due to increased sales in overseas markets and progress in correcting selling prices. By division, net sales in the Functional Fluids Division increased 10% YoY due to steady growth in markets other than China. The Hot Melt Adhesive Division also saw a further increase in market share, with a 12% increase in net sales due to a particularly strong performance in terms of inquiries in Southeast and South Asia. On the down side, the Synthetic Lubricants Division saw a 39% drop in net sales of products such as hard disk surface lubricants due to a slowdown in corporate investment in data centers. Net sales in the Liquid Paraffin & Sulfonates Division increased 5% despite diminished demand from the domestic polystyrene industry. Though these results are by no means satisfactory indicators in this final year of the 9th medium-term management plan, we feel that a major achievement was accomplished in terms of the progress made during the first half of this fiscal year in establishing a framework that will be key to our medium- to long-term growth.

Firstly, regarding the upgrading of our overseas bases, having secured a manufacturing base through the acquisition of a local company in the US market, we anticipate this giving momentum to the expansion of sales channels to not only Japanese companies but to US companies as well. In the Chinese market, a manufacturing base for functional fluids is under construction in Zhejiang Province and scheduled to start operations in November. This will put in place a foundation for the supply of products that can meet the needs of new energy vehicles. The second point that merits mention here is the progress we have made in bolstering our sustainability management. We are promoting the decarbonization of our products with the aim of reducing greenhouse gas (GHG) emissions 46%* by 2030 and achieving carbon neutrality by 2050. Our R&D Department's crucial first step toward this goal was setting the specific numerical target that 50% of our product sales would be sustainability transformation (SX) products by 2030, and thereby enabling us to indicate the direction the R&D Department should aim for in the future. We are committed to rebuilding on our portfolio by advancing the development of eco-friendly products. In the second half of the fiscal year and beyond, as we draw on our strengths the focus will be on both the further strengthening of our R&D system at each of our bases and expansion of our market share. And as illustrated by the pursuits such as the MOLGADC Project described on the inside of this report, we will also strive to create new businesses by promoting collaboration with a diverse array of partners. As we envision expansion and growth strategies from a medium- to long-term perspective, we hope to parlay our efforts into a leap forward during the 10th medium-term management plan period starting next fiscal year.

* Comparisons to 2013

MORESCO Corporation
CEO, Representative Director, President
Motohisa Morozumi



We at the MORESCO Group make a point of keeping the awareness of our employees up-to-date so that we can the enhancement of technologies in the boundary area and This report will acquaint the reader with details of the Group's

Greater commitment to making all of our business activities based on a respect for human rights

Making this an organization trusted ever more internally and externally by ensuring that our commitment toward respecting human rights is present in all of our business activities.

Hirofumi Fujimoto CFO, Director, Senior Executive Officer



In the work we do to move forward with sustainability management, we place importance on the human rights of all people affected by our business and this year established the MORESCO Group Human Rights Policy. In doing so, we are articulating anew our commitment to respect for human rights. We have thus far always remained true to our commitment to making this an organization where each and every employee feels comfortable doing their work while able to fully demonstrate their abilities. In addition, we have also predicated our operations on ensuring that business activities are done in a manner that is fair and in good faith, based on relationships of trust and mutual respect with our customers and local communities. However, these were all commitments made by a tacit consensus.

As our business bases have expanded globally and diverse human resources assemble at an accelerating pace within our ranks in recent years, we

determined that a clearly stated and common set of rules was warranted. This led to the establishment of this new human rights policy, which we will employ to raise awareness of the importance of human rights. In specific terms, we will first promote education both internally and externally to foster a unified awareness of the proper norms throughout the Group. This will provide our employees and customers with a greater sense of assurance.

Furthermore, our commitment to human rights due diligence (DD) encompasses the investigation, monitoring, and implementation of corrective measures to prevent and mitigate transgressions such as human rights violations. We will report on the progress and results of these efforts in a phased manner. Over a broad spectrum, we will continue to live up to the trust placed in us by society as we pursue the activities that make us a company that offers maximum respect for shareholders, employees, and all other stakeholders.

Status of Efforts to Achieve Sustainability Management

Mar. 2022

MORESCO Group Sustainability Policy established



We clearly spelled out the values and goals we feel should be valued more by our executives and employees in carrying out work such as the addressing of sustainability issues. The identification of seven materialities was among the work done in this area.

Nov. 2022

Information disclosure based on TCFD recommendations



Regarding the impact of climate change on our business, we disclosed information and scenario analyses in four areas: Governance, Strategies, Risk Management, and Indicators and Targets.

May 2023

MORESCO Group Human Rights Policy established.



Announcing our commitment to the promotion of respect for the human rights of all individuals affected by the business activities of the MORESCO Group, we established a basic policy regarding human rights.

NOW

Creation of a human rights due diligence (DD) system



Going forward, we will identify the possible negative impact our business activities could have on human rights, and conduct risk assessment and identification to prevent and mitigate any such impact.

MORESCO Highlights of the Year

Mar.

Certified as a Health & Productivity Management Outstanding Organization 2023 (large enterprise category) for the third consecutive year

We have been recognized as a company with health management that is exceptionally outstanding, as evidenced by practices such as initiatives that address community health issues and health promotion efforts. This furthers our resolve to promote the health of our employees and their families.



Mar.

The Japan Society of Mechanical Engineers Kansai Branch Award (Research Award) 2022

Joint research between Tsuyoshi Shimizu, General Manager of MORESCO's Synthetic Lubricants Division, and Kansai University has resulted in the establishment of a method for measuring ultra-thin film elastic modulus on the nanometer order. The company received the Kansai Branch Award (Research Award) of the Japan Society of Mechanical Engineers for our contribution to the development of mechanical engineering and the machine industry.



that facilitate further **EVOLUTION.**

internal environment of the company and the contribute in wide-ranging ways to society through the continuous supply of eco-friendly products. reforms in the non-financial and R&D domains.

An approach to research and technology that does more to put the environment first

Update the organization of and attitudes of those in our R&D Department to open up new roads to our next fields of business.

Yasuo Sakane CTO, Director, Managing Executive Officer



Amid a society that continues to face major changes, we are strongly aware of the need to engage in meeting the SDGs and significantly shift our portfolio. Toward that end, we have revamped our R&D structure, which was more centered on business divisions, into a new cross-divisional organization that tackles company-wide issues and thereby can stimulate the development of new businesses. In addition, we will contribute to meeting the SDGs as we collaborate with external parties such as overseas subsidiaries, partner companies, and universities.

In hopes of aligning the attitudes of our people across divisions within this new structure, we formulated a basic concept that defines the very purpose of the R&D Department: "Using the power of kagaku for the well-being of people and the planet." The word kagaku was used because it means both chemistry and science in Japanese, while "well-being" is intended to represent our

commitment to helping people the world over perk up and proactively achieve good health and happiness. At the same time, the vision "We are a specialist in the boundary area" indicates what we aspire to be as we move beyond the conventional boundary area centered on surface chemistry and into areas that transcend chemistry.

Based on these completed versions of our Purpose and Vision, we will move forward by promoting business development centered on the MOLGADC Project that engages in seven priority research themes. Each and every individual will not only consider the immediately visible needs of customers, they will think in light of the Purpose and, if needed, provide alternative ideas to those customer demands that are not readily addressed by the Purpose. This is one of many ways in which MORESCO will aim to grow into a group of professionals with the will, flexibility, and technical capacity to pursue what is of true value to society.

Based on our Purpose and Vision, we will promote the MOLGADC Project to open up new fields of business

Purpose of the R&D Department (why we exist)
Using the power of kagaku for the well-being of people and the planet

Vision of the R&D Department (what we aspire to be)
We are a specialist in the boundary area

Business Division A

Business Division B

Business Division C

Overseas Subsidiaries

Partner Companies

Universities

R&D Department
+

R&D Conference

- Solving basic problems

- Solving common problems

- Considering future themes

M

Application of VOC removal technology to high value-added materials

O

Development of non-Si photovoltaic materials

L

Continued development in the field of life sciences

G A

In-house production of polymers from non-petroleum-derived raw materials

D

Application of digital transformation technologies

C

Promotion of circular products

Creation and assessment of new technologies, new basic technologies, and new products

Returns to existing or new business divisions

May | Received the 73rd (FY2023) Industrial Technology Award

Kazuya Tate, Atsushi Uehigashi, and Takahiro Imamura of our Device Materials Division received the Industrial Technology Award for the development of MORESCO-SuperDetect, a gas transmission rate measuring system that enables high speed, high sensitivity, and high measurement efficiency.



Jun. | Awarded the 2023 Outstanding Paper Award of the Adhesion Society of Japan

Masaru Kotera of our Synthetic Lubricants Division received the Outstanding Paper Award of the Adhesion Society of Japan for a paper for which he was lead author. The paper elucidates a previously unexplored mechanism behind the formation of adhesive properties in olefin-based hot melt adhesives.





MORESCO Green SX adding momentum to the move toward environmental management the world over.



Promoting the development of products that are less of a burden to the environment, we are contributing to our customers' further implementation of sustainability management.

Details about MORESCO Green SX certified products are available here.



The products the MORESCO Group has continued to provide contribute to the sustainability sought by our customers in ways such as improving the global environment and factory environments. And as the demand for environmental management for companies is increasing ever more rapidly in recent years, we have started to offer a certification system called MORESCO Green SX for more robust product development and idea proposals to meet such needs. Based on the assessment of the entire life cycle of a product, from raw material procurement to disposal, our Sustainability Committee deliberated to identify the products that make contributions of particular significance to the seven materialities that comprise the initiatives we aim to achieve. In addition, feedback from outside experts was factored in, enabling us to offer certification as SX brands and make this information publicly available. This system has paid off major dividends in the form of making it easier for customers to preferentially select our SX products. With many of our business partners engaged in a process of trial and error in the quest to improve sustainability, this system has made it easy for them to reaffirm the value of our SX products while also leading to purchase of the products by companies for the first time. And with MORESCO, the Green SX certification system has become a clear indicator of our chosen direction, thus accelerating the development of products for decarbonization. Our goal is for SX products to account for 50% of our sales by 2030. We will continue our efforts to develop products and technologies that enhance the corporate value of both our company and our customers as we update our certification criteria in accordance with changes in the internal and external environment.



Katsuhito Fukuda
Executive Officer, General Manager,
R&D Department

MORESCO Green SX Contribution Categories



MORESCO Green SX the Process of Certification



MORESCO products pave the way for the new normal in recycling-oriented society.

To accommodate the increased global demand for decarbonization of late, MORESCO has appointed a new director in charge of circular products and is promoting ideas for enabling the recycling of used products derived from petrochemical raw materials. The recycling of flame retardant hydraulic fluid, an instance of a project we have been working on from before, has made possible the recovery of used fluid and its conversion into raw materials for production, an accomplishment that has earned us accolades from our customers. At the same time, as we are undertaking the challenge of determining how to accelerate this initiative, we hope to deepen and expand our recycling technology for extracting and refining components from used products for the conversion of conventional products into circular products, thereby demonstrating our unique expertise as a specialist in the boundary area. It bears noting that many of our circular product ideas involve issues and processes that we cannot solve on our own, such as improving the efficiency of used product collection. By involving our customers in the building of a system of cooperation that spans the entire value chain, we aim to realize a new business model one step at a time.



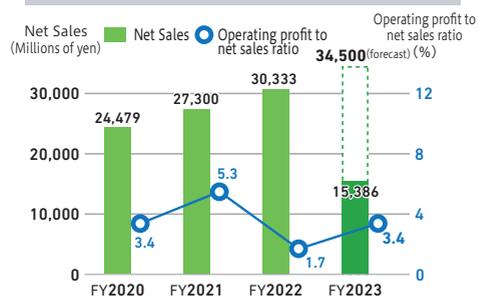
Naohiro Kanematsu
Executive Officer in charge of circular products
General Manager, Functional Fluids Division

Major Consolidated Financial Indicators

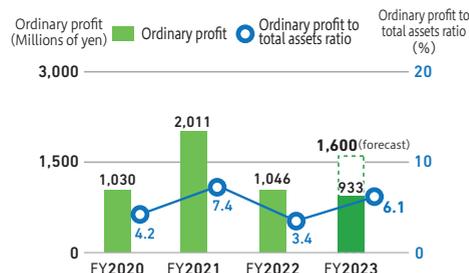
During the second quarter of the current fiscal year, the Japanese economy saw a moderate increase in personal consumption due to rising prices as the economy normalized. In the global economy, though inflation is trending downward, the US economy has remained steady, with the interest rate differential widening and resulting in the depreciation of the yen against the dollar. In addition, China has been dealing with a real estate problem and concerns about the economy ahead.

Amid this situation, the group achieved net sales of 15,386 million yen (up 5.9% YoY) due to increased sales overseas and a rise in selling prices across the board. Operating profit significantly increased to 528 million yen (up 78.8% YoY). However, due to a decrease in foreign exchange gains, ordinary profit amounted to 933 million yen (up 10.4% YoY), and the quarterly profit attributable to owners of parent reached 569 million yen (up 13.0% YoY).

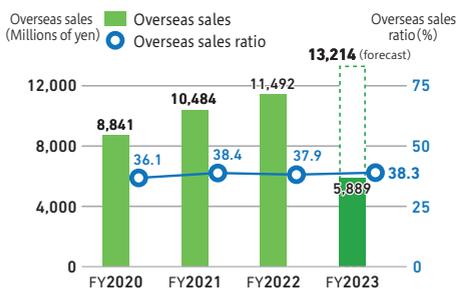
Net Sales and Operating Profit to Net Sales Ratio



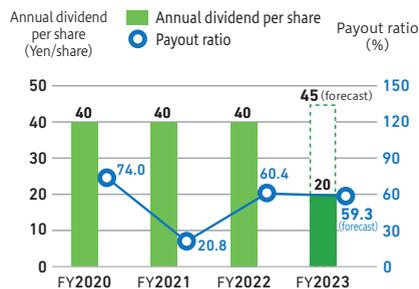
Ordinary Profit and Ordinary to Total Assets Ratio



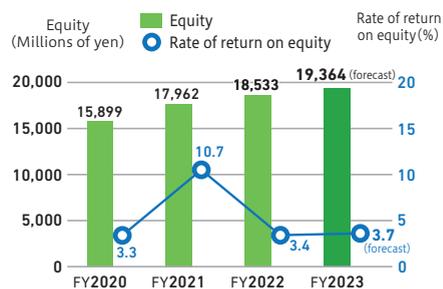
Overseas Sales and Overseas Sales Ratio



Annual Dividend per Share and Payout Ratio

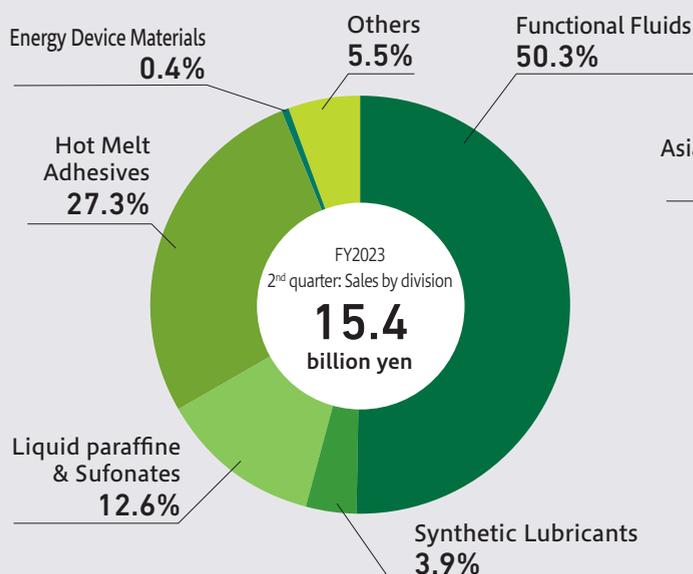


Equity and Rate of Return on Equity (ROE)

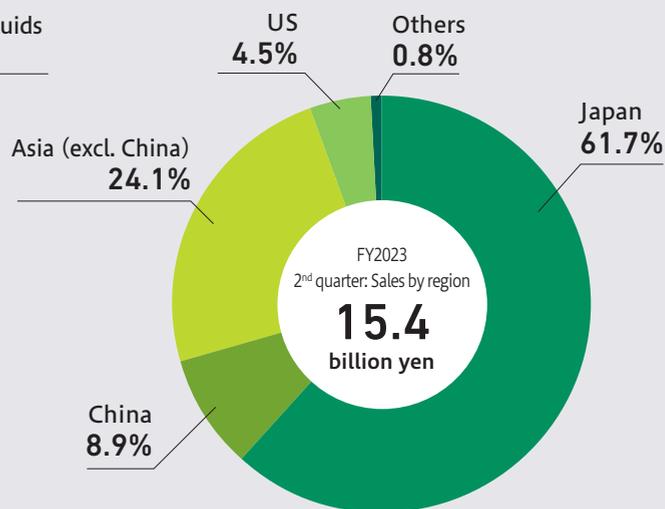


Segment Information

By Division



By Region



Information on Shareholder Benefits

We at MORESCO would like to extend our sincerest thanks to all of our shareholders. To show appreciation for the continued support of our shareholders, we offer the following shareholder benefits. We hope for the continued support of shareholders as we do our utmost to strive for further growth to meet their expectations.

Shareholder Benefits

Number of shares held and continuous holding period	Shareholder Benefits
300 shares or more and less than 3 years of continuous ownership	QUO Card worth 3,000 yen
300 shares or more and 3 or more years of continuous holding period	QUO Card worth 4,000 yen

Benefits are available to shareholders who hold three units (300 shares) or more of the Company's stock and are listed or recorded in the shareholders' register as of the last day of February every year.

A continuous holding period of three years or longer is contingent on the same shareholder number being listed or recorded in the shareholders' register as of the last day of February and the last day of August seven or more times consecutively.

Should a shareholder holding fewer than 300 shares make an additional purchase so that their number of shares is 300 shares or more as of the last day of February, the period in which fewer than 300 shares were held will also be included in the continuous holding period.

Timing of Benefit Delivery

Benefits will be mailed in late May of each year, enclosed with the business report.

(How to confirm the length of time MORESCO shares have been held)

Shareholders who wish to confirm the holding period of their shares are asked to contact the following number and request a certificate of share transfer.

Contact information: Osaka Corporate Agency Division, Mitsubishi UFJ Trust and Banking Corporation

Phone number: 0120-094-777 (toll free)

Hours: Weekdays 9:00-17:00, excluding Saturdays, Sundays, national holidays, etc.

Company Profile and Stock Information (As of August 31, 2023)

Company Profile

Company name	MORESCO Corporation
Establishment	October 27, 1958
Capital	2,118,294,000 yen
Number of employees	385

Head Office and Business Offices

Head Office & R&D Center	5-5-3, Minatojiminami-machi, Chuo-ku, Kobe-city, Hyogo 650-0047 Japan Telephone: 078-303-9010 (main contact number)
Branch	Tokyo Branch, Osaka Branch
Sales Office	Nagoya Sales Office
Plants	Chiba Plant, Akoh Plant

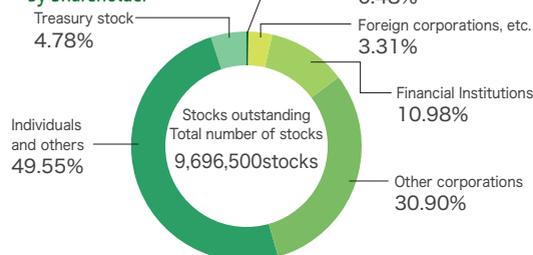
Directors

Motohisa Morozumi	CEO, Representative Director, President
Nobuhiro Sewaki	COO, Director, Senior Managing Executive Officer
Yasuo Sakane	CTO, Director, Managing Executive Officer
Hirofumi Fujimoto	CFO, Director, Senior Executive Officer
Hiroko Fuji	Outside Director
Mikio Honda	Director, Audit and Supervisory Committee Member
Kazuo Machigaki	Outside Director, Audit and Supervisory Committee Member
Mikio Nakajo	Outside Director, Audit and Supervisory Committee Member
Hidetoshi Nakatsuka	Outside Director, Audit and Supervisory Committee Member

Situation of Stock

Total number of authorized stocks	: 20,000,000
Total number of stocks outstanding	: 9,696,500
Number of shareholders	: 15,165

Distribution of Shares by Shareholder



Major Shareholders

Name of shareholders	Number of stocks	Investment ratio
MATSUMURA OIL Co., Ltd.	1,067,000	11.5%
COSMO OIL LUBRICANTS CO., LTD.	503,000	5.4%
The Master Trust Bank of Japan, Ltd. (Trust Account)	429,300	4.6%
MORESCO Employee Stock Ownership Plan	405,220	4.3%
NIPPON SODA CO., LTD.	365,000	3.9%
STARLITE Co., Ltd.	326,000	3.5%
Mizuho Bank, Ltd.	250,000	2.7%
MUFG Bank, Ltd.	250,000	2.7%
Osaka Small and Medium Business Investment & Consultation Co., Ltd.	209,600	2.2%
Shima Trading Co., LTD.	165,000	1.7%

Note: The investment ratio is computed by excluding 463,720 shares of treasury stock.

Caveats

- Regarding changes of address, purchase requests and any other such procedures, the basic rule is that shareholders are asked to contact the securities company or other organization where they opened their account. Note that the administrator of shareholder registry (Mitsubishi UFJ Trust and Banking Corporation) is unable to process such procedures.
- For any procedures regarding shares recorded in special accounts, please contact Mitsubishi UFJ Trust and Banking Corporation, which is the management institution for special accounts. The Mitsubishi UFJ Trust and Banking Corporation head office and branches nationwide will also be able to assist with these procedures.
- Dividends that have not yet been received will be paid at the Mitsubishi UFJ Trust and Banking Corporation head office and branches.

Shareholder Memo

Fiscal year

March 1 through the last day of February of the following year

Shareholder Fixed Date for Year-end Dividend Receipt

End of Feb.

(In the case of interim dividends)

August 31

Ordinary General Meeting of Shareholders

May every year

Administrator of shareholder registry and account management institution for special accounts

Mitsubishi UFJ Trust and Banking Corporation

Contact information

Mitsubishi UFJ Trust and Banking Corporation
Osaka Corporate Agency Division
3-6-3 Fushimi-cho, Chuo-ku, Osaka-shi, Osaka 541-8502 Japan
Telephone: 0120-094-777 (toll free)

Listed Stock Exchanges

Tokyo Stock Exchange

Method of Public Notice

Public notice will be made electronically.

URL for public notice:

<https://www.moresco.co.jp/ir/notice.php>

(In the event of an accident or other unavoidable circumstances that preclude electronic public notice, public notice will be given in the Nihon Keizai Shimbun.)